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Need a loan?: 4 tips to improve your debt health

by **Ashleigh Patterson**

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You're young, ready to start a family and make the most significant investment of your life — the purchase of your first home. You've saved for a sizable down payment, but have you assessed your debt health?

The Great Recession has driven home the perils of plastic dependency, yet the average credit card debt per household in the U.S. is \$14,750, according to CreditCards.com. And, in March alone, there were 144,657 consumer bankruptcy filings, up 41 percent from February's total of 102,686.

"Right now, in this economy, credit is essential to getting a mortgage. There are different kinds of mortgages, but credit is a huge factor, along with the value of the property and your income," says **Tracy Becker, author of the Credit Solutions Kit and founder of credit restoration company North Shore Advisory.**

DebtScore.com — a free financial tool developed by oweing.com — is designed to take the guess work out of assessing your debt health and help "borrowers understand for the first time how much debt is appropriate for their age, income and educational level."

A debt-to-income ratio — the number used by many lenders to assess loan candidates — doesn't adjust according to age, whereas this tool grades your debt health more strictly as you get older, taking into account your earning power through the years, JB Orecchia, CEO of owning.com and founder of freecreditreport.com, says.

"The main need for the service was we saw people were paying the minimum payments on their bills and they weren't making any headway in terms of paying down their debt and they also didn't know exactly where to start," Orecchia says.

A credit score tells you what you can borrow whereas a debt score tells you what you should borrow. Everyone is entitled to a free annual credit report from each of the three nation-

wide credit agencies: Experian, Equifax and TransUnion. Log on to annualcreditreport.com for your quarterly update.

How can you boost your debt health before you knock on your lender's door? Follow these tips to get a handle on what you owe and improve your credit score:

Establish a credit history

You need credit to get credit, and if you're new to the credit game, your creditworthiness may not satisfy a lender. Most lenders require you have a credit history of at least a year to qualify for a loan, Becker says.



Tracy Becker

"People sometimes think it's better if they don't have a lot of credit, but that's false. You need at least two to four accounts that are in your name only that are anywhere from a year to two years old," she points out.

Credit.com is a good place to start. The website compares the best cards for a number of categories: cards for people with bad credit, student cards and airline miles cards.

Assess your balances and payment history

There are many different kinds of debt — revolving credit, installment debt, open debt — all of which will come into play when applying for a loan. However, the majority of banks will look at your FICO score, which is very sensitive to revolving credit.

"Before they go shopping for a mortgage, they need to make sure their revolving balances

are as low as possible — 10 percent of the limit is the highest they should be if they want the best score," says Becker.

Ever late with a payment? It may haunt you in more ways than one. Take student loans, for example: for every semester you borrow, it counts as a separate account on your credit report. Have a four-year degree? That's eight different accounts, assuming two semesters per year.

"If they have one late payment, and they are showing up as 10 late payments on a student loan, when they go for a government-insured loan — an FHA — the government doesn't want to insure them if they've been late on student loans because that's really money they owe to the government," says Becker.

Know your front- and back-end debt

When assessing a mortgage candidate, lenders take into account both your front-end and back-end debt. The front-end debt consists of the loan principle, interest, taxes, insurance and any home owner association fees (HOAs) if purchasing a condominium. If you're looking for a loan, you must demonstrate that 28 to 31 percent of your gross income can go towards paying for front-end debt.

Back-end debt consists of revolving and installment debt. "If you've got credit card issues and student loans, that's going to raise you back-end debt over the average amount of 36 to 38 percent. That's not going to change and it makes it very difficult to get a loan," says Scott Withiam, manager of the housing department of American Consumer Credit Counseling.

Try to boost your credit score

Asking a spouse or family member with older credit to add your name as an authorized user will also help to boost your score by as much as 60 points.

"If my mother has a credit card that's 30 years old and she puts me on as an authorized user, even though I'm not responsible for that account, in three to six months, it's going to show up on my credit report as a 30-year-old account," says Becker.

Opening and closing credit can cause your credit score to plummet by as much as 50 points, which could shut you out of the mortgage you want. Be wary of impulse applications at department stores that promise discounts on merchandise if you open up a credit account with them. Is that new pair of shoes worth the 50-point drop? Not likely.