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# 5 Steps to Take If Your Loan Is Denied



Get the Financing You Need

# 5 Steps to Take if Your Loan is Denied

It's not fun to get turned down for a loan. But sometimes, it is not even a question of getting turned down. It just so happened that you got ultimately approved for a loan that you did not initially apply for.

Wondering how something like this could happen?

Well, to suit the particular situation of their applicants, some lenders may offer a different program. Your lender may have done something similar or gave you a counter offer that in their opinion suits you better. Or, alternatively, the lender may have approved you for the loan but with certain conditions that must be complied with before closing the whole deal.

In any case, the end result is the same – you did not exactly get what you intended to get in the first place.

However, before you hit the pathos of denied credit, know that there are steps you can take if your loan is denied. Here you will learn what these steps are and how to go about each one of them so the next time you apply for a loan, approval won't be too far away.

## **Step 1: Find out why you were denied.**

The first step to any problem is to identify the root cause. Why were you denied in the first place? What were the things that were factored in which ultimately led to your denial of credit?

You need to find out the answers to all these questions first. The good news is it won't be too difficult a task since lenders are required by federal law to tell you why you were denied credit.

The law, known as the Equal Credit Opportunity Act, mandates that all lenders and credit providers should tell you the reason for the denial. This should be done in writing and given within 30 days after such denial.

The law also requires two important pieces of information that must be included in this letter. These are:

- The reasons why you were denied credit. Note that these reasons must be specific, not vague. Or, the letter may contain information on how you can obtain those reasons; and
- If a credit report was used in making the decision of turning down your application for a loan, the lenders are obliged to give the name and address of the credit reporting agency that supplied the report.

Sometimes, you may not understand the reasons given for turning down your application. If so, ask for more information using the contact numbers provided in the letter. It may be difficult to determine exactly why you were denied since there are many factors involved. Don't hesitate to ask questions. It is your right to ask them. And the information you receive will help you improve your credit so you can qualify in the future.

In addition to the reasons and the name of the credit reporting agency, the letter or notice will also tell you which federal agency to contact if you believe the lender or the mortgage broker has illegally discriminated against you.

**Step 2: If the reasons for the denial are based on correctable errors, then correct them.**

There can be various reasons why your application for a mortgage or a loan got denied. It could be because you did not meet the creditor's minimum income requirement. Sometimes, you got denied credit because you are not at your job or address for the required amount of time.

Insufficient income is one of the most frequent reasons why consumers get denied when applying for loan applications. You may not be bringing in enough money to afford the house you want or you may not have enough funds for closing costs and a down payment.

If this is the case, correct the problem by applying for loan programs that specifically for low to moderate income borrowers. This way, you can take advantage of the lower down payment requirements that programs such as these frequently offer.

Two fine examples of such loans designed for low to moderate income borrowers are the FHA loans or VA loans.

Another reason why you might be denied credit is if you requested a loan amount that is larger than 95 percent of the appraised value of your property. If this is the scenario, then likely that loan would be denied.

There are three things you can do when faced with such a situation:

- You can try to renegotiate with the seller for the purchase price. If you manage to lower the purchase price down, then you can also lower down the loan amount needed to get the property; or

- You can make an additional down payment independent of the down payment earlier made. The extra will cover the difference between the appraised value of the property and the purchase price.
- The appraiser could have undervalued the property or made a mistake during the appraisal process. Suggest to your lender that he reexamine the appraisal to make sure there are no errors.

**Step 3: If the denial is due to poor credit report, get a free copy of your report from any of three major credit reporting agencies.**

Sometimes, the reason for the denial has something to do with a poor credit history – things you did in the past than things you’re doing now. Your credit score may be low, leaving the lender no choice but to deny your application for a loan.

A low credit score means you are “high risk” and lenders are bound to think twice before approving you for a loan, since the status of your score suggests that you might not be the sort who makes payments on time, has very little credit available, too many debts, etc.

If the letter sent by the lender indicates poor credit report as the reason, then be mindful that you are actually entitled to get a free copy of your credit report from any of the three credit reporting agencies – Experian, Equifax, and TransUnion. Also, note that this guaranty is only for 60 days so don’t wait until *after* two months before you order your free credit report.

Once you get your credit report, read it carefully and make sure that it is accurate and complete.

If you find any errors, such as a fraudulent collections or a cancelled account, fix them. Errors in credit reports are defined as any charge:

- For something you did not buy or for a purchase made by someone other than you or not authorized to use your account;
- For something that is not properly identified on your bill or is for an amount different from the actual purchase price. It may also be a charge entered on a date different from the purchase date;
- For something that you did not accept on delivery or that was not delivered according to agreement.

In addition, billing errors in your credit report may be errors in arithmetic. Sometimes, you may have made a payment or have a credit that doesn't show up in your account. Or the creditor may have failed to mail a bill to your current address, resulting in your being late for a payment. This can be considered an error if you told the creditor about an address change at least 20 days before the end of the billing period.

The first step is to report any these errors to the credit reporting agency as quickly as possible. Send a separate letter to each agency where the mistake is found. The letter should contain your detailed explanation of the situation, including a copy of your credit report with the faulty information highlighted.

The duty of the credit reporting agency is to investigate any reported errors. Under the Fair Credit Billing Act, creditors are required to correct errors promptly and without charge or damage to your credit rating.

The credit reporting agencies will be contacting the creditor who placed the line item and remove it (the item) if found to be erroneous.

If the agency's findings don't sit with you well, you can file a short statement in your record giving your side of the story. That way any creditor who may access your credit report in the future will find such statement or a summary of it.

#### **Step 4: Get a second opinion.**

Some lenders have divisions whose sole purpose is to reevaluate loan applications. After investigating errors in your credit report and correcting them, the investigating credit reporting agency will send the corrected copy to your lender.

Contact your lender and follow up the report with a few questions of your own. You may even request a second opinion from the lender's second level of review for loans.

#### **Step 5: Apply for a new loan.**

And finally, keep shopping. Just because you got turned down once does not mean that you are never going to get approved for a loan again. Ever. Don't get discouraged by one denial of credit.

Lenders have different approval standards. Banks and mortgages use different criteria for application approval based on their business objectives. So there is a big chance that another lender will find the right program match for you.

Here is a quick rundown of some tips to help you get approved for that loan:

- Know what you're looking for in a loan, including how long it will take to process your application, minimum down payment required, the annual percentage rate of the loan interest, and the points or origination fees on the loan.
- Know what the qualifying guidelines are for the particular loan. These can relate to such factors as your income, employment, assets and liabilities, and credit history. Note that the guidelines may differ from lender to lender so all the more reason for you to find them out before applying for any loans.
- Find out if you can get a refund of the loan application fee if you change your mind. Some lenders may refund the fee if they turn you down.
- And finally, provide the lender with complete, accurate information. This is also the best way to let everything about your application process go smoothly.

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