What Is a Foreclosure and How Does It Affect My Credit History and Credit Score?

If you can no longer make your monthly mortgage or home equity payment, the lender has the right to *foreclose* on your property. Essentially, the lender takes your home, which is the collateral (or backing) for the loan, then sells the property to repay what you owe.

Because of the severity of the Great Recession and the collapse of the housing market, millions of Americans have gone into foreclosure. They have lost their jobs, used up their savings, and in the end have had to hand their home back to the bank and move out.

Foreclosure is devastating to homeowners and their families.;And, it leaves a lasting impression on a foreclosed homeowner's credit history and credit score.

Other than a bankruptcy, foreclosure is the most negative piece of information you can have on your credit score. Often, homeowners who fall into foreclosure will have months of late payments and unpaid property taxes listed on their credit report. That will be very damaging to a credit history, but adding a foreclosure is a piece of negative credit information that will stay on the owner's credit history for up to seven years.

A foreclosure can have nearly the same affect in lowering your traditional credit score (the three-digit number that creditors use to determine how big of a credit risk you are) as a personal bankruptcy (an average of 200 to 300 points), and it takes nearly as long to recover (three to seven years).

In general, having a lower credit score (under 675) makes it more difficult to get credit cards and car loans. If you do get the loan, you will typically pay higher interest rate and additional fee.

But there is some good news. Although a foreclosure can remain active on your credit report for seven years, it won't ruin your credit score forever.

If you keep up with the payments on your other credit obligations, such as auto loans and credit cards, your credit rating can begin to rebound in as little as two years, although it may take a full seven to ten years to reach the level it was at before your foreclosure, according to a study by FICO. It's important to remember that a foreclosure is a single negative item; if you keep it isolated by paying the rest of your bills on time and staying out of debt, the climb back up will be much shorter.

With patience and hard work, it's also possible to secure a home loan again. The Federal Housing Administration (FHA) will allow a new mortgage to be approved if a past foreclosure is more than five years old and everything else is in order.

Re-establishing good credit takes time and careful planning. As you recover, consider prioritizing your spending and preparing a budget—then stick to it.