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Are You Ready to Say ‘I Do’ to a Mortgage for Two?

Finance | By: Michele Lerner |

When you are buying a home with a spouse or partner, you may bump into an unexpected glitch if you haven’t had a serious talk about money. Mortgage lenders go deep into your credit history and the credit profile of anyone with whom you are buying a home, so if you and your partner have been keeping secrets about your levels of debt or your low credit scores, that information will now be revealed.

Check Your Credit

The moment you begin to think about buying a home, you and your partner or spouse should both request your free credit report at www.annualcreditreport.com. You should each get your reports from all three credit reporting bureaus (Experian, Equifax and TransUnion) and pay a small fee to obtain your credit score from all three.

It's important to do this early for two reasons: First, if there is a mistake on your report, it can take a while to get it corrected. A Federal Trade Commission report in 2013 showed that one in four consumers has a mistake on their credit report. Second, if you find your credit score is low, you can take steps to improve it before applying for a loan.

Borrowers with a credit score of 740 and above qualify for the lowest interest rates. While you can't instantly fix your credit, paying your bills on time and in full for several months and paying down your debt can improve your score. Just don't close any credit accounts, though, because that will actually lower your score.

Talk About Your Budget

When you have your credit reports in hand it's a good time to talk about how much you can spend on your home. While a mortgage lender will qualify you for the maximum amount you can borrow, it's best to have a solid idea of how much you think you can comfortably afford to spend on your housing payment each month and how much cash is available for the purchase. Remember you need cash for a deposit, a down payment, closing costs, moving expenses and cash reserves. Your housing payment will include principal and interest on your mortgage, home insurance, property taxes, mortgage insurance if you need it, and homeowner or condo association dues. You should also budget at least 1% of the home price each year for maintenance.

Credit Disconnect

If one partner has bad credit and the other has good credit, you will have to think carefully about how to handle a home purchase. Once you own property jointly or have joint credit accounts or car loans, your credit history will impact each other's. You will each have a separate credit report but the joint accounts or loans will be reported for both of you.

There are several options to consider if one partner has bad credit:

> Wait for months or perhaps a year or longer for the partner with bad credit to improve his or her credit with on-time payments, paying off any judgments, collections or past-due or over-limit accounts and reducing debt. Another step to take to rebuild credit is to make the partner with bad credit an authorized user on an account held by someone with good credit.
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> Buy the home under the name of the borrower with good credit. The good-credit borrower will pay a lower mortgage rate, but this borrower will also have to qualify for the loan based on just his or her income rather than the combined income of the household. You can always put the name of the other partner on the title to the property and refinance the loan into both names in the future.
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> Try a Federal Housing Administration loan. FHA loans, because they are insured by the government, typically have more lenient requirements.

The best way to evaluate your loan options is to meet with a lender who can give you individualized advice.