YOU and YOUR CREDIT: Home Ownership and Credit [1]

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 [2]

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[i] 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**

Credit Score	Interest Rate [ii]	Monthly payment
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.

i 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.

ii Rates as of June 12, 2007 from myFICO.com

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. First published: September 2008. Please visit the EDIS Web site at http://edis.ifas.ufl.edu.

2. 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.