

Why Buyers and Sellers Should Seriously Consider Short Sales

We've all heard the horror stories about short sales but here are just a few of the important advantages that anyone looking to "short sell" a home or buy a short sale MUST be aware of.

- You will be eligible, under Fannie Mae guidelines, to buy another home in 2 years instead of 5 to 7 years.
- If your credit report does not reflect a 60-day+ late pay, under Fannie Mae guidelines, you will be eligible to buy another home immediately.

Fannie Mae Mortgage Eligibility (Primary Residence):

- 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 2 years

Fannie Mae Mortgage Eligibility (Non-Primary Residence):

- 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 2 years.

Future Loan with any Mortgage Company:

- On any future loan application, a prospective borrower will have to answer YES to question C in Section VII of the standard 1003 that asks "Have you had property foreclosed upon or given title or deed in lieu thereof of the last 7 years?" This will affect future rates.
- There is no similar declaration or question regarding a short sale.

Impact to Credit Score:

- Score may be lowered severely due to a foreclosure. Typically will affect score for over 3years.
- Only late payments on mortgage will be reported as paid or negotiated. This may have less of an impact on a credit score, if all other payments are being made.

Credit History:

- Foreclosure will remain as a public record on a person's credit history for 10 years or more severely impacting your credit score.

Current Employment:

- Employers have the right and are actively checking the credit regularly of all employees who are in sensitive positions. A foreclosure, in some cases, can be grounds for immediate reassignment or termination.
- Short Sale is not reported on a credit report and is, therefore, not a challenge to employment.

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 it may challenge employment.
- Short sale is not reported on a credit report and is therefore not a challenge to employment.

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 pursue 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 sell in a declining market. This will result in 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 may be better than a Foreclosure sale resulting in a lower deficiency.

Buyer Advantages

1. Homes sold under short sale terms are usually owner-occupied. Normally, these homes are more likely to be maintained in better condition than a foreclosed home. Not all sellers are behind in payments. There are other considerations that may occur which has necessitated the need for the homeowner to sell.
2. A short sale may provide you with the opportunity to purchase the "perfect" home for you. If you are looking for particular features in a home or a particular neighborhood, purchasing a home via the short sale process may provide you with a unique opportunity.

3. The bank may agree to sell the home for less than the current market value, which has already been depressed by the number of foreclosures on the market.
4. Buying a home via a short sale means that you (the buyer) should receive all required property disclosures from the seller as required by law. Homes sold through the foreclosure process do not offer this advantage. A lender cannot be required to give the same disclosures as a seller because the lender has never occupied the property and therefore has no first-hand knowledge of property conditions, etc.

Navigating the waters of a short sale is a tricky and time consuming process but more and more homes are closing escrow when they're done correctly.

* The above data is believed to be accurate but is not guaranteed. Appropriate legal counsel and tax expertise should be obtained before proceeding with a short sale.

Feel free to call on me if you have questions about short selling your home or buying a short sale. I would be happy to help.

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