Re-Financing with Bad Credit

Many years ago, it would have been extremely difficult for those with bad credit to obtain a mortgage loan in the first place. However, today there are so many loan options available and so many ways for lenders to protect themselves that those with bad credit can not only find a suitable mortgage but can also find appealing re-financing options as well.

Those with poor credit should carefully consider whether or not re-financing is ideal for them at the present time but the process is not much different for them as it is for those with good credit. Those with bad credit who want to learn more about re-financing should consult a mortgage advisor who specializes in mortgages for those with bad credit. Additionally the homeowner should carefully evaluate their credit score and whether or not it has improved. Finally the homeowner should evaluate their options carefully to ensure they are making the best possible decision.

Consult a Mortgage Advisor

Consulting with a mortgage advisor is recommended for those with poor credit. These homeowners may be knowledgeable about the process of re-financing but their situation warrants consulting with an industry expert. This is important because a mortgage advisor who specializes in obtaining mortgages and re-financing for those with bad credit will likely be very knowledgeable about the types of options available to the homeowners.

When consulting with the mortgage advisor, the homeowners should be completely honest about their financial situation and should provide the expert with all of the information he needs to assist them in finding an ideal re-financing agreement. Being completely candid will be very helpful in enabling the mortgage advisor to assist the homeowner in the best way possible.

Consider Whether or Not Your Credit has Improved

Homeowners with bad credit should carefully consider whether or not their credit has improved since the original mortgage was secured. Homeowners who have documented proof of past credit scores can compare these scores to current values. Each citizen is entitled to one free credit report per year from each of the major credit reporting agencies. Homeowners can obtain these reports for use in making comparisons to the previous credit scores. Imperfections on the credit report such as bankruptcies, delinquent or missed payments and other transgressions do not remain on the credit report.

These blemishes are often erased from the credit report after a certain period of time. The amount of time the transgression remains on the report is proportional to the severity of the offense. For example a bankruptcy will remain on the credit report for significantly longer than a late payment. In examining the credit report, homeowners should consider the overall credit score but should also note whether or not previous offenses are being erased from the credit report in a timely fashion.

Evaluate Re-Financing Options Carefully

Once a homeowner has tentatively made a decision to re-finance the mortgage, it is time to start considering the many options that are available to the homeowner during the process of re-financing. Most homeowners mistakenly believe one factor of the re-financing process they have no control over is the interest rate. While this rate is largely dependent on the homeowners credit score, even those with poor credit have the ability to lower their interest rate by purchasing point. A point is typically equally to 1% of the total loan amount and may translate to a ¼ of a percentage point on the interest rate. When deciding whether or not to purchase points, the homeowner should carefully consider the amount of time it would take the homeowner to recoup the cost of purchasing the points. This will help to determine whether or not it is worthwhile to purchase one or more points when re-financing.

Homeowners will also have options in terms of the type of loan they choose when re-financing. Common options include fixed rate mortgages, adjustable rate mortgages (ARMs) and hybrid mortgages. The interest rate remains constant with a fixed rate mortgage, adjusts with an ARM and is fixed for a period of time and adjustable for the remainder of the loan period with a hybrid loan.

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