Purchasing a Home After
Short Sale, Bankruptcy or Foreclosure

Buying a home again after a short sale, foreclosure or bankruptcy and getting a mortgage is going to depend on what type of mortgage you are trying to qualify for. FHA guidelines are different than FNMA guidelines and USDA and VA guidelines are even different still.

Credit and Credit Score
Credit is the ability to borrow tomorrow's money to pay for something you get today with the agreement to pay it back at a future date. Credit is a privilege. Your credit report reflects your financial behavior, i.e. long-term patterns of credit usage and repayment history. A credit score is a summary of your credit information and covers the areas listed below, in order of importance. A median credit FICO score ranges from 400-800.

- Payment history (35%)
- Amounts owed (30%)
- Length of credit history (15%)
- Pursuit of new credit - Inquires (10%)
- Types of credit used (10%)

Recently, Fair Isaac, which developed FICO scores, pulled back the curtain a bit, revealing some estimates of point-score declines following mortgage delinquency problems.

Here are the average hits your credit will take:

30 days late:	40 - 110 points
90 days late:	70 - 135 points
Short sale:	85 - 100 points
Foreclosure, Deed-in-Lieu:	100 - 150 points
Bankruptcy:	130 - 240 points

Credit bureaus generally slash scores equally for those three resolutions to someone losing their home. The important factor is that it's reported that you paid less on a settled account.

Some borrowers may think that because they never missed a payment, they can "walk away" from their homes with relatively little impact on scores. Not true. When a deed-in-lieu or short sale is reported as a partial payment, it's treated as a serious delinquency just like a foreclosure.

Even if borrowers made payments faithfully for years before short selling or doing a deed-in-lieu, their credit score will still take a hit. The total decline will run about 85 points for a 680 score borrower to as much as 160 for a 780 score.

Mortgage debt, combined with other financial problems, can send borrowers into bankruptcy, the worst thing that can happen to your credit score.

The effects are long-lasting. In a Chapter 13 bankruptcy, which involves partial repayment over several years, the stain will take seven years to remove. A Chapter 7 bankruptcy, which involves liquidation, takes 10 years to get over.

Absorbing a big credit-score hit can make many transactions more costly. It's not just paying more for credit card debt and auto loans, insurance can cost more as well.

It's easy to get a copy of your credit report. Once you have a credit history, you should review your report annually. You can get one free copy of your credit report each year at www.annualcreditreport.com. You can also get it from one of three companies: Equifax, Experian and TransUnion. These companies may charge a small fee and each report is slightly different. Your credit report is based on your financial behavior — not on salary, gender, race, religion, and nationality or marital status. Credit-reporting Agencies

Equifax 800-685-1111 www.equifax.com	Experian 888-EXPERIAN (888-397-3742) www.experian.com	TransUnion 800-888-4213 www.transunion.com

How to Rebuild Your Credit

Tips for Raising Your Credit Score

- Pay your bills on time
- If you have missed payments, get current and stay current
- Be aware that paying off a collection account will not remove it from your credit report
- If you are having trouble paying your bills, contact your creditors or see a legitimate credit counselor
- Keep balances low on credit cards and other revolving credit
- Do not have too many credit cards and do not use them maximum credit limit on any of them
- Pay off debt rather than moving it around
- Don’t close unused credit cards as a short-term strategy to raise your score
- Don’t open a number of new credit cards that you don’t need just to increase your available credit
- If you have been managing credit for a short time, don’t open a lot of new accounts too rapidly
- Do your rate shopping for a given loan within a focused period of time
- It is OK to request and check your own credit report
- Apply for and open new credit accounts only as needed
- Have credit cards – but manage them responsibly
- Closing an account doesn’t make it go away

Building a Non-traditional Credit History
If you’d rather not get a credit card or loan, you can create a “nontraditional credit history” instead. It’s another way of showing lenders that you’re responsible about paying your bills and dealing with credit.

