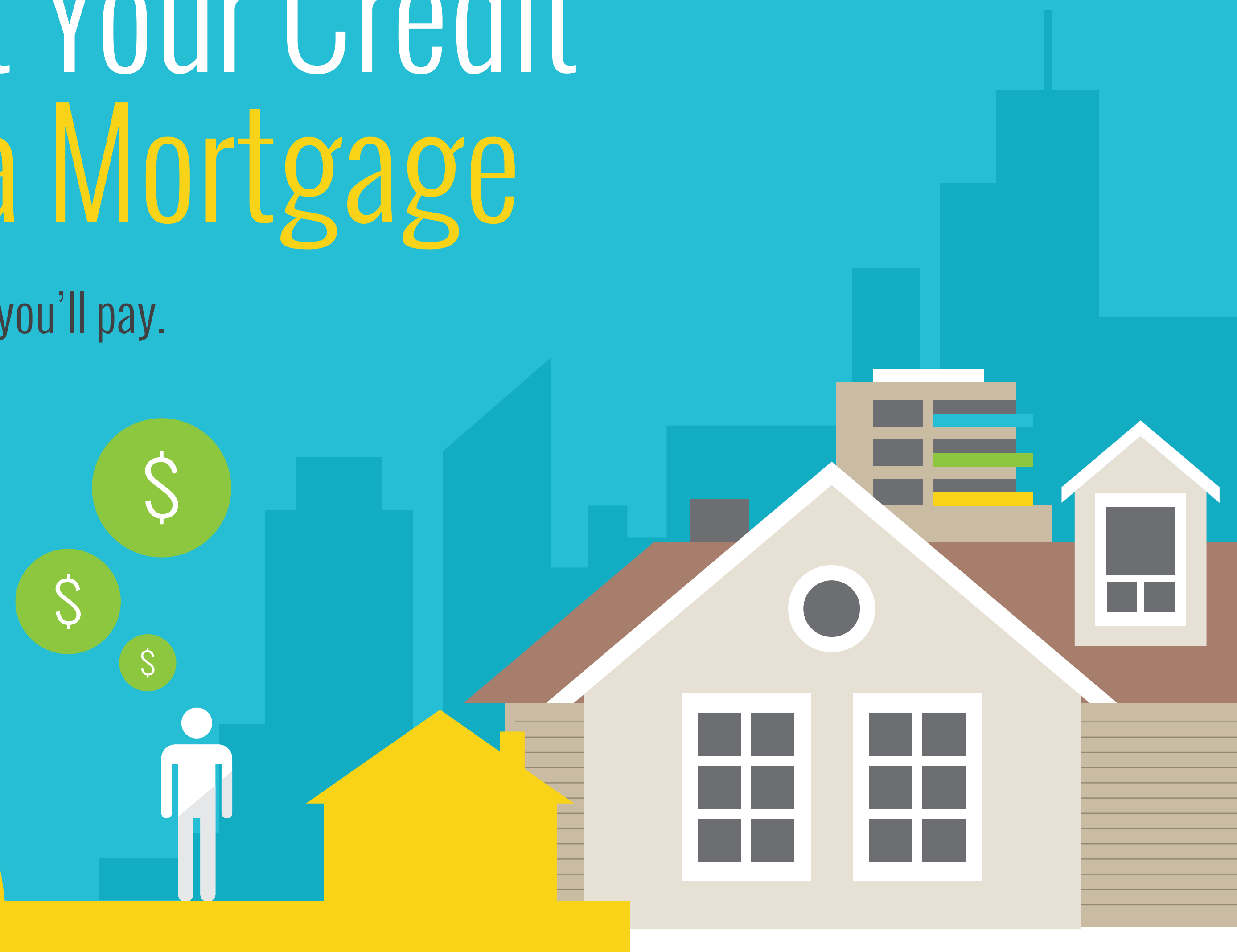
How to Get Your Credit Ready for a Mortgage

The better your credit, the less you'll pay.



credit sesame

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Get Approved!

You've decided to reach for the American dream of home-ownership! Congratulations! Credit Sesame fully supports your goal, and we're here to help you get credit-ready.

We want you to get approved for that mortgage at the best possible terms, so we've created a list of +must-do action items to get your credit in tip-top shape.

Remember, credit is inversely proportional to the overall cost of the loan. The better your credit, the less you'll pay. If you've got a lower credit score, you'll pay a lot more for the home you want.

Find Out Where Your Credit Stands

You'll need to start by finding out where you stand, credit-wise. About 75% of Credit Sesame members have fair, good or excellent credit. Here's how to check your own standing.

