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A foreclosure can adversely affect a real estate ownerâ€™s credit rating. Are there alternatives to foreclosures that have less impact on an individualâ€™s credit score? Yes, and one of these is short sales.

Suppose a house is worth $200,000 dollars, and the owner has debts of $100,000, $50,000 and $50,000 to three different creditors, secured by the house. In a foreclosure, if the owner is unable to pay all of the debts, the creditors can seize the house. In a short sale, on the other hand, the owner can sell the house to a third party, whoâ€™ll pay a value lower than the debts combined. For instance, the owner can find a buyer willing to pay $150,000 for the house.

In this scenario, the $100,000 and $50,000 debts can be paid off. But what happens to the remaining $50,000? The creditor may or may not write off the $50,000 debt in this case. You may wonder, though, why any creditor would agree to this set up.

To secure a short sale, a house owner must be able to prove to creditors that heâ€™s going through enough financial hardship that it restricts his ability to pay. The property owner must make a separate real estate short sale package for each creditor. Creditors typically have separate departments specifically for the processing of short sales applications.

Creditors usually have a set of criteria for the approval of short sales. For instance, in the first quarter of 2012, the average price of homes for sale in South Jordan Utah was $332,394. Based on this data, donâ€™t expect creditors to accept a short sale value significantly lower than the one stated above. Creditors may accept applications from borrowers who are not in default with their payments; thus, people who engage in short sales are more likely to get back on track faster financially than those who had their homes foreclosed.

Transactions for short sales in Utah are similar to any home sale. In this deal, you have more control over whoâ€™s going to buy your home; in a foreclosure, on the other hand, the bank chooses your buyer. You can still buy another home immediately after a short sale, provided you meet certain Fannie Mae requirements, such as your payments never exceeding 30 days late.

If youâ€™ve decided to engage in one of Utah short sales, you need to prepare a short sale hardship letter. The correspondence should appeal to the creditorsâ€™ sympathy, without coming across as too emotional. For more information about constructing such letter, read realestate.about.com/od/realestateinvesting/a/short_sale_3rd.htm.

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