

The Myths and Misrepresentation of *Strategic Defaults*

Solving the Foreclosure Crisis One Home Owner at a Time

Why Walking Away Is Not the Answer ...



Recently, there have been reports claiming that a “strategic default” can be an appropriate and even beneficial reaction to an upside-down mortgage or impending foreclosure. While this ideal has spread rapidly, the truth is that a default is never an easy road to choose, and rarely is it ever strategic. In fact, defaulting on your mortgage can be incredibly dangerous and irresponsible when handling the financial future of you and your family. Unfortunately, the ramifications of a “strategic default” are rarely – if ever – explained, leaving many homeowners stranded on an island of misinformation.

If this is your situation, first understand that you are not alone. Millions of homeowners nationwide are in similar circumstances. The only difference between them and you is that you’re looking for answers... and this report is a great start!

So what’s the difference between a regular default and one that is “strategic”?

Default occurs when a homeowner falls behind on mortgage payments. This can be due to a hardship, which can include (but is not limited to) job loss, divorce, medical bills, or monthly income shortfall. Due to current economic conditions, literally millions of homeowners across the country have found themselves in default situations. For homeowners in default, programs have been initiated through the administration and lending institutions to provide solutions and to salvage financial futures.

In a “strategic default,” the homeowner simply chooses to “walk away” from the mortgage – in other words, move out and stop paying – even though they may be able to make the payments. This is often done when the homeowner owes more on the home than it’s worth, and views the home as a bad investment. However, most of these homeowners do not understand that walking away from the mortgage will expose them to foreclosure, credit issues, current and future employment challenges, and possible debt collections.

If you’re underwater on your mortgage or behind on payments, you need to know that there is time to analyze your options before foreclosure happens. More importantly, there are alternatives that will protect your credit and financial well being.

Mortgage lenders are looking to avoid the foreclosure process just as much as homeowners. While they are not in the real estate business, some have instituted further options to help homeowners avoid foreclosure.

The U.S. Treasury recently announced new incentives, timelines and procedures for shortsales. The HAFA Program, part of the Home Affordable Modification Program (HAMP), simplifies shortsale procedures by setting limits on the time it takes lenders to respond, freeing borrowers from debt and capping claims of subordinate lien holders.

As a CSP® (Certified Shortsale Professional®) and the SFR® (Shortsale and Foreclosure Resource®) designated agent, I have the most current information on this program and participating lenders. Please call me to discuss your options.

So What’s Your Best Option?

First you want to contact an agent who knows how to navigate through these situations to learn more about your possible options. As a CSP® (Certified Shortsale Professional®) and the SFR® (Shortsale and Foreclosure Resource®) designated agent, I can assist you in organizing all the necessary paperwork and ensure you have everything you need to make an informative decision on your future.

There are other, safer alternatives to foreclose – including a shortsale – than the harmful results of a “strategic default.”

I’ve provided the following chart for you to compare the consequences of strategic default, foreclosure and shortsales. The following table compares the effects each option can have on your financial future. Use this information to better understand your options and make an informed decision about how to proceed.

*Strategic default will always lead to the same consequences of foreclosure.

Issue	Foreclosure	Successful Short Sales
Future Fannie Mae Loan - Primary Residence¹	A homeowner who loses a home to foreclosure is ineligible for a Fannie Mae-backed mortgage for a period of 5 years .	A homeowner who successfully negotiates and closes a short sale will be eligible for a Fannie Mae-backed mortgage after only 2 years .
Future Fannie Mae Loan - Non Primary¹	An investor who allows a property to go to foreclosure is ineligible for a Fannie Mae-backed investment mortgage for a period of 7 years .	An investor who successfully negotiates and closes a short sale will be eligible for a Fannie Mae-backed investment mortgage after only 2 years .
Future Loan with any Mortgage Company	On any future application, a prospective borrower will have to answer YES to questions C in Section VIII of the standard 1003 form that asks "Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?" This will affect future rates.	There is no similar declaration or question regarding a short sale.
Credit Score	Score may be lowered anywhere from 250 to more than 300 points . Typically will affect a credit score for over 3 years .	Only late payments on mortgage will show, and after sale, mortgage is normally reported as 'paid as agreed', 'paid as negotiated', or 'settled'. This can lower the score as little as 50 points if all other payments are being made. A short sale's effect can be as brief as 12 to 18 months .
Credit History	Foreclosure will remain as a public record permanently, and on a person's credit history for 10 years or more .	A short sale is not reported on a credit history . There is no specific reporting item for 'short sale'. The loan is typically reported 'paid in full, settled' or 'paid as negotiated'.
Security Clearance	Foreclosure is the most challenging issue against security clearance outside serious misdemeanors or felony convictions. If a client is a member of the police, military, CIA, or any other position that required security clearance, in most cases clearance will be revoked and the position will be terminated.	On its own, a short sale does not challenge most security clearances . ²
Current Employment	Employers have the right and are actively checking the credit of all employees who are in sensitive positions. In many cases, a foreclosure is reason of immediate reassignment or termination .	A short sale is not reported on a credit report and is therefore not a challenge to employment . ²
Future Employment	Many employers are requiring credit checks on all job applicants. A foreclosure is one of the most detrimental credit items an applicant can have and in most cases will challenge employment .	A short sale is not reported on a credit report and is therefore not a challenge to future employment . ²
Deficiency Judgment	In 100% of foreclosures (except in those states where there is not deficiency), the bank has the right to pursue a deficiency judgment.	In some successful short sales, it is possible to convince the lender to give up the right to pursue a deficiency judgment against the homeowner.
Deficiency Judgment (amount)	In a foreclosure, the home will have to go through an REO process if it does not sell at auction. In most cases this will result in a lower sales price and longer time to sell in a declining market. This will result in a higher possible deficiency judgment.	In a properly managed short sale, the home is sold at a price that should be close to market value, and in almost all cases will be better than an REO sale resulting in a lower deficiency .
Deficiency Judgment (statute of limitations)	In a foreclosure, the first mortgage holder has 6 months to file for a deficiency judgment (the second mortgage hold has 6 years).	If the mortgage holder does not release their right to pursue a deficiency judgment they have up to 6 years to file and seek a deficiency judgment.

¹ Fannie Mae Announcement 08-16: Michael A. Quinn, Senior Vice President, Single-Family Risk Officer

² Short sales are currently not explicitly reported on a credit report

Many homeowners today are facing uncertainty. They do not know what to do next for themselves and their families. Despite all attempts to hold on, foreclosure has become a reality that if not addressed or handled correctly can have a devastating outcome. Now more than ever, you need to prepare yourself to navigate the mistakes that are most commonly made.

I believe every homeowner deserves the best information and education to avoid losing a home to foreclosure and damaging credit for years to come. If you are struggling to pay the mortgage and unsure of what to do next, understanding these options – especially shortsales – can ease your stress and potentially save you from an impending foreclosure. Deciding on which route will be best for you and your family’s future is the most important decision you can make. Please use this information to better understand the options available. As a CSP® and SFR®, I have been trained to assist homeowners in these difficult situations. If I can prove you with more information or assistance, please don’t hesitate to **contact me**.