

## YOU and YOUR CREDIT: Home Ownership and Credit<sup>1</sup>

Michael S. Gutter, Joan P. Elmore, and Travis P. Mountain<sup>2</sup>

Below are links to each of the YOU and YOUR CREDIT series.

Credit Dos and Don'ts: PDF version - <http://edis.ifas.ufl.edu/pdffiles/FY/FY106400.pdf>

Credit Card Basics: PDF version - <http://edis.ifas.ufl.edu/pdffiles/FY/FY106500.pdf>

Managing Your Credit: PDF version - <http://edis.ifas.ufl.edu/pdffiles/FY/FY106700.pdf>

Credit Scores: PDF version - <http://edis.ifas.ufl.edu/pdffiles/FY/FY106800.pdf>

Home Ownership and Credit: PDF version - <http://edis.ifas.ufl.edu/pdffiles/FY/FY106900.pdf>

Further Resources: PDF version - <http://edis.ifas.ufl.edu/pdffiles/FY/FY107000.pdf>

Series of Five Parts, Bound as Single Document: PDF version -  
<http://edis.ifas.ufl.edu/pdffiles/FY/FY107100.pdf>

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1. This document is FCS7234, one of a series of the Department of Family, Youth, and Community Sciences, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida. Original publication date September 22, 2008. Visit the EDIS Web site at <http://edis.ifas.ufl.edu>.
  2. Michael S. Gutter, Financial Management State Specialist and Assistant Professor, Department of Family, Youth, and Community Sciences, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, Florida 32611; Joan P. Elmore, Extension Agent IV, Jackson County Extension, Marianna, Florida 32448; and, Travis P. Mountain, Lecturer, Department of Family, Youth, and Community Sciences, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, Florida 32611.

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Michael S. Gutter, Financial Management State Specialist, IFAS/UF, Joan P. Elmore, Extension Agent IV, Jackson County Extension, Marianna, Florida 32448, Travis P. Mountain, Lecturer, IFAS/UF <sup>2</sup>

Using credit wisely helps you to achieve many of your goals; in fact, all of us need it to obtain a home as well as other important purchases.

Using a mortgage affects two aspects of our financial management: your net wealth and our cash flow. The home will count as something that we own (asset) and the mortgage as something that is owed (liability).

As you pay down your mortgage, this will improve your net wealth. As your home increases in value, you improve your net wealth.

However, the mortgage payment will be a major expense. It is critical to look at your budget prior to taking on a mortgage to gauge exactly how much one can truly afford.

It is important to know your FICO<sup>i</sup> score prior to meeting with lenders. It can also be helpful in determining how much home you can afford since it affects how much you can borrow.

Table 1 helps to illustrate the difference in the monthly mortgage payment for a \$100,000

home loan broken down by FICO score. Thus, a higher score would mean a lower interest rate; hence, you would have a lower payment or could afford to borrow more.

**Table 1. Estimated monthly payment on \$100,000 mortgage by credit score and corresponding interest rate**

<b>Credit Score</b>	<b>Interest Rate <sup>ii</sup></b>	<b>Monthly payment</b>
760-850	6.274%	\$1,019
700-759	6.496%	\$1,042
660-699	6.780%	\$1,073
620-659	7.590%	\$1,164
580-619	8.905%	\$1,316
500-579	9.899%	\$1,436

Lastly, one issue that often arises with home ownership is the desire to fill every room in the home with furnishings. This tends to be another popular use of credit when purchasing a home. It is critical to avoid this trap. Taking on too much consumer debt too soon can leave you scraping by for the unforeseen expenses that tend to come up when buying a home.

<sup>i</sup> Note your FICO score is your credit score and is based on your payment history, debt capacity, length of history, number of inquiries, and types of credit being used.

<sup>ii</sup> Rates as of June 12, 2007 from myFICO.com

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