



Loan Decline Next Steps Checklist

It's one of the most crushing moments in your financial life: despite feeling like you had all your ducks in a row and you were the perfect candidate, you got turned down for a loan. Car loan...home loan...personal loan, it doesn't matter. The shock and embarrassment is the same.

But being denied a loan doesn't have to be the end of anything if you treat it like a learning experience that will make you smarter and financially stronger going forward. While it may take a little bit longer to get approved than you had hoped, there might be some pretty straightforward tasks you can get working on that will make you a much more attractive loan candidate in a fairly short amount of time.

Find out why you were denied

Financial institutions *want* to loan you money. After all, that's one of the reasons they are there in the first place. So it doesn't make sense for them to deny people for financial products for arbitrary or petty reasons. Ask the specific reasons why you were denied for the loan. This will give you your marching orders to get to loan approval. For future reference, also ask what credit scoring model they use.

Read the loan decline letter

In the United States, the law demands that if you are denied for a loan, the financial institution has to let you know why. This generally comes in the form of what is known as a loan decline or adverse action letter. This may just repeat what the lender told you about why you were denied, but it does have the added benefit of showing you which report the lender looked at to determine your creditworthiness and telling you how to get the free copy you are entitled to.

Consider adding income

If you were denied because of your income level, you need to boost your intake figure. You might be thinking that is easier said than done, but the

income doesn't necessarily have to come from you. If a family member or friend is willing to co-sign for a loan with you, their income information and credit standing can be figured into your application too.

Check your credit reports

In a perfect world you would be very well acquainted with the information in your credit reports *before* applying for a loan. However, if you didn't take a look at them before your application, definitely get copies now. If you choose, you can simply look at the free report you are entitled to because of the loan denial. However, this is also a great time to look at your credit in general. You can get all three of your credit reports for free once per year by calling 877.322.8228 or visiting www.annualcreditreport.com. If the lender mentioned anything about credit reports or credit scores being part of the reason for you being denied a loan, the recipe for a winning application is going to be found in the pages of your reports.

Correct errors

Even though they are being used more and more for a variety of purposes, credit reports are far from perfect. It's entirely possible to be denied for a loan because of mistakes on your credit reports. For example, if you have collection accounts showing up on your credit reports that were accidentally placed there because they belong to someone with a similar name, it could be doing substantial damage to your reports and your scores. Dispute any incorrect details at the website of the credit bureau reporting the information, be it <http://www.equifax.com>, <http://www.experian.com> or <http://www.transunion.com>.

Pay down revolving debts

If you have debts, paying them down is never going to hurt your chances at getting a loan. In many cases, too much debt load could be the only thing keeping you from getting the thumbs up from lender. Showing the financial institution that you have your current debts under control is going to



help them feel better about your ability to handle a new one. Having a low debt load on revolving accounts and making on-time payments are the two largest positive factors in the FICO credit score used by the majority of lenders.

Pay off any outstanding collection debts

Many lenders have a policy that if there is a single unpaid collection account on any of your credit reports, getting a loan from them is a no-go. Once you have your credit reports, look for any collection accounts with outstanding balances and use the contact information on the reports to talk to the agency currently holds the debt. Often times you can settle collection debts for 25-50% percent of the amount of the original debt, but be sure to get any agreements in writing.

Establish credit if needed

If the lender told you that you had insufficient credit to be approved, it can feel like a cruel joke. *How can you have credit when you can't get credit?* If you need to get some kind of payment history showing up on your credit reports, consider opening a secured credit card. You need to put down a security deposit to open the card, but in most cases you eventually get your deposit back as long as you have made enough on-time payments. Other options include having a family member or friend add you as an authorized user on a credit card of theirs, or opening a store credit card.

Check your credit scores

After you have taken the credit boosting actions recommended above, it's time to find out what kind of effect they have had on your score. Unfortunately, your credit scores aren't given away for free, despite what TV ads tell you. Most lenders use the FICO score, which can be purchased at www.myfico.com.

Be patient

Some people like to say that their credit is "ruined." However, that's not really the case since the credit scoring models lenders use tend to emphasize more recent payment information rather than older data. So if you can put a string of on-time payments on your credit reports, you can see your credit standing improve in a matter of months.

Get help

Your credit standing can be a bit of a puzzle if you aren't used to navigating all the terminology and concepts. Talking with a financial counselor about

your questions can put you on a much quicker path to getting approved.

Reapply

If this loan is a part of your financial goals and plan, by all means don't be shy in reapplying. Stride right back into the lender's office with your new information and confidently place the application on the desk.