05/15/2007

Best Use of Credit - a Home Mortgage

Credit is important term these days. Your credit history is examined for everything from renting an apartment to getting a car loan to being accepted for employment. The key to keeping a good credit score is being responsible with your lines of credit. Lenders and others often base their predictions of your future behavior on your past dealings with credit. While there are many irresponsible uses of credit, one of the best uses of credit is that of a home mortgage loan.

All credit accounts involve risk. It is all based on your promise to repay in the future money lent to you now. If you do not repay, the lender loses his money. Mortgage loans are considered less risky than other types of credit because the loan is tied to your house and property. If you do not repay, the lender has the legal right to repossess your house and try to sell it to recover the money she loaned you.

Of course, defaulting on your mortgage is never a good thing. Your credit opportunities should never be used frivolously. In general, anything you can plausibly save up for should not be bought with credit. This includes purchases like automobiles and college tuition if possible, and especially purely luxury items like ski boats or European vacations. Saving up for entire house beforehand, however, is almost impossible for most Americans and it might many an entire lifetime to do so. The use of credit is necessary when it comes to home buying. Fortunately, one of the great things about a home is that its value increases over time making this credit investment potentially very profitable.

Yet a mortgage is only a good credit risk, if you get the right one for your needs and manage it well. It is clear that during the past several years, many subprime or poor-credit borrowers were actually making bad credit decisions by getting mortgage loans, because they could not truly afford the purchase. Borrowers by the thousands have filed for foreclosure each month since the beginning of the year because they are unable to make the payments attached to their loan. When you apply for a mortgage, you should protect your credit by only borrowing as much money as you can afford. Often lenders will qualify you for a large sum of money, but you have to be sensible enough to figure out whether you the payments will fit within in your budget or not.

Another key is to understand the type of mortgage you are choosing. Those who select adjustable rate mortgages, often do so because the initial, low rates and payments are so attractive and manageable. Yet many borrowers do not fully comprehend the workings of an ARM loan, and are often caught with "payment shock" when the rate adjusts and they are suddenly required to pay several hundred dollars more a month. If you go with an ARM loan, make sure you will be able to afford even the highest payment that might be required of you during the course of the loan.

Finally, in order to make a mortgage loan a smart credit move, you should be careful with the equity you build up in your house. Many people get home equity loans or take out home equity lines of credit to finance various projects. You should follow the guidelines state above for deciding whether or not to use your equity for a project. Home improvements are generally a good use of funds because they will in turn increase your equity, but other less necessary ventures may jeopardize your home if you cannot repay the loan.

If you are thorough in your selection and understanding of your loan, your home mortgage may be the smartest credit move you will ever make!