



What You Need to Know About Bad Credit Mortgages

Maybe you recently applied for a home loan, only to be rejected on account of your low credit score. You were referred to lenders than deal with bad credit mortgages, otherwise known as sub-prime loans. What are these loans? What does your bad credit score actually mean? What do you need to do to get a bad credit home loan? This article aims to answer these questions for you.

What is a Bad Credit Mortgage?

A bad credit mortgage is a home loan that is geared toward a borrower with a credit score of 620 or lower. The biggest difference between a bad credit home loan and a conventional mortgage is the interest rate. The bad credit mortgage interest rate will generally run a few points higher. There may also be more points or fees attached to the bad credit loan.

What does your credit score mean?

A credit score is a number between 300 and 800 that helps lenders assess your risk as a borrower. Your credit score is a product of several different factors. These include your payment history, any unpaid debts, the amount of time you have had open credit accounts, the number of inquiries on your credit report in the recent past, and the types of credit you have used. These factors are all given a number and then weighted together in an average to come up with your final number. A number above 720 indicates an excellent credit history. Scores between 620 and 720 can still usually qualify a borrower for a conventional loan. If your score is less than 620, however, you are considered to have poor credit and will have to go through sub-prime lenders.

What do you need to do to get a bad credit home loan?

You should generally start by seeking out a mortgage broker to finance your loan. Mortgage brokers are affiliated with several lenders and have the most flexibility in finding the right loan for you. The best way to find a good mortgage broker is by asking your friends or relatives or even your real estate agent for referrals.

In shopping around for a mortgage broker, you should try to find the one with the least hidden fees. Find out how much each lender charges in closing costs, points, and brokerage fees, among others. Some lenders also attach pre-payment penalties to loans that prevent you from refinancing for a certain amount of time. Make sure you get the full details as the lender that offers the best interest rate may not actually deliver the best package overall.

When you actually start the application process you must be totally truthful about your financial situation. Even if you think it might disqualify you from getting a better deal, a straightforward assessment of your finances will provide your lender with all the important information to find you the right loan for your needs. If you try to falsify your information, your lender will probably find out the truth anyway by checking your credit report. If you do slide by with a dishonest report of your situation, you may get a loan you cannot actually afford. When you can't make your mortgage payments later on, not only will you be faced with foreclosure, but you may also be prosecuted by your lender for mortgage fraud.

During the entire process you should also do everything you can to clean up your credit report to have a better chance of qualifying. Obtain a copy and dispute any errors with a credit



agency. Start making all your current debt payments on time to improve your record. Meet with a financial counselor to get help in learning to budget and live within your means. This will make it easier to have the funds to make those payments on time!

Getting a bad credit home loan can be a great asset to you if you don't want to wait a long time for a better credit report. Knowing the facts about your credit score and the requirements for bad credit mortgages can help the application process go much smoother. Contact your financial advisor to discuss more options if you need more information.