How to rebuild credit to qualify for a home loan | Home & Living

Linda Harrison Contributor

Q. *I tried to get preapproved for a mortgage a few months ago but didn't qualify because of my credit score. I'm trying to repair my credit to buy a first home. How long should I wait before applying again? Any tips on what I can do to make myself more mortgage-worthy?*

A. What a fabulous question. Getting preapproved is the first step to homeownership. My initial answer is short and sweet: Consult the professionals. Now let me explain.

There are two thoughts that go hand in hand: How much home do you qualify for, and which lender and Realtor are you going to develop a relationship with to help you in your real estate adventure? These two concepts work together because each saves you valuable time and reduces the stress of the process. Don't waste energy and gasoline searching for a home that is just beyond your financial reach. It was smart of you to get preapproved.

Now it's time to look at the report and make a plan of action. For that you will need a lender. As a Realtor, when a client does not have a lender, I always have three lenders that I have worked with in the past to recommend. Once the client – you – chooses a lender, then that lender will create a fiscal plan of action for you to establish credit, build credit, repair credit or dispute credit – item by item. This is a very personal plan, and that is why my clients trust me to recommend lenders. Clients can meet them, then decide which is the best fit. Lenders are as personal to a real estate transaction as the Realtor.

But how do you choose a lender? You already have taken the first step. However, you are at a roadblock, and it is time to speak with a lender who can help you. Your current lender has pulled your credit, and may do so once again, and will, upon request, prepare an action plan for you to rebuild your credit. Easy, right? If your original lender is not your lender of choice, here are two suggestions: Ask your Realtor for recommendations, or visit the HRRA website at www.HRRA.com and click on "Find an affiliate member." Go to the "by specialization" drop-down menu and select "mortgage companies."

As I stated before, your lender is a very personal resource and plays a major role in your transaction, so choose your resource wisely. Your lender will work for and with you throughout the process reviewing your credit report, annotating those items that add or take away from your score, developing a plan of action if necessary, and reviewing your progress on a predetermined schedule. Note that I have had clients who were placed on an 18-month action plan, but were able to rebuild their credit quickly and bought and closed on a home in 12 months. This is not unusual. But it is paramount that you work closely with your lender. One other detail for those who are preparing for homeownership is realizing what lenders consider positive and negative credit behaviors that contribute or detract from creditworthiness.

Knowing what creates a higher credit score will enable the borrower to prepare for the loan application process. It is at this point that I go straight to the financial professionals: the lender. Lenders know their financial world much more intimately than I, so I consulted one and requested information about creditworthiness. I was provided with the following information.

FICO scores are calculated as follows:

• **Payment history – 35 percent impact.** Paying debt on time weighs the greatest. Late payments, judgments or charge-offs negatively impact your score. Recent delinquencies impact greater than older mishaps.

• **Amounts owed – 30 percent impact.** Keep credit balances as close to zero as possible. Paying off revolving credit cards monthly sends an excellent message to creditors and, in turn, increases your score.

• **Credit history – 15 percent impact.** It's important to have credit lines, but it's also important to have seasoned liabilities showing creditors your ability to repay debt over time. It proves that you are an excellent credit candidate.

• **New credit – 10 percent impact.** New accounts and types can negatively affect your score.

• **Types of credit – 10 percent impact.** Mortgage debt is the most positive, followed by installment debt and revolving debt. To make the most of it, pay off revolving debt monthly and the others as indicated.

Now you have the criteria for credit are ready for homeownership. You're ready to interview and develop a relationship with your lender and Realtor, and you'll be armed with your personalized plan of action for creditworthiness. Soon you will be in "Home Sweet Home." Congratulations.

Linda Harrison is chair of the Hampton Roads Realtors Association's Realtor/Lawyer Committee and a Realtor with Rose & Womble Realty's Lynnhaven Road office in Virginia Beach.

Realtors are real estate agents who adhere to a strict code of ethics and work to protect and preserve private property rights. Not all agents are Realtors; learn more at www.isyouragentone.com. For more on HRRA, go to www.HRRA.com. This column is relative to the real estate industry and only reflects the opinions and knowledge of those answering the questions. To submit a question to be answered by HRRA Realtors, email vhecht@hrra.com.

Realtors are real estate agents who adhere to a strict code of ethics and work to protect and preserve private property rights. Not all agents are Realtors; learn more at www.isyouragentone.com. For more on HRRA, go to www.HRRA.com. This column is relative to the real estate industry and only reflects the opinions and knowledge of those answering the questions. To submit a question to be answered by HRRA Realtors, email vhecht@hrra.com.