

New Home Mortgage : How Your Credit Score Affects Your Loan

Ability to obtain a loan

The first indication that there may be a problem with your credit score might be when you try to obtain a new home mortgage and are unable to find a lender that will talk to you. Actually, most people, even those with a really low credit score will be able to find a loan of some sort to purchase their home. It just may cost a lot more in interest rates than you had planned. If you can obtain a loan, it may take more justification and documentation than would be required with a good credit score.

Which lender to select

If your credit score is too low, you may not be able to get a new home mortgage with your lender of choice. The difficulty with having to switch to another lender is that you need to document your second try just as thoroughly as your first effort. In the meantime, because of the reviews on your credit bureau report, your score may actually drop, particularly if the report that the first lender denied you credit before the second lender is approved hits the report. The extra time to document your information for the lender can be one of the most discouraging parts of applying for a mortgage loan.

Loan term

The length of time that you will set in order to complete repayment of your new home mortgage loan will be affected by your credit score. This factor is probably of less significance than some of the others, but still must be taken into consideration. The direct impact is caused when a low credit score causes the requirement of higher interest rate. This may make the payment too high for the borrower if the shorter term loan is selected. So, the borrower ends up paying more interest over a longer loan term just to keep the payment within manageable levels.

Loan rate

The new home mortgage loan will almost certainly be impacted by the credit score of the borrower. Generally, the lower the score, the higher the interest rate. If the score is too low, the borrower may not be able to obtain a conventional home mortgage at all. Conversely, better terms will be available to the borrower who has high credit scores. It is important to know your credit score and make certain that the reports by the major credit bureaus are cleaned up and accurate.

Type of loan

Another way in which the level of your credit score affects the new home mortgage loan you can obtain is in the type of loan that is available. The major types of loans that are available include adjustable rate mortgage, fixed rate mortgage and balloon payment type mortgages--usually paired with ARMs. Again, sometimes lenders will steer the borrower to an adjustable rate mortgage so that increasing interest rates will be borne at least in part by the borrower rather than the lender. The borrower should avoid getting into a loan that results in negative equity in the property.

About the Author

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