Applying for a Home Loan? Check Your Credit Score First!

by Jess Hall

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It pays to be as prepared as possible when applying for a home loan. This is one situation where it's smart to do your homework. In addition to educating yourself about the most popular loan products, current interest rates and other relevant topics, you need to take a close, careful look at the state of your credit. One of the most important indicators that banks and other lenders will consider is your credit score. Therefore, it's critical to know what those lenders will find when they pull your credit report. Fortunately, that's easy to do. Learn more about it below.

Will You Qualify?

Your credit score is one of the many factors that will be used to determine whether or not you are qualified for a mortgage loan. Credit scores range from 300 to 850. In order to be considered at all, you're going to need a score of at least 500 to 520. However, you should try to raise your score well beyond that point. In that range, you're going to pay a lot more for your loan than people who have better scores will. Many times, raising a credit score is surprisingly easy.

Better Scores Equal Better Loans

Your ultimate goal shouldn't just be to qualify for a home loan; it should be to get a loan that is as affordable as possible. The higher your score is, the lower your interest rate will be. While you may qualify for a mortgage with a score that is below 600, you can bet your bottom dollar that you will be subjected to high interest rates. People who have scores of 760 and above tend to get the best interest rates; those with scores of 620 and below tend to get the worst interest rates. Knowing where you fall on the scale will give you a better idea of what you will get.

Check Your Score Early

If possible, you should check your credit score well before you actually apply for a mortgage. By doing that, you'll have the opportunity to improve it before you actually apply. It is worth it to pay for detailed credit reports from all three of the credit reporting agencies. Those reports will shed light on why you have the score that you do. In many cases, high credit card balances are to blame. Other times, late payments are the culprits.

What You can Do

When it comes to improving your credit score, you have options. It is worth it to do what you can to improve your score, even if it's already reasonably high. The higher your score gets, the lower your interest rates will be for your home loan. Furthermore, you will enjoy a wider variety of options when you have a higher score. If your credit card balances are high, whittle them down as much as possible. Take care not to have a single late payment from this point forward. By the time you apply, your score will have hopefully increased.

By the time you sit down to apply for your mortgage loan, you should know exactly where you stand in terms of credit. The lender won't take you by surprise when he discusses your credit situation. You will also be prepared to provide explanations in the event of late payments and other issues. As long as your score isn't well below 600, you should be able to get approved for some type of loan. A higher credit score could save you hundreds of dollars per month and thousands of dollars over the course of a mortgage, so keep that in mind prior to applying.

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