Here’s How to Create a Non-traditional Credit History

- Pay your monthly bills such as rent, telephone and utilities on time
- Keep copies of cancelled checks (for the past two years) as proof of on-time payments
- Request a reference letter from your landlord, telephone company or utility company stating the duration and favorable payment history for your account

Counseling
Last year HUD approved agencies provided one-on-one counseling to 2.1 million clients. More than half (1.4 million) received foreclosure and default counseling. Pre-purchase counseling was given to about 245,000 persons and 205,000 received counseling regarding home repair or reverse mortgages. The remainder of the training was related to rental housing (278,000) or homelessness (37,000.) Of those receiving pre-purchase training about 17 percent were reported as purchasing a home and 26 percent anticipated doing so within three months. HUD data also indicates that its counselors were involved in more than 301,000 loan modifications during the year and provided group education and counseling to an additional 870,000 persons

- http://portal.hud.gov/hudportal/Hud?src-states/florida/homeownership/hsgcounseling

Default Counseling
A homeowner who needs credit, legal, or employment assistance to resolve temporary financial problems should be referred to housing counseling as soon as possible.

These HUD approved housing counselors will help the homeowner understand all options, design a plan to suit their individual situation and help prepare their application. Research shows that homeowners who work with housing counselors like those referenced below are more successful and have better long-term outcomes. There is no cost to the homeowner for this valuable, around-the-clock service. Help is available in more than 160 languages. Lenders and mortgage servicers have established working relationships with counseling agencies.

Housing Counseling

HOPE - Homeownership Preservation Foundation - www.995hope.org **-** 888-995-4673
HUD Counselors - www.hud.gov/offices/hsg/sfh/hcc/fc
NeighborWorks - www.findaforeclosurecounselor.org/network/nfmcp/findaforeclosurecounselor.asp
CredAbility - www.credability.org

Purchasing after a Short Sale

Homeowners are not eligible for a new FHA mortgage if they pursued a short sale agreement on his or her principal residence simply to:

- Take advantage of declining market conditions
- Purchase, at a reduced price, a similar or superior property within a reasonable commuting distance

Homeowners who are current at the time of the Short Sale are considered eligible for a new FHA-insured mortgage if:

- Their mortgage payments due on the prior mortgage were made within the month due for the 12 month period preceding the short sale, and
- Their installment debt payments for the same time period were also made within the month due

Homeowners in default on their mortgage at the time of the short sale (or pre-foreclosure sale) are not eligible for a new FHA-insured mortgage for three years from the date of the pre-foreclosure sale. *Note:* A borrower who sold his or her property under FHA's pre-foreclosure sale program is not eligible for a new FHA-insured mortgage from the date that FHA *paid the claim* associated with the pre-foreclosure sale.

Exception - A lender may make an exception to this rule for a borrower in default on his/her mortgage at the time of the short sale under certain circumstances.

- Default was due to circumstances beyond the borrower's control, such as death of a primary wage earner or long-term uninsured illness and
- A review of the credit report indicates a satisfactory credit prior to the circumstances beyond the borrower's control that caused the default

Plead the Case of Extenuating Circumstances
FHA guidelines do make an exception for the three-year, post-short-sale waiting period for former homeowners/wannabe borrowers who can document that they were forced to do the short sale by extenuating circumstances. The most common fact scenarios that fit the bill are a job transfer to another area (not job loss) or a natural disaster that affected the property (e.g., fire, flood, etc.).

Beyond that, whether a "hardship," to use your terminology, rises to the level of an extenuating circumstance for purposes of qualifying for an FHA loan is up to the discretion of the lender, but things like a job loss, the adjustment of a mortgage or the decline of the home's market value do not count.

If you had, say, an accident or illness that resulted in a temporary disability, it might be worth the effort to plead your case. Speak with your mortgage professional about whether you can make a credible argument in favor of shortening your waiting period

Fannie Mae, Freddie Mac Financing

- 2 years – 80% maximum LTV ratios
- 4 years – 90% maximum LTV ratios
- 7 years – 95% maximum LTV ratios
- Investor: 4 years – 95% maximum LTV ratios with late payments

New credit must be re-established with a credit score in the 660 range. The higher the score the better. Fannie Mae and Freddie Mac currently like scores over 740 for all of their loan products. Fannie Mae has reduced waiting period in cases of extenuating circumstances, i.e. the death of a primary wage earner seems to be the only one they will approve.

Exceptions to Waiting Period for Extenuating Circumstances

- 2 years – 90% maximum LTV ratios

Extenuating Circumstances and Financial Mismanagement

One of the main reasons to conduct a short sale is to enable qualification for a new home loan in the shortest amount of time possible. Below are the Fannie Mae and Freddie Mac guidelines with respect to distressed situations. It is important to note that meeting these timeframes will not qualify the borrower for every program offered and the available programs should be reviewed with a competent lender. However, it should be stressed that this is not the situation for ALL lenders and often unique programs can be found by shopping loans at smaller banks and credit unions.

