



5 Strategies to Rebuild Your Credit after Foreclosure

By Pamela Yip

RISMEDIA, November 30, 2010—(MCT)—If you've been through a foreclosure, you may wonder if there is hope for you to become a homeowner again. The answer is yes, but it will take a while. "It doesn't mean you'll never be a homeowner

again," said Linda Davis-Demas, director of housing at Consumer Credit Counseling Service of Greater Dallas.

But you'll need to examine what caused you to fall behind on your mortgage and take steps to fix the problem. "You have to look at what were the reasons you didn't make the payment," said Davis-Demas. "Was it budgeting? You can modify that type of behavior."

A foreclosure is a major hit to your credit history and stays on your credit report for seven years.

"Foreclosure is one of the FICO seven deadlies," said credit expert John Ulzheimer, referring to the dominant FICO credit score. "It's considered a major derogatory item, regardless of the back story"—whether it's a job loss, rate reset, underemployment or other reasons.

Your credit score will also suffer "the minute the foreclosure process begins," said Ulzheimer, founder of 2StepCredit.com, a credit education website. "It doesn't have to be completed for it to be very damaging," he said. "The damage will vary based on your scores, but it can damage the score as much as 200 points, especially if your scores are very strong to begin with."

So, after a foreclosure, your priority has to be rebuilding your credit. You'll have some time to do so, because mortgage giants Fannie Mae and Freddie Mac impose strict rules on how long it will take before you're eligible for another mortgage.

For example, borrowers with a prior foreclosure and extenuating circumstances—such as a job loss, divorce or medical issues—must wait three years before they can qualify for a Fannie Mae-backed loan, said spokeswoman Amy Bonitatibus. For all other borrowers, the waiting period is seven years.

At Freddie Mac, those who can prove extenuating circumstances must wait three years before applying for a new mortgage; everyone else must wait five years. But that will change in February, when the waiting period for those whose foreclosure was caused by their own financial mismanagement will increase to seven years.

Fannie Mae and Freddie Mac also have strict rules on the credit score and the size of the down payment required of borrowers with a prior foreclosure.

Here's what you need to do to rebuild your credit to qualify again for a mortgage:

Pay your bills on time: The FICO score, the dominant credit score used by lenders, gives the greatest weight to payment history, so make sure you consistently pay your bills on time. "Stability is the key," said Craig Jarrell, president of the Dallas region of IberiaBank Mortgage Co. "Have you demonstrated that you are now capable of owning a home and paying the bills, and have recovered from whatever circumstance caused the original foreclosure?"

Review your credit report: You're entitled to a free credit report once every 12 months from each of the three national credit bureaus—Experian, TransUnion and Equifax. You should get a copy and check it for any inaccuracies.

To get your free credit report, go to <http://www.annualcreditreport.com>. "Make sure it is about you and only you," said Gail Cunningham, spokeswoman for the National Foundation for Credit Counseling. "If you find errors, dispute them. If you discover old debts, it will weigh in your favor to satisfy them. Paid late looks better than not paid at all.

Make sure that debts older than seven years have rotated off your report, as these could be dragging your score down unnecessarily.”

Check your mortgage: You want to be sure that you don’t still owe anything on your old mortgage. Sometimes proceeds from a foreclosure sale aren’t enough to cover what’s owed on the mortgage, which would leave you owing the difference.

“Make sure there is a zero balance reflected, and if you are responsible for a shortfall, make arrangements to repay the remaining balance,” Cunningham said.

Many lenders are willing to settle that “deficiency judgment” for less than what’s owed because “it’s better than getting no money at all,” Jarrell said.

Apply for credit: In particular, apply for different varieties of credit. “Credit scoring models value having different types of credit,” Cunningham said. “Having some revolving accounts, typically credit cards, and some installment fixed-payment loans, such as a car payment, can improve your score.” But don’t apply for too much credit at once. “This can appear as though you’re desperate for credit and perhaps make lenders less inclined to extend credit to you,” Cunningham said. “Further, too many credit inquiries can have a negative impact on your credit score.”

Don’t fall prey: Watch out for credit repair companies that promise to clean up your credit report so you can get a car loan, a home mortgage, insurance, or even a job—after paying a fee for the service. “The truth is, that no one can remove accurate, negative information from your credit report,” according to the Federal Trade Commission. “It’s illegal.” Only the passage of time can assure that negative, but accurate, information on your credit report will be removed.

When it comes to repairing your credit, there are no quick fixes, the experts say. What lenders want to see is responsible financial behavior over time.

“Know that time is your friend, as the farther you move away from the financial distress, the less negative impact it has,” Cunningham said. “Follow with responsible behavior with your new credit, and you’ll soon have a solid credit file.”