

(Another article: <http://www.mortgagefit.com/deed-lieu.html> )

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## The Impact of Short Sales / Foreclosures on Credit Reports

Sellers may wonder whether letting a property go into [foreclosure](#) would be easier and smarter than going through a [short sale](#). With a foreclosure, and depending on state laws regarding foreclosure, a seller could stay in the property, essentially rent free, for four months to a year before being forced to evacuate. But that fact alone does not mean a foreclosure is better.

Whereas a short sale involves offering the home for sale, generally listed through [MLS](#). Potential home buyers will make appointments to [view the home](#), some will make [lowball offers](#), agents might hold [open houses](#) and, in general, a seller's life will be disrupted, all in the hopes that a buyer will buy the home.

## Basics of a Short Sale

Short sales happen when a lender agrees to accept less than the amount owed against the home because there is not enough equity to sell and pay all costs of sale.

## How is the Seller's Credit Affected?

According to David Steep, division manager at Vitek Mortgage, sellers will take a bigger hit on their [credit report](#) by going through foreclosure or giving the lender a deed-in-lieu of foreclosure. Steep says the points lost on a [FICO](#) score are as follows:

- **Foreclosure or Deed-in-Lieu of Foreclosure**  
Both of these solutions affect credit the same. Sellers will take a hit of 250 to 280 points. This means if a seller's FICO score before foreclosure was 680, it could dip as low as 400.
- **Short Sale**  
The affect of a short sale on a seller's credit report is much less damaging. The ding on credit will show up as a pre-foreclosure in redemption status, Steep says, which will result in a loss of 80 to 100 points. This means a short sale with a previous FICO of 680 will see it fall to 580 to 600.

## Waiting Period Before Buying Another Home

- **Foreclosure or Deed-in-Lieu of Foreclosure**  
Steep says a seller who wants to buy another home after foreclosure will end up waiting about 36 months before a lender will offer any kind of [interest rate](#) that makes sense.
- **Short Sale**  
The good news for short sale sellers is the wait is much shorter before buying another home. "They can buy again in about 18 months at a good interest rate," says Steep.

## Short Sale / Foreclosure Deficiency Judgments

The bad news is a seller could be subject to a deficiency judgment for the difference between the loan amount and the amount paid. In California, purchase money loans are not subject to deficiency judgments; however, hard money loans, [equity loans](#) and refinances are. Other states have laws regarding personal guarantees, which could also result in a deficiency judgment if the home owner is personally liable for loan repayment.

The lender has sole discretion whether to pursue a deficiency judgment in those instances when the judgment is permitted. To determine whether a pending foreclosure or short sale is subject to a deficiency judgment, talk to a real estate lawyer.

If you're a seller trying to decide whether to let a home go through foreclosure versus attempting a short sale, salvaging your credit is the main advantage to doing a short sale. But seek legal and tax advice before making that decision.