

Is There Life After Bankruptcy?

By Jeff Cooper

A question heard over and over again is: “can I finance a home even though I’ve declared bankruptcy in the past?” The short answer is yes. While the best rate and terms being offered may not be received, financing can be obtained.

Generally, investors will look at the credit rating after the bankruptcy has been discharged. Has new credit been established? Have payments been made in a timely fashion since the bankruptcy? They will also want to know what type of bankruptcy it was — Chapter 7 or Chapter 11. Finally, they will want to know when the bankruptcy was discharged. All these factors will be used to determine whether or not the investor will take the risk of lending to these individuals. For the most part, the investors that will lend this type of money are “sub-prime” lenders.

Generally, the first thing that most people think of when they hear of sub-prime lending is loan sharks — lenders looking to prey on those less fortunate. While that may have been true in the past, sub-prime lending has come a long way from its early years. In the past, if you had a bankruptcy or a foreclosure, you could not get a loan. Period. End of story. Due to the proliferation of the sub-prime lending arena, however, many doors have opened to those with bankruptcies that once were closed.

Where can these sub-prime lenders be found? Not at your local banks. Most banks have specific parameters that the loan must fit into in order to obtain financing. That is not a bad thing; it’s simply that the rules and regulations that banks must abide by are different than those that the sub-prime lenders have to follow. Most of the time, if one has a bankruptcy, he or she must seek out a mortgage broker. Mortgage brokers have access to numerous lenders with many different guidelines.

Sub-prime lenders look past some of the credit problems one may have had, and will accept a well-documented explanation of these problems. While sub-prime lenders won’t accept every loan, they will at least take the time to review them. Sub-prime lenders still look at the borrower’s credit score as one of the main factors and generally will not lend to an individual who has declared bankruptcy and is still unable to manage his or her debt load. Another factor that the sub-prime lender will look at is debt-to-income ratio. This number is the amount of monthly debt as a ratio to the amount of gross monthly income. While again, the sub-prime lender is more flexible with this number, they will make sure this

number is within certain guidelines.

The bottom line is that although a bankruptcy has occurred in the recent past, if certain criteria are met, it is still possible to get a loan.

Once one finds a lender willing to lend, it is time to discuss interest rate and points.

With a previous bankruptcy, it is not uncommon for interest rates to be 10% or higher. It is also not uncommon for the loan to be accompanied by one to four or more points.

If you have gone through a bankruptcy and are looking to obtain a mortgage, it is important for you to understand your options. High interest rates and points are common; however, it is advisable to make sure they are not too excessive. Many people who have had a bankruptcy or foreclosure in the past expect to pay a high rate and points; so some brokers may take advantage of them. That is initially where mortgage brokers and sub-prime lenders got a bad name. However, this is not always the case. Due to the competitive nature of the business, mortgage brokers have become extremely regulated and are less likely to try to over-charge the borrower; however, due to the risky nature of the loan, they do maintain the right to charge a higher rate in order to safeguard their investment.

While this discussion has focused on the bankruptcy issue, the sub-prime market also handles those that may have excellent credit but may not be able to document income, therefore requiring a no-income verification loan — or the borrower who might not have a job, but has enough money to make a large down-payment.

Don't count yourself out because you may have a strike or two against you. Consult a mortgage broker to discuss your options before giving up.

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