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Repairing Your Credit to Avoid a Bad Credit Home Loan

If you are potential homebuyer with less-than-perfect, or even down-right bad credit, be assured that there are loan programs created especially for borrowers like you. There are things called bad credit home loans that allow applicants with less than ideal credit histories to qualify for funding. The downside however is that because your poor credit makes you a greater risk to any lender, your home loan will reflect that risk in your interest rate and points and fees. These can often be substantially higher than the terms you would get with better credit. Before you give up on your situation and apply for a bad credit, otherwise known as a sub-prime loan, you should first do your best to repair your credit score to get a better loan for the long run.

The process of cleaning up your credit can require some time, a few months to a few years depending on how bad you current score is. The first step in correcting it is to get a copy of your credit report and find out what your score is. You can do this for free once a year by contacting one of the three major credit reporting agencies, Experian, TransUnion, or Equifax. You can have this sent to you or download it from the internet.

You will see that your score is a number between 300 and 800. The number is a composite of several different factors including your history of on-time or late payments, the number of credit accounts you have and the balances on those accounts, and the length of time you have had credit accounts open, bankruptcies, or foreclosures, among other things. The most important thing to do is to check and make sure all the information is accurate and to dispute any mistakes. As soon as false information is corrected, you could see a big jump in your score.

If you have corrected all errors or if there are none to correct, the next step is to start the hard work of repairing your credit by responsible spending and payments. A full 35% of your credit score comes from your payment history. This includes not only your home mortgage payment, but also your credit cards and retail accounts. If you are paying a car off, the timeliness of those payments will also count. Any business credit accounts you have will be factored into your score as well. It is important that you turn over a new leaf in your financial planning and spend only as much as you can afford to pay back on time. After you start making all your payments on time, you could see a difference in your score in only a few months, but for the big results it will probably take you closer to a year or more.

Another huge factor in your credit score is the total amount of credit debt you have. Because this makes up 30% of your score, it is definitely in your best interest to lower the total amount of debt on your accounts. This category also calculates not only how much total debt you have but how many open credit accounts you have and the balances on them. If you have too many open accounts, you may be seen as a lending risk because you have to much available credit at your fingertips. If you have too few accounts though, that could also be bad as you may not have enough available credit.

Your credit score is very important to you and potential lenders because it is a measure of your personal responsibility and ability to handle payments. Before you jump into a bad credit home loan or bad credit refinance, make every attempt to fix your credit score. You may be surprised how little changes may improve your approval changes and the terms you'll qualify for.