

## **“Is a Short Sale Better Than Filing Bankruptcy?”**

Written by Lucky  
Tuesday, 26 July 2011 00:00

---

I believe most bankruptcy attorneys have probably heard a lot of misinformation about bankruptcy... I know I have. So, I wanted to write today about the question I get asked the most: “Should I do a short sale, rather than letting the property go in a foreclosure or a bankruptcy?” People who call me with this question explain, that they have heard from others, that: “A short sale is always smarter as it will save my credit score.” Unfortunately, what my clients have been told is not always true and more often than not, a short sale may not help them much at all.

While each person’s circumstance is different, clients tell me that they’ve spoken with others who try to encourage them to do a short sale, as a cure-all to avoid bankruptcy. However, the people who give such advice sometimes do not consider the other debt problems the homeowner may have.

Every situation is different, but many of my clients who cannot afford their mortgage payments also usually have other MAJOR credit card debt and other debt problems. While a short sale may resolve the problems they are experiencing with their mortgage, a homeowner may have other debts that they are becoming overwhelmed with too --- these debts usually need to be dealt with in a bankruptcy. Preventing a short sale won't do any good to protect a person's credit rating if a bankruptcy becomes necessary at a later date. While it's true that a bankruptcy filing will remain on a credit report for a few years, one must also consider that a person's credit score has already suffered if they are unable to pay their bills and are receiving late notices and calls from creditors.

Also, short sales are often time consuming, very difficult to negotiate, and will bring down the borrower's credit score (just like a foreclosure or a Bankruptcy would). In addition, if the lender forgives a portion of the mortgage, debt forgiveness could potentially (once again, it depends on the specific circumstance) be reported to the IRS as income to the borrower -- money not actually received by the borrower, but money that is in fact taxable. On the other hand, debt forgiveness afforded in bankruptcy is not taxable.

A short sale should only be considered after weighing all of your options, including bankruptcy and foreclosure. Short sales are not a magic solution that some proponents make them out to be and you must look at all your options before deciding which course of action to take. Paralyzed with fear, clients call me not knowing which way to turn, often after receiving misguided advice. In many cases, their best option is to file for Chapter 7 Bankruptcy to get out from under all of their debt problems.

The only way to determine which is best option for your specific situation is to seek the advice of a competent attorney like Mr. Jesrani. Feel free to [contact](#) the Law Office of Anand “Lucky” Jesrani to discuss which option is best for you - we offer free consultations and are very

## **“Is a Short Sale Better Than Filing Bankruptcy?”**

Written by Lucky

Tuesday, 26 July 2011 00:00

---

experienced with Real Estate and Bankruptcy issues.