Guide for Buyers:
Financing Your Home Purchase

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Improving Your Credit Score

FICO scores are based on specific credit history, with hundreds of inputs used to find your score. There are 5 main parts of your credit score:

1. Payment History: 35% of your credit score

Payment history measures how you've paid on your debts. Payment history is the largest part of your credit score because if you've recently missed payments your creditors, it's likely those missed payments will continue, and may lead to default. Payment history also measures how "severe" a missed payment has been. An item in collection is worse than an item paid 30 days late.

Tip to improve: Make payments on time, all the time — even items in dispute. Pay the bill and worry about refunds later.

2. Amounts Owed: 30% of your credit score

Amounts owed measures how "maxed out" you are. It is the second-largest part of your credit score because a person that is maxed out has no safety valve in the event of a crisis. Amounts owed is not about the dollar amount you're borrowing — it's about the dollar amount you're borrowing relative to the amount available to you.

Tip to improve: Don't close out "old" credit cards, and don't lower your available credit limits. Having access to credit is good.

3. Credit History Length: 15% of your credit score

Your credit history is your track record with respect to managing credit. It matters in the FICO model because "experienced users of credit" are viewed differently from new users. Similar to the hiring process for a job, the credit bureaus want to see that this isn't your first experience.

Tip to improve: Don't close cards with "history". You need them to show you're experienced with credit.

4. New Credit: 10% of your credit score

This category accounts for your recent attempts to secure new credit. In general, the more credit for which you've applied, the more damage it will do to your credit score. This is more true for credit cards than for mortgage applications. A consumer in search of new credit cards is presumed to "need" more credit lines.

Tip to improve: When you shop for a mortgage, multiple credit checks can count as a single credit inquiry, protecting your credit score.

5. Types of Credit: 10% of your credit score

The type of credit you carry matters and not all credit types are the same. Installment loans such as mortgage loans and student loans, for example, are considered "better" than credit cards and charge cards. This is because installments loans eventually pay down to zero. Consumer cards, by contrast, can only go up.

Tip to improve: Don't carry an abundance of store charge cards. Interest rates are high and the FICO model looks unfavorably upon them.

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5 Steps to Save for a Down Payment

One of the greatest hurdles to home buying is coming up with the down payment. Here are a few softer practical strategies to help you clear the hurdle and come up with the cash you need.

1. Plan for progress – Your Dream Budget

Saving isn't all dollars and cents, it's a little emotional. That's why we recommend finding a few visuals to remind you why you're saving. They could be photos or a list of features of your dream home. Whatever your focal point, store it close to your budget, wallet, or in the place you pay bills to remind you of what you're working for.

2. Slow your Spending – The 10-day Rule

The biggest enemy of spending is the impulse buy. For purchases over $25 exercise self-discipline and give yourself 10-days to decide if this purchase is for a real need or a want?

3. Avoid the Convenience

From coffee on the go to lavish meals out, consumers pay quite a bit for convenience. Avoid your local convenience stores and become friends with your kitchen to help your bottom line.

4. Track Expenses - Face Your Truth

We scoured the net and all the experts agree, the only thing more powerful than creating a budget is tracking it. Schedule time with yourself each week to face the truth about your spending and find new ways to save.

5. Eliminate the Excess Spending

Locate the excess in your budget and slash it. Trade the gym for home workouts, movie nights out for rentals at home, and keep an eye out at the end of each month for services.

Serious Sources for a Down Payment

Payroll Deductions:

One of the best ways to save money is to hide it from yourself. Payroll deductions or allocating a piece of your direct deposit to a special savings account can be a great way to trick yourself into saving.

Tax Refund:

You know it's coming, why not use it toward your down payment? If you're really serious about home ownership, talk to an accountant about tax planning to make sure there is a little green at the end of the year to help you with your down payment.

Borrow from the 401k:

It's not losing your retirement, it's more so using a piece of one investment to make another. First-time homebuyers can one-time borrow up to $10,000 from their Individual Retirement Accounts (IRAs) without paying the early withdrawal fees. Be sure to talk to your 401k or IRA administrator to find out how it will impact your retirement.

More Work:

Yes, we said it; more work. If you're serious about reaching your down payment goal, consider spending a few hours working part-time. 10 hours/ week at $10/hour all year will get you $5200 closer to your goal.

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Questions to Ask Your Mortgage Professional

It's easy to get overwhelmed at the sight of the numbers and paperwork involved in financing a home. However, your long-term fiscal success hinges on being aware and informed about a few key mortgage facts. Here are 6 questions every smart buyer (or refi-er) should ask their mortgage professional before they borrow:

1. Ask: Are you a bank, a broker, or both?

Why:

To Find Your Real Home Value
Working with a mortgage brokerage that is (or has) a bank could be a deal-saving move because they have more control over their appraisal process. When it comes down to appraisals the ability to designate a local appraiser that understand the neighborhood matters, especially if the property is in an area that hasn't had many recent sales or is otherwise challenging to appraise.

Lower Downpayments and Easier Approvals
Some broker/banks that originate loans and sell them straight to Fannie Mae or Freddie Mac offer the same benefits of an FHA loan – a low down payment and moderate qualification guidelines - without the restrictive "overlays" imposed by some larger banks. For example, FHA guidelines don't impose a minimum credit score, but many banks overlay their own 640 minimum FICO requirement. Broker/banks that sell straight to Fannie and Freddie often mirror the FHA minimum guidelines precisely.

A "Just in Case" Lending Net
Brokerages with their own in-house bank and a large roster of lenders and programs provide the advantage of offering a wider range of fallback options for financing than plain old banks or plain old brokerages - Plans A, B, C and D. It's increasingly common that buyers first choice bank or loan program doesn't work out, but with combination bank/brokerages, those buyers have a lot more options to help get the deal done.

2. Ask: Will you explain my Good Faith Estimate to me?

Why: The current, national standard Good Faith Estimate (GFE) clarifies all sorts of deal points, from the broker's commissions to the costs associated with the loan. However, as a point of customer service, you should ask your mortgage professional to explain it to you in order to be safe.

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3. Ask: May I have a fee sheet or estimate of funds to close?

Why: The one shortfall of the latest edition of the GFE is, while it clearly shows the costs associated with a particular loan scenario, it does not always show so clearly the actual amount of funds you'll need to close the transaction (which might be more or less than those costs)! Ask your mortgage representative to prepare a fee sheet or an estimate of funds to close as early in the transaction as possible.

4. Ask: How long will it take to close?

Why: The time it takes to close a mortgage, and consequently a home, can vary widely depending on the loan type, lender, and other factors. When you first meet with your prospective mortgage pro, talk with them about these issues so they can help you understand and insert realistic time frames into your offer. This will help ensure you don't lose your future home because a piece of the process took longer than you expected.

5. Ask: Are there any fees for the loan application/approval process?

Why: Some lenders charge for credit checks up front, and most require that you pay for your appraisal before you find and get into contract on your property. You need to know upfront how much cash you'll need to get the loan approval ball rolling.

6. Ask: How long have you been originating loans with this company?

Why: When it comes to mortgage professionals, experience pays. Those who have been around for a long time have advance knowledge of troubleshooting, workarounds and backup plans. In addition, they know the current underwriting practices to get a loan closed in this restrictive mortgage market.

Finding the right financing and professional can take a lot of the hassle out of the mortgage and closing process. Ask these questions to be sure you're making the right lending decision. Remember today's loan can affect your budget for the next 30 years to come.