

## **"Buying a New Home One Day After Bankruptcy"**

As you know by reading my newsletters, I hate saying "no" to someone who wants to accomplish the dream of homeownership.

As a result, our branch has researched and added many different kinds of investor banks to ensure we truly do have something for nearly every borrower.

Recently, we added a sub-prime bank to our comprehensive list that will purchase loans where the borrower has been discharged only ONE DAY out of bankruptcy.

For us, as lenders, this is very exciting news. However, is it right for your client?

People in or recently out of BK often call to ask "how long do I need to be out of a BK before I can buy a house?" The answer is now one day.

Just because you can, should you?

Your credit is the most important thing affecting your home loan. It is very likely your credit has taken a tremendous beating during the term of your BK. If you are only one day out of BK, your scores are probably low. This means you should be ready to pay high rates and maybe even higher fees.

So you say to yourself, "that's OK, I just want a fresh start and I want to own a home."

I would never want to discourage anyone from buying a house, regardless of their credit score. I am in the loan business and we loan to people all the way down to a 500 score. I am not Suze Orman, the guru of financial responsibility on cable TV. However, it is important to me, and most scrupulous loan professionals, that you do not get in too far over your head.

You have to take a look in the mirror. You declared bankruptcy for a reason. The reason could have been anything and it certainly may not have been your fault. I have close friends who have declared bankruptcy and some others whom have come very close.

It could have been caused by anything; a divorce, a job loss, a catastrophic personal event, a bad business decision, a few slow months in sales. Anything bad that was unforeseen could have caused this financial hardship.

The laws were written to help you out. For the record, I believe the bankruptcy laws are fair. There are certainly many people out there who take advantage of them, like in every law. However, there are often times when people simply end up in a situation, through no fault of their own, they simply cannot get out of.

Regardless of the reason for your BK, you were unable to manage your liabilities on your own, and you sought the help of the courts to assist you.

You are finally discharged and now you are being presented a second chance!!

If you take advantage of programs like this, one day into your second chance, you are looking to buy a new house.

This now becomes a second chance with higher fees and higher rates than normal. Even though the slate of debts has been wiped cleaned in BK, your credit score hasn't. As you know, the lower your credit score, which is a risk score based on your credit life history, the higher risk to the lender.

Your loan is not going to be that easy. The underwriter is going to have real concerns about your ability to pay back this loan and look very closely at your recent rental or housing history.

It is important for future mortgage loans, that no matter how difficult of a time you are having financially, that you stay current with your landlord or your mortgage company. Foreclosure is often more difficult for a mortgage lender to accept than a bankruptcy.

If you filed BK but did not get foreclosed on, it shows you were still committed to the mortgage lender. This says volumes to a mortgage bank about your commitment to them.

As a lender, I believe it is important that your housing costs are affordable. We see so many people today stretching themselves out. We have banks that will allow you to go to a debt-to-gross income ratio of over 50%.

This means if you gross \$5,000 per month before taxes and you have a \$500 car payment and no other debts on your credit report, we will let you take out a home mortgage of \$2,000 per month. Once again, just because you can, should you?

If you are recently out of bankruptcy, and you meet with a lender who gets you qualified, you should carefully consider the benefits.

If the house is not going to appreciate tremendously and it will be a stretch to make your mortgage payments based on the higher rates you are quoted on one of these unique programs, it may be smarter to wait. You got in trouble once before and you want to do your best to avoid that again.

You may want to consider carefully rebuilding your credit. If you do this, you could likely qualify for rates that are much more normal in a year or so.

As a reminder of a previous newsletter, "Credit Score Truths and Myths," I am a huge fan of [www.myfico.com](http://www.myfico.com) as a credit-building website. It's owned by Fair, Isaac, and Co., the company that brought you the FICO score, and I have had many clients get amazing results.

How else do you repair your credit after BK?

Remember that nothing is forever. The effects of your BK don't have to be ever-lasting. Long before the bankruptcy drops off your credit report, you could be qualifying for loans with good rates and terms.

I have seen borrowers with a BK still on their credit report and 700 mid-FICO scores.

A bankruptcy can legally stay on your credit report for 10 years, but its effect on your credit score can start to diminish today.

Here is what you need to do:

#### **PAY ALL OF YOUR BILLS ON TIME**

It seems like common sense, but I know it can be difficult at times. After a BK, it is important that you not overextend yourself again.

