

Can You Get a Mortgage with Bad Credit?

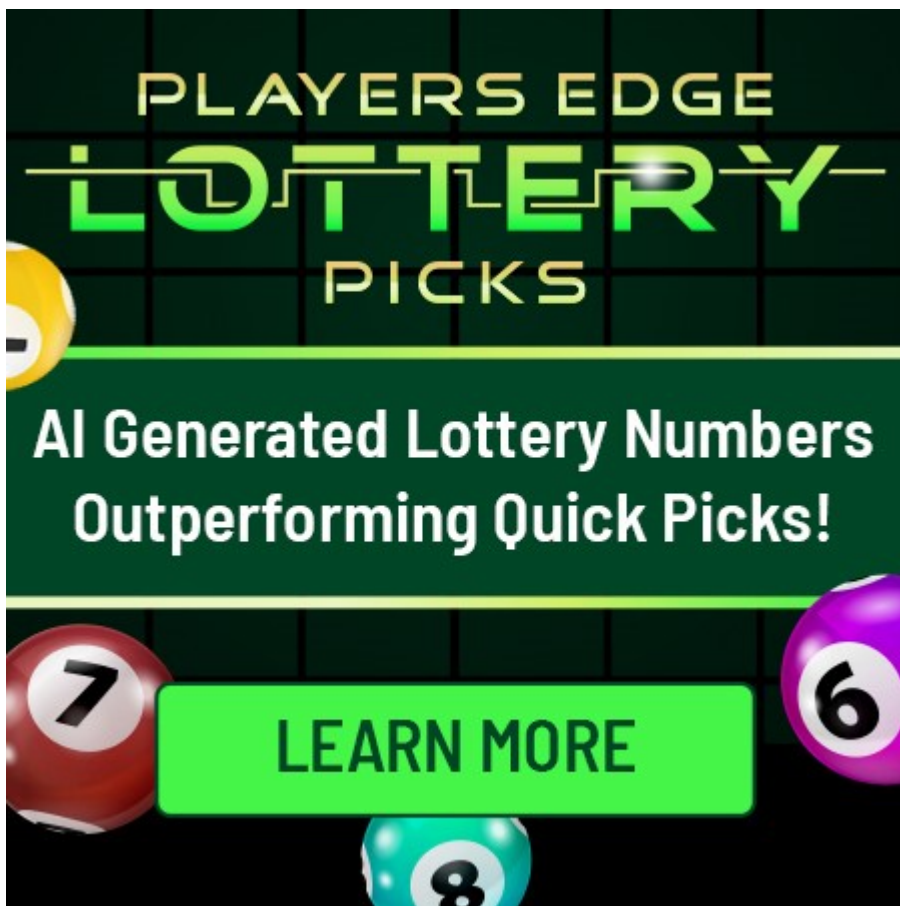
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The real estate market remains hot right now, despite economic headwinds. Many people want to jump in and buy a home or upgrade their current home to a new one for good reason. Interest rates are incredibly low, so now could still be a buying opportunity, despite limited inventory and high prices in some locations.

If your credit isn't perfect, you may wonder if anyone will approve you for a mortgage. The short answer is maybe.



You aren't alone if you don't have great credit. Around 15% of Americans have a credit score from 500 to 599 (<https://www.forbes.com/advisor/mortgages/how-to-get-a-mortgage-with-bad-credit/>), which is considered poor. Around 10% of people have credit in the range of 600 to 649, which is considered fair.

When you're applying for a mortgage, you're most likely to be approved with a score of at least 650, although even anywhere in the 600s can make it challenging. If your score is below 500, you're almost certainly not going to be approved for a mortgage, and beyond that, the following are key things to know.

Conventional Mortgages

Conventional mortgages tend to have the strictest requirements as far as your credit score. Freddie Mac and Fannie Mae are two companies offering conventional mortgages. Freddie Mac's minimum credit score requirement is 660, with a down payment of 3%. Fannie Mae's minimum score for a 3% down payment is 620. If you make a down payment of at least 25%, you may be eligible for a Freddie Mac conventional mortgage with a credit score as low as 620.

The majority of lenders follow similar requirements, because usually after your loan is closed, the lender will sell it to Freddie Mac or Fannie Mae.

You should be aware that in the eyes of your lender, there's a difference between having a low score because you don't have much credit history and having a low score because of bad credit history. You're likely to be viewed more favorably with limited credit than with bad credit.

If you're close to the lending cut-off, you should be able to show that you have a debt-to-income ratio of no more than 36%. You will probably also need to show that you have at least two months of cash reserves on hand.

What About an FHA Loan?

An FHA loan may be an option for someone with a very low credit score. You can be approved for these loans with a score as low as 500, but you'll have to plan to put at least 10% down.

If you have a higher score, you may be able to put as little as 3.5% down.

Aside from VA loans, FHA loans have the least stringent approval guidelines.

As such, FHA loans are often used by people after a foreclosure or bankruptcy.

FHA lenders don't have to follow the above credit score requirements. They can require that your credit score is higher for approval. Many FHA borrowers have a score somewhere between 650 and 699.

VA Loans

For a VA loan, there is no minimum credit score, but you can only get this type of home loan if you're an eligible service member in the military, a veteran, or the surviving spouse of a veteran. While there's no set minimum score, individual lenders can create their own guidelines.

Should You Focus on Improving Your Score?

If you have less-than-perfect credit right now, you might want to focus on building your score. It can take several months, but it's very unlikely interest rates will go up anytime soon based on what the Fed has said so far. The Fed says they expect rates will stay around zero through 2021 and maybe 2022, although there's no guarantee.

If you can make even modest improvements in your credit score, not only are you likely to be approved, but you may also get better terms. Focus on paying down your high-balance credit cards, cleaning up any errors, and in the meantime, also try to save for a down payment. If you have at least 10% for a down payment, a lender will see you as less risky.

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