

# Mortgage Options for Those Rebuilding Their Credit

*Note: Programs and specific legislation may vary from year to year, state to state and from lender to lender. The following information will help you to be more generally informed so that you can have a productive conversation with your mortgage professional regarding your specific circumstances.*

## How long after a bankruptcy can I qualify for a home loan?

Depending on the type of bankruptcy, it's possible to qualify for a home loan in as little as 12 months, if you filed a Chapter 13 and have made all of your subsequent payments on time. If you filed a Chapter 7, you can qualify 2 years after the discharge date. If you've had a foreclosure, 3 years after the cured date. There are no guarantees, however. Lenders still want to feel good about the transaction. You will likely be required to

come up with a down payment of at least 1.5% and must have a clean track record of timely payments since your bankruptcy. Lenders are also going to want to see steady and adequate income. You may also need to explain any extenuating circumstances that lead up to your bankruptcy filing.

## Who makes these loans?

"Second Chance" loans or making loans available to people with less than stellar credit is the realm of the FHA. The FHA makes federally insured money available to people who may not qualify without them. They are not a typical subprime lender, however. They do require some kind of downpayment, income verification, at least 12 months of good payment history, reasonable debt to income ratio's, limits on the amounts of the loans they make and other qualifiers designed to protect the interests of the homebuyer as well as the American taxpayer.

Here are some of the specific requirements:

## Chapter 13 Bankruptcy

FHA will consider approving a borrower who is still paying on a Chapter 13 Bankruptcy if those payments have been satisfactorily made and verified for a period of one year. The court trustee's written approval will also be needed in order to proceed with the loan. The borrower will have to give a full explanation of the bankruptcy with the loan application and must also have re-established good credit, qualify financially and have good job stability.



## Chapter 7 Bankruptcy

At least two years must have elapsed since the discharge date of the borrower and / or spouse's Chapter 7 Bankruptcy, according to FHA guidelines. This is not to be confused with the bankruptcy filing date. A full explanation will be required with the loan application. In order to qualify for an FHA loan, the borrower must qualify financially, have re-established good credit, and have a stable job.

## Foreclosure

FHA insured mortgages are generally not available to borrowers whose property was foreclosed on or given a deed-in-lieu of foreclosure within the previous three years. However, if the foreclosure of the borrower's main residence was the result of extenuating circumstances, an exception may be granted if they have since established good credit. This does not include the inability to sell a home when transferring from one area to another.

