

Credit 101 – How to Prepare for a Mortgage Loan

What Is Credit History?

Credit is your financial track record. It includes your financial history and provides information on how well you have managed your finances in the past. For example, your credit history includes a record of your total debt balance by account, your past due accounts, and bills, and how often you have missed a payment in prior years.

Why Does Atlanta Habitat Look at Credit History?

In the Home Purchase Program, Atlanta Habitat lends you money to purchase the home. This zero-interest loan is paid back over 30 years. Like all mortgage companies, Atlanta Habitat wants to be confident in your ability and willingness to pay back the loan before agreeing to lend you the money.

Most importantly, Atlanta Habitat wants you to enter the journey toward homeownership with the best chance of long-term success over the life of the 30-year loan. In other words, Atlanta Habitat wants you to be “credit ready” to purchase a home without adding a financial strain on you and your family.

What Credit Thresholds Are Considered by Atlanta Habitat?

Credit Score:

Atlanta Habitat will never review your credit score to determine if you qualify for the Home Purchase Program.

Payment History:

Atlanta Habitat will review a Tri-Merge Credit Report (i.e., a credit report that includes Equifax, Experian, and Transunion) and will evaluate your payment history on all debts on your credit report, even if the debts have no outstanding balance.

Bankruptcies:

Any bankruptcy must have been discharged for at least four years. The four-year period allows time for you to establish a good payment history.

Past Due Balances:

To be eligible for the Home Purchase Program, the total of all past due accounts and monthly bills must be zero. If you have a past due balance of less than \$400, we will allow you to continue in the process but if your application is approved, these past due balances must be zero within thirty days of your date of approval to keep your application open. To meet these deadlines, you must provide documentation from the creditor or updated credit reports showing proof of the required balance.

Debt-to-Income (DTI) Ratios:

Like most mortgage lenders, Atlanta Habitat reviews two DTI ratios, a monthly DTI ratio and an annual DTI ratio. By comparing your debt levels to your income levels, these ratios measure your ability to manage monthly payments and repay your total debt on a timely basis. The key is to make sure you are not overextending yourself by taking on a 30-year mortgage loan to purchase a home.

Here is how Atlanta Habitat calculates these DTI ratios:

Ratio 1: Monthly Debt-to-Income Ratio Must Be Less Than 41.00%	
Step 1:	Add up all monthly debt payments including: • Car payment, minimum credit card payments, student loan payment (if loans are deferred Atlanta Habitat uses 0.5% of student loan balance), and other loans. • Atlanta Habitat rent payment as proxy for your mortgage payment (\$900 for a 1-story 3-Bedroom home and \$925 for a 1-story 4-Bedroom home \$1050 for a 2-story 3-bedroom home, \$1075 for a 2-story 4-Bedroom home). Exclude monthly bills such as utilities, insurance, and phone.
Step 2:	Determine your monthly income: • For employment income, this is your gross income before taxes and deductions. • For self-employment, this is your net income after deduction for your expenses. Income must be documented by six months of receipts. Expenses can be documented by six months of receipts or your most recent Federal tax return.
Step 3:	Divide the total of your monthly debt payments by your monthly income. This must be less than 41.00%

Ratio 2: Annual Debt-to-Income Ratio Must Be Less Than 15.00%	
Step 1:	Add up your total debt, including: • Total balance of all credit card debt.

	All past due balances on accounts and monthly bills. Excludes installment loans (i.e., car note and student loans) if this debt is current. If you are past due, the entire balance of the loan must be included in the DTI ratio.
Step 2:	Determine your annual monthly income: - For employment income, this is your gross income before taxes and deductions. - For self-employment, this is your net income after deduction for your expenses. Income must be documented by six months of receipts. Expenses can be documented by six months of receipts or your most recent Federal tax return.
Step 3:	Divide the total of your debt by your annual income. This must be less than 15.00%

Will Atlanta Habitat Review Credit History After the Date of Application?

Yes. You have to meet the credit qualifications at two different times. First, you must meet these qualifications at the time of your application so that we can move forward and help you build your home. Second, you also have to meet these qualifications to be eligible to purchase the home at the time of closing. Good credit is a ticket to long-term success as a homeowner.

How Can You Improve Your Credit?

When someone starts exploring the home purchase journey, the need to improve credit is very common. Here are some tips to help prepare you:

- Pay all bills on time every month.
- Reduce your debt levels by paying off credit cards or reducing loan balances.
- Avoid taking on new debt.
- If you use your credit cards, pay the full balance each month to avoid the increasing debt level due to interest charges.
- Create a budget to see where you could save money and put that extra money toward paying down your debt.

Purchasing a home is a long-term commitment and frequently requires lifestyle changes. It may not always be easy, but the effort will pay off when you achieve homeownership. Atlanta Habitat's mission is to help you achieve long-term success.

Atlanta Habitat has an open door policy: all who desire to be a part of this work are welcome regardless of race, color, gender identity, family medical history or genetic information, religion, sex, disability, familial status, pregnancy, national origin, marital status, age, sexual orientation, past or present military status, receipt of public assistance, or any other characteristic protected by law including, but not limited to, the Fair Housing Act and the Equal Credit Opportunity Act. This policy applies to all employees, volunteers, financial supporters, and applicants.

