IMPROVING CREDIT *to* FINANCE A HOME

Tina DeBoer
REAL ESTATE
MORE REALTY

Improving YOUR CREDIT

Credit scores play a big role in determining whether you'll qualify for a loan and what your loan terms will be. So, keep your credit score high by doing the following:

Check Your Credit Report

Review for errors and dispute inaccuracies immediately to improve your credit score. Thanks to an act of Congress, you can download one free credit report each year at annualcreditreport.com.

Pay Down Credit Cards

Lower balances help your debt-to-income ratio, making you a stronger loan candidate. If possible, pay off the entire balance every month. Transferring credit card debt from one card to another could lower your score.

Hold Off on Big Purchases

Hold off on financing furniture, appliances, or a new car until after closing. Taking on new debt could affect your loan approval which would jeopardize your closing.

Shop for Mortgage Rates in One Go

Having too many credit applications can lower your score. However, multiple inquiries in a short period from the same type of lender, count as one and won't hurt your credit score.

Avoid Maxing Out Credit Cards

Keep your credit utilization low to maintain a good score by paying as much as you can toward your bill every month.

Rebuild Credit Before Applying

Wait 12 months after credit issues before applying for a mortgage. This allows time to rebuild your credit, improve your score, and show financial stability to lenders. (Consult your lender for guidance.)

Avoid Finance Companies

Loans from finance companies can signal high risk to mortgage lenders. Even if you pay off their loan on time, the interest is high and it may be considered a sign of poor credit management.

Don't Apply For New Credit

Opening a new credit account can lower your credit score and increase your debt-to-income ratio, making you appear riskier to lenders and potentially affecting your loan approval or interest rate.

Preparing to FINANCE A HOME

Develop a Budget

Use receipts and your banking transaction history to create a budget that reflects your actual habits over the last several months. This approach will better factor in unexpected expenses alongside more predictable costs such as utility bills and groceries. You'll probably spot ways to save, whether it's cutting out a Starbucks run or eating dinner at home more often.

Establish a Good Credit History

Get a credit card and make all your bill payments on time. Pay off entire balances as promptly as possible. Also, obtain a copy of your credit report, which includes a history of your credit, bad debts, and late payments. Ensure that it's accurate and correct any errors immediately.

Reduce Debt

Lenders generally look for a debt load of no more than 36 percent of income. This figure includes your mortgage, which typically ranges between 25 and 28 percent of your net household income. So, you need to get monthly payments on the rest of your installment debt—car loans, student loans, and revolving balances on credit cards—down to between 8 and 10 percent of your net monthly income. You can confirm with a loan officer of debt-to-income ratios for various loan products.

Increase Your Income

Now's the time to ask for a raise! If that's not an option, you may want to consider taking on a second job to get your income at a level high enough to qualify for the home you want.

Keep Your Current Job

While you don't need to be in the same job forever to qualify for a home loan, having a job for less than two years may mean you have to pay a higher interest rate.

Seek Down Payment Help

Check with your state and local government to find out whether you qualify for special mortgage or down payment assistance programs. If you have an IRA account, you can use the money you've saved to buy your first home without paying a penalty for early withdrawal. Also check with your loan officer, they may know of down payment assistance loan products that you may qualify for.

Keep Saving

Even if you have enough money to qualify for a mortgage and cover your down payment, you will also need to factor in closing costs, which can average between 2 and 7 percent of the home price, and incidentals such as the cost of hiring a home inspector.

Save For a Down Payment

Designate a certain amount of money to put away in your savings account each month. Although it's possible to get a mortgage with less than 5 percent down, you can usually get a better rate if you put down more. Aim for 20 percent of the purchase price.

smart move

It’s important to know how much you can afford for a mortgage before house hunting. Generally, look for homes priced two to three times your annual income, but a mortgage professional can help you determine what you qualify for. Decide on the type of mortgage (30-year or 15-year, fixed or adjustable rate) that fits your needs. You’ll also need to provide documents like W-2s, pay stubs, and bank statements for pre-approval. Don’t forget to factor in property taxes, insurance, maintenance, utilities, and association fees when budgeting.