



Hope for Home Buyers with Bad Credit

If you're looking for a new home but have bad credit, you may be wondering what options are available to you or if you can even qualify for a home loan. Fortunately, yours is a common occurrence in today's consumer economy and mortgage lenders have created solutions for those with less than perfect credit. Before you jump into any loan, however, there are a few things you should know. Understanding the definition of a credit score and the causes of bad scores is essential to improving your score and making you more eligible for a home loan. A credit score is a way for lending companies to assess the risk of lending to you and the likelihood that you will repay them. It is a number between 300 and 850 (a score of 720 or above will get you the best market interest rates) determined by an assessment of your experience with credit accounts. There are several things that might pull your score down. While most people know that late payments will hurt a credit score, they may not consider the impact of things like bankruptcy, foreclosures, too much debt, and any collections made on your accounts. Also many people don't realize that having too many open credit accounts, even if they are not being used, can hurt a credit rating. Having several credit accounts with balances too close to the high limit is another damaging factor. Once you understand the reasons for your low credit score, it's time to fix it! Get started right away as it can be a long process to correct wrong information on your credit report and to rebuild your score. If you've had a recent bankruptcy, try going back to your creditors and working out a payment plan. Your credit score is definitely affected by the way you handle your financial obligations. If you have lots of open credit accounts, pay off and close any unnecessary ones. If you have several accounts with high balances, you might consider borrowing from one account to pay off another. If, on your credit report, there are any incorrect 30-day late payment assessments, contest them. This type of assessment can cost you up to 100 points on your credit score! If you are already in a home and have lots of debt, use the equity in your home to get a cash-out refinance and consolidate your debt into one, lower interest rate payment. And above all, make sure you are paying all your bills on time and in full! After doing everything you can to improve your credit rating, look at the mortgage options available to you. The most common way for poor credit borrowers to get into a home is by obtaining any one of the hundreds of variations of sub-prime loans. Also known as credit repair loans, these mortgages will generally require higher interest rates and fees from you than a standard mortgage would. Depending on your credit score, you can expect to get an interest rate 3% higher than a normal loan, and your closing costs and fees may be as much as 2.5% more than for a standard mortgage. This is because lenders are taking a higher risk on you because of your credit history. Lenders may also expect a significant down payment with a sub-prime loan, so it's a good idea to have at least some savings before you apply. Another tip is to try applying for a loan during the mortgage off-season (fall and winter) when you might find better rates and fees. Also be sure to do extensive online searching for the best offers before committing to one lender. Just because your credit is less than perfect, doesn't mean lenders should take advantage of your plight. The bottom line is that while you might have to pay higher interest rates and jump through a few more hoops, it is still possible to get a home loan with bad credit!