# WORKING WITH FIRST-TIME HOMEBUYERS

According to the National Association of REALTORS as of April 3, 2024, millennials are still the largest generation of home buyers in the U.S., representing 38% of homebuyers.[1]

Kudos to the first-time homebuyers that have 700 credit scores and 20% down, but not all first-time homebuyers are that fortunate.  In my observation and experience, many (not all) first-time homebuyers seem to have 2 very common ailments that prevent them from buying their first home and keep themselves trapped in the renter category for years on end.  While there are many reasons why someone cannot qualify for a mortgage, for first-time homebuyers, most of the time, it's due to bruised credit and/or lack of funds for a down payment.  So, how do we help them?

## BRUISED CREDIT

My approach is to get them on a zoom call and review their credit report together with them.  My goal is to inform and educate, so they can understand the reasoning behind how their actions led to their lower credit score.  It's a shame that our education system does not teach credit and basic money principles at the high school level, but, I digress.  On the zoom call, I then make recommendations to the mortgage applicant on what to work on, and prioritize those action items so there is a clear game plan on what to do first, and what to do next.  In addition, I set up accountability phone calls with them, every 4 to 8 weeks to help them stay encouraged and committed to the process.

The 5 main factors that are analyzed by proprietary algorithms not disclosed to the public by the 3 credit reporting agencies are:

1. Payment History: The payment history is one of the most critical elements in determining a credit score. It assesses whether you have paid your credit accounts on time, including loans, credit cards, and other lines of credit. Consistently making timely payments positively impacts your credit score, while late payments or defaults can significantly lower it.

2. Credit Utilization: Credit utilization refers to the percentage of available credit that you are currently using. High credit utilization indicates a greater risk, as it suggests dependency on credit and potential financial strain. Maintaining a low credit utilization ratio demonstrates responsible credit management and can positively impact your credit score.

3. Length of Credit History: The length of your credit history considers the age of your credit accounts, including the oldest account, newest account, and the average age of all accounts. Generally, a longer credit history is beneficial, as it provides a more comprehensive picture of your credit behavior. It allows lenders to evaluate your creditworthiness based on an extended period of financial management.

4. Credit Mix: Credit mix refers to the variety of credit accounts you possess, such as credit cards, mortgages, auto loans, and student loans. A diverse credit mix demonstrates your ability to

[1] https://www.nar.realtor/newsroom/millennials-reclaim-position-as-largest-group-of-home-buyers

handle different types of credit responsibly. However, it's important to note that having too many accounts or opening new accounts frequently may negatively impact your credit score.

5. New Credit Applications: Each time you apply for new credit, a hard inquiry is initiated, which may temporarily lower your credit score. Frequent applications for credit can signal financial instability or overreliance on credit. It is advisable to apply for new credit sparingly and only when necessary.

While credit scores may seem mysterious, they are essentially derived from a combination of factors that reflect an individual's credit history and financial behavior. By understanding these factors, one can take proactive steps to improve and maintain a healthy credit score. Make consistent, timely payments, keep credit utilization low, maintain a diverse credit mix, and avoid unnecessary credit applications.

## LACK OF FUNDS FOR DOWN PAYMENT & CLOSING COSTS

This is the second most common reason holding back potential would-be homebuyers, and there are a few different ways to help solve this condition.

First, purely from a loan program standpoint, there are conventional programs that require as little as 3% down payment.  FHA is more forgiving with bruised credit and offers a 3.5% down payment option while VA and USDA offer 0% down.  There are many guidelines behind each of these programs, so it’s best for an applicant to consult with a mortgage loan officer.

So, what happens when an applicant does not have enough money of their own saved up to meet the minimum down payment requirements?  I would ask if they have relatives that could potentially gift them some money.  Receiving gifts from a relative or other qualified source per guidelines is perfectly acceptable.

I would also look into Down Payment Assistance (DPA) programs for which they may qualify.  My favorite DPA is through Illinois Housing Developmental Authority (IHDA) which requires a 640 credit score, and the applicant can potentially receive up to $10,000 of assistance at 0% interest / 0% APR on the assistance funds.  This has proven to be an invaluable tool in my mission to help renters become homeowners.

Funding the down payment and closing costs can come from the applicant’s savings, gift(s) from a relative(s), from a DPA program, or any combination of these.

As a last resort, if the applicant is STILL short of funds, the loan officer and buyer’s agent can strategize on asking for seller credits to help get the buyer to the finish line.

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