Print Close

How Your FICO Score Affects Your Ability to Get a Mortgage

Published October 19, 2012

| Zillow, Scott Sheldon

It's not uncommon for borrowers to ask: "Why can't I get the interest rates I see advertised on the Internet?"

One of the most important characteristics of securing a mortgage is your FICO score. Simply put, the lower the credit score, the higher the interest rate.

3 different scores, 3 different rates

Your FICO score determines both your eligibility for a mortgage and the interest rate that you'll be paying throughout the term of the loan. Consider the following scenarios to see how a credit score impacts indebtedness when purchasing a $300,000 home.

Example 1

Assuming a 5 percent down/5 percent equity (95 percent loan-to-value ratio) financing with a conventional mortgage on a primary residence, **740 FICO score**

Mortgage rate: 3.625 percent, with no points

Total interest paid on a term of 360 months: $182,909

Example 2

Same assumptions with a **700 FICO score**

Mortgage rate: 3.875 percent

Total interest paid over 360 months: $197,463

Example 3

Same assumptions with a **680 FICO score**

Mortgage rate: 4.125 percent

Total interest paid over 360 months: $212,251

In general, for every 40-point swing in credit score when purchasing or refinancing, expect the interest rate to rise about 0.25 percent based on the borrower's FICO score alone, all other factors being constant.

Debt, income and assets

Other factors also are considered in a lender's decision to extend credit, but the lower the FICO score, the more emphasis is placed on your debt, income and assets.

Here's a basic model in order of priority:

- FICO score *equal to or greater than* 740: assets, debt, income
- FICO score *less than* 700: income, debt, assets
- FICO score *less than* 680: debt, income, assets

Imagine a scale with credit, debt and income on one side and assets and loan-to-value ratio on the other. The side with credit, debt and income will always be a larger weighted factor than assets and loan-to-value.

If you plan on comparing mortgage loans with a few different lenders, be prepared to tell each lender your whole story up front and give them a realistic picture of your FICO score. This allows the lender to make all the factors work, so you know what you're shopping for.

The score becomes a critical factor as lenders use credit to predict default risk. Credit, debt, income and assets are reviewed on a weighted risk scale to determine the pros and cons of making the home loan. The more risk the lender absorbs, the costlier the mortgage. Conversely, the more risk you absorb, the better the terms are for you as a borrower (hence why adjustable-rate mortgages are substantially lower cost mortgages).

Read More From Zillow:

- 10 Reasons Why You Can't Buy a House
- What You Should Know About Fragmented Credit Reports
- FHA Condo Approval Rules Changing

Scott Sheldon is a senior loan officer and consumer advocate based in Santa Rosa, California. Scott has been seen in Yahoo! Homes, CNN Money, Marketwatch and The Wall Street Journal. Connect with him at Sonoma County Mortgages.