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Back to Basics Part I– Getting a Great Home Mortgage

You've seen the mortgage news headlines – “Foreclosures on the Rise,” “Mortgage Rates Jump Up,” “Credit Dries Up for Home Buyers,” “Dozens of Mortgage Lenders Shut Their Doors.” All of this drama can make getting a mortgage loan in today's market seem very scary, if not impossible. Fortunately, the truth is that there are plenty of stable lenders and loans out there. If you are considering buying a home in the near future, you would be wise to first educate yourself about the mortgage basics in order to maneuver into a great loan in a not-so-great market.

Improve and Know Your Credit

Start by realizing that the current mortgage crisis is based on the failure of many risky loans made to poor-credit borrowers over the last several years. As these homeowners have found themselves in loans they cannot really afford, default and foreclosure rates have skyrocketed among these bad-credit borrowers. Surveys have shown however, that foreclosure rates among good credit borrowers have not been affected much. When you apply for a mortgage, your credit history is going to play a big role in how expensive your loan is and how much money you can qualify for.

Before you apply, obtain a copy of your credit report and score from any of the three major credit-reporting agencies, TransUnion, Equifax, and Experian. (The report is free; you will have to pay a small fee for the score.) Your score will be a number somewhere between 300 and 900. A score of roughly 700 or higher is considered excellent credit. Anything below 620 means you have poor credit. If you have a low score here is a hard reality to face – you will have a harder time obtaining a mortgage in today's market. And no matter what kind of market you apply in, you will be subject to much higher interest rates and other stricter requirements than someone with good credit. You represent a higher risk of foreclosure and money loss to the company. That is just how it goes.

If you have a low credit score, or even if your credit score is not as high as you would like, start by scanning your credit report for any mistakes you see. If you find a legitimate error, do not be afraid to dispute it. You can raise your score by dozens of points just by correcting wrong information.

Next, take a look at why your credit score is low. Are you consistently late with making your payments? Are you carrying too much debt on your credit cards? Have you only been using credit for a few years, meaning your credit history is very short? Do you have too many inquiries on your report? Whatever the problem, the time to fix it is before you apply for a mortgage. Your chances of being approved and of getting a low interest rate will dramatically improve with a higher credit score. Besides, if you haven't been able to make timely payments before taking on a mortgage, do you think it is a good idea to add that hefty responsibility to your plate? If your habit continues you will lose your home and have a nasty, credit-ruining foreclosure on your record. Not a good idea. Resolve today to make the changes needed to improve your credit. This may take six months or more, but the benefits in terms of your mortgage will be well worth the wait.

Look for the second part of this article that discusses the next mortgage basic – providing a



down payment.