Get your free credit score

- You don't have to pay to see your credit score. Get a free credit score, updated monthly, on Credit Sesame. This is a VantageScore®, which is used by thousands of creditors nationwide. You won't be required to enter a credit card or to purchase any product.
- Credit scores can be purchased, but consumer credit scores, even when bought, are not the same as the scores mortgage lenders see. So save your money.
- Your credit score range is a major factor the lenders use when they determine what loan terms to offer you. Technically, you can get a mortgage with just about any credit score. But the terms of the loan are, for the most part, inversely proportional to your score.
- What that means, for example, is that although you may find a lender willing to offer you an FHA loan with a score below the 580 required minimum, you will have to make a larger down payment or pay a higher interest rate than a borrower with a better score who can qualify for a conventional loan.

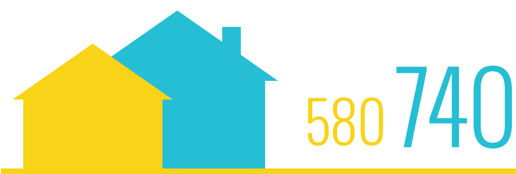
Get your free credit report

- Now that you've gotten your credit score from at least one source, the next step is to get your free credit reports (you have more than one).
- Credit Sesame offers a free credit report card – that means we'll show you what's in your credit file and we'll assign letter grades to the different factors that affect your score. This free credit report card contains your real credit data and will help you learn what factors are holding down your score and how you can change them. No purchase is ever required.
- You can also get one free credit report each from Equifax, Experian and TransUnion every twelve months by visiting AnnualCreditReport.com. AnnualCreditReport.com is completely free, and it is the only website authorized to lead you to the free annual credit reports you are entitled to under the Fair Credit Reporting Act.

Know What Mortgage Lenders Look For

Unlike other types of creditors who base their decision on a review of just one credit report, mortgage lenders will look at all three. They'll also pull your credit score from all three credit reporting agencies, and most will use the middle score.

The minimum credit score required to buy a home depends on the lender. Some programs are available for applicants with a score of 580 or lower, but the best interest rates are generally reserved for applicants with a score of 740 or higher.



Mortgage lenders want to see a comprehensive picture of your financial health. Here are a few of the factors they will examine in your credit history:

Negative events on your credit report

Length of credit history

Stable place of residence

Stable employment

Credit history with that lender (not required but could help your eligibility)

The number of credit accounts you have and the amount of available open credit you have

The amount of debt you have

Whether you typically only make minimum payments on revolving debt

Whether you are a "revolver" (you typically make only minimum payments on your credit card debt) or you are a "transactor" (you use your credit cards but you pay them off right away, or you work each month toward paying down the balances) is a new (2016) factor that Fannie Mae lenders are required to consider, and transactors rate more highly.

In addition to your credit report and score, mortgage lenders also want to know about:

The sum of all of your required minimum monthly debt payments

Your debt-to-income ratio is all of your minimum monthly debt payments (including child support) and the monthly payment on the home you want to buy (principal, interest, property taxes, homeowners insurance and HOA fees), divided by your gross monthly income. This percentage is called the back- end ratio, and in most cases the limit is around 43%.

Your income

Your new mortgage payment (principal, interest, taxes, insurance and HOA fees) may not exceed a certain percentage of your gross monthly income. This is called the front-end ratio and most lenders set it at 28-31%

How much money you have in savings.

You'll need to have enough cash on hand to cover closing costs and up to six months of mortgage payments. Retirement accounts can usually help to meet this requirement.

Your assets

Examining your assets is one way lenders determine whether you are likely to repay your loan. You'll also need to show the source of your down payment.

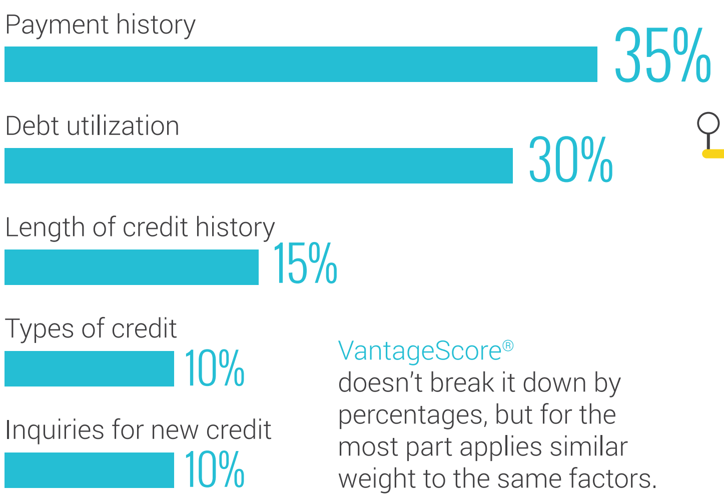
Fix and Protect Your Credit While Shopping for a Mortgage

Now it's time to clean up and protect your credit to get you on the road to mortgage approval. We'll break it down for you here, and for even more help, check out the Credit Sesame Guide: How to Fix Your Credit.

