

Short Sales

What You Need to Know...

In the past, it was rare that a bank or lender would accept a short sale. However, due to the overwhelming market changes, lenders have become much more negotiable when it comes to these transactions. Recent policy changes within many organizations have made the chances of getting a short sale approved even higher.

The following information describes the short sale process:

- Homeowners are “short” when they owe an amount on their property that is higher than the current market value.
- A short sale occurs when a negotiation is entered into with the homeowner’s mortgage company to accept less than the full balance of the loan at closing. A buyer closes on the property, and the property is “sold short.”



Foreclosure vs. Short Sale

Homeowner Consequences...

Issue	Foreclosure	Successful Short Sale
Future Fannie Mae Loan Primary Residence (Effective May 21, 2008)	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.
Future Fannie Mae Loan Non Primary (Effective May 21, 2008)	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.
Future Loan with any Mortgage Company	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.	There is no similar declaration or question regarding a short sale.
Credit Score	Score may be lowered anywhere from 250 to more than 300 points. Typically, this will affect a score for more than 3 years.	Only late payments on a mortgage will show and an after sale mortgage will be reported as paid or negotiated. This will 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 at least 10 years.	A short sale is not reported on credit history. There is no specific reporting item for a “short sale.” The loan is typically reported “paid in full, settled.”
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 or any other position that requires a security clearance, the clearance will be revoked and the position will be terminated.	A short sale on its own does not challenge most security clearances.