

# Buying a House After Bankruptcy? How Long to Wait and What to Do

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Securing a home loan and buying a house after bankruptcy may sound like an impossible feat. Blame it on all those Monopoly games, but bankruptcy has a very bad rap, painting the filer as someone who should never be loaned money.

The reality is that of the 800,000 Americans who file for bankruptcy every year, most are well-intentioned, responsible people. Life has thrown them a curveball, however, that has left them struggling to pay off their past debts.

Sometimes, filing for bankruptcy is the only way out of a crushing financial situation, and taking this step can really help cash-strapped individuals get back on their feet.

ng credit score that results from bankruptcy. But how? Being aware of what a lender expects after a bankruptcy will help you navigate the mortgage application process efficiently and effectively.

Here are the steps on buying a house after bankruptcy, and the top things you need to know.

## Types of bankruptcy: The best and the worst

There are two ways to file: Chapter 7 bankruptcy and Chapter 13 bankruptcy. With Chapter 7 bankruptcy, filers are typically released from their obligation to pay back unsecured debt—think credit cards, medical bills, or loans extended without collateral.

With Chapter 13 bankruptcy, filers have to pay back their debt. However, the debt is reorganized and a new repayment schedule established that makes monthly payments more affordable.

Since Chapter 13 filers are still paying back their debts, mortgage lenders generally look more favorably on these consumers than those who file for Chapter 7, says David Carey, vice president and residential lending manager at New York's Tompkins Mahopac Bank.

A bankruptcy attorney can help determine if Chapter 7 or Chapter 13 makes the most



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sense for your specific situation. Unfortunately, both Chapter 7 and Chapter 13 bankruptcies will adversely affect credit scores. But don't give up, hopeful home buyer.

## How long after bankruptcy should you wait before buying a house?

Most people applying for a loan will need to wait two years after bankruptcy before lenders will consider their loan application. That said, it could be up to a four-year ban, depending on the individual and type of loan. This is because lenders have different "seasoning" requirements, which is a specified amount of time that needs to pass.

Fannie Mae, for example, has a minimum two-year ban on borrowers who have filed for bankruptcy, says David Reiss, professor of law and academic programs director at the Center for Urban Business Entrepreneurship at Brooklyn Law School.

The FHA loan, on the other hand, has a minimum one-year ban in place after a bankruptcy. These bans, or seasoning periods, are typically shorter with government-backed loans (such as FHA or VA loans) than with conventional loans.

The time is measured starting from the date of discharge or dismissal of the bank-

ruptcy action. Generally, the more time between debt discharge and the loan application, the less risky a once-bankrupt borrower looks in the eyes of a mortgage lender.

## How to reestablish credit after bankruptcy

Once the bankruptcy process is over, reestablishing and maintaining creditworthiness is key to your financial health. Lenders will be looking for zero delinquencies postbankruptcy.

While you work to build new credit, don't go overboard opening an extensive number of accounts, as this will work against you, advises Carey. Usually, opening just a couple of revolving credit lines and paying them in a timely manner over the course of 12 months helps to increase credit scores back to an acceptable level.

## What to do before you apply for a mortgage

Before you apply for a mortgage loan, check your credit score by getting copies of your three main credit reports, which detail the financial transactions (and transgressions) from your past. You will want to check these credit reports for errors, such as a

credit issue that you resolved but that is not reflected in your report.

"In some postbankruptcy cases, errors continue to report negatively on credit reports," says Carey.

These mistakes will drag down your overall credit score and reduce your chances of getting approved for the mortgage. So if you spot mistakes on your credit reports, work with the credit bureaus to correct the information they include. This can boost your credit score significantly, and may even tip the scales on your home loan approval. Mortgage lenders want to see any movement from bad credit to good credit, so don't leave any of your hard-earned progress on the table.

## Buying a house after bankruptcy: Ways to woo a lender

To start the mortgage process, lenders require a detailed letter explaining why you needed to file for Chapter 7 or Chapter 13 in the first place. Ideally, the bankruptcy would have been caused by an extenuating circumstance beyond your control—such as the death of an income-contributing spouse, the loss of employment, or a serious illness.

In other words: A lender likes to see that you were hit with hard times that had a significant negative impact on your expenses or income, and made it impossible to meet your financial obligations.

What a lender won't want to see is someone with a die-hard shopping habit or a lackadaisical attitude toward paying credit cards on time. If that's you, you'll have to prove you've changed.

Whatever the reason you filed for bankruptcy, lenders will need to properly document your extenuating circumstances, so be prepared to provide proof detailing your life event.

Medical bills, a doctor's note, a death certificate, or severance paperwork are all acceptable evidence that prove to lenders that you are a safe bet worthy of a home loan.