

Credit Scores & How They Impact Your Home Purchasing Options

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Opening Question

- “Have you ever wondered why two buyers with similar incomes can qualify for completely different mortgage options?”
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Section 1: Understanding Credit Scores

What Is a Credit Score?

A credit score is a numerical representation of a borrower’s creditworthiness.

Common Scoring Range

- 300–579 = Poor
- 580–669 = Fair
- 670–739 = Good
- 740–799 = Very Good
- 800+ = Excellent

What Factors Make Up a Credit Score?

Payment History – 35%

- Late payments
- Collections
- Bankruptcies

Amounts Owed – 30%

- Credit card balances
- Credit utilization

Length of Credit History – 15%

- Older accounts help

Credit Mix – 10%

- Credit cards
- Auto loans
- Student loans

New Credit Inquiries – 10%

- Multiple recent applications can lower scores
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Section 2: Why Credit Scores Matter in Mortgage Lending

How Lenders Use Credit Scores

Lenders use scores to determine:

- Loan approval eligibility
- Interest rates
- Down payment requirements
- Mortgage insurance costs
- Loan program availability

Risk-Based Lending

- Higher scores = lower lender risk
 - Lower scores = higher lender risk
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Section 3: Loan Types & Minimum Credit Score Requirements

Conventional Loans

Typical Minimum Score

- Usually 620+

Best For

- Buyers with good-to-excellent credit

Benefits

- Lower mortgage insurance
- Competitive rates
- Flexible property options

Higher Scores Help With

- Lower down payments
 - Better pricing
 - Easier approval
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FHA Loans

Typical Minimum Score

- 580 for 3.5% down
- 500–579 may require 10% down

Best For

- First-time buyers
- Buyers rebuilding credit

Benefits

- More flexible credit guidelines
- Lower down payment options

Important Note

FHA loans often carry mortgage insurance premiums.

VA Loans

Typical Score Expectations

- No official minimum from the VA
- Many lenders prefer 580–620+

Best For

- Eligible veterans and active-duty military

Benefits

- No down payment
- No monthly mortgage insurance
- Flexible underwriting

Key Point

Credit still matters even though guidelines are more flexible.

USDA Loans

Typical Minimum Score

- Often around 640

Best For

- Rural and suburban homebuyers

Benefits

- Zero down payment
- Reduced mortgage insurance costs

Additional Requirement

- Property must qualify geographically.
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Jumbo Loans

Typical Minimum Score

- Usually 700–740+

Best For

- Higher-priced homes exceeding conforming loan limits

Why Scores Matter More

- Larger loan amounts create more lender risk

Often Require

- Larger reserves
 - Lower debt-to-income ratios
 - Strong credit history
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Section 4: How Credit Scores Affect Interest Rates & Buying Power

Impact on Affordability

Lower scores may lead to:

- Higher monthly payments
- Reduced purchasing power
- Higher cash needed at closing

Mortgage Insurance Impact

Lower credit scores often increase:

- Monthly mortgage insurance
 - Risk-based pricing adjustments
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Section 5: Tips to Improve Credit Before Applying

Pay Bills On Time

- Most important factor

Lower Credit Card Balances

- Aim for under 20% utilization
- Under 10% is even better

Avoid Opening New Debt

- Avoid large purchases before mortgage approval

Don't Close Old Accounts

- Longer history helps scores

Check Credit Reports

- Review for errors

- Dispute inaccuracies

Speak With a Loan Officer Early

- Build a personalized credit improvement plan

Recap Key Takeaways

- Credit scores directly impact mortgage options
- Different loan programs have different score requirements
- Better scores improve rates and affordability
- Preparing early creates more opportunities