9 ways homebuyers can improve their credit scores

The real estate business is booming, and with a scarce supply of starter homes on the market, competition between buyers is fierce. To get loans quickly, potential homebuyers need to keep an eye on their finances and credit.

Below, you will find nine general tips that will help ease the process of acquiring a home loan by improving credit scores.

1. **Always pay on time**

No lender likes to lend money to an individual who has a repeated record of missing his payments. This indicates a lack of discipline and poor financial management, and it leads to a bad impression on paper.

Whether it was intentional or due to genuine reasons is immaterial. If you have a frequent history of missing your equated monthly installment (EMI), you will end up with a lower FICO score. Why should you suffer unnecessary late payment charges and interest? Instead, pay in full and on time.

On-time payments improve your credit score tremendously, carrying almost a 40 percent weight on your score.

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2. **Keep your credit owed within limits**

A good ratio is not having your unsecured credit outstanding above 50 percent of your annual salary. Keep your credit card balances within half of the allowed limit. If you have $10,000 as your limit, then it is wise to restrict your statement amount to $5,000.

3. **Use two credit cards if you are a definite credit card spender**

This is good and bad advice at the same time. FICO does not consider spending money on two credit cards as one. But if you have two credit cards, you can keep your usage percentage in control.

For example, if you have a credit card with a limit of $20,000, and you charge $15,000 on it, you've used 75 percent of your credit limit.

Now if you split your amount into two, and spend $7,500 each, then the percentage of usage will be around 37 percent. So it helps you in the eyes of FICO.

Now, don't go on a credit card shopping spree.

4. **Maintain a good mix of good and bad loans — AKA, a healthy credit mix**

Home loans and business loans are considered good loans. Personal loans and credit are considered bad loans.

That is why investing in a home loan if you are a spendthrift is a better decision. You will have a good credit mix and be building an asset.

5. **Pay high-interest loans and small loans first**

It is a prudent decision to pay your home loans over longer periods. Pay off your personal loans, credit cards and private loans first, as they tend to have a higher interest rate with no asset creation.

Home loans, on the other hand, are lower (and right now, hovering at historic lows) and they also build an asset. This is one of the underutilized logical tips to improve your credit score.

6. **Close your unwanted savings accounts**

Many people tend to abandon their savings accounts without closing them. If you have less than your Minimum Average Balance (MAB), it will start to affect your credit score. Also, when you finish a loan, it's imperative to get the loan closure certificate.

7. **Check your credit reports regularly**

Credit reports can be availed for a minimal cost. You can obtain them from the official FICO site. Just pay online and check your credit score at least once a year, so that you can seek clarification on any mistake and have it sorted. There have been cases when banks report you to FICO by mistake.

8. **Monitor your co-signed joint accounts properly**

In instances of co-signing a loan or maintaining a joint credit account, be careful when dealing with someone outside your close family. You need to monitor the statements closely to make sure everything is in order.

There is no use complaining if you chose the wrong joint holder who was careless.

9. **Negotiate if you cannot pay on time**

This is also one of best tips to improve your credit score. People often know that they won't be able to pay their bills in advance. Regardless, they do not take any action.

If you know that you will not be able to pay on time, negotiate with your bank. Banks will be willing to extend your loan period and reduce the EMI if they see a genuine customer.

It might hurt, but you will make a good impression, and the bank will see you are honest.

These are some of the tips to keep your credit score in check and get a home loan easily.

Editor's note: *An earlier version of this article originally appeared on Inman in 2016. It has been refreshed and reposted.*

Johnson Fedrick is the PR and marketing head at High Life With Mona. Follow High Life With Mona on Facebook or connect with it on LinkedIn.

Email Johnson Fredrick.

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