



CERTIFIED DISTRESSED
PROPERTY EXPERT

FORECLOSURE VS. SHORT SALE

Homeowner Consequences

Issue	Foreclosure	Successful Short Sale
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.	A Short Sale on its own does not challenge most security clearances.
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.
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.
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 pursue 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.

Distressed Property Institute, LLC
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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 over 300 points. Typically will affect score for over 3 years .	Only late payments on mortgage will show and 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 affect can be a 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 .	Short sale is not reported on a credit history . There is no specific reporting item for 'short sale'. The loan is typically reported 'paid in full, settled'.

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Distressed Property Institute

... solving the foreclosure crisis, one homeowner at a time.

Home Affordable Foreclosure Alternatives (HAFA) Program Updates to the Supplemental Directive 10-18 December 28, 2010

Following is an overview of the updates to Making Home Affordable's HAFA Program. It is important to be aware of these changes as they may increase the likelihood of approval for HAFA submissions.

	As of March 29, 2010	As of February 1, 2011
Monthly Gross Income Requirement	Servicer had to verify if Borrower's monthly mortgage exceeded 31% of gross monthly income.	Servicer no longer is required to verify any financial information (but still can). Borrower must still sign Hardship Affidavit.
Vacant Property Requirements	Property could not be vacant or rented more than 90 days prior to short sale application. Relocation was limited to 100 miles or more.	Property can be vacant or rented up to 12 months prior to SSA, as long as Borrower can prove property was primary residence and had not purchased 1-4 family property in the 12 months prior to SSA. Relocation no longer has to be work-related, nor is there a minimum relocation distance requirement.
Release of Subordinate Liens	There was a 6% cap on proceeds servicers directed to junior lien holders up to \$6,000.	The 6% cap has been eliminated. The servicer determines the amount or percentage of the unpaid principal balance going to each junior lien holder up to \$6,000.
Timing for Issuance of Short Sale Agreement	If a servicer offered a HAFA short sale to a borrower, and the borrower responded, the servicer had to issue an SSA within 30 days from the date of the borrower's response.	The same still applies, but now includes borrowers that haven't been directly offered a HAFA short sale by the servicer. If an "unsolicited" borrower requests approval and is eligible, the servicer must respond within 30 days.
Timing for Response to Alternative Request for Approval of Short Sale	No deadline for a servicer to reply to an A-RASS application, Hardship Affidavit, or Request for Modification Adjustment.	There is now a 30-day response requirement for a servicer to reply to an executed contract .
Real Estate Brokerage Commission	6% commission cap.	6% commission cap remains, but servicers must include a statement in the SSA that they will not deduct 3rd party vendor fees from agent commissions.
Alternative Deed-in-Lieu Programs	Alternative Deed-In-Lieu Programs (Deed-for-Lease) or DILs that allow for the repurchase of the property after a brief rental period were not eligible for HAFA incentives.	Alternative Deed-In-Lieu Programs now qualify for HAFA relocation incentives, but only if the DIL is final.
Borrower Notices	Borrowers who request a short sale or DIL who have not been previously evaluated for HAMP must receive a verbal or written notice from the servicer regarding the availability of HAMP and give the borrower 14 days to respond.	This provision remains the same but clarifies that the servicer can still qualify the borrower's eligibility for HAFA while the borrower is considering HAMP.

New policies effective: February 1, 2011

Retroactivity: Servicers not required to, but may reevaluate borrowers formerly ineligible.

Source: Supplemental Directive 10-18: Home Affordable Foreclosure Alternatives Program – Policy Update