Analyze what's holding your score down

The only way to raise your credit score is to understand and address the factors dragging it down. Your Credit Sesame Credit Report Card can tell you how you are doing in each of the categories that affect your score.

Here is how the categories in your FICO® score are weighted:



VantageScore® doesn't break it down by percentages, but for the most part applies similar weight to the same factors.

Pay special attention to the factors that count the most: payment history, debt and negative accounts.

Correct credit report errors

Even a single error can lower your credit score, depending on what type of error it is, so the first step in fixing your credit is to discover and clear up any reporting errors.

If you discover mistakes on any of your credit reports, you can dispute the error with the credit bureau that issued the report, or you can dispute it with the creditor who reported the data in the first place.

Contacting credit bureaus is a good first step. All three major credit bureaus allow you to initiate disputes online or by mail, and federal law requires that they respond within 30 days.

Whether you contact the credit bureau or the creditor, document each contact and keep copies of all correspondence.

Pay off delinquent accounts

You might have heard that an FHA borrower can qualify for a mortgage even if an unpaid collection appears on his credit report. But even though FHA guidelines allow for unpaid collection accounts, the lender who underwrites the loan may not.

For non-FHA applicants, the lender may automatically reject your application if your credit report shows even one open collection account.

Because of the many variables, collections should be handled case-by-case.

- Medical collections will not count toward your debt-to-income ratio.
- If you have a collection account that's several years old, you might want to just wait it out and let it age off your report. That usually takes seven years and 180 days after the date of delinquency. Of course, aging off your credit report does not absolve you of responsibility for the debt.
- Pay off more recent collection accounts. In the newest credit scoring models, paid collections are ignored but unpaid collections hurt your score. Recent collections hurt the most.
- Monitor your credit to make sure the new data is reported.

If you have an outstanding judgment, you may need to pay it off before you can get a loan. If you have a lien, such as an IRS tax lien, you might still qualify for a loan. You'll need to discuss your situation with the lender to find out your options.

Make all payments on time, every time

Since payment history is the single biggest factor affecting your credit score, establish a perfect payment record for at least six months and preferably for two years or longer.

Put a safety net in place that will help you ensure that every payment is made on time. Set up automatic payments wherever possible use a bill-pay app, set recurring reminders on your calendar, or use some combination of strategies.

Pay down debt

A high debt-to-income ratio is the biggest red flag in a new mortgage application.

Even though it might not be possible for you to pay off all debt before applying for your home loan, you should bring it down as low as possible. That's because mortgage lenders will examine your Debt to Income Ratio, or DTI, to determine whether you will be able to afford your new mortgage payment.

The lower your credit card balance is, the lower the minimum payment will be because it's based on a percentage of the amount you owe. Lower monthly obligations will help your DTI.

