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Getting a Mortgage Loan with Bad Credit

So you have made some credit mistakes in the past. Or maybe you have simply run into some hard times with unexpected medical bills or other expenses. The point is you now have bad credit. You know that credit scores have a huge impact on mortgage applications, but is it still possible for you to get a home loan? Is there anyone out there willing to loan money to people with poor credit scores?

Fortunately for you, the answer is yes. There is a whole branch in the mortgage industry dedicated to dealing specifically with bad credit borrowers. This is called the sub-prime market. If you have been following the news at all lately, you will know that there has been plenty of trouble in the sub-prime sector lately as more and more poor credit borrowers default on their home loans. Some companies have been put out of business by these problems and the rest are now tightening their lending standards to prevent more issues with foreclosure. So while there may be fewer sub-prime lenders and less money available for bad credit buyers today, there are still plenty of businesses that can help you with your needs.

Mortgage companies use your credit score as a measure of your trustworthiness as a borrower. They are taking a big risk by lending such large amounts of money and they want to make sure they will get the money back. A history of payments and debt helps them to know how you have handled loans in the past. If your history is not so flattering, the lender will likely charge you a higher interest rate on a mortgage loan as extra security for himself and the risk he is taking. That is the price you must pay for bad credit.

Besides simply working to raise your credit score, there are a few things you can do to minimize the interest rate and its effects. First, you can reduce the risk to the mortgage lender by providing a larger down payment. If you have the cash to do so, make a down payment of 15% -20% or more. This will definitely score you a better interest rate on your sub-prime loan.

Also you can take the loan with the higher interest rate, but immediately start working to improve your credit by making all your mortgage payments and other obligations on time. After a year or so, your credit will have improved and you can refinance your bad-credit loan into a new one. With better credit, you are likely to get a new mortgage with a much better rate, and that means lower payments and a cheaper loan for you!

And remember, even with bad credit you should do a lot of shopping around for the best deal before you start signing any paperwork. There are still enough sub-prime lenders out there to compete for your business; don't let any one lender tell you that his offer is the best (or the only one) you are going to find. Shop around and find out for yourself! After you have found the right lender, you can work on the other details to make your dream of homeownership a reality!