Another factor to consider is that guidelines do change fairly frequently in this environment. A short sale is often considered to be an attempt to work with the bank, whereas a foreclosure is often considered to be simply walking away from obligations. This perception is reflected in the chart above, which is why a foreclosure currently adds a full year to any qualification criteria over a short sale. Because of this current lender perception, if all other factors are the same it often makes sense to complete a short sale to simply try and be in the best position under whatever the future guidelines might be.

Extenuating Circumstances

An important and less obvious distinction in the current qualification guidelines has to do with "Extenuating Circumstances". Anything that does not qualify as an extenuating circumstance automatically falls under the category of "Financial Mismanagement."

"Extenuating circumstances" are nonrecurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations.

If a borrower claims that derogatory information is the result of extenuating circumstances, the lender must substantiate the borrower's claim.

Examples of documentation that can be used to support extenuating circumstances include documents that confirm the event (such as a copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc.) and documents that illustrate factors that contributed to the borrower's inability to resolve the problems that resulted from the event (such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.).

The lender must obtain a letter from the borrower explaining the relevance of the documentation. The letter must support the claims of extenuating circumstances and confirm the nature of the event that led to the bankruptcy or foreclosure-related action, plus illustrate the borrower had no reasonable options other than to default on their financial obligations.

Fannie Mae, Freddie Mac – Extenuating Circumstance or Financial Mismanagement

Extenuating Circumstance

- Written explanation
- Third-party documentation
- No prior credit issues
- 3 years from foreclosure or multiple bankruptcy
- 2 years from deed-in-lieu, short sale, significant credit late payments or single bankruptcy Chapter 7 or 13 discharged or dismissal

Financial Mismanagement

- 680 credit score
- 5 years from foreclosure, multiple bankruptcy
- 4 years from short sale, bankruptcy deed-in-lieu or significant credit late payments
- 4 years for Chapter 7 discharged or dismissal
- 2 years from discharged for a Chapter 13 bankruptcy
- 4 years from dismissal for a Chapter 13 bankruptcy
- Must be current on all credit for the last 12 months

    - No new derogatory public record
    - No 60 day late payments
    - No more than 2 x 30 day late payments
    - No late housing payment
    - Limited revolving debt utilization
    - Borrower explanation leading to reasonable conclusion that borrower has re-established an acceptable credit reputation

***Regardless of the Fanny guidelines it's the investors that actually buy the loans. They require us to abide by their guidelines and nothing is standard among investors.**

VA Mortgage
Buyers who decide to apply for a new VA mortgage after the two year waiting period must apply to have their VA loan eligibility restored by filing a copy of VA Form 26-1880 to the Winston-Salem Eligibility Center. The VA will process the paperwork and let the lender and applicant know when restoration is official.

But there is one thing that could prevent a buyer from getting eligibility restored right away. If the VA paid a compromise claim as part of a short sale, the buyer may be indebted to the government as a result of that claim.

The Department of Veterans Affairs may not restore eligibility if the applicant still owes money to the government. The specific wording on the VA official site includes the following:

> *"…although the veteran's debt was waived by VA, the Government still suffered a loss on the loan. The law does not permit the used portion of the veteran's eligibility to be restored until the loss has been repaid in full."*

New credit must be re-established and your credit score should be in the 620 range, the higher the score the better.

USDA Loan
The waiting period for a USDA loan after a short sale can be as little as 2 months in the right situation. If you have had a short sale and the following conditions apply, then you could possibly get a USDA loan in as little as 2 months after your short sale:

- Credit Score of 660 or higher
- No late payments for the past 12 months
- If you have recently sold your home and have no late payments, it is possible to qualify immediately
- Obtain a GUS Approval (This is an automated underwriting approval for a USDA Home Loan)
- Investor – 3 years if there are late payments in the credit history

Jumbo Loan above $417,000 Loan Amount
Jumbo loans are going to be the hardest loans to qualify for after a short sale. Be prepared to with the longest of any of the programs and put the most money down. Waiting period is 7 years.

Purchasing after a Foreclosure

Here are just a few things that you will want to consider. Not all loan programs have the same requirements for buying again after foreclosure.

You will want to have re-established your credit and made your payments on time for your other accounts before applying for a loan of any kind. Be ready to provide additional documentation for the underwriters when getting a loan after foreclosure.

