

YOU and YOUR CREDIT: Home Ownership and Credit¹

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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.

Having a mortgage affects two aspects of your financial management: your net wealth and your cash flow. The home will count as something that you 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 also will 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 you can truly afford.

It is important to know your FICO score prior to meeting with lenders (Note your FICO score is your credit score, which is based on your payment history, debt capacity, length of history, number of inquiries, and types of credit being used). It can also be helpful in determining the price of 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 10-year home equity loan of \$100,000 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.



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Table 1. Estimated monthly payment on \$100,000 mortgage by credit score and corresponding interest rate (assuming a 15-year loan period term).

Credit score	Interest rate ¹	Monthly payment
760–850	3.468%	\$713
700–759	3.69%	\$724
680–699	3.867%	\$733
660–679	4.081%	\$744
640–659	4.511%	\$766
620–639	5.057%	\$794

¹Rates as of February 13, 2019 from myFICO.com

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One last 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 unprepared for the unforeseen expenses that tend to come up when buying a home.