

Can you buy a home if you have bad credit?

Try taking these five steps

There are many variables that come into play when you decide to purchase a house. You may save for a while toward a downpayment and determine what kind of mortgage payment would work best for your budget. But is your credit situation holding you back? Buying a home with less than stellar credit is possible.

Here are five steps to take to get started:

1. Know your credit score. No matter what you think your credit situation is, knowing your credit score serves as a good starting point when beginning your home search. You'll be able to see if you need to improve your situation before applying for a home loan, plus it will help you determine if you are getting a fair shake from lenders.

2. Find a San Antonio area REALTOR®. Choose a San Antonio area REALTOR® who can help you overcome credit challenges. Interview several REALTORS® before choosing one and ask for referrals. Once you have referrals in hand, call them. You need to make sure that you feel comfortable with your choice and that your REALTOR® can serve your special needs.

3. Explain your credit situation. Sit down with your REALTOR® and draft a thorough letter explaining your credit situation. If you have poor credit, your lender may ask you for an explanation. If your letter simply states that you couldn't afford payments, you are more likely to have your loan application denied. But if there were extenuating circumstances that contributed to your financial situation, include those in your letter. Some lenders will consider one-time occurrences as acceptable reasons for inadequate credit, including divorce or a medical emergency.

There are two important items to include in your letter to the lender: the reason for your credit situation and why your days of poor credit are behind you. Convince the lender that the circumstances surrounding your impaired credit score are in the past. In addition, you should write a paragraph highlighting anything that may help the lender see you as a desirable client, including low debt-to-income ratio (particularly good if you filed bankruptcy), a big downpayment or job stability.

4. Talk to a lender. Find a mortgage broker or direct lender experienced in subprime lending. If you are credit challenged, you may find that working with a broker is your best option. Brokers work with multiple lenders and loan products, giving you a greater chance of success.

If you have a low credit score, some lenders will require a higher downpayment. If you don't have money for a downpayment, sit down with your REALTOR® and discuss what closing-cost and down payment-assistance programs you might qualify for.

5. Be prepared for some rejections. You may have to talk to a number of brokers or lenders before you find one willing to take on a riskier loan. If your credit score is very low and no lenders seem interested, you will likely need to spend the next 12 months boosting your creditworthiness. Your San Antonio area REALTOR® can recommend programs or professionals who can help you determine what it would take to improve your credit score.

If you are credit challenged, following these steps can put you on the path to homeownership. If you don't think you qualify today, spend some time improving your credit. It may put you in a better negotiating position later.