Buying a home after foreclosure is going to be one of the hottest segments of home buyers in 2011 – 2015 as the waiting period ends for many people who went through foreclosure in prior years.

- **FHA Loan after Foreclosure -** The waiting period for getting an FHA loan after a foreclosure is 3 years after the after the final date of foreclosure.

- **FHA Loan after Deed-in-lieu -** The waiting period for getting an FHA loan after a deed-in-lieu is 3 years.
- **VA Loan after Foreclosure** - The waiting period for a VA loan after the final date of foreclosure is 2 years for most VA lenders.
- **VA Loan after Deed-in-lieu** - The waiting period for a VA loan after a deed-in-lieu of foreclosure for most lenders is 2 years.
- **Conventional Loan after Foreclosure -** The waiting period for buying a home with a conventional loan after the final date of foreclosure is 7 years.
- **Conventional Loan after Deed-in-lieu -** The waiting period for buying a home with a conventional after a deed-in-lieu is 3 year.
- **USDA Loan after Foreclosure** - As a standard rule, many lenders will tell you that you will need to wait 3 years after the final date of foreclosure.
- **USDA Loan after Deed-in-lieu** - The waiting period for a USDA loan after a deed-in-lieu of foreclosure is generally 3 years.

Purchasing After a Bankruptcy

FHA – Chapter 13 Bankruptcy
FHA will consider approving a buyer 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 buyer 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.

FHA – 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.

VA Loan
You may apply for a VA guaranteed loan 2 years after the discharge of a bankruptcy. Credit must be re-established with a minimum 620 credit score.

Conventional Loan
You may apply for a Conventional; Fannie Mae loan after your bankruptcy has been discharged for 4 to 7 years depending on other layered risk factors, i.e. judgments, IRS liens, foreclosure.

USDA Guaranteed Rural Housing Loan
Criteria for USDA loan approvals state that if you have been discharged from a Chapter 7 bankruptcy for three years or more, you are eligible to apply for an USDA mortgage. If you are in a Chapter 13 bankruptcy and have made all court approved payments on time and as agreed for at least one year you can apply for a USDA loan.

While USDA mortgage guidelines do require that the property be Owner Occupied (OO), they do allow you to purchase condos, planned unit developments, manufactured homes, and single family residences. There is no set maximum loan amount allowed for an USDA Residential Loan. Instead, your debt-to-income ratios will dictate how much home you can afford (29/41 ratios).

Additionally, your total household monthly income must be within USDA allowed maximum income limits for your area. To view maximum income limits visit this website.

- http://www.rurdev.usda.gov/HSF-Guar_Income_Limits.html

What is considered a Rural Area by the USDA?
Rural areas include open country and places with population of 10,000 or less and—under certain conditions—towns and cities. There is automated rural area eligibility income and property at:

- http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do

You should review your credit at least six to nine months before you begin looking for a home so any credit issues will have time to be cured.

If you still have questions about buying a home again after a short sale bankruptcy or foreclosure, find a great loan officer at a lender who can help you by answering your questions with all of the latest information that may not have made its way to the web yet.

The Ten Rules for Success in the New Mortgage Landscape

1. *YOU MUST* disclose all debts and liabilities on your loan application.
2. *YOU MUST NOT* make large deposits without documentation of the paper trail.
3. *YOU MUST NOT* approve any inquiries of your credit rating.
4. *YOU MUST* keep your current bank accounts open and in good standing.
5. *YOU MUST NOT* buy furniture, a car, truck, motorcycle, boat, or RV.
6. *YOU MUST NOT* use your credit cards excessively or fall behind on payments.
7. *YOU MUST NOT* spend the money you set aside for closing.
8. *YOU MUST NOT* change jobs, quit your job, reduce your salary, or become self-employed.
9. *YOU MUST NOT* co-sign a loan for someone else.
10. *YOU MUST* alert your loan officer prior to any change in your financial condition.

Don't Be a Victim of Loan Fraud

Protect Yourself from Predatory Lenders
Buying or refinancing your home may be one of the most important and complex financial decisions you'll ever make. Many lenders, appraisers, and real estate professionals stand ready to help you get a nice home and a great loan. However, you need to understand the home buying process to be a smart consumer. Every year, misinformed homebuyers, often first-time purchasers or seniors, become victims of predatory lending or loan fraud. Don't let this happen to you!

