Transitioning Out of Home Ownership

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- Session Objectives
  - How will my credit be affected after the foreclosure or short sale?
  - Criteria for renting a property.
  - What should a homeowner do when they determine they can no longer afford the home?
  - Can I purchase another house and if so, how long does it take to rebuild credit?

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- Normally when I'm contacted by distressed homeowners they fall into four categories:
  - Home has already been foreclosed
  - Home is scheduled for foreclosure
  - Owners are strongly considering allowing house to be foreclosed or abandoning the property
  - They are in the short sale process …
- They realize they will need a place to live and they call us

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- Some management companies use the services of a background screening company who searches seven (7) categories to compile their report. Those categories are:

  - Credit Report – includes bankruptcy & foreclosure reporting
  - National Criminal Records
  - Sex Offender
  - National Court Records for Evictions
  - Terrorist Watch List
  - Employment Verification, and
  - Landlord Verification

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- The handout is a sample report from one of the leading background screening companies in the United States.

- The report provides a written summary of the applicants scorecard and each category is evaluated with either a **PASS**, **CONDITIONAL** or **FAIL** recommendation.

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- **Applicant Information**

- Social Security Number (SSN)
- Date of Birth (DOB)
- Driver’s License number and the state in which it’s issued
- Applicant’s home address and phone number.

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- In this sample report the applicant **FAILED**.

- Proposed rent is $2,200 a month.
- The applicants stated income is $9,000 a month.
- Income to Rent Ratio of 4.09 to 1 or 24% of their income for rent; individual is qualified to rent based on reported income. Recommendation of **PASS.**

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- A homeowner decides they can no longer afford to keep their home and will let it be foreclosed.
- What should they do when seeking a rental property?

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- Criteria for renting a professionally managed property vs. renting privately owned homes could be different.

- Apartment complexes & professional property management companies most likely are going to use a company to do background screening and issue a report similar to the sample used today. Chances are a privately managed owner will not use one of these agencies and may have their own rental qualification criteria.

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- **Rental Industry Criteria & Scoring Factors**
  - Medical Bills – Not calculated.
  - Utilities – would weigh higher as a component of total debt – why? If tenant doesn't pay the utilities from the last residence and there is a balance due, this shows as an open debt. Would show as a **FAIL** score.
  - Prior Rent Owed – any outstanding balance is an automatic **FAIL** score. See sample report!

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- Bankruptcy – if open or recently filed – automatic **FAIL**. If within last 2 years it's a **CONDITIONAL** score: reporting company looks at everything else to see if the credit history going forward is positive after filing of bankruptcy.

- Criminal - If convicted of a Felony within the past 10 years is an automatic **FAIL**; if it's more than 10 years then the score is marked **CONDITIONAL**. If a Misdemeanor the reporting agency evaluates theft, drug's or assault and is **CONDITIONAL**. All driving charges are ignored.

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- Eviction - Reporting companies look at chronic slow or late pay records. Four (4) filing's with a judgment entered within a 2 year period is an automatic **FAIL**. Being evicted with a balance due is an automatic **FAIL**.

- Residence Verification - Screening company conducts a phone trace to verify the owner actually owns the property the tenant has applied to rent.

- Foreclosure - Review the last 36 months credit and payment history. If all of the other criteria passes, then despite the foreclosure the applicant will **PASS.**

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- Income – to satisfy the rental income criteria the applicants gross salary must be on average at least 3 times the monthly rent. This does not include utilities and other housing costs.

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- **FOR THOSE CONSIDERING FORECLOSURE**:
  - Keep all credit cards current with total non-housing related debt in the 25 to 33% of gross income.
  - Best time to apply to rent another property is before <u>not</u> making a payment and before the 30 day delinquent report is filed by the mortgage company. A missed payment will appear on the credit report after 30 days.
  - If that isn't possible then apply before 90 days or 3 months of mortgage delinquency. After 90days there's a high probability of being **DENIED** as the homeowner is placed in a higher risk category.

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- Might consider advising homeowners who are facing foreclosure or a short sale to not use credit cards as the balance owed would increase and have a negative effect on the debt ratios.

- If delinquent owners are considering renting their home to avoid foreclosure the reporting agencies are going to require a copy of the lease and employment verifications for the tenants.

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- **Can I purchase another house and if so, how long does it take to rebuild credit?**

- Following foreclosure it takes 2 to 3 years of positive credit history before a lender will look favorably on a new mortgage application.

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- For bankruptcy, the new standard is 2 years after being DISCHARGED by the Bankruptcy Court for **CONDITIONAL** credit approval consideration. The screening company looks very closely at rental verification during the 2 year period.

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- Questions ?

- Thank you!

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