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Improve Your Bad Credit Score To Get a Better Home Mortgage Loan

If you have applied for a home mortgage loan and have less than perfect credit, you may be among the millions of Americans who are denied the home of their dreams because of bad credit. If you have been rejected for a home loan or if you are worried that you might be, now is the time to take the important steps to improve your bad credit score.

Your credit score and history is very important to your lender because it gives him an indication of how much risk he will take on by loaning you money. If you have had a hard time making payments on time in the past, if you have lots of debt, or if you have lots of high credit card balances, lenders may worry that you will not be able to meet the loan repayment commitments. It is imperative that you repair your credit to prove to lenders that you will be a responsible and capable borrower.

The first step is to acquire a copy of your credit report. You can obtain a free copy once a year from any of the three major credit report agencies, Experian, TransUnion, or Equifax. It is a good idea to get your score and report from each agency, because each one could be slightly different. Plus mortgage brokers often pull your credit score from all three and use the middle (not the average) score to see if you qualify for a loan.

As soon as you get the necessary reports, your top priority should be to find and correct any errors. Perhaps a company accidentally reported someone else's information on your record, or maybe there is a late payment listed that you know was paid on time. Once you find a mistake, contact the appropriate reporting agencies and petition them to make the changes. This process can take approximately one to three months, so do not delay!

If one of the problems with your credit score is that you have too much money charged to your credit cards, it is time to reduce those balances. This may be easier than you think if you have one or more unused sources of credit. Ideally you should not have a balance of more than 25% of your spending limit on any of your cards when you are ready to apply for a loan. If you have one card with a \$5000 limit and your balance is \$2500 (or 50%), you might consider moving half of that balance or \$1250 to another unused credit card with a similar loan limit. It is not necessarily a good idea, however, to open brand new accounts to accomplish this goal.

Neither is it always a good idea to consolidate smaller credit balances into larger ones. Some people may think this is a great debt management strategy because you take two monthly payments and make them into one payment that is easier to remember. The problem though, is that this will increase your balance-to-limit ratio and potentially hurt your credit score.

Another important tip for improving your credit is to refrain from closing unused credit accounts right before you apply for a loan. This will mean you have less credit available to help you pay your mortgage payment if needed.

Proactively working to improve your bad credit score will make you a much better candidate for a great home loan. Start today by getting a hold of a copy of your credit score. With some hard work, you could be approved for the perfect home mortgage or refinance home loan within a matter of months.