11 Tips on Being a Smart Consumer

1. Before you buy a home, attend a homeownership education course offered by the U.S. Department of Housing and Urban Development (HUD)-approved, non-profit counseling agencies.

2. Interview several real estate professionals (agents), and ask for and check references before you select one to help you buy or sell a home.
3. Get information about the prices of other homes in the neighborhood. Don't be fooled into paying too much.
4. Hire a properly qualified and licensed home inspector to carefully inspect the property before you are obligated to buy. Determine whether you or the seller is going to be responsible for paying for the repairs. If you have to pay for the repairs, determine whether or not you can afford to make them.
5. Shop for a lender and compare costs. Be suspicious if anyone tries to steer you to just one lender.
6. Do NOT let anyone persuade you to make a false statement on your loan application, such as overstating your income, the source of your down payment, failing to disclose the nature and amount of your debts, or even how long you have been employed. When you apply for a mortgage loan, every piece of information that you submit must be accurate and complete. Lying on a mortgage application is fraud and may result in criminal penalties.
7. Do NOT let anyone convince you to borrow more money than you know you can afford to repay. If you get behind on your payments, you risk losing your house and all of the money you put into your property.
8. Never sign a blank document or a document containing blanks. If information is inserted by someone else after you have signed, you may still be bound to the terms of the contract. Insert "N/A" (i.e., not applicable) or cross through any blanks.
9. Read everything carefully and ask questions. Do not sign anything that you don't understand. Before signing, have your contract and loan agreement reviewed by an attorney skilled in real estate law, consult with a trusted real estate professional or ask for help from a housing counselor with a HUD-approved agency. If you cannot afford an attorney, take your documents to the HUD-approved **housing counseling agency** near you to find out if they will review the documents or can refer you to an attorney who will help you for free or at low cost.
10. Be suspicious when the cost of a home improvement goes up if you don't accept the contractor's financing.
11. Be honest about your intention to occupy the house. Stating that you plan to live there when, in fact, you are not (because you intend to rent the house to someone else or fix it up and resell it) violates federal law and is a crime.

What is Predatory Lending?
In communities across America, people are losing their homes and their investments because of predatory lenders, appraisers, mortgage brokers and home improvement contractors who:

- Sell properties for much more than they are worth using false appraisals.
- Encourage borrowers to lie about their income, expenses, or cash available for down payments in order to get a loan.
- Knowingly lend more money than a borrower can afford to repay.
- Charge high interest rates to borrowers based on their race or national origin and not on their credit history.
- Charge fees for unnecessary or nonexistent products and services.
- Pressure borrowers to accept higher-risk loans such as balloon loans, interest only payments, and steep pre-payment penalties.
- Target vulnerable borrowers to cash-out refinances offers when they know borrowers are in need of cash due to medical, unemployment or debt problems.

- "Strip" homeowners' equity from their homes by convincing them to refinance again and again when there is no benefit to the borrower.
- Use high pressure sales tactics to sell home improvements and then finance them at high interest rates.

What Tactics Do Predators Use?

- A lender or investor tells you that they are your only chance of getting a loan or owning a home. You should be able to take your time to shop around and compare prices and houses.
- The house you are buying costs a lot more than other homes in the neighborhood, but isn't any bigger or better.
- You are asked to sign a sales contract or loan documents that are blank or that contain information which is not true.
- You are told that the Federal Housing Administration insurance protects you against property defects or loan fraud - it does not.
- The cost or loan terms at closing are not what you agreed to.
- You are told that refinancing can solve your credit or money problems.
- You are told that you can only get a good deal on a home improvement if you finance it with a particular lender.

Remember:
If a deal to buy, repair or refinance a house sounds too good to be true, it usually is! Housing counselors working at HUD-approved agencies can help you be a smart consumer. To find a counselor near you, call (800) 569-4287 or go to HUD's housing counselors list online.

Your class today is sponsored by:

Good luck assisting your buyers in creating the home of their dreams!

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Meet Your Builder

Builder's Mission:

Builder History and Awards:

Builder Products and Upgrades:

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Standard Home Features:

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Warranty Description:

HOA Description:

Preview the Model Home and Community

Builder's Community Representative Contact Information:

Special Financing:

Seller Concessions:

Selling Commission and Bonus:

Community Price Range:

Neighborhood Amenities:

Lots, Under Construction, Finished Homes:

Timeline to Closing: