

Foreclosure vs. Short Sale

LOAN	FORECLOSURE	SUCCESSFUL SHORT SALE
FUTURE LOANS - PRIMARY RESIDENCES		
Fannie Mae ¹	A homeowner who loses a home to Foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years .	A homeowner who successfully negotiates and closes a short sale will be eligible for a Fannie Mae-backed mortgage after only 2 years .
FHA Loan - Late	A homeowner who loses a home to Foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years .	3 years from the date the FHA insurance claim is paid to the lender - not the date of the short sale closing
FHA Loan - Current	A homeowner who loses a home to Foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years .	No Wait (for Freddie- and Fannie- backed loans) - borrower must be current on all obligations, including installment debt
VA Loan - Late	A homeowner who loses a home to Foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years .	3 Years
VA Loan - Current	A homeowner who loses a home to Foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years .	3 Years
Conventional loan - Late*	A homeowner who loses a home to Foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years .	2 Years
Conventional Loan - Current*	On any future 1003 application, a prospective borrower will have to answer YES to question C in Section VIII of the standard 1003 that asks "Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years? " this will affect future rates.	No Wait (for Freddie- and Fannie- backed loans) - borrower must be current on all obligations, including installment debt
FUTURE LOANS - NON-PRIMARY RESIDENCES		
Fannie Mae Loan	An Investor who allows a property to go to Foreclosure is ineligible for a Fannie Mae backed investment mortgage for a period of 7 years .	An investor who successfully negotiates and closes a short sale will be eligible for a Fannie Mae backed investment mortgage after only 2 years .
Conventional loan - Late*	On any future 1003 application, a prospective borrower will have to answer YES to question C in Section VIII of the standard 1003 that asks "Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years? " this will affect future rates.	7 Years
Conventional Loan - Current*	On any future 1003 application, a prospective borrower will have to answer YES to question C in Section VIII of the standard 1003 that asks "Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years? " this will affect future rates.	5 Years



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ISSUE	FORECLOSURE	SUCCESSFUL SHORT SALE
Credit Score	Score may be lowered anywhere from 250 to over 300 points . Typically will affect score for over 3 years .	Only late payments on mortgage will show, and after sale, mortgage is normally reported as 'paid as agreed', 'paid as negotiated', or 'settled'. This can lower the score as little as 50 points if all other payments are being made. A short sale's effect can be as brief as 12 to 18 months .
Credit History	Foreclosure will remain as a public record on a person's credit history for 10 years or more .	A Short Sale is not reported on a persons credit history . There is no specific reporting item for 'short sale'. In most cases a loan is typically reported 'paid in full, settled' or 'paid as negotiated'.
Security Clearances	Foreclosure is the most challenging issue against a security clearance outside of a conviction of a serious misdemeanor or felony. If a client has a foreclosure and is a police officer, in the military, in the CIA, Security, or any other position that requires a security clearance in almost all cases clearance will be revoked and position will be terminated.	On its own, a short sale does not challenge most security clearances . ³
Current Employment	Employers have the right and are actively checking the credit regularly of all employees who are in sensitive positions. A foreclosure in many cases is ground for immediate reassignment or termination .	A short sale is not reported on a credit report and is therefore not a challenge to employment . ⁴
Future Employment	Many employers are requiring credit checks on all job applicants. A foreclosure is one of the most detrimental credit items an applicant can have and in most cases will challenge employment .	A short sale is not reported on a credit report and is therefore not a challenge to employment . ⁵
Deficiency Judgment	In 100% of foreclosures (except in those states where there is no deficiency) the bank has the right to pursue a deficiency judgment.	In some successful short sales it is possible to convince the lender to give up the right to pursuit a deficiency judgment against the homeowner.
Deficiency Judgment (amount)	In a foreclosure the home will have to go through an REO process if it does not sell at auction. In most cases this will result in a lower sales price and longer time to sale in a declining market. This will result in a higher possible deficiency judgment .	In a properly managed short sale the home is sold at a price that should be close to market value and in almost all cases will be better than an REO sale resulting in a lower deficiency .

1 Fannie Mae Announcement 08-16: Michael A. Quinn, Senior Vice President, Single-Family Risk Officer

2 Fannie Mae Announcement 08-16: Michael A. Quinn, Senior Vice President, Single-Family Risk Officer

3 Short sales are currently not explicitly reported on a credit report.

4 Short sales are currently not explicitly reported on a credit report.

5 Short sales are currently not explicitly reported on a credit report.

*Availability varies by lender

**Does not offer second-property loans

SOURCES:

MORTGAGEE LETTER 09-52, 4155.1 CHAPTER 4.C.2 effective date Dec 16 2009

<http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/2009ml.cfm>

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