myFICO℠
The Score Lenders Use™

What Home Buyers Should Know Before They Begin to Shop

Provided by the credit scoring experts at Fair, Isaac and Company

If you're like most home buyers, you'll spend a long time picking out that perfect house—maybe 3 to 12 months. Early in the process, you'll figure out how much house you can afford and start to get your financial house in order so you're ready to approach mortgage lenders when the time is right.

A critical part of getting your finances in order is seeing how you measure up in the eyes of lenders. One of the most important measures that lenders will use is your credit risk score—a number that provides a snapshot of your credit risk picture at a particular point in time. The higher your score, the lower your risk to the lender, and the better your loan terms are likely to be.

"You think your SAT score was important? Your credit score is the granddaddy of all grades."

—Michelle Singletary, The Washington Post, 3/14/2002

Fair, Isaac and Company developed the credit score that is most commonly used in connection with lending transactions. The FICO score is calculated by each of the three major credit reporting agencies—Equifax, Experian and TransUnion—from a mathematical formula that evaluates many types of information from your credit report.

How your score affects your mortgage rate

Lenders use your FICO score to help them determine the mortgage rate they'll offer you. For example, the average mortgage APR for a consumer with a FICO score of 650 is 8.822* as of April 3, 2002, compared to a 6.885* for a consumer with a FICO score of 750. So, for a 30-year fixed mortgage of $150,000, the difference between a FICO score of 650 and 750 could mean a savings of $200 a month, or over $72,000 over the life of the loan. The motivation for learning your score is clear.

The actual interest rates you qualify for will depend on several other important factors—such as your down payment, debt-to-income ratio and other lender-specific criteria in addition to your FICO score.

Home Mortgage Options	675–699	700–719	720–850
30-yr fixed mortgage	7.672	7.135	6.885
15-yr fixed mortgage	7.266	6.729	6.479
30-yr fixed jumbo	7.968	7.305	7.055
15-yr fixed jumbo	7.592	6.930	6.680
1–1 ARM mortgage	6.121	5.583	5.333
1–1 ARM jumbo	6.314	5.652	5.402

Interest Rates as of 4/3/2002

*Provided by Informa Research Services.

Start now, to earn the best terms you can

Your credit score reflects your credit management history, and you can't improve your history overnight. But there are steps you can take to make sure you have the best score possible when you're ready to apply for a loan.

1. **Get your FICO Report 6–12 months before you want to buy.** You can purchase your FICO Report from myFICO. You'll receive your FICO score, a full credit report from Equifax plus an explanation of your score, what it means to a lender, and suggestions for improving your score over time.
2. **Have any co-applicants do the same.** Even though the FICO score is generated on an individual basis, each lender has its own policy for dealing with joint loan applications. Some consider an average of the scores, some the lowest score, some the highest, while some use other calculations. By knowing the FICO scores of your co-applicant(s), you will be prepared for any situation.
3. **Apply what you learn.** If you understand your FICO score early enough, you'll have time to improve it by demonstrating better credit management. So start following the tips for improving your score as soon as you can.
4. **Rid your credit report of errors.** An important first step is to make sure your credit report is free of errors. If you find an error and report it to the credit reporting agencies, they are required to investigate and respond to you within 30 days.
5. **Do your loan shopping in a concentrated time period.** When you begin to look for your loan, there are basically two places to shop. You can shop with a direct lender who, as the name applies, will lend you money directly with a limited variety of in-house loans. You can also shop with a mortgage broker, who has access to many different loan products from 40 different lenders at any one time, on average. Whichever route you choose, it is best to do your serious shopping within a couple of weeks. If you search periodically over a long period of time, you can negatively affect your score.
6. **Monitor your progress.** If you're working to improve your score, make sure to regularly check your credit score for improvements. Building a solid credit history takes time and patience. There are no short-term strategies for improving your credit score.

Getting a mortgage should start with understanding your credit health, not filling out a loan application. Today, you can see in advance how you'll look to a lender. Knowing your FICO score early, and working to maintain and improve it throughout the home-buying process, can improve the terms of your mortgage and your long-term financial health.

For more information visit *www.myFICO.com/homebuyer.*

