



New Opportunities... Life After Foreclosure

For some time now, the so-called “mortgage melt down” leading to the onset of the recession, has been largely in the rear-view mirror. Media headlines about the number of foreclosed properties, shadow inventory and so forth, have slowly slipped out of the lead story positions. Instead, we now have a lot of attention given to the new regulatory framework which was designed to avoid another event like we saw unfolding in 2007 and the following years.

By some estimates, more than five million households in the US were displaced by foreclosures during the “great recession.” Those individuals, by virtue of their circumstances, were relegated to the sidelines if they were to think about getting back into the market as home owners. That situation is starting to change, and it is changing for at least two reasons: (1) the passage of time, and (2) adjustments to guidelines facilitating re-entry into the housing market.

Time:

Typically, a foreclosure remains on an individual’s credit report for at least seven years. If a homeowner had a foreclosure back in 2007, sufficient time has elapsed for the foreclosure to have “dropped off” the credit profile, no longer negatively influencing the Fico scores. For these borrowers, an opportunity for re-entry in the purchase market presents itself simply as a result of the passage of time.

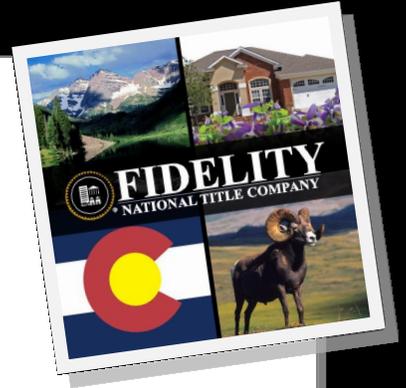
Guidelines:

Contrary to the information so often mis-reported by mainstream media, a previous foreclosure does not translate into a mandatory 20% down payment requirement to secure the next home loan for that buyer. Under FHA guidelines, a borrower can put down as little as 3.5% of the purchase price, and qualify for a mortgage 3 years after a foreclosure (exceptions for extraordinary cases may make the time frame even shorter). In addition, if the former homeowners engaged in a short sale, they can expect to be eligible for another FHA loan in just 12 months, provided that they had no late payments preceding the completion of the short sale.

Conventional loans, too, have relaxed guidelines allowing for a new purchase loan 3 years following foreclosure, with 10% down and good post-foreclosure credit history, provided the borrower meets certain “extenuating circumstances” criteria. In the case of a short sale or deed in lieu of foreclosure, the borrower can expect to proceed after 4 years from the date of the deed, and with just a 5% down payment.

For those who are eligible veterans, VA loans offer a shorter 2-year period following foreclosure, with a 0% down payment and reliable credit experience. In the case of a short sale, there is no waiting period, provided that there are no housing late payments in the preceding 12 months prior to the next closing.

In other words, while the passage of time will result in the foreclosure “falling off” the credit profile, changes in underwriting guidelines have made it unnecessary to wait seven years for that to happen, depending upon specific circumstances and the loan product sought. Since the guidelines are a bit confusing, interested parties should engage the assistance of a qualified mortgage loan originator to advise them as to available options.



How and exactly when American families who have experienced foreclosure will find their way back to home ownership remains to be seen. However, the opportunity to do so is clearly in place. Since the number of those households is so large (over 5 million), their return to the marketplace could have a significant and positive influence on demand for housing, once these former home owners understand that the renewed option for them exists. The challenge for real estate professionals may well be in how they approach the task of getting the word out to these potential home buyers. Those who master the effort, may well find an opportunity to assist a very large number of a presently underserved population of would-be homeowners.



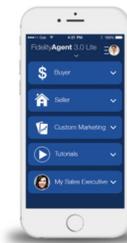
About your newsletter author: Bruce Jordan, “The Industry Tutor”

- Branch Manager, Cherry Creek Mortgage, Tech Center
- Vice Chair, Board of Mortgage Loan Originators
- Member of Forms Advisory Committee
- Regular Instructor of Real Estate Professionals
- Retired real estate attorney, NY Bar

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