

Getting a Mortgage After Bankruptcy

If you have had to declare bankruptcy, you may be wondering what is next.

Bankruptcy is not a financial death sentence. In fact, there are a few things you can do after declaring bankruptcy to help reset your financial status and get a mortgage in the future.

While there is no wait requirement to apply for a mortgage after bankruptcy, it is important to allow your credit time to heal in order to ensure approval.

The first step to rebuilding your credit is getting a secured credit card. If you are able to show that you are responsible with this credit card by paying your balance in full each month and not overspending, it will help to improve your credit score.

Once you've re-established your credit, you can apply for a mortgage. What type of mortgage you can apply for, and whether or not you qualify, will depend on a few factors, such as: how long ago you declared bankruptcy, the size of your down payment, your total debt-to-service ratio (how much debt you are taking on compared to your total income) and your loan-to-value ratio (loan value versus the property value).

Depending on this, you will have three options for your future mortgage loan:

TRADITIONAL OR PRIME-INSURED MORTGAGE

This is a traditional mortgage, which will typically offer the best interest rates. To apply for this type of mortgage after bankruptcy the following requirements apply:

- Your bankruptcy was 2 years, 1 day previous
- You have one-year of re-established credit on two credit items (credit card, car lease, loan).
- You have a minimum down payment of 5% for the first \$500,000 and 10% for any additional amount over that

- You have mortgage insurance – required for all down payments under 20%
- You have a total debt-to-service ratio of 44% maximum
- Your loan-to-value ratio is 95% minimum

1. Subprime Mortgage

This type of mortgage falls between a traditional and private mortgage, meaning you qualify for more than private but not enough for a traditional loan. To apply for this type of mortgage:

- Your bankruptcy was 3 – 12 months prior
- You have a total debt-to-service ratio of 50% maximum
- Your loan-to-value ratio is 85% minimum

2. Private Mortgage

If you don't qualify for a traditional or subprime mortgage, you have the option of looking into a private mortgage. Typically, your interest rate will be higher on a private mortgage but there is no waiting period after bankruptcy and the requirements are as follows:

- You have a down payment of 15% of the purchase price
- You have obtained a full appraisal
- You have paid a lender commitment fee – typically 1% of the mortgage value
- Your loan-to-value ratio is 80% minimum

If you have previously declared bankruptcy and are now looking to start over and apply for a mortgage, don't hesitate to reach out to me for expert advice and to review your options today!



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