

Are You A Credit Risk?

How you used your credit in the past and the reasons for your past financial difficulties are two factors that affect your ability to get a loan. The first step is to understand whether or not you are considered a credit risk. Most lenders will consider you a higher credit risk only if your credit report states that you have more late and slow payments than stated in the categories given below:

Revolving Credit (i.e. credit cards)

No payments 60 days or more past due and no more than two payments 30 days past due.

Installment Credit (i.e. car loans)

No payments 60 days or more past due and no more than one payment 30 days past due.

Housing Debt (i.e. mortgages and rent)

No payments past due. This can be proven by providing (borrower's) canceled checks for the past 12 months or a loan payment history from the mortgage servicer.

In all categories, all late payments must be explained. Contrary to popular belief, good credit does not necessarily mean perfect credit. If your credit reports show any 60 to 90 day late payments you may need to seek out a lender that specializes in less than perfect credit.

Your Total Obligations

Some people would like to consolidate their debts and have either a lower monthly payment or fewer monthly payments. You probably should not consolidate your debts if...

1. Your habits are not likely to change.
2. The interest rate for consolidation is high.

You might want to seriously consider the possibility of debt consolidation if it would...

1. Stop creditor harassment. (Creditors are usually very happy to receive regular monthly payments and work with a 3rd party to get their debtors back on track.)
2. Lower monthly payments. (Sometimes creditors are willing to work with 3rd parties and lower your current interest rate.)
3. Reduce finance charges. (Many creditors offer assistance with your plan by lowering or eliminating interest charges and late fees.)

If you follow the steps outlined above, it will take about two years to rebuild your credit so that you won't be turned down for a major credit card or loan. After around four years, you should be able to qualify for a mortgage.