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PERSONAL FINANCE

The Credit You Deserve

Getting a loan is harder, but it's not impossible.

By Linda Stern | Newsweek Web Exclusive
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Are you worried that the failure of the bailout bill means you'll have a tougher time to get a home or auto loan? Well, you should be. The credit crisis has banks less willing to lend money to each other, which ultimately means it will be harder for consumers to get the credit they need. But that doesn't mean it's impossible to borrow money. "From a consumer standpoint, credit hasn't dried up," says Linda Sherry of Consumer-Action, a watchdog group. "If you're somebody with excellent credit, you're in a good position to borrow money."

Maybe so, but you'll have to shop smart to find the cash you need at a price you can afford. The key to consumer credit markets now is this: standards are back. Lenders are no longer throwing money at people who can't prove they can comfortably pay it back. That means that the first step in the borrowing process is making sure your credit report is squeaky clean and your credit score—as measured by Fair Isaac Corp.—is at least 720. You can get a credit report for free at annualcreditreport.com and your credit score (for \$16) at myfico.com.

If there are problems, start fixing them before you shop for money. Do that by paying down credit-card balances and giving any late payments time to vanish into the past. Then ask yourself if you really want to borrow money now.

That should be a very big "if." The big bailout won't prevent recession, according to many economists, so consumers who don't have emergency funds and worry about their job security should think thrice before taking on new obligations. But a new loan makes a lot of sense for someone seeking to refinance a bad loan, buy their first house at a nice price, or get that fuel-efficient car they've been planning on for a while. And though interest rates have moved up slightly during the recent tumultuous weeks in the



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market, today's rates may seem low compared to what they will look like in the future, once the economy recovers, while the government continues to borrow trillions of dollars to cover its own expenses.

Still think the time is right? Whether it's a home or auto loan, here's how to find that cash now.

Mortgages Conventional borrowers seeking less than \$417,000—the Fannie Mae/Freddie Mac limit in most housing markets—will not have trouble finding loans, says Keith Gumbinger of HSH Associates. He tells would-be borrowers to shop local first: The small bank on the corner, or the credit union you already belong to, might be in the best position to offer a good rate. "There might be only a handful in your town, so check them all," he says.

Expect to pony up a down payment of at least 5 percent (20 is better) and prove that you can cover all of your monthly debt payments with about 40 percent of your pre-tax income.

Big borrowers will have a tougher time. Rates on jumbo loans—those above the conventional level—are running more than a percentage point higher than the smaller loans, according to bankrate.com. And they can be harder to find. If you're looking for a big mortgage, make the rounds of the local lenders, but check with a local mortgage broker and a large national broker, such as eloan.com, too.

One group of borrowers has a particular impetus to move fast: In the most expensive housing markets, such as New York and many California cities, they can get conventional mortgages as high as \$700,000, but that limit will drop to \$625,500 on Jan. 1. That means someone in one of those places looking to borrow more than \$625,500 will pay a higher rate, and having a harder time finding a lender after the New Year.

Auto Loans

Forget the five-year free-financing deals of yesteryear. The car companies are in trouble, but would rather discount the car than the loan to buy it. That makes third-party lenders—again, the local small bank and the credit union—the place to shop for those loans. Line up a no-obligation loan before you go to the dealer, suggests Stephen Schooff of Capital One, whose capitaloneautofinance.com is one of the largest car lenders. It's tightening its credit standards, but still offers a "blank check" auto loan to solid borrowers with rates as low as 5.5 percent now. You can take that check to the dealer and negotiate like a cash buyer.

If you've already got a home equity line of credit (HELOC), that's also a good place to borrow money for your next car or home improvement. Rates now average below 5.5 percent, according to Bankrate, and there's a good chance that interest is tax deductible. Before maxing out your home equity line, check to make sure that it doesn't put your total home-backed borrowing near or over the current value of your house, because lenders have been dialing back those credit lines.

Alternative Sources

Borrow from each other. The best place to get a loan right now is the Bank of Grandma. Think of it this way: Her certificates of deposit are earning pennies in the bank, and she's worried about that. She could lend the money to you and you'd both win: Fewer closing costs, you'd pay less than you would to a bank, and she'd earn more. To properly borrow from a relative or friend, use a third party like virginmoney.us to structure it legally. Or use one of the Web's peer-to-peer lending sites, such as zopa.com or prosper.com to borrow money, in small amounts, from other everyday consumers you don't know. So far, they've done a better job than the big boys of keeping their cash flowing.

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