



FORECLOSURE vs. SHORT SALE

Definition

SHORT SALE

A transaction, also known as a pre-foreclosure sale, in which the lender(s) agrees to accept the proceeds of the sale in lieu of the total debt owed by the current homeowner. By definition, the net sale price in a short sale will be less than the total debt balance and the lender(s) may or may not forgive the difference.

FORECLOSURE

A legal procedure whereby property pledged as security for a debt is sold to pay the defaulted debt. Foreclosure gives a lender the right to sell property that was pledged for a debt.

Credit Impact

SHORT SALE

Sellers generally expect short sales to have a much less dire effect on their credit rating than a full foreclosure action, but that may not always be the case. The effect depends a great deal on whether the loan was delinquent, and by how long, before the short sale, how the lender reports the whole process to the credit rating agencies, and whether or not the owner defaults on other credit obligations. A short sale is a “not paid as agreed” account, and considered the same as a foreclosure by your FICO score.

FORECLOSURE

A foreclosure remains on your credit report for 7 years, but its impact to your FICO score will lessen over time.

Information in this article is provided for general educational purposes only and is not offered as legal advice upon which anyone may rely. The law changes. Legal counsel relating to your individual needs and circumstances is advisable before taking any action that has legal consequences. Consulting your tax and financial advisors is also recommended.

Can I Buy Again?

Conventional

Fannie Mae

SHORT SALE

The homeowner may be eligible for a Fannie Mae Mortgage after a 2 year wait if the borrower puts 20% or more down; 4 year wait if the borrower puts between 10 and 20% down; 7 year wait if the borrower puts less than 10% down. The wait time is 2 years if extenuating circumstances are documented and the borrower puts 10% or more down. Fannie Mae defines extenuating circumstance as a nonrecurring event that is beyond the borrower's control that results in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations.

FORECLOSURE

The homeowner may be eligible for a Fannie Mae Mortgage after a 7 year wait from the completed foreclosure sale date; 3 year wait if extenuating circumstances are documented. Fannie Mae defines extenuating circumstance as a nonrecurring event that is beyond the borrower's control that results in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations. Additional underwriting requirements apply for 4 years after the 3 year waiting period. There is a 7 year wait required for a second home, investment opportunity, or cash-out refinancing.

Freddie Mac

SHORT SALE

The homeowner may be eligible for a Freddie Mac Mortgage after a 4 year wait; 2 year wait if extenuating circumstances are documented. Freddie Mac considers an extenuating circumstance to be a nonrecurring or isolated circumstance, or set of circumstances, that was beyond the Borrower's control and that significantly reduced income and/or increased expenses and rendered the Borrower unable to repay obligations as agreed, resulting in significant adverse or derogatory credit information.

FORECLOSURE

The homeowner may be eligible for a Freddie Mac Mortgage after a 5 year wait from the completed foreclosure sale date; 3 year wait if extenuating circumstances are documented. Freddie Mac considers an extenuating circumstance to be a nonrecurring or isolated circumstance, or set of circumstances, that was beyond the Borrower's control and that significantly reduced income and/or increased expenses and rendered the Borrower unable to repay obligations as agreed, resulting in significant adverse or derogatory credit information.

FHA

SHORT SALE

The homeowner may be eligible for an FHA mortgage again if the loan was not in default.

There is a 3 year wait if in default at closing of short sale. The lender may reduce the waiting period if extenuating circumstances are documented and the borrower has re-established good credit. Extenuating circumstances include serious illness or death of a wage earner, but do not include an inability to sell a house due to job transfer or relocation to another area.

FORECLOSURE

The homeowner has a 3 year waiting period before eligible for an FHA mortgage. The lender may reduce the waiting period if extenuating circumstances are documented and the borrower has re-established good credit. Extenuating circumstances include serious illness or death of a wage earner, but do not include an inability to sell a house due to job transfer or relocation to another area.

VA

SHORT SALE

The homeowner may be eligible for a VA loan after a 2 year waiting period.

FORECLOSURE

The homeowner may be eligible for a VA loan after a 2 year waiting period.

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