

How your credit score affects your ability to buy a home



While the home-buying process can be one of the most exciting times of your life there is a lot to do in order to prepare. Whether you are on the fence about purchasing a home or actively looking at lenders, one of the most important things to consider before you make the leap is your credit score. Having good credit can make all the difference when it comes to qualifying for the perfect home.

What is Good Credit?

According to FICO®, the median credit score in 2019 was 706, and anything above that is considered good credit. Additionally, any credit score that is above 740 is considered optimal credit and is what will get you the best rates for a mortgage. There are three main credit reporting companies that offer evaluations on your credit: Experian, Transunion, and Equifax. These bureaus track loans in your name, credit cards, payments, and outstanding debts. Having good credit means you have made consistent and on-time payments towards your debts and are not in default. Additionally, there are a variety of scoring models used depending on what you are looking to accomplish. Scoring models are different when it comes to purchasing a home, a car, home furnishings, or opening a new credit card, so your score may vary depending on which one you are looking to do. Because of this, the score you see on your credit report or a credit reporting app, such as Credit Karma, may be different. Apps can give you a predictive score, but do not consider any score valid unless it comes directly from one of the main three credit bureaus.

So, how do you improve your credit score? Here are some helpful tips to get you started!

Dispute Credit Report Errors

The **Federal Trade Commission** advises consumers to check their credit report periodically in order to ensure the accuracy of the information on the report and to help guard against identity theft. Because this information impacts whether you can get a mortgage, pulling a credit report before you apply for a mortgage will help you understand the health of your credit. Having an inaccurate score can also impact the rate for which you qualify and can potentially cost or save you thousands of dollars in interest.

Consumers are able to pull a free credit report once a year with any of the three credit reporting companies and can also use annualcreditreport.com to get a report of their credit. Once you pull your report, it is very important to look over the report carefully. Finding any errors or mistakes and disputing them with the credit agencies is important and can improve your credit. It's also important that you do not pull credit reports too frequently. Running a check on your credit too often can also work adversely.

Make Consistent Payments

Thirty-five percent of your credit score is based on whether you make on-time payments towards your debts, so it is crucial to make consistent payments. One late payment could stay on your record for up to 7 years. So even though it might just be one late payment, it could negatively impact your credit score record for a long time. Making payments towards debts that are on time is what will ultimately help improve your score. It does take time and patience to see improvements. While this may seem to be a painfully slow process for some, especially if you are itching to purchase a home in the future, making sure you have good credit will give you more options in terms of lender choice and will ultimately benefit your future. Prioritizing consistent payments, even putting your payments on auto-pay from your bank account, can also help you earn a good credit score.

Keep Credit Card Balances as Low as Possible

Another strategy to consider is keeping your credit card balances as low as possible, as this makes up another third of your credit score. Lenders will be looking to see if you keep your credit under thirty percent of your limit. It may seem tempting to keep charging purchases to your credit card, but when looking to purchase a home, make sure to limit how much you charge to your credit cards. Even if you need to make payments that are a little higher for a certain amount of time, keeping your credit under thirty percent of your limit will show lenders that you are responsible and take your debts seriously. Something to keep in mind is that even if you're paying off your credit card every month, but are consistently reaching your credit limit, you could still be judged harshly for not maintaining available credit.

Limit Inquiries and New Lines of Credit

A mistake that a lot of people make during the process of purchasing a home is increasing credit card limits or opening new lines of credit. While seemingly harmless, increasing your credit limit and opening a new line of credit will prompt a "hard" credit inquiry, which could negatively impact your credit score. It is best to wait until after you purchase your home to expand limits on a card or to open additional lines of credit so you have a better chance of getting the best rate possible.

Are you interested in learning more about the home buying process? [Talk to one of our mortgage experts today!](#)