

Short Sale vs. Foreclosure: Which is the Better Option?

by debt kid on January 17, 2008

Losing your home to foreclosure due to an inability to keep up with your monthly mortgage payments is one of life's most unpleasant experiences. It is also an event that keeps on affecting you long after your home is history by devastating your credit score. Regrettably, most people cannot be 100% sure that they will remain safe from foreclosure because they can't foresee the unexpected. Occurrences such as serious illness, a major accident, divorce or job loss can happen to anyone. So it's a good idea to understand the available alternatives should the worst occur.

Of all available options, foreclosure is the worst

The inevitable result of a foreclosure is the lender taking your house. Not only will you lose your house, but the lender can get a judgment against you for the arrearages you owe plus his costs for the foreclosure action. If that isn't enough, your credit report will be in terminal condition for many years to come, worsening an already bad financial situation and making it very difficult to obtain any other kind of credit. There is no upside to foreclosure. It should be avoided at all costs.

Consider a short sale when foreclosure seems inevitable

A short sale is a popular option for homeowners mired down with financial problems. In this case, you would sell your home for less than what you owe your lender; the biggest problem you will face is getting your lender to agree to a short sale. In many situations, they will not. Experts advise pursuing this option the minute you realize that you are falling behind in your payments and most likely won't be able to catch up. The longer you wait and the greater the amount you are in arrears, the less likely it becomes that your lender will even be willing to discuss a short sale.

short sale has disadvantages too

While a short sale will save you from foreclosure, it will also have a negative effect on your credit score, frequently lowering it by as much as 200 points. This can be overcome more quickly than the black mark of a foreclosure, especially if you manage to retain one or two [credit cards](#) and keep them current. Perhaps equally distressing, the Internal Revenue Service frequently deemed the difference between the mortgage balance and the amount realized from the short sale to be taxable as income despite the fact that the debtor never saw a dime of it. There is new federal legislation called the Mortgage Forgiveness Debt Relief Act Of 2007 that just went into effect on January 1st, 2008. The new act essentially eliminates this problem.

Almost any option is better than foreclosure

Simply stated, do everything you can before foreclosure occurs and do it as quickly as humanly possible. Don't sit back and keep thinking, "What can I do?" Instead, consider that short sale and check with your lender before your options become more limited.

The One Best Tip I Can Give You: Don't Do This Alone

I successfully short sold my house, and the single biggest reason was my real estate agent. Having someone who could work on my behalf was incredible. Facing foreclosure is a scary thing, I know, I was about a month away from losing my home before I got my short sale done.

Don't just get any real estate agent to help you! My agent had lots of short sale experience, and it made all the difference. He knew who to talk to, when to talk to them, and how to handle all the paperwork to get the deal done.