HOMEWISE

Real Estate Tips and Advice

Starting Over After Foreclosure

Millions of Americans have lost their home to foreclosure and are faced with trying to start over again.

Between 2006 and 2014, 10 million Americans lost their home to foreclosure. Then foreclosure rates began to climb again in 2021 and 2022 after the government lifted the pandemic foreclosure moratorium. ATTOM, a leading curator of real estate data, reported that third quarter foreclosure filings in 2022 were up 104% from the previous year.

Going through a foreclosure can be a challenging experience, but it doesn't have to be the end of your homeownership journey.

ASSESS YOUR FINANCES

After a foreclosure, it is crucial to take a hard look at your finances. Evaluate your income, expenses and debt to get a clear picture of where you stand. This will help you determine how much you can afford to spend on a new home.

Some of the questions you may want to find answers to include what are your goals? Are you maximizing your income potential? Are you saving enough for retirement? If you lose your job tomorrow, can you support your family for several months? Do you have enough medical insurance? Are your investments diversified? Are you spending too much of your income? Is there a way to reduce your spending? Can you handle your current level of debt? Is there a way to reduce the interest on your debt?

The Michigan State University Extension Program recommends the following steps:

1. Organize family records.
2. Develop a spending plan.
3. Determine your net worth.
4. Calculate your debt-to-income ratio.
5. Manage your spending.
6. Summarize your current financial situation.

REBUILD YOUR CREDIT

Foreclosure can seriously damage your credit score, so it's important to start rebuilding it as soon as possible. Pay your bills on time, reduce your debt and dispute any errors on your credit report. It takes time to improve a credit score.

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REAL ESTATE 101

Debt-to-Income Ratio

Your debt-to-income ratio assesses your current debt level and whether you can take on more debt — such as a mortgage. It is calculated by dividing your total monthly debt obligations by your gross monthly income. If your ratio is .38 (38%) or less, your income is appropriate for the level of debt you have. If it is higher, you should be cautious about taking on new debt.

GATHER RESOURCES

Save for a down payment. The more you can put down, the lower your interest will be and the less you will have to pay in mortgage insurance. This may require cutting back on expenses and setting aside a portion of your income each month.

Consider government-backed loans. If you're having difficulty getting approved for a conventional mortgage, you may want to consider government-backed loans such as FHA or VA loans. These loans have less stringent credit requirements and may be easier to qualify for. For an FHA loan, you typically need a minimum credit score of 580 (or 500 with a higher down payment) and a down payment of at least 3.5%. You will need a debt-to-income ratio of no more than 43% and proof of steady income and employment history.

Work with a reputable real estate agent when you're ready to start house hunting again. You need to work with someone who understands your situation and can help you find the right home for your needs and budget.

It may take time and effort to recover from a foreclosure and buy a home again, but with patience, persistence and smart financial planning, it is possible.

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HOMEWISE GLOSSARY

Settlement: The actual real estate closing where the property is transferred and the seller and the buyer sign all required documents for title transfer and mortgage.

SOURCE: MLS.com