



# THE HOME BUYER'S GUIDE TO GETTING MORTGAGE READY

**Don't wait until you're ready to move to start preparing financially to buy a home.**

If you're like the vast majority of home buyers, you will choose to finance your purchase with a mortgage loan. By preparing in advance, you can avoid the common delays and roadblocks many buyers face when applying for a mortgage. Follow these three steps to begin laying the foundation for your future home purchase today!

## **STEP 1: CHECK YOUR CREDIT SCORE**

It's a good idea to review your credit report and score yourself before you're ready to apply for a mortgage. If you have a low score, you will need time to raise it. And sometimes fraudulent activity or erroneous information will appear on your report, which can take months to correct.

The credit score most lenders use is your FICO score. Base FICO scores range from 300 to 850. A higher FICO score will help you qualify for a lower mortgage interest rate, which will save you money.<sup>1</sup>

Your FICO score is a weighted score developed by the Fair Isaac Corporation that takes into account your payment history (35%), amounts owed (30%), length of credit history (15%), new credit (10%), and credit mix (10%).<sup>1</sup>

By federal law, you are entitled to one free copy of your credit report every 12 months. Request your free credit report at [www.annualcreditreport.com](http://www.annualcreditreport.com).

## **Minimum Score Requirements**

To qualify for the lowest interest rates available, you usually need a FICO score of 760 or higher. Most lenders require a score of at least 620 to qualify for a conventional mortgage.<sup>2</sup>

If your FICO score is less than 620, you may be able to qualify for a non-conventional mortgage. However, you should expect to pay higher interest rates and fees. For example, you may be able to secure an FHA loan (one issued by a private lender but insured by the Federal Housing Administration) with a credit score as low as 500.

## STEP 2: SAVE UP FOR A DOWN PAYMENT AND CLOSING COSTS

When you purchase a home, you typically pay for a portion of it in cash (down payment) and take out a loan to cover the remaining balance (mortgage).

Generally speaking, the higher your down payment, the more money you will save on interest and fees. For example, on a conventional loan, you will be required to purchase private mortgage insurance (PMI) if your down payment is less than 20 percent. PMI is insurance that compensates your lender if you default on your loan.<sup>3</sup>

For a conventional mortgage with PMI, most lenders will accept a minimum down payment of five percent of the purchase price. FHA loans only require a 3.5 percent down payment if your credit score is 580 or higher.<sup>3</sup>

There are a variety of other government-sponsored programs created to assist home buyers. Consult a mortgage lender about what options are available to you.

Closing costs—which can range between two to five percent of a home's purchase price—should also be factored into your savings plan. These may include loan origination fees, appraisal fees and other fees associated with the purchase of your home.<sup>4</sup> If you don't have the funds to pay these outright at closing, you can often add them to your mortgage balance and pay them over time. However, you'll be charged interest on the fees.

### Current Homeowners

If you're a current homeowner, you may have equity in your home that you can use toward your down payment and closing costs on a new home. We can help you estimate your expected return after you sell your current home and pay back your existing mortgage. Contact us for a free evaluation!

## START LAYING YOUR FOUNDATION TODAY

It's never too early to start preparing financially for a home purchase. These three steps will set you on the path toward homeownership ... and a secure financial future!

And if you are ready to buy now but don't have a perfect credit score or a big down payment, don't get discouraged.

## STEP 3: ESTIMATE YOUR HOME PURCHASING POWER

It's important to have a sense of how much you can reasonably afford—and how much you'll be able to borrow—to see if homeownership is within reach.

To get started, visit the National Association of Realtors' free Home Affordability Calculator at [www.realtor.com/mortgage/tools/affordability-calculator](http://www.realtor.com/mortgage/tools/affordability-calculator).

This handy tool will help you determine your home purchasing power. It also offers a monthly mortgage breakdown that projects what you would pay each month in principal and interest, property taxes, and home insurance.

Once you have a sense of your purchasing power, it's time to find out which neighborhoods and types of homes you can afford. The best way to determine this is to contact a licensed real estate agent. We help homeowners like you every day and can send you a comprehensive list of homes within your budget that meet your specific needs.

If there are homes within your price range and target neighborhoods that meet your criteria—**congratulations!** It's time to begin your home search.

If not, you may need to continue saving up for a larger down payment ... or adjust your search parameters to find homes that do fit within your budget. We can help you determine the right course for you.

**The above references an opinion and is for informational purposes only. It is not intended to be financial advice. Consult a financial professional for advice regarding your individual needs.**

### Sources:

1. myFICO
2. Bankrate
3. Bankrate
4. Investopedia

There are resources and options available that might make it possible for you to buy a home sooner than you think. We can help.

**Want to find out if you're ready to buy a house? Give us a call! We'll help you review your options, connect you with one of our trusted mortgage lenders, and help you determine the ideal time to begin your new home search.**