

Getting Through Tough Financial Times

Life After a Foreclosure

Once a foreclosure is final, the financial and emotional turmoil is far from over. A family going through foreclosure will go through pain in the process. They will eventually become homeowners again with time. A researcher from Ohio State University found this in his research. ¹

Because there is time between your foreclosure and buying a new home, you will have time to make some smart solutions. Summer of 2008, Fannie Mae adopted new rules that lengthen the time from 4 years to now 5 years time period from completion date of foreclosure before a family can purchase the next house. In addition, the requirements that applies after 5 years and up to 7 years includes:

- * The purchase of a principal residence is permitted with a minimum of 10 percent down payment and minimum credit score of 680.
- * Purchase of a second home or investment property is not permitted.
- * Limited cash-out refinances are permitted for all occupancy types pursuant to the eligibility requirements in effect at the time.
- * Cash-out refinances are not permitted for any occupancy type.

While waiting for the opportunity to buy a new home, the family will need to think about the following items:

Finding a new home

A family will need to find a new place to live. A foreclosure typically can hurt a former homeowner's credit score for a number of years, though the exact duration is a matter of dispute because credit companies don't disclose that information. A foreclosure remains on your credit report for 7 years, but its impact to your FICO® score will lessen over time. Foreclosure is among the negative items that "are considered quite serious, by Fair Isaac Corp., which generates the FICO credit score.

It is suggested that renters in a competitive market, put together a nice rental resume explaining why they experienced a foreclosure or other credit problems. Show the owner why you want to rent the place and where your job is. Write up a real story. It will be tough, but you need to sell the owner. It's like a job interview.

The lack of cash of a rental deposit may be a big barrier to re-establishing rental place. Landlords typically refuse to rent to people who have poor credit, which can result from a late mortgage payment, short sale, foreclosure or bankruptcy. Landlords will sometimes accept tenants who have a credit score of 580. But the landlord looks beyond the score; a foreclosure means the potential tenant has not paid their housing bills. That is why the family's story is an important part of the process. If the rental candidate has a solid job history, the landlord maybe accepts the candidate. A landlord may double the deposit if you are on the edge.

Families who've been accustomed to large homes with multiple bedrooms and bathrooms may not be able to find such spacious living quarters because apartments and condominiums are smaller in size. Also families with pets may have challenges finding pet friendly rental housing.

It is recommended that people try to make plans as soon as they think foreclosure is inevitable.

Suffering through the credit fallout

Creditors watch your credit history and when they see a default on the family's mortgage; other creditors wonder if they are next to be defaulted on. Credit cards have a 'default' rate and foreclosed owners could see their interest rate jump to high levels – up to 30 percent. You will find that you will have trouble getting a decent car loan too.

If the foreclosure is an isolated event with good credit record, consumers may be able to rehabilitate their records in 24 months. Unfortunately, a foreclosure is rarely an only credit slip-up and when combined with other punishing rates, it will be challenging to climb back up to a good credit score.

Buying another home of one's own

As earlier indicated, Fannie Mae has upped the time length of time from the completion of a foreclosure sale until the borrower can get a new mortgage from four years to now five years. The extra year is designed to deter borrowers who have made reckless debt decisions. Some foreclosed owners can explain that they had extenuating circumstances – situations beyond someone's control – job loss, uninsured health condition – now must wait only three years. They do need to meet the above requirements except they are not required to have a minimum credit score of 680.

A family may want to consider obtaining a mortgage after foreclosure with a federally insured FHA loan. The minimum time between the completion of foreclosure until when a family can be approved for an FHA loan is three years – whether or not there are extenuating circumstances. Still, FHA borrowers will have to show good bill-paying habits after foreclosure.

Owing a potential employer an explanation

If you lose your job as well as your home, the one situation in a job interview where the foreclosure may hinder is a job where you handle money, Employers who are interviewing cashiers to accountants are concerned about how financially responsible the future employee may be. They will do credit checks on applicants. But the Fair Credit Reporting Act requires employers to notify the applicant of the credit check.

If a foreclosed owner is applying for a financial job, you will want to have an explanation ready during an interview.

Getting hit with a tax bill

You lose your home and weeks to months later arrives a bill for taxes on the amount of mortgage that the lender was never able to recover from the sale of the property. Anytime debt is forgiven, it is a taxable event. You are not paying back money that you borrowed, so that money is considered income by the IRS.

Exceptions include when in 2007 Congress passed relief for foreclosed owners – but they lost their principal residence and didn't have a mortgage that they had previously taken as a cash-out refinance to use the proceeds for expenses other than improving their home.

Foreclosure victims may not have to pay a tax tab, even if they had a cash-out refinance. The IRS has long allowed taxpayers to escape a bill on forgiven debt if they are insolvent. If you receive a Form 1099c from a lender saying it couldn't recover \$5,000 of what it was owed, but your debts exceed your assets to the tune of \$15,000, you must file a Form 982 with your tax return to clear up your tax obligation – this is an example. You may want to consult your tax preparer for more information.

Living through loss

When a family leaves their home and neighborhood there is an emotional drain. Your children may have to leave their school and friends and make new friends at their new school. There will be a change in their routines.

Because of the numbers of foreclosures, it may lessen the stigma of the event. A person looking for a job may have jumped from job to job, but now it may be considered normal with foreclosures. Hopefully it will prompt people not to make judgments.

¹ Jay Zagorsky, Ohio State University, Research Scientist

Source: Adapted from Bankrate.com



UNIVERSITY OF ILLINOIS
EXTENSION

University of Illinois Extension, 2009. College of Agricultural, Consumer & Environmental Sciences/State/County/Local Groups/USDA cooperating. University of Illinois Extension provides equal opportunities in programs and employment.