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Are You Credit-Ready For a Great Mortgage Rate?

by Janene Mascarella

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Future homebuyers beware: If you plan to borrow in the near future, you'll need to secure a solid financial foundation today. Crossing that credit bridge when you come to it can land you in deep water, and cost you dearly.



Know Your Credit Score

There's no better time than now to get your credit score!

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According to Heather Wagenhals, a designated broker in Scottsdale, Arizona and author of the Unlock Your Wealth series, you should examine your credit profile six to 12 months before purchasing a home. With credit standards being tightened to traditional underwriting standards, it's important to design the optimum credit profile while you still have time on your side, says Wagenhals. Here are six steps to get a jump-start on purchasing your dream home and put your best credit foot forward.

1. Read Your Credit Report Carefully

Get a copy of your credit report and check it for mistakes. "There are so many errors, it's frightening," says Daniel Williams, owner of San Diego Lending Solutions, and faculty member of the National Institute of Financial

Education. "You must not only know your credit score, but ensure the quality of the information." Two key questions to ask yourself: Do I have the correct accounts on the report? Are there accounts that I closed that show open, or vice versa? The earlier you zero in on the glitches, the more time you have to correct them.

2. Know the Weight of Your Score

It's very important to get your credit score as high as possible prior to applying for a new mortgage, says financial advisor Randy Loren, author of "Climbing the Money Mountain." Even the slightest score drop can affect your ability to secure financing and/or land the best rate. Most banks are now looking at 740 and higher as the "it" score that indicates a borrower's credit-worthiness. It used to be that a score of 680-720 was considered excellent. Although that credit score range is still considered good, the lowest rates are given to clients with the highest number.

3. Build a Strong Track Record

Lenders love to see consistency over time, explains Wagenhals. The more accounts you have that are older than two years old, the better. They also do not want to see late payments in the last two years. "Get on track paying all of your bills on time," urges Wagenhals, "no more being lackadaisical."

4. Replace Bad Credit with Good

If your credit score is low, sign up for two guaranteed credit cards, even if the available credit is only \$200 per card, suggests Mimi Kelly, mortgage expert and money therapist at YourMoneyPersonality.com. Make at least one purchase each month (even if it's only for a tank of gas), pay the entire balance early each month, and you can see your credit score improve by at least 50 points within 90 days, she says. "The biggest mistake I see people make is that after they have credit problems, they don't do anything to replace their old, 'bad' credit with new, good credit," says Kelly.

5. Rethink Your Revolving Credit

Taking a closer look at your revolving credit is another way to prepare, advises Neil Viotto, executive vice president of Mortgage Express LLC, based in Cedar Knolls, New Jersey. Revolving credit is defined as open lines of credit that are subject to variable payments in accordance with the balance, like credit cards. One of the biggest issues is people charging thousands of dollars on credit cards, or opening new credit cards for interest-free financing on furniture, says Viotto. His advice? Don't make any large purchases until after you've closed on your loan. A low percentage of revolving credit available greatly impacts your credit score. If you have \$20,000 in credit lines available, don't have \$10,000 in credit lines outstanding. The guide is to have at least 80 to 90 percent of your revolving lines available to keep your score high.

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6. Settle Your Debt Demons

Careful; collections and charge-offs are not a free ride, warns Wagenhals. Just because a company is not carrying the debt you owed them on their books anymore does not mean you don't owe it. Look at it this way; a mortgage lender is not interested in the fact that you did not lose weight with that \$3,000 gym membership so you decided not to pay them. Banks want to see that you fulfill your commitments, so it's better to pick up the phone and negotiate a "pennies on the dollar" settlement now, and get it behind you. Otherwise many lenders will require you to pay the full amount as a part of your closing conditions and will give you a higher interest rate as a result of your clear demonstration of defaulting on your debt. Don't lose hope; careful financial planning as early as possible should be your number-one priority long before you meet your mortgage lender. "I like to draw the analogy of building a home," explains Williams. "You must first establish a solid foundation." Even seemingly small action steps in a positive direction can greatly increase your loan appeal -- pun intended. By getting your credit standing in check, you will be well on your way to your future home, sweet home.

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