Buying a House After Bankruptcy

In 2013, more than one million Americans filed for personal bankruptcy. Of these filings, about 706,000 were Chapter 7 bankruptcies and about 330,000 were Chapter 13 bankruptcies. In many cases, personal bankruptcies are the result of unsurmountable medical bills or result following long periods of unemployment, a common problem in the recent economy. If you are among the millions of people who have filed for personal bankruptcy in the past few years, you may think that your dream of homeownership is an unattainable one. But, believe it or not, you can still buy a house.

Is It Possible to Get a Mortgage with a Bankruptcy in My Credit History?

A bankruptcy will stay on your credit report for several years, and it is true that this will make getting a mortgage more difficult. However, there are lenders out there who will be willing to work with you, particularly if you have been working toward rebuilding your credit during the time period between when you filed for bankruptcy and you applied for a mortgage.

According to John R. Lee, author of *How to Improve Your Credit Score: What Everyone Needs to Know,* "bankruptcies can actually have a very positive influence on your credit score." He further explains, "if you enter into a bankruptcy and then make payments on time, your score can go up quite a bit in just a few months." It is important that you have kept your debts low and have a consistent history of timely bill payments during this time, as that will reflect more positively on how you appear to lenders.

How Soon Can I Apply for a Mortgage Following a Bankruptcy?

You will not be able to apply for a mortgage immediately after having your debts discharged through a bankruptcy. There is typically a waiting period before any lender will consider you. This is because lenders will base their decision on your financial behavior in the time period following your bankruptcy.

According to Steve Rhode, WRAL's Get Out of Debt Guy, "rebuilding your credit after bankruptcy is something that should begin on the day you get your discharge papers. If you do that, then within a year you'll be qualified for good rates on a car and within two to three years you'll be qualified for excellent rates on a new mortgage."

Typically, there are different waiting periods for different kinds of mortgage loans.

- **For conventional mortgage loans**: These have the longest waiting period. You will need to wait two years following a Chapter 13 bankruptcy, and four years following a Chapter 7 bankruptcy.
- **For FHA and VA mortgage loans**: You will need to wait one year after a Chapter 13 bankruptcy, and two years following a Chapter 7 bankruptcy.

- **For USDA mortgage loans**: You will need to wait one year after a Chapter 13 bankruptcy, and three years following a Chapter 7 discharge.

How Can I Get a Mortgage with a Favorable Interest Rate?

With a recent bankruptcy on your credit report, most lenders will see you as a risk and are likely to charge you higher interest rates. Naturally, nobody wants to pay more on interest than is necessary. You are likely wondering how to maximize your interest savings, while still being able to purchase a home in a timely manner. Some suggestions include:

Try to get an FHA mortgage

The FHA understands that the recent economic downfall has created hardships for many Americans, and is therefore rather forgiving of bankruptcies in your credit history. If you can qualify for an FHA loan, this may be your best method of securing affordable home financing in a timely manner. Be aware that borrowers who obtain an FHA loan will be required to pay an additional fee for mortgage insurance for at least eleven years; however, these loans do enable buyers with poor credit to get financing at a reasonable interest rate and with a small down-payment. According to Jeff Lazerson, head of Mortgage Grader, Inc, the “FHA is the new and only subprime game in town.”

Buy a home that is seller-financed

There are a number of real estate investors out there who buy up homes that have been foreclosed on or that have gone to auction for back-taxes. They typically get these homes at great prices and then sell them off quickly. To save money and ensure a quick sale, a number of these investors will sell these properties "as-is" with no credit-check and zero percent interest. Because the sellers holds the title to the property until it is paid off, they can do this at very little risk. While you are likely to end up with a fixer-upper, this is one way that you can purchase a home despite having a bad credit history.

Consider a rent-to-own agreement

With a rent-to-own agreement, you rent the home that you are interested in buying for a period of three to five years. During this time, your rent payment will be one or two-hundred dollars more expensive than they would have been if you were simply renting. This extra money gets put aside to be used toward a down-payment on the house once the agreed-on time period has passed. During this time, you can work toward rebuilding your credit so that you are a better candidate for a competitively-priced mortgage. Having a substantial down-payment also helps you look better in the eyes of a mortgage lender. One risk you do face, however, is that if you decide not to purchase the home after all, you will lose the money that you put toward the down payment.

Accept the high rate and refinance later

If you are absolutely certain that you want to buy a home now, despite a recent bankruptcy, you may be willing to accept an outrageous interest rate. If you work toward improving your credit after purchasing the home, you are likely to be able to refinance it at a more competitive rate at a later date. There are risks to this methodology, however. You cannot predict what interest rates will be like in future. It is possible that the higher rate you are paying now may be more in-line with interest rates later on. Also, when you refinance a mortgage, there are fees and closing costs involved that may negate your savings unless the interest rate you are refinancing to is at least one percent lower than the one you already have.