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The Post-Foreclosure Wait

By MARYANN HAGGERTY

MORTGAGE troubles won't necessarily shut you out of the housing market forever.

As the economy and real estate market continue to struggle, millions of Americans have lost their homes through foreclosure, **short sale** (when a property is sold for less than is owed) or a deed in lieu of foreclosure (when the bank takes ownership without foreclosure).

Even if you think you never want to own a home again, clean credit is important. Bad credit can make it more expensive to rent. In some fields, especially financial services, it can make it difficult to find or keep a job.

How quickly your credit score improves depends in part on how the problem is reported, said Sarah Davies, a senior vice president of **VantageScore** in Stamford, Conn., a credit-scoring company that competes with **FICO**, the dominant scoring system.

In a short sale where the balance is forgiven and no deficiency is recorded in public records, recovery can be quick. "Simply paying all your debts on time could bring your score up to a reasonable range in nine months," Ms. Davies said. "Reasonable" may not qualify you for a mortgage, but it will help in other situations.

A foreclosure or bankruptcy can weigh you down for years. FICO has found that it takes three years for a borrower to pull a score back up to a fair-to-middling 680 after a foreclosure, according to Joanne Gaskin, a company director. A borrower who started out with a near-perfect 780 score would take about seven years to climb all the way back.

But if someone has gone through foreclosure and still has a mountain of debt and not enough income, bankruptcy is worth considering, said Tracy Becker, the founder of

North Shore Advisory, a credit-restoration company based in Tarrytown, N.Y. Sure, it will be another hard blow to your credit rating — but your credit most likely is already “wrecked,” at least for now, she said.

Bankruptcy can wipe out some debt. “The choices you make for the future about your financial options should be based on how bad your credit is,” Ms. Becker said. With one 30-day-late payment, for instance, “don’t assume your credit is ruined forever,” she said. It’s easier to recover from that than it would be to pull back from a string of late payments.

And what about a future mortgage? **Fannie Mae, Freddie Mac** and the **Federal Housing Administration** set guidelines for how long a borrower must wait after a “significant derogatory event.”

There are plenty of asterisks and conditions. But to generalize, the wait is longest after a foreclosure. Extenuating circumstances like a job loss, illness or divorce reduce the wait.

With such circumstances, Fannie and Freddie specify a two-year wait after a short sale, deed in lieu, or discharge or dismissal of bankruptcy, and three years after foreclosure. Without extenuating circumstances, waits can extend to four years after bankruptcy and seven years after foreclosure.

“The key is to avoid the foreclosure,” said Andrew Wilson, a spokesman for **Fannie Mae**. “That is what will help you be eligible for the shorter period.”

As for F.H.A.-insured **loans**, they are available three years after a foreclosure, assuming perfect credit afterward, and two years after a bankruptcy is discharged. After a short sale, there’s a three-year wait if the borrower is in default at the time of the sale and there are no extenuating circumstances. If the borrower was on time with all payments for 12 months before the sale, there is no wait specified, meaning that an F.H.A. loan might be available immediately. Among the conditions: A loan isn’t available if the short sale was to “take advantage of declining market conditions,” according to the F.H.A. Home Loan Handbook for lenders.

One caveat: All of this assumes you have income to pay off debts and stay afloat. It’s likely to be a long time before the mortgage market returns to an anyone-can-borrow-anything way of thinking.