How Does a Foreclosure or Short Sale Affect Your Credit Score?

Here are several ways a foreclosure affects your credit score:

- The late payments that precede a foreclosure have a big impact on your credit score.
- FICO, the agency which calculates credit scores, guards their scoring system carefully, but it is estimated that a foreclosure can drop your score anywhere from 175 – 300 points.
- The foreclosure will remain on your credit report for ten years.

If possible, consider alternatives to a foreclosure, such as a short sale or deed-in-lieu of foreclosure.

A short sale can have less of an effect on your credit score than a foreclosure if you do the following:

- Work with your lender to negotiate the short sale without missing any of your payments.
- As part of the negotiation, ask your lender to report the sale as “paid in full.”

Although possible, a short sale that has a minimal effect on your credit score is difficult to accomplish. Your lender must approve the short sale, which means you have to send them a packet of information about your financials.

Your lender may not provide a quick approval of the short sale, so if you are strapped for cash, it may be difficult to avoid missing payments during this process. You lender can also decide that you do not qualify for the short sale, in which case you must decide if you want to try to keep the house, or let it go to foreclosure.