How to Prepare Your Credit for a Mortgage

Do you you know how to prepare for a mortgage? If you need a mortgage you need credit, good credit. Your credit history has a huge impact on your chances of getting a mortgage. It is a lot easier to get approved for a mortgage if you prepare your credit. If your credit is good, it is best to maintain it to lock in the best possible interest rate. You can find the latest mortgage rate averages for Massachusetts here.

If your credit needs improvement, there is a lot that you can do to improve it.

Check your credit reports.

Mortgage lenders look for a steady income, an acceptable down payment, and good credit. The first step to improve your credit is to check your credit reports. It is important to check your credit reports at least once a year, even if you have great credit. If you have good credit, you want to make sure that there is nothing on your credit report that would reduce your credit score. If your credit needs improvement, it is even more important to check your credit report regularly. Once you see your credit report, you will be able to start improving your credit.

You can check your credit for free at Annual Credit Report.com. There are many shady businesses that claim to give you a free credit report but want to charge you for a subscription or a one time fee. Annual Credit Report.com is the only source of your free credit reports.

Request changes with the credit bureaus.

If you find any inaccuracies on your credit report, dispute it with the credit bureaus. The three major credit bureaus are Equifax, Experian, and Transunion. You have the right to request your credit report from each of the three major credit bureaus.

You can dispute information on your credit report by contacting each credit bureaus:

Equifax Information Services, LLC.
P.O. Box 740256
Atlanta, GA 30374-0256
Phone: 866 349-5191

Experian’s mailing address for dispute requests is:
P.O. Box 4500
Allen, TX 75013

You can submit your dispute and any supporting documents more quickly at experian.com/upload.

You can dispute an item on your TransUnion credit report the following ways:
Online: Click here
Phone: 800-916-8800
Mail: Download the order form

Pay off delinquent accounts.

Nothing will hurt your chances of getting a mortgage more than delinquent accounts. The best way to improve your credit is to pay off all of your delinquent accounts such as late accounts, bills in collection and judgments. Mortgage lenders want to know that you will make your payments on time.

If you have delinquent accounts, it is best to be upfront about them with your mortgage lender. Time also helps. The older the delinquency the less of an impact it has. If you have recent delinquencies, it is best to wait six months to a year before you apply for a mortgage.

Pay your bills on time.

This is easy. As you long as you pay your bills on time, your credit will improve. Mortgage lenders want to see a pattern of on-time payments.

You can prevent late payments several ways:

- Organize your bills by due date. Create a habit of paying all of your bills on time or a couple of days early.
- Make it automatic. Most banks and credit unions offer auto-pay. When you automate bill paying you will never be late.
- Use reminders for all of your bills. You can use free tools like Google Calendar to remind you of upcoming payments.
- Consolidate your bills. If you have six different credit cards, it might help you to consolidate them into two or three. When you reduce the number of bills it is easier to stay on top of them.

Reduce your debt-to-income ratio.

Your debt-to-income ratio is all of your monthly debt payments divided by your gross monthly income. Debt-to-income ratio is one-way mortgage lenders measure your ability to afford your mortgage.

For example, if you pay $1200 a month for your mortgage and another $300 a month for a car loan and $700 a month for the rest of your debts, your monthly debt payments are $2200.($1200 + $300 + $700 = $2200.) If your gross monthly income is $5800, then your debt-to-income ratio is 37 percent. ($2200 is 37% of $5800.)
The magic number for debt-to-income is 43%. In most cases, 43% is the highest debt-to-income ratio a borrower can have and still get a qualified mortgage. Your goal is to keep your debt-to-income ratio as low as possible.

Don't take on additional debt.

If you want to improve your chances of getting a mortgage, don't incur new debt. Stay away from new credit-based transactions. Don't buy a car on credit. Avoid applying for new credit cards. Additional debt will negatively impact your credit score.

In Conclusion

Your credit score will help lenders gauge the level of risk involved in giving you a mortgage. The good news is that you can build great credit over time, by paying off your outstanding debts, paying your bills on time, keeping your debt-to-income ratio low and regularly monitoring your credit score.