

How Home Foreclosures Affect Your Credit

Courtesy of *CreditDiagnosis.com*

A foreclosure is one of the most credit-damaging events that can ever appear in your credit history. Like a bankruptcy filing, a foreclosure can stay on your record.

A foreclosure won't ruin your credit rating forever (especially given the sub-prime home crisis that began in 2007), but having a foreclosure on your record will lower your credit score. And that can make it more difficult to get another mortgage loan down the road.

How do you define a bank foreclosure?

A bank foreclosure happens when the property owner has fallen behind on or stopped making mortgage payments. In most cases, after three missed payments, banks will start the foreclosure process and send you a written notice. After that, unless you pay the overdue amount owed, the property goes into foreclosure; many foreclosed homes eventually get sold at public auction.

One important point to remember: In general, banks want to avoid foreclosures as much as homeowners do. After all, banks make more money when a mortgage is successfully paid off.

Given ever-increasing foreclosures, does my overall credit still suffer?

A low credit score (experts say a foreclosure can lower your credit score as much as 200 points) virtually guarantees that you will pay higher interest rates on everything — especially on home and auto loans.

Here's a good rule of thumb: A person with a low credit score (say, below 600), is virtually guaranteed to pay home mortgage interests rates that are nearly 3% higher than someone with a score above 700.

Those percentage differences in interest can add up quickly when you consider that some mortgages last thirty years. (Let's say you have a \$2,000 monthly mortgage at 6% interest. If your rate were 9%, you'd pay more than \$700 in interest annually — or nearly \$22,000 in interest for the life of the loan.) If you experience multiple foreclosures, you could be denied credit altogether.

There has been a lot of talk about foreclosure trends in the news especially in recent years. With many Americans spending well beyond their means, foreclosures have become a common part of the overall real estate landscape. Since a foreclosure will lower your credit score, you need to know the facts about bank foreclosures if you plan to buy a home, or if you currently own a home and foresee any problems making the payments.

Can a foreclosure be deleted from your credit history?

If foreclosure proceedings are filed against you, there is no legitimate way to have that information removed from your credit history — at least not for seven years. After that, the foreclosure can only be removed from your credit history after you send a written request to the three major credit bureaus.

According to the Department of Consumer Affairs, bank foreclosures in the United States rose 47% between 2006 and 2007. And more recently, experts have predicted that by the end of 2009, some 2 million U.S. homeowners will be forced into foreclosure.

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