

# Doron F. Eghbali Real Estate Law

## [Short Sale of Underwater Property Has Serious Drawbacks](#)

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Many homeowners with underwater properties figure if their lender forecloses on their property, their credit score takes a direct and irreparable hit for seven years. So, short sale might be a better option by just walking away by selling their property at a loss under an agreement with the lender. But, short sale has some inherent drawbacks.

As explained, the concept of short sale in real property means an underwater homeowner reaches an agreement with the lender by which the home is sold at a loss.

Such homeowners before taking such a dramatic step should carefully consider the following:

### **HOMEOWNER'S CREDIT SCORE STILL SIGNIFICANTLY HURTS**

The conventional thinking is that a homeowner's credit score might not seriously hurt if an underwater homeowner sells the property at a loss and lender agrees to such sale. However, this is inaccurate.

In fact, when homeowners are not able to pay their mortgage and they fall behind their payments for some time, their credit scores take a serious hit. The reason is such delinquencies are highly indicative of future risk. As such, if a lender forecloses on a property or agrees to a short sale or a deed-in lieu, in which the homeowner transfers the property deed to the lender and walks away, all have *similar* devastating impact on delinquent homeowner's credit score, unfortunately.

### **THE LENDER MIGHT STILL SUE DELINQUENT HOMEOWNER FOR ITS LOSS**

In most states including California, the lender might still sue a delinquent homeowner for deficiency judgment. Deficiency judgments allow lenders to get the difference between the unpaid mortgage on the property and the sale price.

In fact, in most instances, lenders force homeowners sign a promissory note to agree to pay the difference between the amount they owe and the home's final sale price.

However, your attorney could theoretically negotiate with the lender to remove such provision and agree not to pursue any legal remedies against delinquent homeowner for further payments.

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