#### **ESTABLISH NEW LINES OF CREDIT**

You need to rebuild your score. If you pay cash for everything, you are not building a positive credit history.

#### **GET SOME OF THE CREDIT CARD OFFERS BUT DON'T CHARGE THEM TO THE MAXIMUM.**

Light, regular use of your credit cards is great for credit building. Don't charge more than you can pay-off at the end of the month and keep the balances below 50%.

#### **GET A SECURED CARD, IF YOU HAVE TO.**

You may have trouble qualifying for a regular, unsecured credit card after BK. The best solution may be a secured card, which generally gives you a credit limit that's equal to an amount you deposit at the issuing bank.

Usually they will start you around \$200-\$500. This may seem ridiculously small compared to the limits you had before BK, but don't max them out. Maxing out your credit cards hurts your credit score. Use this to rebuild your credit, not to survive.

Make sure this card can be converted to an unsecured card after a certain period of time, like 12-18 months.

#### **GET THE CAR LOAN AND PAY ON-TIME.**

Once again, you want to show your new found commitment to paying your bills. This line of credit will at least be sizable as opposed to the \$500 secured MasterCard. The rates will be huge but try and make sure it does not have a prepayment penalty. When your credit improves, you don't want to be stuck with the higher rate.

#### **PLAN ON NOT GOING INTO BK AGAIN.**

Use your BK as a life lesson and try to make corrections to ensure it doesn't happen again. If you simply overspent, try and set up a monthly budget and stick to it. If you lost your job and didn't have enough savings to make it, try and set up an emergency fund this time. If medical bills crushed you, try to make sure you have enough health insurance.

#### **CLEAN UP YOUR CREDIT REPORT.**

Nearly every credit report I see with a BK has misreported information. Usually the credit reports still show accounts as open and overdue when they are closed and the obligations now wiped out in BK.

If you have other serious mistakes on your credit report, those need to be corrected as well. Your credit score is based on information in your credit report. Errors often seriously dampen your score.

Get a copy of your report and report any errors to the credit bureau. For help on this, visit my website at [www.aarongordon.net](http://www.aarongordon.net) and get the newsletter called, "Credit Score Truths and Myths."

The bottom line to buying a home out of bankruptcy is simple....make sure you really can afford a home before you buy one. Many people wind up in bankruptcy court because they stretched too far to buy a house and can't keep up with all the costs of homeownership.

If you must buy a home immediately, and paying a higher rate doesn't bother you as you just want to "get in," feel free to go for it! That's why we have the program.

However, start re-building your credit immediately so that you can refinance into a much more reasonable rate in the near future. Do not be late on your mortgage payment or a refinance is going to become a much greater challenge later on. Plan on making this higher payment for at least 6 to 24 months before refinancing. Credit building may take that long.

The key to rebuilding your credit is also simple....make sure all of your payments are made on time, all the time.

If you are unable to qualify for a mortgage loan initially, or you can't afford the payment because of the higher rates offered, do not get discouraged. If you show a little patience, and carefully follow the tips mentioned in this newsletter, many more options will likely be available to you six months to a one year after the bankruptcy discharge.

Have a great and prosperous month!!!

Best regards,

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If you have any topics you would like me to research or discuss in future newsletters, please do not hesitate to email me suggestions.

To the readers of this email whom I also count as clients, "Thank you for your continued business!! I am deeply appreciative of your referrals and I am committed to providing you and your clients the very best in service."

Each month, I get many nice compliments from my readers. Thank you for the kind words!

Here are some more actual recent quotes:

"Aaron: You are "ONE HELL OF A MORTGAGE BANKER." I do believe you do love what you do."

"God Bless You! I've thoroughly enjoyed this email! It's nice to know there are a few efficient people still in the business!"

"Thanks for taking the time to write such an awesome newsletter and inspiring Agents like myself to get the understanding that I know I am going to need!"

"Thank you so very much for the wonderful articles. They are extremely informative."

"I would also like to add your newsletters to my website because they are always so informative and I think my visitors would like them also."

"Please continue to send these e-mails to me because I use them often in my daily travels in real estate."

"Aaron, thank you for helping me get a better grip of this mortgage world."

"I truly look forward to your newsletters, very interesting reading."

"Your information is highly appreciated."

"Thank you for this information. It was very helpful."

"They are great...please keep em coming."