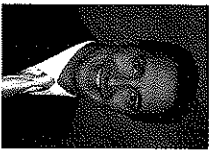


Short Sale • Foreclosure • Bankruptcy

What is most damaging to my credit score?



That is the most frequently asked question in today's real estate and mortgage lending environment. Learn the differences in an excerpt from the Credit Justice Educational Program: Are Your Credit Scores Treating You Fairly? by Daniel J. Poulos, President of Elite Lending.

Justice Educational Program: Are Your Credit Scores Treating You Fairly? by Daniel J. Poulos, President of Elite Lending.

Foreclosure

Foreclosure is a legal process (in most states) that results in the lender regaining title to the property due to nonpayment by the borrower. When applicable, the court awards a deficiency judgment to the lender the amount of which is determined by the difference between what the house is eventually sold for (minus expenses) and the borrower's mortgage balance. The foreclosure remains on the credit report for 7 years. The statute of limitations on the judgment varies from state to state and 20 years is not uncommon. New lending guidelines extend the wait period for a new mortgage to 5 years BUT the judgment would need to be satisfied before any mortgage financing is allowed. The combination of the foreclosure and the open judgment is devastating to the borrower's credit score.

Deed-In-Lieu of Foreclosure

The borrower must document economic hardship and an inability to pay. If there is equity in the property (the home is worth more than the balance due) and there are no other liens, the lender may consider an exchange whereby the borrower surrenders the deed and is released of any obligation to the mortgage note. If it's reported as a foreclosure (lender's discretion) it will remain on the credit report for 7 years but there will not be an unpaid balance reported.

Short Sales

If the lender is convinced that they cannot collect payment from the homeowner due to financial hardship they may accept a sale price of less than what is owed on the property. The price is normally discounted from a quick sale price in an effort to avoid the costs and risks of the foreclosure process. In some cases, usually where there

are second liens involved, the borrower may still be obligated for an amount owed but the loan would be unsecured.

There are various ways for the lender to report the short sale, the most common of which are "satisfied mortgage" or "paid settlement". As a satisfied mortgage the only damage to the credit score is due to any late payments prior to the sale. A settled account is more damaging as it reflects it was not paid as agreed but, in both cases the damage pales to a foreclosure and deficiency judgment. How the lender is going to report the short sale is rarely, if ever, a negotiable item. New mortgage lending guidelines require a 2 year wait after a pre-foreclosure sale.

Bankruptcy

Bankruptcy involves a settlement of debts through a variety of means. Bankruptcy is severely damaging to a credit score and remains on the credit report for 7-10 years. Because there are no judgments involved, the borrower may generally be eligible for new mortgage financing in as little as 2 years from the date of discharge.

Whether you find yourself on the distressed or the opportunistic side of this market be sure you are correctly explaining the credit profile repercussions. Buying and selling in "short sales" situations requires specific knowledge of the procedure to be successful.

We are proud to be serving our community in these trying times. Consultations are always free at **Elite Lending**, call **561-575-5626**.

