

Kayser & Associates, LLC
Kayser Short Sale Law Center
A Graceful Exit from a Difficult Situation for a Homeowner™

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Credit implications of Short Sale, Foreclosure, and Bankruptcy

Future home financing No. #1 reason a distressed homeowner should proceed with a short sale is to protect their OPTIONS to their lifestyle in the future . . . and rebuild your life! This means your ability as to future mortgages, loan applications (even a simple signature loan), job applications, even keeping your current job, credit card applications, buying a car, auto insurance, property insurance, starting a business . . . just to name a few! Most short sales result in a “settlement” status on their credit report as opposed to “foreclosure”. Fannie Mae and Freddie Mac guidelines are much more favorable to borrowers with short sale on their credit report, typically allowing a borrower to obtain financing for a new home within 2 yrs. Fannie Mae is the most common loan people get and most lenders have policies similar to them. In sharp contrast, after a foreclosure, Fannie guidelines require you to wait 5-7 yrs before getting a new loan. If you allow a foreclosure instead of trying to short sell your home, you will have to answer “Yes” in all future application for a home loan “*Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?*” A foreclosure remains on a credit report for 7 yrs, making it very difficult not to only finance another home, but also to finance a car, open a new business, or even qualify for credit cards. After a foreclosure, any loans received will likely bear very high interest rates. If the homeowner gets through a short sale with only being delinquent on their mortgage a month or two, the impact is very minor. Again, in sharp contrast, a foreclosure produces a devastating effect on credit history, job security, employment opportunities, security clearances, military and law enforcement careers, and the most serious of all - the ability to purchase a home in the future. Also, a foreclosure becomes public record, which is searchable by anyone, and can never be removed. Homeowners who go through a foreclosure cannot apply for an FHA loan for 5 years after the date of foreclosure (7 years for investors), but homeowners who complete a short sale can apply for an FHA loan immediately if they were current on their payments when they sold short and 12-24 months later if they were delinquent when they sold short.

A Short Sale offers a fresh start, eliminating debt, while protecting your credit profile and lets you rebuild your life right away. In a foreclosure, rebuilding your life will be put “on hold” for years. Bottom line: the end result of a short sale is minor and temporary when compared to the long-term consequences of a foreclosure.

A Close Look at “Credit” - A foreclosure will severely compromise your credit report that will take years to repair, typically lowering a credit score up to 400 points with the infamous word “Foreclosure” on the report for up to 10 yrs in most states. In sharp contrast, if navigated correctly, a short sale may only affect an owner's credit by 50 points and may be repaired as quickly as 1-2 yrs. (The more delinquent you are before your home is sold short, the more a short sale will affect your credit). Bottom line: most who have sold short (a short sale) versus letting their house go back to the bank will be eligible for a new mortgage *years* sooner than those who went through foreclosure.

One other factor when determining how soon you can buy again is where your credit was before you short sale. Other factors can include delinquencies on other debts like credit cards, cars, etc., monthly income, down payment, and employment history. A short sale will always be better than a foreclosure and foreclosure should always be your last option. Banks may take into account your efforts to resolve the

situation and look positively on that as opposed to just walking away. It is much better to try to resolve things up front and avoid foreclosure.

A Note on that FICO!: Look BEYOND that number everyone! Don't get 'hyperfocused' on the FICO number. Here's why: provided you have rebuilt your FICO to a decent number, you can purchase another home in 1-2 yrs after a short sale! You simply do not even have that option after a foreclosure – not for 5-7 years! Think of the impact on your family, kids, schools, lifestyle, and opportunities. "Credit" has many more dimensions than just a number. Also, you don't have to answer 'yes' to the dreaded "Foreclosure question" on numerous forms and applications we all complete multiple times a year. This dreaded foreclosure inquiry is found in mortgage applications, loan applications (even a simple signature loan), job applications, interim employment security clearance after you are employed, credit card applications, starting your own business or even partnering into a business, buying a car, property insurance, auto insurance, employment. **Quite simply, most folks are short sighted when it comes to the FICO. Think beyond the FICO and reread above.**

Deficiency

In a short sale you can get a waiver of deficiency or settle the deficiency. . . in contrast, if you allow a Foreclosure, a deficiency may be *far greater* and the lender can pursue that deficiency *at any time - even years down the road. . . . not many feel good about that cloud hanging over their heads for years.*

Missouri is a deficiency state which means the banks are entitled to pursue any homeowner after a Foreclosure for the deficiency (what they lost due to foreclosure) which includes legal fees, foreclosure costs, liquidation costs, property maintenance costs incurred until property is sold in the REO market which can easily equate to several hundred thousand dollars depending on the property.

Bankruptcy

Results in large declines of 355 to 365 points to the credit score -- the scoring equivalent of a nuclear bomb – and remain on the borrowers' credit bureau files for 10 years.

To obtain a free credit report, go to www.annualcreditreport.com, or call 877-322-8228.

Nothing here is considered to be tax advice. Any and all questions regarding tax need to be directed to an appropriate and licensed professional.