

## What Will A Short Sale, Bankruptcy, or Foreclosure Do To My Credit Score?

By Arizona Bankruptcy Attorney John Skiba

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When you suffer through financial difficulty that results in a short sale of a home, a foreclosure, or even a bankruptcy, the big question most people have is how such events will impact their ability to buy on credit again. In yesterday's Arizona Republic newspaper, Russ Wiles wrote an article on "Strategic Defaulters" and included in the article was a chart obtained from FICO on how short sales, bankruptcies, and foreclosures will impact your credit score. I have recreated this chart below:

Situation	Initial 680 Credit Score	Initial 780 Credit Score
30 days late on mortgage	600-620	670-690
90 days late on mortgage	600-620	650-670
Short sale, no deficiency	610-630	655-675
Short sale with deficiency or foreclosure	575-595	620-640
Bankruptcy	530-550	540-560

Source: FICO

From the information provided by FICO, a person with a credit score of 680 that files for bankruptcy will see about a 130-150 point drop while a person with a 780 credit score will see about a 220-240 point drop. This leads to the next question, how long will it take to repair a credit score after a bankruptcy filing?

### Reestablishing Credit After Bankruptcy

Many of my clients see an improvement within a year from their completion of their bankruptcy case. The bankruptcy will be reported for ten years on your credit report. Many are surprised at how quickly they can reestablish their credit score and how soon they can qualify for a home loan. Below is a chart of the various waiting periods and types of loans that will be available after a bankruptcy, short sale, or foreclosure.

	<u>Conventional</u>	<u>FHA</u>	<u>VA</u>
<b>Chapter 7 Bankruptcy</b>	4 years from discharge or dismissal date.	2 years from discharge or dismissal date with exception for extenuating circumstances.	2 years from discharge or dismissal date.
<b>Chapter 13 Bankruptcy</b>	2 years from discharge date or 4 years from	1 year of the chapter 13 payout must have	1 year of the chapter 13 payout must have

	dismissal date.	elapsed with on time payments.	elapsed with on time payments.
<b>Foreclosure</b>	7 years from completion date.	3 years from completion date.	2 years from completion date.
<b>Deed-in-Lieu of Foreclosure</b>	4 years from completion date.	3 years from completion date.	2 years from completion date.
<b>Short Sale</b>	2 years 80% max LTV 4 years 90% max LTV 7 years Max LTV allowed	1 year from sale date if there were no late payments, otherwise 3 years from sale date.	2 years from sale date.
<b>Consumer Credit Counseling</b>		1 year of payout must have elapsed with timely payments.	1 year of payout must have elapsed with timely payments.

Source: Debbie Flinn of Bell Mortgage.

There is no question that bankruptcy will have an impact on your credit score and your ability to purchase things on credit in the near future. However, if you are dealing with significant debt with no serious prospects of being able to pay the debt off in a timely manner, bankruptcy may be the better option and may help you reestablish your credit more quickly.

I would be happy to meet with you to discuss your situation and how a bankruptcy can help you in dealing with your debt situation. I can be reached at (480) 420-4028 or via email at [john@skibalaw.com](mailto:john@skibalaw.com).