

# 4 Tips to Help You Pre-Qualify For a Loan



Before you start looking for a home, you need to pre-qualify for a loan. This process involves a quick analysis by a mortgage officer to see if you have all the necessary financial qualifications to buy a home.

If your application isn't accepted, you won't be able to pre-qualify for a loan to buy your home right now, but there are things you can do to turn your situation around. Of course, managing these areas long before you meet with a mortgage officer is the smart way to go.

Here are some tips to help you handle key issues in the loan-approval process:

## 1. Improve your credit score

While different lenders have different credit score requirements, you'll likely need a good credit score – 680 or higher – to pre-qualify for a loan. If your scores aren't high enough, there are a few steps you can take to improve your ranking:

- § Order your credit reports: Order a copy of your credit history from Experian, TransUnion and Equifax. Comb through your reports and dispute any errors you find. Errors are removed or corrected on your report within 30 days.
- § Pay down debt: Debt accounts for 30% of your FICO credit score. Paying down debts will raise your score.
- § Pay your bills on time: It may take several months, but paying your bills on time will improve your credit scores.
- § Consider a rapid re-score: If your score is close to 680, you can work with your loan officer to do a rapid re-score, where you can quickly make repairs.

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## 2. Stay in one job

Lenders want to see that you've been working steadily in the same line of work for two or more years at the same location before you can pre-qualify for a loan. This shows stability and reassures them you will continue to repay your mortgage.

If you haven't been working that long, aim to stay with your current employer (or in your career field) until you reach the two-year mark. Changing career paths will hurt your chances to pre-qualify for a loan.

## 3. Maximize income

If you aren't making as much money as you need to pre-qualify for a loan, you have a few options:

- § Get a pay raise.
- § Find a co-borrower with good credit. Their income added to yours might make the loan possible.
- § Look for a lower-priced home that you can better afford.

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#### **4. Build financial assets**

Lenders like to see that you have contingency money in your bank account — about two to three months of mortgage payments. Many lenders also require proof that your contingency funds have been in your account for at least 60 days before you can pre-qualify for a loan.

If you don't have enough in your account, you can either borrow the needed funds from family members or start saving your own cash. However, keep in mind you'll need two months' worth of bank statements to prove you've had your contingency funds for the required time.

These four tips can assist you in reaching your goals when it comes to securing the mortgage necessary to buy a home, and even if you haven't been pre-qualified previously, following these steps can take you to a place where you can pre-qualify for a loan.

*Updated from an earlier version by Laura Sherman*

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