

[Home Buying With Bankruptcy or a Foreclosure On Your Credit](#)

Put your fears aside. Just because you have bad credit, filed bankruptcy or gone through a foreclosure does not mean you cannot buy a home. You most certainly can buy a home with bad credit. But you're going to pay more than a borrower who has sparkling credit.

The Waiting Period After Foreclosure / Bankruptcy

- The period between bankruptcy filings is seven years, but the ding to your credit report stays for 10 years.
- For better rates with a conforming loan, the wait is four years after filing bankruptcy.
- FHA guidelines are two years after a foreclosure, which means you could qualify for as little as 3% down.
- Hard-money lenders will often make loans six months after filing bankruptcy or a foreclosure, but will require 20 to 35% down payment. The interest rate will be very high and the loan terms are not as favorable; many will contain prepayment penalties and be adjustable.
- Sub-prime lenders (not to be confused with hard-money lenders) can make 100% loans after a reasonable seasoning period, if your FICO is at least 580.

How to Improve Your Qualification For a Conforming Loan

- Obtain a major credit card.

It's easier to get than you would think after a bankruptcy, for three reasons:

1. A bankruptcy filing gives you a "fresh start."
 2. The lender knows you have no debt.
 3. You can't file bankruptcy again for another 7 years.
- Show steady employment on the job for one to two years.
 - Earn a regular salary or wage (this does not apply to self-employment).
 - Save a down payment of at least 10%.
 - Avoid late payments and continue to pay your bills on time; do not fall behind.

How FICO Scores Affect Interest Rates

The following numbers are in comparison to the interest rate a borrower with a 600 FICO score would pay who did not file bankruptcy or lost a previous home to foreclosure. This scenario assumes the borrower with bad credit is putting down 10% of the purchase price in cash and met the seasoning requirements above.

- **FICO Score of 600 to 640:** + 1.5% over prevailing rate. This means if a borrower with good credit is paying 6.0%, your interest rate would be 7.5%.

A \$200,000 amortized loan at 7.5% would give you a monthly payment of \$1,398.

- **FICO Score of 560 to 580:** +2.75% over prevailing rate. This means if a borrower with good credit is paying 6.0%, your interest rate would be 8.75%.

A \$200,000 amortized loan at 8.75% would give you a monthly payment of \$1,573.

- **FICO Score of 540 to 559:** +3.3% over prevailing rate. This means if a borrower with good credit is paying 6.0%, your interest rate would be 9.3%.

A \$200,000 amortized loan at 9.3% would give you a monthly payment of \$1,653.

- **FICO Score Under 540 to 500:** +3.75% over prevailing rate. This means if a borrower with good credit is paying 6.0%, your interest rate would be 9.75%.

A \$200,000 amortized loan at 9.75% would give you a monthly payment of \$1,718.

- **FICO Score Under 500:** +6.0% over prevailing rate. This means if a borrower with good credit is paying 6.0%, your interest rate would be 12%. With a FICO of less than 500, you will not qualify for a 90% loan, but you may qualify for a 65% loan, therefore, you need to increase your down payment from 10% to 35%.

A \$200,000 amortized loan at 12% would give you a monthly payment of \$2,057.

Comparing Identical FICOs Against Borrowers With No Foreclosure or Bankruptcy

A borrower without a bankruptcy or foreclosure with a 600 FICO would receive an interest rate of 5.875% and pay a monthly payment of \$1183 on a \$200,000 amortized loan. You can see that filing bankruptcy or having a foreclosure on your record, even with a FICO score of 600, results in an increase in a mortgage payment of \$215 over that of a borrower without a bankruptcy or foreclosure. However, that difference in payment will let you buy a home.

Alternative to Bank-Financing

Borrowers who are not satisfied with the rate offered by a conforming lender might want to look at buying a home with seller-financing. Land contracts offer a viable alternative. Typically, seller financing offers:

- No qualifying.
- Lower interest rates.
- Flexible terms and down payments.
- Fast closing.

You will want to check with your lender every year or so to find out if you qualify for a refinance at a lower rate.