

How to Buy a House With No Credit | 2024

Buying a house with no credit history is possible

Can you buy a house with no credit? First-time home buyers often grapple with this question, especially when faced with challenges like poor credit scores or, more commonly, no credit history at all.

Fortunately, having no credit doesn't prevent you from becoming a homeowner.

Multiple loan programs exist today that can accommodate buyers with no credit score, if they can handle the upfront costs and monthly mortgage payments.

Can you buy a house with no credit?

Yes, you can buy a house with no credit, but it can be challenging and may require extra effort. Plus, you'll typically pay higher rates for a mortgage loan.

The likelihood of being approved for a mortgage increase with a solid credit history and good score. However, there are loan options available if you want to buy a house with no credit.

Minimum credit scores by loan program

Although your lender will determine your exact credit score requirements, the following represent typical requirements for various mortgage programs:

- FHA loan minimum: 500-580
- VA loan minimum: 580-620
- Conventional loan minimum: 620
- USDA loan minimum: 640

An FHA loan is a great option for someone with a FICO score on the lower end. The typical minimum credit score requirement is 580. Even borrowers with a FICO score between 500 and 579 could get approved

by FHA with a down payment of 10% or more. However, few lenders adhere to the 500 minimum; 580 is much more common.

VA loans are a good option for lower-credit borrowers with a military service history.

The VA mortgage program technically has no minimum credit score. Although, many lenders enforce a minimum of 580-620 or higher. So, if your score is at the bottom end of that spectrum you'll need to shop around for a lenient mortgage company.

Bad credit score vs no credit history

Having a poor credit score is different from having *no* credit score. It may be better or worse, depending on the reason for your low score.

Lenders typically want to see a clean credit history, meaning you haven't had bankruptcy, foreclosure, multiple late payments, or other negative credit information in recent years.

If you have a lower credit score because you've consistently mismanaged debts in the past, a lender will be much less likely to approve you for a mortgage.

But sometimes credit scores drop for reasons outside our control. The death of a spouse or primary wage earner, divorce, large medical debts, and other unexpected events can take a big toll on someone's finances.

If your score is low for reasons outside your control, and you've been actively working to build a strong credit history, lenders are going to look at your mortgage application with a friendlier eye.

How to buy a house with no credit history

Believe it or not, buying a house with no credit history isn't just a dream—it's a possibility. Many assume that a good credit score is necessary to get a mortgage and buy a house. However, if you're starting from scratch with no credit, don't lose heart. There are pathways to homeownership tailored just for you.

Find mortgage lenders that offer manual underwriting

For first-time homebuyers with no credit history, manual underwriting could be crucial. Unlike traditional underwriting, which is based on algorithms and credit ratings, manual underwriting involves a human underwriter or loan officer reviewing your personal finances.

This method gives mortgage lenders a more complete picture of your financial situation and borrowing capability by taking into account a greater number of variables, including your bill payment history, savings account health, and income stability.

Gather comprehensive financial documentation

To navigate manual underwriting successfully, it's essential to come prepared with detailed documentation of your financial history.

- **Proof of on-time payments:** Gather evidence of regular, timely payments for rent, utilities, insurance payments, and any other recurring bills. This documentation serves as proof of your financial reliability and can replace a traditional credit history.
- **Income and employment verification:** Present proof of stable income and employment. This can include pay stubs, tax returns, and employer letters that demonstrate your ability to support ongoing mortgage payments.
- **Bank statements and savings:** Showing your savings account statements gives lenders insight into your financial health beyond income, including your ability to save and manage money effectively.
- **Debt-to-income ratio:** Lenders evaluate your debt-to-income ratio (DTI) by comparing your monthly debt payments to your monthly gross income. A lower DTI ratio signals your creditworthiness to lenders. So, prioritize paying debts—especially student loans and auto loans—on time and in full, as this could make or break your mortgage application.

Engage with the right mortgage lenders

Finding lenders that offer manual underwriting might require some research. Look for lenders who advertise their willingness to work with first-time home buyers or those without a credit history.

Credit unions and local banks may be more flexible and open to manual underwriting. Don't hesitate to reach out and discuss your situation; many lenders are eager to accommodate potential buyers with solid financial foundations, even in the absence of credit scores.

