

How does the Short Sale or Foreclosure effect my Credit Ratings?

Many mistakenly believe that a derogatory public record such as foreclosure is somehow worse than petitioning the lender to accept less than owed by doing a short sale. In the world of banking, however, lenders interpret both of these events only one way: the customer did not pay as agreed.

It matters not to a lender the manner by which it suffered a loss; only that it did. Lenders go to great lengths to alert each other, by way of reporting to credit bureaus, that the defaulting homeowner is someone who, when the chips were down, didn't honor a contract.

In fact, **Fannie Mae** and Freddie Mac take an even stronger stand against homeowners who renege on their obligation. "Seasoning" of a foreclosure is five years. The only highlight in the dismal situation is seasoning of a short sale is two years.

Short Sale Affect on FICO Scores

In the world of **FICO** scoring, there are three credit events that will severely sink a FICO score, and they all carry exactly the same weight. They are:

1. Serious delinquency
2. Derogatory public record
3. Collection filed

A homeowner in default is technically "in collection." These events are reported to all three bureaus as **"Score Factor Code #22."**

Buying a Home After a Short Sale

A foreclosure will remain on a consumer's credit report in the public records section for 10 years. In addition, this fact must be attested to on the loan application under Declarations, Section VIII, as follows:

- Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years? (Y/N)
- Have you directly or indirectly been obligated on any loan which resulted in foreclosure, transfer of title in lieu of foreclosure, or judgment? (Y/N)

Because the term "short sale" is often not expressly stated, some interpret this as meaning that a **short sale** is a lesser offense. The truth is, decision makers in the lending industry know that a short sale is no different than a foreclosure or deed-in-lieu. Here are two excerpts from a lender's underwriting guidelines.

The following items are subject to individual evaluation, no matter how high the credit score:

- Bankruptcy
- Foreclosure
- Deed-in-lieu
- Short sale
- Judgments
- Collections
- Charge-offs
- Tax lien

Foreclosure

- None in past 5 years with minimum 3 active trade lines more than 24 months old, with no late payments or derogatory credit after the foreclosure.

Definition of Foreclosure

- Any 120-day mortgage late within the last 24 months, any **notice of default** or settlement on a real estate secured trade line (short sale), any deed-in-lieu or forbearance agreements.

To the homeowner with a mortgage he can no longer afford, the decision to voluntarily vacate through a short sale or be forced out by foreclosure can be agonizing. The sterling credit reputation it may have taken a lifetime to establish is gone with a single event.

Renting After a Short Sale

Most landlords with whom I've spoken state that, due to the widespread credit meltdown, they would view a foreclosure as not particularly onerous -- provided that all other credit obligations were met on time. A credit report riddled with "derogs" over a broad category of obligations would be viewed negatively.

Facts About Short Sales and Credit Ratings

- The nation's two largest mortgage investors, Fannie Mae and Freddie Mac -- with certain exceptions -- won't lend to you again for five years (foreclosure) and two years (short sale).
- A consumer's FICO score will take a huge hit either way until responsible credit behavior supplants the foreclosure / short sale over a period of time.

For a private consultation and answers regarding short sales, notice of default, and foreclosure, **call Tony Suleiman's office Today at 805-879-8078.**