



## Can I Get an FHA Mortgage with Bad Credit?

Question: I am interested in applying for an FHA mortgage, but I have less-than-perfect credit? Can I still qualify? What are the credit requirements?

Answer: Most descriptions of Federal Housing Administration or FHA loans contain a requirement of generally good credit. Here's what that means to you: You need to have a good credit history for the past year or two that includes consistent, on-time payments. Are there exceptions to this rule? Only a few. This is because the government needs to have confidence in putting their stamp of approval on your loan. When they do, they become liable for any default or foreclosure on your part.

Here are some of the basic FHA requirements on several credit issues:

### **Recent Bankruptcy**

Chapter 13 bankruptcies are generally easier to work with in an FHA mortgage than Chapter 7 bankruptcies. Even if you are currently working through a Chapter 13 bankruptcy, you may still have a chance of qualifying for the loan. The lender will require though, that you have been actively trying to rebuild your credit for at least one year, with most or all of your payments made on time within that period. On the application will need to report the full details and reasons for your bankruptcy and get the court trustee to approve in writing of your loan appeal. Good, secure employment and financial assets will also be required for loan approval.

If you have had a Chapter 7 bankruptcy, you must wait at least two years after the end of your bankruptcy. Again you must provide a complete account of the conditions and impetus for the bankruptcy, as well as an improved credit report, a steady job, and assets, in order to be approved.

### **Past Foreclosures**

Usually foreclosure is the kiss of death for any future home loans and FHA loans are no exception. The loan standards do not allow for any previous foreclosures, unless you've got an excellent sob story to go along with it. In such a case, there is a slim chance you might be approved, provided you also have a good credit history.

### **Late Payments**

While a few late payments will not generally count against you, you should be careful to avoid this habit for a good amount of time before you apply for your FHA loan. The underwriters look at your overall payment history, but the most recent past can count for a lot.

### **Unpaid Debts**

If you have any legal judgments against you, the FHA will not accept your application until they are paid off completely. The same is true of any unpaid federal taxes or unpaid government student loans, or other federal debt.

### **No Credit?**

The FHA guidelines stipulate that you must have at least two lines of credit open to show credit responsibility. Fortunately, for those without any credit history, many times the FHA allows non-traditional credit lines to be used for this criterion. You can use monthly debts like rent or



utilities payment histories to verify your credit worthiness

The credit situations listed above cover the major credit requirements of the FHA. If you have poor credit but don't fit into any of the categories above, your best bet may be to simply wait and improve your credit report with timely payments. Talk with a local representative of the FHA for further answers and details.