Turned Down for a Mortgage? How to Increase Your Chances Next Time Around

Nonprofit credit and housing counseling agency Take Charge America helps prospective homebuyers understand the lending process, increase chances of qualifying for a mortgage

PHOENIX – (Mar. 23, 2015) – More prospective homebuyers are eager to enter the market as the economy improves. Yet in this post-recession world, many borrowers are finding it difficult to navigate stricter lending requirements and successfully reapply for a loan after being turned down.

“Many individuals and families are ready to pursue their dreams of homeownership after overcoming financial struggles, but they don’t always have a clear picture of what it takes, or how a mortgage could impact their long-term financial picture,” said Mike Sullivan, director of education for Take Charge America, a national nonprofit credit and housing counseling agency. “The more knowledge they obtain before entering the lending process, the better.”

Sullivan explains three factors prospective homebuyers need to consider before applying for a mortgage:

- **Evaluate Your Cash Flow**: One of the primary roadblocks to obtaining a mortgage is cash flow. At a minimum, borrowers need a 3-percent down payment and about $1,500 for closing costs. They must also take moving and ongoing maintenance costs in account, including utility deposits, appliances, a lawn mower, curtains and other miscellaneous expenses. As a general rule, prospective homebuyers should have at least $10,000 saved before shopping for a home.

- **Build Your Credit**: Many young people today haven’t used credit, aside from student loans, so lenders have difficulty assessing their ability to pay back the home loan. Borrowers who fall into this bucket need to focus on building a positive credit history with three trade lines, such as a credit card, auto loan and signature loan, for at least two years before attempting to reapply.

- **Avoid a “House Poor” Lifestyle**: Many consumers assume if they can qualify for a loan, they can afford a house. With lenders approving 31 percent of gross salary for a house payment and 43 percent for all debt service, it’s easy to buy a house one can’t afford. It’s important to remember the mortgage is only part of the financial picture. Ongoing costs, such as commuting, utilities, HOA fees, landscaping and general home maintenance, need to be seriously considered as well. It’s wise to limit house payments to 28 percent of gross income, and all debt service to no more than 34 percent.

For more financial tips, visit the Take Charge America Education Library.

Prospective homebuyers who have been turned down for a mortgage in the past, or those who want extra assistance ahead of the home buying process, may benefit from Take Charge America’s Home Ready Counseling. Certified counselors analyze credit reports and provide one-on-one guidance specifically addressing mortgage requirements. To speak with a counselor, call (866) 260-6751 or visit housinghelp.takechargeamerica.org/home-ready.
About Take Charge America, Inc.

Founded in 1987, Take Charge America, Inc. is a nonprofit agency offering financial education and counseling services including credit counseling, debt management, student loan counseling, housing counseling and bankruptcy counseling. It has helped more than 1.6 million consumers nationwide manage their personal finances and debts. To learn more, visit www.takechargeamerica.org or call (888) 822-9193.

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