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Why Do I Get Rejected For A Mortgage When My FICO Credit Score Is High?

Ivan Daniel
updated January 13, 2014

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You've found your dream home, you've got a good **credit score**. So you complete stacks of paperwork to apply for a new mortgage on the house/condo/apartment of your dreams, and then you get the call. Your application has been refused.

Ever since the sub-prime mortgage crisis, homebuyers and refiners in the US have found it more difficult to get a slice of the mortgage money. Banks are tightening amid the riskier lending environment, despite having the money to lend to borrowers. Lenders are no longer that eager to get your business, so even if you have a **FICO credit score** of more than 700 (which is considered 'good'), you are still not guaranteed to be approved for a home loan.

Rejected For Mortgage Despite High Credit Scores

Tracy Becker, president and founder of **North Shore Advisory Inc**, a credit education and restoration company headquartered in Tarrytown, New York, told DailyMarkets.com about some of her clients who got rejected for mortgage loans despite having credit scores of over 700.

- **John Mulligan of Suffolk County, NY**, had 1 open active account with Amex that was 10 years old, a closed car loan on his credit report, and a closed Macy's account. His score was a 749 and the loan he was applying for required a 720 and the banks wanted 2 credit accounts that were 12-24 months old. He could not get the loan although his scores were fine since he had no way of getting aged credit in his name other than building it. This would take an additional year.
- **Ahmed Singh of Brooklyn, NY**, was an immigrant in the country for 2 years. He had been added as an authorized user to a few relatives' credit cards. These cards were old and had excellent paying patterns. He had a Visa card that was 2 years old. His score was a 730 and he needed a 720 to buy a home for his family. Since the bank needed 2 trade lines that were over a year old, that he was the primary card holder, he was rejected for the loan.
- **Janet Devon of Florida** had an excellent 815 score and wanted to refinance her home in Florida. Her interest rate was 6.5 % and her mortgage was \$325,000. Her current mortgage payment is \$2054. If she is approved for the loan, her new payment will be \$1646 with a 4.5% interest rate. This is a huge savings over the life of her 30-year loan. Her property value comes in at a low of \$275,000 which is much less than the amount she originally paid for the property. Because of the economic downturn and the decline in property value, she is rejected for the loan.
- **John Davis of Albany, NY**, had a short sale on his property 3 months ago. His score was originally a 835, which is amazing, after the short sale he wanted to buy a much lower priced home for his family. His score dropped to a 700 after the short sale. With this score he was sure he could get a loan. He did not realize that there are time restrictions for getting approval on new loans after a short sale. Some banks make consumers wait 2-3 years. All banks have their own time restrictions on foreclosures, short sales, and bankruptcy in terms of getting approval for a loan no matter how high your score is.
- **Dena Lancher of New York City** had 5 credit cards that were 10-15

MORTGAGE RATES

INSURANCE QUOTES

- Discover It Card
- Blue Cash Everyday
- Chase Freedom
- American Express Platinum Card
- Southwest Credit Card
- Delta Credit Card
- Chase Sapphire Preferred
- Blue Cash Preferred
- BankAmericard Cash Rewards
- BankAmericard Travel Rewards
- Capital One Venture
- Discover Card - 18 Month Balance Transfer
- Citi Diamond Preferred Card
- American Express Premier Rewards Gold Card
- American Express Gold Card
- Citi Dividend
- American Airlines Card
- Capital One Secured Credit Card
- Credit Card Rewards

CREDIT CARD TYPES

- Best Credit Cards
- Best Rewards Card
- Cash Back Credit Cards
- Best American Express Card
- Balance Transfer Credit Cards
- Business Credit Cards
- Capital One Cards
- CitiCards
- Chase Credit Cards
- Discover Card
- Capital One Business Credit Card
- Best Visa Credit Card
- Credit Cards For Excellent Credit
- Credit Cards For Good Credit
- Credit Cards For Fair Credit
- Credit Cards For Bad Credit

INSURANCE

years old, a car lease, a closed mortgage, and a few paid student loans on her credit reports. Her score was a 780 which was a very good score. She applied for a \$500,000 loan. Her credit card debt was \$80,000 and her ratio of balance to limit on revolving credit was 20% balance to limit. Her income was \$50,000 on paper. She also owned some vending machines in a Laundromat earning an extra \$75,000 a year in cash. She was declined for the loan since her provable income was way too low to cover the mortgage and her credit card debt.

What Else Are Lenders Looking For?

If you plan to get a home loan soon or are in the process of applying for one, it helps to know what else banks are looking for before giving you that much-coveted loan.

Tracy Becker, who is also author of "The Credit Solutions Kit" and the soon-to-be released "Credit Score Power", told DailyMarkets.com a number of reasons behind rejections for a mortgage despite having a good credit score:

1. Many banks require 2-4 primary credit trade lines that are a certain age.

Some need to be 12 months old and others need to be 24 months old. Authorized users do not count in this mortgage rule. Each bank has different time requirements.

2. Lack of income is a major factor. If the applicant's score is an 800 and the income does not cover the amount of monthly mortgage payment, there will be a rejection.

3. Value of the house or property the mortgage is being placed on. If the appraisal comes in lower than expected, the bank could reject the mortgage.

4. Judgments on applicant. If a judgment is placed on the report, it will come off after 7 years but is still enforceable for over 20 years. It may not show up on the credit report and scores, but once a title search is done, it will stop the closing or at best cause problems.

Tracy said, "There have been incidents where consumers are declined for a loan based on finding out the wife is pregnant which, the bank fearing the loss of the second income, will cause possible loan defaults."

Your Credit Score Is More Important Than Ever

Keeping an eye on your credit score is still very important, if not more so, despite the fact that lenders are also taking in account factors other than your credit score when deciding whether to approve you for a mortgage loan or not.

In fact, if your FICO score falls below 620, you are unlikely to qualify for any mortgage. And according to myFico.com, 30% of Americans have FICO scores at or below that level.

To find out your credit score at any time, you have to pay to get it from any of the three major US credit rating agencies: Equifax, Experian, and TransUnion.

We at DailyMarkets.com have done the homework for you and scrutinized the fine print. Below is a listing of a few Credit Score Monitoring offers and we state whether each one has a free trial offer or not.

1) **Equifax Complete (Equifax)**

Equifax Complete gives you a 3-in-1 consolidated credit report and 3 scores from all the 3 major credit rating agencies in the U.S., namely, Equifax, Experian and TransUnion. This report will explain to you what's affecting each of your score. You get *unlimited* access to your Equifax Credit Report and score, with detailed explanation. For those of you who like to check your credit score very frequently, this unlimited access will be very useful. What we like most about this service is that it monitors all the 3 US credit agencies, and will alert you by email within 24 hours if there are any major changes to your credit files. With their Interactive Score Estimator, you can see what might happen if you increase your credit limits or pay down your debts. On top of that, you get

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Citibank Checking Account Review

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***** OptionsXpress Review

***** Scottrade Review

up to \$1 million in Identity Theft insurance. To take advantage of their credit monitoring service, the monthly subscription of this service is \$14.95.

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1 Comment :

Lauren Shimmon 31 December 2010

I'm a Realtor in Chicago that works primarily in the condo industry (as this is an urban market), which are considered "high risk" loans to begin with. The mortgage market has definitely affected the sales prices in this market. Since so many people can no longer qualify for mortgages, you see prices being dropped so that the properties become more affordable for cash buyers. I'm not saying the whole market is like that, but it's something that's very common. Some people just can't buy in certain buildings. Something's gotta give!

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