Explore non-traditional mortgage lenders

Consider lenders who specialize in working with first-time home buyers or those with no credit history. These institutions often use alternative methods to evaluate your creditworthiness, such as your rental payment history, utility bill payments, and employment status.

Similar to manual underwriters, they're more willing to take a holistic view of your financial health beyond just a credit score.

Consider an FHA loan

Did you know that the Federal Housing Administration (FHA) offers loans that can be a boon for first-time home buyers with no credit? FHA loans are known for their more lenient lending criteria, including lower down payment requirements and minimum credit scores.

While they do require some form of credit history, lenders are permitted to consider non-traditional records, making this an attractive option for those without a conventional credit report.

Partner with a co-signer

Another viable strategy is to apply for a mortgage with a co-signer who has an established credit history. A co-signer acts as a form of insurance for the lender, promising to pay back the loan if you are unable to do so. This can significantly increase your credibility and the likelihood of loan approval.

Look for seller financing

In some cases, you might encounter sellers willing to finance the purchase themselves. Seller financing can be particularly beneficial for buyers with no credit, as the terms of the loan are negotiable and can bypass traditional lending requirements. However, it's essential to approach such arrangements with caution and thorough legal guidance.

Leverage a larger down payment

If you can manage it, offering a larger down payment can sometimes offset the absence of a credit history. It reduces the lender's risk and demonstrates your financial commitment to the property. This doesn't just increase your chances of getting approved for a mortgage; it can also result in more favorable loan terms.

Mortgage options for no credit and low credit home buyers

Building credit takes time. If you're ready to buy a home but you lack a credit score, waiting until you've built up a worthwhile credit history could feel slow and frustrating — especially in markets where house prices are rising fast.

FHA loans

FHA mortgages arguably offer the fastest route to homeownership for individuals who haven't built a traditional credit score. They're designed for buyers with minimal or no credit history, providing several key advantages:

- **Credit flexibility:** The Federal Housing Administration does not automatically disqualify borrowers for lacking a credit history. Instead, it encourages a comprehensive review of loan applications.
- **Low down payment requirement:** A hallmark of the FHA program is the low down payment requirement—just 3.5%, making it more accessible for those with limited savings.

- **First-time home buyers:** This loan program is particularly beneficial for first-time buyers, offering them a feasible path to owning a home without the traditional credit requirements.

The main drawback to FHA loans is the requirement to pay **mortgage insurance premiums (MIP)** until you pay the principal in full or refinance to another type of loan.

Conventional loans

Conventional loans typically come with stricter credit requirements compared to FHA loans. However, they can be an option for those without a traditional credit score, with some considerations:

- **No-credit-score approvals:** While not all lenders offer this, some may approve conventional mortgage applications without a credit score, following guidelines set by Fannie Mae and Freddie Mac.
- **Large down payment:** Expect to make a larger down payment, usually at least 5% to 10%, depending on the lender's requirements. And you'll pay private mortgage insurance (PMI) until you've built 20% home equity in your property.
- **Property type:** The purchased property must be a single-family home intended as your primary residence.
- **Loan limits:** The maximum loan amount is currently \$766,550 but may be greater in high-cost areas.
- **Rental history:** A 12-month history of on-time rent payments can be necessary for approval.
- **Manual underwriting:** These loan applications often require manual underwriting, meaning they cannot be processed through automated underwriting systems. This process takes a closer look at your financial situation beyond credit scores.

Finding a lender willing to process a no-credit-score loan application may require some research and comparison.

VA loans

VA loans offer veterans, military members, and their surviving spouses a pathway to homeownership, even without a traditional credit score or with a limited credit history:

- **No minimum credit score:** The Department of Veterans Affairs does not set a minimum credit score for VA mortgages, focusing instead on the full loan profile.
- **Alternative credit considerations:** Eligibility can be based on timely payments for rent, utilities, and other bills, offering flexibility for those without conventional credit.
- **Zero down payment:** VA loans allow for 0% down, making them an attractive option for first-time home buyers looking to enter the market.

While the VA's guidelines are flexible, individual lenders may have their own credit score minimums (typically around 580 or 620). It's important to shop around and discuss your situation with multiple lenders.

USDA loans

Zero-down **USDA loans** are geared toward low- and moderate-income buyers in designated rural areas. For those who qualify, USDA mortgages are an ultra-affordable path to homeownership.

