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**UNDERSTANDING CREDIT & DEBT**

# Credit Checkup: 3 Tips as You Get Ready for a Home Loan

By **Elizabeth Weiss McGolerick** • Posted: 04/22/15 • Updated: 04/23/15

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## Financial Lessons

If you're shopping for a home, it's essential to know where you stand with your credit.

If you have a good credit history, that's a great start, but it's not the only factor. And if you don't, there are things you can do to increase the likelihood you'll be approved for a loan before you apply.

Here are three suggestions to consider from financial experts if you're thinking about applying for a loan:

### **1. Know Where You Stand With Credit**

Some people pursue a home loan incorrectly believing they're in good shape on all other financial obligations, says Rick DeHaan, personal finance coach for the budgeting system Mvelopes, and then find out otherwise.

He shares the story of a woman who assumed she could afford mortgage payments because she felt she had

a good handle on all of her other expenses. A closer look revealed some bad habits: She was sometimes late on credit card payments and regularly opened store credit cards. As a result, she was offered a mortgage with a higher interest rate than she expected.

"She was utilizing too much of her allotted credit through car loans, store credit cards and overdraft balances," DeHaan says. So she had to go back to basics, starting with tracking her spending.

"She began to see why she was sometimes late, and how her spending habits were tied up in different lines of credit," says DeHaan. "She adjusted her spending, paid down her account balances, and watched her score improve within months."

The result? She was able to get her home loan at a lower interest rate.

**"I have seen many success stories of those who worked hard at rebuilding their credit scores so that traditional banks would offer them loans."**

**Christine M. Magee** says "Builders and hard-money lenders often offer balloon notes to buyers with bad credit," says Christine M. Magee, a consumer law attorney in Dallas. Balloon notes allow the borrower to pay only interest for a set period of time; at the end of the term, the entire principal must be paid in full. The idea is that you're buying time to refinance your mortgage with a traditional lender before the balloon note matures.

Two of Magee's clients, a young married couple,

bought their upgraded dream home with a balloon note financed by the builder at 14 percent interest with a two-year maturity date. Even with high student loan debt and some unpaid accounts ding their credit scores, the two said they were reassured by the builder's title agent that they'd be able to improve their credit and land a new loan by the end of those two years.

"Life got in the way, and they weren't able to pay off all the delinquent accounts," says Magee. After two years of making mortgage interest payments, the amount due on the balloon note was \$215,000 and the couple faced possible foreclosure.

"There is no substitute for hard work and patience," says Magee. "I have seen many success stories of those who worked hard at rebuilding their credit so that traditional banks

would offer them loans."

### **3. It's Not Just Your Own Credit Score That Matters**

Your partner's credit score can negatively impact your ability to get a home loan as well, no matter how stellar your own score is.

In the case of one couple, "she had excellent FICO credit scores of 745 but he had been irresponsible early on in life and had collection accounts from college credit cards he defaulted on, as well as limited positive credit," says Tracy A. Becker, president of North Shore Advisory, a credit-counseling firm in New York.

As a result, the couple couldn't qualify for a mortgage.

Becker says she helped him dispute some of the entries he said were incorrect on his credit reports. He applied for a secured credit card and opened a card with his

wife, and took several other steps to improve his credit score.

In this case, Becker says, the man's credit score "went from a 580 to a 680 in nine months and they were able to get the financing needed for their first home."

***For more tips and resources on mastering your finances, visit [chase.com/financialfitness](https://chase.com/financialfitness).***

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*Photo: Morsa Images/Getty Images | Elizabeth Weiss McGolerick is a freelance writer and web content developer focusing on lifestyle and parenting topics. Her work has been featured on MSN, SheKnows and Parent Society.*