

Importance of Credit for First Time Home Buyers

For first-time homebuyers, building strong credit is important because it directly affects:

1. **Whether you can qualify for a mortgage at all**
 - Many first-time buyers start with lower scores and may not be “mortgage ready” yet. Moving a score up into qualifying ranges (for example, around 580 for many FHA/VA options or around 620 for many conventional options) can be the difference between renting and owning.
2. **Which loan programs you may have access to**
 - Improved scores open more doors: FHA, VA, and then conventional programs as scores increase. Borrowers near the 580–620 range often move from having only high-cost or subprime options to qualifying for mainstream FHA/VA/conventional financing.
3. **The interest rate you may receive**
 - Credit score has a material impact on rate and thus monthly payment. A higher score can reduce the rate by several eighths of a percent, which lowers principal and interest and total interest over the life of the loan.
4. **Upfront costs like fees and Loan Level Price Adjustments (LLPAs)**
 - As scores move up in 20-point bands, LLPAs typically decrease, which can significantly lower closing costs for conventional loans. For example, moving from the low 700s into the mid/high 700s can reduce LLPAs by dozens of basis points, cutting both lender cost and borrower cash to close.
5. **Mortgage insurance costs**
 - Better scores often mean lower private mortgage insurance (PMI) premiums on conventional loans. At higher scores (such as 760+), PMI rates can drop sharply compared to lower bands, reducing the monthly payment and sometimes the number of years insurance is needed.
6. **Total cost of homeownership over time**
 - Even modest score improvements (for example, 20–60 points) can create tens of thousands of dollars in lifetime savings through lower rates, lower fees, and lower mortgage insurance, which is especially impactful for first-time buyers who may have tighter budgets.

Practical guidance that I give a first-time homebuyer

Stronger credit usually means lower monthly housing costs, which can free up cash for maintenance, emergencies, and future financial goals.

- Consistently paying rent on time for at least 12 months can materially help their mortgage profile, especially if:
 - They are a first-time homebuyer with a 620+ score on FHA, where positive rental history can be used in TOTAL.
 - They are a first-time buyer using Freddie Mac LPA, where verified rent history can be factored into the credit assessment.
- They have limited or no traditional credit and need non-traditional credit or Complete Rate to demonstrate their ability to pay.

If rent is reported to the credit bureaus (tradelines on the report)

When rental history appears as a tradeline on the credit report and is paid on time, it may:

- Contribute positively to the overall credit profile and potentially help the score, since today's FICO models are based on accounts reported to the bureaus.
- Support automated underwriting (DU/LPA/TOTAL) decisions that rely on reported tradelines and scores.

Impact on the exact score will vary by borrower and scoring model, but consistent on-time rent can be a meaningful positive factor in the file.