The U.S. Department of Agriculture, which backs USDA loans, says borrowers with no credit score can get approved with on-time payments for things like:

- Rent
- Utilities
- Insurance
- Childcare
- School tuition
- Internet or cell phone services
- Car lease

Like conventional loans, USDA loans with no credit score will need manual underwriting. If one lender denies you for this reason, try again with other lenders until one accepts your application.

How to build credit to qualify for a mortgage

First-time home buyers can certainly buy a house with no credit history. But improving a low credit score could open doors to better interest rates. The good news is that many people have improved their FICO scores to qualify for a mortgage, and you can too. Here are some steps you can take:

- **Check your credit:** Get a free copy of your credit report from each of the three major credit agencies (Equifax, Experian, and TransUnion) to find any inaccuracies or discrepancies that could harm your credit score. To improve your credit report, dispute any mistakes
- **Credit building strategies:** Becoming an authorized user on a friend or family member's credit card, or opening a credit builder card, are both effective strategies for establishing credit with minimal risk. These methods allow you to leverage existing credit or build new credit responsibly, even with no credit history or a low score.
- **Pay your bills on time:** Make it a habit to pay all your bills on time, including rent, utilities, and credit cards. Late or missed payments can have a negative effect on your credit score
- **Keep credit utilization low:** Try not to use more than 30% of your available credit at any given time. Credit overuse might have a negative impact on your credit score
- **Maintain open accounts:** The length of your credit history influences your credit score. Maintain your oldest accounts as long as they don't have hefty fees or have a negative impact on your credit

- **Limit hard inquiries:** Avoid applying for several credit accounts in a short period of time, as hard inquiries might temporarily drop your credit score.

Check out our guide for helpful tips on **how to build good credit**.

FAQ: Buying a house with no credit or low credit

Which lenders will do loans with no credit?

Lenders that may consider providing mortgage loans to individuals with no credit include credit unions, community banks, online lenders, and lenders offering government-backed loans, such as FHA, USDA, and VA loans. For example, a credit union may be more willing to work with a first-time home buyer who has no credit history because they often prioritize serving their members over making a profit.

Additionally, government-backed loans may have less stringent credit requirements, making them a viable option for those without established credit.

Can a mortgage broker help me get a mortgage even though I have no credit?

Yes, mortgage brokers work with multiple mortgage underwriters and have access to many different loan products. They'll know which lenders offer the right programs and are willing to consider applications with no credit history. They can also help you find the best mortgage rates for someone with your creditworthiness.

Do mortgages with no credit cost more?

Yes, mortgages for people with no or poor credit tend to be more expensive than those for people with good or excellent credit. Lenders look at credit history to determine a borrower's creditworthiness and the likelihood of repaying a loan. Borrowers with no credit history or a bad credit score are viewed as a bigger risk by lenders, which can result in higher interest rates and less favorable loan terms.

What is the lowest credit score to buy a house?

The lowest credit score to buy a house typically depends on the type of loan. For FHA loans, the minimum qualifying FICO score is usually 580 for the lowest down payment option. However, some lenders may accept credit scores as low as 500 with a higher down payment.

How big of a loan can I get with no credit?

The size of the loan you can get with no credit can vary widely and depends on the lender's criteria, your income, and other financial factors. Lenders using manual underwriting may offer loans based on your ability to pay rather than your credit history, considering your income and existing debts.

What is a credit score?

A credit score is a numerical representation of your creditworthiness, based on your credit reports. It reflects your likelihood of repaying debts, with a higher score indicating greater reliability. This score is influenced primarily by your payment history, which is essential for first-time home buyers who may not have an extensive credit history.

Where does my credit report come from?

Your credit report is generated by the three main credit bureaus: Experian, Equifax, and TransUnion. These agencies gather data on your financial activities from banks, credit card companies, and other creditors to create a detailed report of your credit history, which helps calculate your credit score.

How can you buy a house with no credit history?

Don't let your lack of a credit score discourage you from purchasing a home.

Various home loan programs can accept borrowers with no credit score, if you prove you're financially responsible in other ways. This means you wouldn't need to depend on a co-signer to get approved.

Understand, though, that lenders get to set their own credit rules. So, if one won't accept your application, you may have to shop elsewhere. Don't give up! If you're qualified, another lender may approve you.