

SHORT SALE VS FORECLOSURE

Below is a table to help break down the difference of how a foreclosure and a short sale will affect you. **** We are not tax experts or attorneys. The information provided is for *informational purposes ONLY*. It will serve in a starting point to further investigate how a short sale or foreclosure may effect you. We *HIGHLY RECOMMEND* that you consult a CPA/tax advisor and/or and attorney regarding your specific situation BEFORE you consider a short sale, deed-in-lieu-of-foreclosure or foreclosure. ****

Issue	Foreclosure	Successful Short Sale
Credit Score	Foreclosures are a public record similar to a bankruptcy and usually can affect your credit score by lowering it 175 to 300 points. As a public record it will stay there for 7 to 10 years.	Short sales do not show up under public records and once the short sale is completed successfully, all that will show on your credit will be the late payments to the mortgage and the statement "settled for less than full amount due" (or similar verbiage). Depending on the rest of your credit, the score may only be affected by as little as 50 to 60 points.
Credit History	Along with the late payments, the foreclosure will remain as a public record your credit history for 7 to 10 years.	Only the late payments will be reported on your credit. The short sale will appear the same as a charge off on a credit card and will be reported as "settled for less than full amount due" (or similar verbiage).
Future Home Purchase (Primary Residence - Fannie Mae Loan) (effective May 21, 2008)	Per Fannie Mae, individuals losing a home to foreclosure will not be eligible for a Fannie Mae loan for a time period of 5 years.	Per Fannie Mae, if an individual completes a short sale they will be able to purchase a home after 2 years (depending on credit score and how they have maintained the rest of their credit)
Future Home Purchase (Non Primary Residence - Fannie Mae Loan) (effective May 21, 2008)	If an individual loses an investment property to foreclosure they can not buy another investment property for 7 years under current Fannie Mae guidelines.	Per Fannie Mae, if an individual completes a short sale they will be able to purchase a home after 2 years under current Fannie Mae guidelines. **
** NOTE – Fannie Mae is currently the largest insurer of residential mortgages with Freddie Mac as the second. Freddie Mac’s guidelines are typically the same as Fannie Mae. Future Loan with any Mortgage Company		
Future Loan with any Mortgage Company	When completing a loan application in the future for a purchase of a home the borrower will have to answer YES to the question (C, section VIII) "have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?" For those 7 years the type of loan or rate you receive may be affected by this.	There is no question related to short sales currently on a loan application. **
Deficiency Rights	Depending on the type of loan, California laws allow for the lender in some instances to pursue the homeowner for a deficiency. (Consult an attorney for up to date laws)	As part of the negotiation process, in most cases we are able to have the lender agree to release the homeowner for any future deficiency.
Amount of the Deficiency Judgment	In a foreclosure, the final sales price is lower than in a short sale and the fees involved for the bank are higher. If the lender does have deficiency rights, this can result in a higher amount that they will be able to pursue.*	The sales price in a short sale is typically at market value or just below. In most cases, the amount of the right off is smaller than in a foreclosure, which would result in a smaller amount that the lender could pursue if a deficiency judgment was available. *
Taxes	At the end of the year the lender will provide a 1099-A which reflects the amount they have written off. This will show as income to the homeowner. The homeowner may or	At the end of the year the lender will provide a 1099-C for the amount they have written off. This will show as income to the homeowner. The homeowner may or may not be

	may not be responsible for paying taxes on this income. Insolvency may be an option to the amount forgiven (Consult an accountant or attorney for more information)	required to pay taxes on this income. The Mortgage Relief Act of 2007 protects many homeowners that have done a short sale. Homeowners may qualify for this, or insolvency may be the other option. (Consult an accountant or attorney for more information) *
Current Employment	Employers have the right to check the credit of all employees who are in sensitive positions. In some positions, a foreclosure may be grounds for reassignment or termination.	A short sale is not a public record and is reported separately on a credit report. The employer will only see late payments and an account that has been settled. This shows that you worked with the lender towards a resolution and typically looks much better to the employer.
Future Employment	Most employers check credit histories of future employees and some (depending on the sensitivity of the position) will not allow for a foreclosure on a future employees record. If an individual is currently employed sometimes it could mean grounds for reassignment or termination.	The short sale will not show as a "public record", it will only show on the credit as late payments and "settled for less than full balance" (or something similar). This shows to the employer that the future or current employee worked with the lender towards a resolution and typically looks much better to the employer.
Security Clearances	Foreclosure can be a challenging issue against a security clearance. If an individual is a police officer, in the military, CIA or any other position that requires security clearance, in most cases security clearance will be revoked and position would be terminated.	A short sale by itself does not challenge most security clearances.

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