



After foreclosure: How long until you can buy again?

By Les Christie, CNN MONEY, May 28, 2010

Walking away from a mortgage you can still afford to pay has consequences; everyone knows that. Your credit score is shot and it can be impossible to get credit. Some homeowners, no doubt, believe that the credit score hit is worth getting out from a deeply underwater mortgage. They may owe, say, \$500,000 when their house value is only valued at \$350,000. And, they figure, there's no way it will ever be worth what they owe. After default, they reason, they can raise their FICO scores by paying all their bills on time and eventually finance another home purchase.

Don't count on it. While homeowners who default due to economic hardship, such as a job loss or divorce, normally must wait two to five years before buying a home again, walkaways may face double that time. "It could be well over seven or eight years before [walkaways] are able to obtain a mortgage to buy a home again," said Jay Brinkmann, chief economist for the Mortgage Bankers Association.

How foreclosure impacts your credit score

"Credit scores are only one component of a complete credit decision," Brinkmann said. "[In these cases] credit scores are not a good indicator of their willingness to continue to pay their mortgage." But future underwriters will scrutinize their records very closely, and if they find no precipitating factors leading to the defaults -- no job loss, no health issues -- the repaired credit score won't overshadow the black mark of a walkaway.

"If you made a strategic decision to default on paying your mortgage, it will work against you," said Bill Merrell of the National Association of Review Appraisers and Mortgage Underwriters. Merrell, who teaches underwriting, said banks are looking at several factors in

determining whether to grant mortgages: the amount of money borrowers have in the bank; employment histories; payment history.

However, banks may be far more lenient if the default resulted from factors somewhat beyond the borrower's control, such as from local economic problems. "They'll give you more consideration if it's job related," he said. But, he added, banks look at strategic defaults "very negatively."

That said, it's not impossible to get a loan. Banks still want to make interest payments, so they might be willing to gamble with a walkaway. "It might be a little more difficult for them to borrow, but [banks'] drive for market share -- to profit from making loans -- will trump that caution," said Keith Gumbinger, of the mortgage information publisher HSH Associates. "I don't think we'll see a full denial."

It's hard to foresee the state of mortgage lending six or seven months from now, let alone seven or eight years into the future. So lenders may look at applications from one-time strategic defaulters and say, "Yes, they walked away but it's a whole different market now," according to Gumbinger.

Even so, lenders may require more from borrowers who walked away than those who didn't. "To the extent they could get a mortgage," said Brinkmann, "they can count on needing a heavy down payment." The lenders may ask for 30% down or more. That would provide enough collateral cushion that the bank could get all or most of its money back in a foreclosure. Strategic defaulters might also be charged higher interest rates, even above the levels other borrowers with similar credit scores would receive.