



Want a mortgage? Spend carefully

By Polyana da Costa · Bankrate.com

Thursday, June 30, 2011

Posted: 12 pm ET

Thinking of applying for a mortgage? Make sure you plan ahead so that you don't become part of this statistic.

More than one in four [mortgage](#) applications submitted to the 10 largest lenders in the United States in 2010 were denied, according to a recent analysis done by The Wall Street Journal. Many of the rejections include people with high credit scores.

Credit scores are important, but they are not all it takes to get a mortgage. Usually, it's the factors hidden behind that score that can lead to a higher interest rate on your mortgage or simply keep you from getting a mortgage.

One of those factors is the amount of credit you have available, the amount of money you owe and how your debt is spread. When lenders look at your credit history, they won't just look at whether you pay your bills on time. They'll look at your spending habits.

Say you have a credit card from a retailer with a \$500 limit and you just used it to buy a new TV. Now you owe \$490 on that card, and you carry that balance for a few months.

"Your score could drop 100 points," says Tracy Becker, founder of North Shore Advisory, a credit restoration company in Tarrytown, N.Y. "And if you are \$1 over the limit, it could drop 120 points. The higher your credit score the more it will drop."

Just because your credit card gave you a credit line of \$1,000 it doesn't mean you can actually spend \$1,000, she says. Well, you can. But you shouldn't. At least not if you plan to get a mortgage anytime soon, she says. Some credit advisers recommend you don't use more than 30 percent of the credit you are given. Becker is a bit more conservative.

"If you are going to apply for a mortgage, you should use no more than 10 percent of your limit," she says.

Many potential borrowers don't realize that until they apply for a mortgage or until they start thinking about their credit a couple of weeks before applying.

That's usually too late. Paying off debt two weeks before you apply isn't going to help you much.

You need to take an in-depth look at your credit and your revolving balances at least three months before you apply for a mortgage, Becker says.

"You don't want to wait until the last minute to make sure you are in the right credit position when you are going to borrow money to make what is probably the biggest investment of your life," she says.

A few lenders may allow you to pay off some debt to reduce the balance on your revolving credit during the application process in order to be able to write you a mortgage. But most lenders will want to see those lower balances on your credit reports, and that may take anywhere from 30 to 90 days after you make a payment to show up on the reports.

So plan ahead!