Leave accounts open

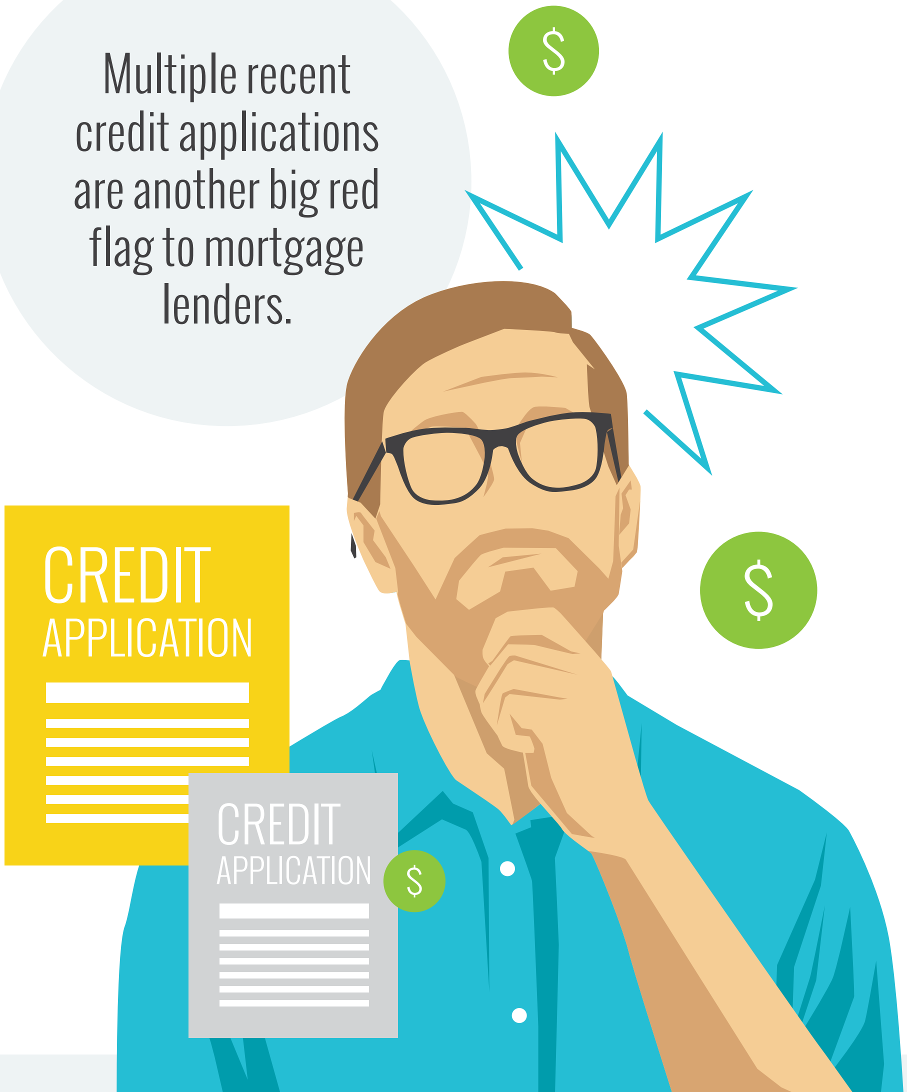
It may seem counter-intuitive to leave credit card accounts open, especially after you pay them off, but that's what you should do. This is particularly true if you still have debt on one or more other cards. It goes back to your utilization ratio. Remember, the less you owe in comparison to the total amount of credit available to you, the better your utilization ratio will be.

One possible exception: if you have an unusually high number of open credit card accounts, a lender might see that as an opportunity to go out and rack up thousands of dollars in additional debt at any time. If that's the case, your lender may ask you to close one or more accounts and you should comply.

Avoid inquiries

Too many inquiries may show that you're desperate for credit or that you're at risk for financially overextending yourself. Don't apply for credit unless you need it. And definitely don't apply in the six months preceding your loan application.

Multiple recent credit applications are another big red flag to mortgage lenders.



One big exception:

you can shop for mortgage rates within a generous time frame without worrying about multiple inquiries hurting your score. That's a huge relief because the only way to compare loan offers is to apply with more than one lender.

Here's how it works.

- As you rate shop for a home loan, the inquiries should all show up as coming from mortgage lenders.
- If an inquiry is marked as coming from a mortgage lender, the credit scoring system completely ignores it for 30 days. The inquiry will have absolutely no effect on your score during this time.
- Once a mortgage inquiry is older than 30 days, it'll factor into your score. At that point, all mortgage inquiries within 45 days are treated as a single inquiry.

Monitor monthly

Watch your credit. Credit reporting errors happen all the time and you don't want any surprises when you apply or when the time comes to close on your loan. It's easy to monitor your credit with Credit Sesame's free or premium credit monitoring service.

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Credit Sesame keeps tabs on at least 35 different changes that can occur in your credit report, and will alert you when something happens.

Do's and Don'ts in the Mortgage Process

DO

- Report any changes, including your address, your employer, a salary change or any other change your lender asks for
- Keep records of all financial transactions
- Avoid large purchases and new debt. Asset reduction or a change in your debt-to-income ratio can affect your loan eligibility
- Communicate with your lender about any big financial plans you have

DON'T

- Consolidate credit card debt, as you could end up with an account showing high debt utilization and that could affect loan eligibility
- Pay off a charged-off account after you apply for a mortgage unless instructed to do so by your lender
- Cosign for any other person, because it will show up on your credit reports as your debt
- Open or close any accounts

Get more information

For more details about mortgages, take a look at our Comprehensive Guide to Getting Your Credit Ready for a Mortgage, which includes the information presented here plus lots more, to help you fully understand everything you need to know about getting your credit ready for a mortgage. Also see our Guide to Understanding Mortgages, which will help you understand the process.

We hope your home is a source of great pride for your family and of enjoyment for many years to come. Take time to plan your finances and you'll be stepping through the front door in no time at all.

www.creditsesame.com