

## The Short Sale, an Alternative to Foreclosure

By Laura and Tom Yeatts, REALTORS

[Laura@mcharters.com](mailto:Laura@mcharters.com) 301-785-5889

In this time of financial uncertainty, it pays to know your options. One thing we've discovered over the past several months is that there are a large number of people who don't know their options when it comes to getting out from under a mortgage payment they can no longer afford, whether due to job loss, divorce, mortgage rate re-setting on an adjustable mortgage, or any other reason.

Once the value of their home falls below what they owe on their mortgage, most people mistakenly assume that the only way out of that mortgage payment is to allow the home to go into foreclosure. There's a much better alternative: the short sale.

A "short sale" involves your home being sold for a price less than what you owe on your mortgage (or mortgages). In order for you to sell your home without bringing money to the closing table, your lender must be willing to allow you to "sell short" and accept less money than you owe on the property as payment. This is also known as requiring "third party approval" – the buyer and seller are two parties in the transaction, and the bank is the third party who must allow the property title to transfer.

The most critical step to selling your home in a short sale is communicating with your real estate agent and your mortgage company. You will be required to document your hardship, fill out many forms, provide detailed financial information, and be persistent and patient throughout the process.

We can tell you, definitively, that you are better off selling your home in a short sale than allowing it to go into foreclosure. Here's why.

1. While a foreclosure stays on your credit history for 7 to 10 years, a short sale is not reported on your credit history at all. There is no specific item to report a short sale, so the loans are typically marked "paid in full, settled" or "paid as negotiated."
2. A foreclosure will lower your credit score anywhere from 250 to 300 points, and will continue to impact your credit score for over 3 years. A short sale may lower your credit score as little as 50 points if all other payments are current, and this affect may be as brief as 12 to 18 months.
3. If your home is foreclosed, you must disclose the fact on any future loan applications with mortgage companies. This could affect your future interest rates for 7 years. There

is no similar disclosure for a short sale.

4. Foreclosure is a serious issue if you have a job requiring security clearance. A foreclosure on your record, in nearly all cases, will cause your clearance to be revoked and your position terminated. A short sale on its own does not affect most security clearances.
5. Many employers can legally require credit checks for their job applicants. A foreclosure is one of the most damaging items that can be found on your credit report, and may prevent your future employment in some positions. A short sale is not reported on your credit report and, therefore, not an issue to future employers.

It's easy to see how a foreclosure can cost you much more in the long run than just losing your home. That's why it's important to work with a knowledgeable professional real estate agent to assess your situation, define your options, and work with you to avoid foreclosure. Look for an agent with the "Certified Distressed Property Expert" (CDPE) designation. That agent has the knowledge to safely guide you through the complicated short sale process.

In the long run, you'll be happy you made that effort.

*[Author's note: this article is based on information obtained from the Distressed Property Institute.]*