



Understanding Your Credit

For many of us, debt is a way of life. Installment payments and credit cards can be useful financial tools. But if not controlled, credit eventually can control you. To qualify for a mortgage loan, your credit history doesn't have to be spotless, but your history must clearly show your willingness to pay your debts.



Your Credit Report

When you apply for a mortgage loan from any lender, they will look at your credit record to see if you've been responsible about managing your debts. Your credit record can be obtained from a credit bureau. The three largest credit reporting agencies are Equifax, Experian, and TransUnion.

Federal law gives you the right to review your own credit report, and it's smart to do so before you apply for a loan. You may request your credit report over the phone, on the Internet, or in writing. You are entitled to a free copy of your credit report if you have been denied credit, insurance, or employment within the past 60 days based on information contained in your credit report. You may also request a free copy of your credit report once a year at <http://www.ftc.gov/bcp/online/pubs/credit/freereports.htm>. Otherwise, the credit reporting agency may charge you up to \$8.00 for a copy of the report. The credit report will show your record of payments on loans, credit cards, and other similar debts.

Review your report carefully for any past-due amounts or "charge-offs" which means that a bill was never paid. Make sure the credit report's information about you is correct. Your lender may need a written explanation for any late payments.

Correcting Credit Problems with Your Lender

If your credit report includes little or no information, use your payment history on rent and utilities. You can provide copies of cancelled checks to show your strong payment history. This information will become part of your application for a mortgage loan.

If you have a credit problem because of an unusual situation, write a letter of explanation. Your lender may overlook a credit problem if you can give a good reason for not making your payment.