Get Your Credit in Shape to Make a Home Purchase

There's no question that with today's low mortgage interest rates, large selection of homes on the market, competitive prices, and other incentives such as the $8,000 first-time home buyer federal tax credit, now is a great time to buy a home. But what if you are planning to buy a year or two from now, and you want to make sure you're ready when the time comes?

One of the most important things you can do is get your credit report in shape. Banks use your credit history to decide whether they want to lend you money and to set the interest rate, so having a good credit report is vital.

Equifax, Experian, and TransUnion are the three consumer credit reporting companies that provide information about your credit history to lenders. Under the Fair Credit Reporting Act, each of these companies is required to give you one free copy of your credit report every 12 months if you ask for it.

You can request your free reports online at www.annualcreditreport.com, or by calling 1-877-322-8228. Since you won't know which company your lender is using, you should get a copy from all three.

Carefully review the information on the reports. If you find a mistake, contact the reporting company and provide them with an explanation and copies of any documentation you have proving the error.

If there is an item that is accurate but might be viewed negatively by a lender, such as a series of late payments, you may be able to have a comment included on your report to explain it. You need to have a credible reason, such as an illness or other extraordinary circumstance, and be able to back it up with proof.

What if your credit report could use some improvement?

Unfortunately, there isn't any quick fix, despite what some companies may claim. However, there are things you can do to help make your credit report more attractive to lenders, although it will take time:

1. Always pay your bills before the due date.
2. Make a payment every month, whether it is the full balance, the minimum due, or some amount in between.
3. Don't open new accounts. Lenders look at the total amount of debt you could run up, based on the limits on your cards, as well as how much you actually have.
4. Don't close old accounts. A few longstanding relationships are better than a bunch of cards you've only had a year or two, unless you have an excessive number of inactive accounts.
5. Pay down your total debt as much as you can. Lending standards have gotten much stricter, and banks are reluctant to loan money to people who already owe a lot.

Lenders use your credit history to predict the likelihood you will pay them back on time. Since you can't change the past, it is important to always carefully manage your debt, whether you plan to buy a house in the next six months or not until six years from now.

For more information on the $8,000 first-time home buyer federal tax credit, go to www.federalhousingtaxcredit.com.