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The Benefits of Bad Credit Mortgages

Mortgage lenders love borrowers with excellent credit scores. Loans given to those with good credit are better investments because the borrowers are very likely to repay the mortgage. These borrowers will also get the best interest rates available.

But not all borrowers have great credit scores. In this imperfect world, it is no wonder there are people with imperfect credit. Credit in the form of alluring credit cards or financing programs are everywhere, enticing consumers to buy more than they can afford. It happens a lot. Others have a hard time paying their debts because of family or medical emergencies. Whatever the reason, if you fall into this category of less-than-perfect credit borrowers, don't despair. You can still get a home loan. There is even a whole class of loans categorized as bad credit mortgages. Lenders are willing to take bigger risks on these loans because they can charge higher interest rates. While this may seem like a big drawback to getting a bad credit home loan, there are plenty of advantages that can make it worthwhile.

One great benefit of getting a mortgage, even with bad credit, is that even though your interest rate may be higher than a conventional loan, as soon as you close the deal and get into the home, you will be earning equity. If the housing market appreciates at normal rates, the amount of home you own will soon grow and the amount of money you still owe will decrease. This will make it possible to sell your home for more when you are ready and use the excess as a large down payment on your next home.

Another benefit of bad credit mortgages is that you can actually start improving your credit score by making timely payments on the loan. The longer you make payments on time, the more your score will go up. This will soon qualify you for lower interest rates on a refinance loans. So you may start out with high rates, but you can often get into a better loan after you've been in your home a short while.

A bad credit home loan can also often allow you to get into a home with a small down payment. There will be a trade-off in a higher interest rate, but if you are short on cash, this feature of many bad credit mortgages can be a lifesaver for you. Check around with several lenders to see what kind of down payment will be required.

Finally, you will find that it will be much easier to qualify for a bad credit mortgage than for a conventional loan program. This is because many lenders specialize in the bad-credit or sub-prime market, and have financing especially for these loans. Sometimes they only require a few basic pieces of information, like your credit score and income, to approve your loan.

If you are considering buying a home, but you don't have great credit, consider applying for a bad credit home loan. This may offer many more immediate benefits than you would gain by waiting for an improved credit score.