Why credit scores matter when buying a house on Long Island

A national report from Zillow found that a buyer with a fair credit score could end up spending $21,000 more than a buyer with an excellent credit score for the typical U.S. home.

Keeping tabs on your credit score, and repairing it if necessary, can ease the financial end of getting a house, experts say. Photo Credit: Getty Images/iStockphoto/cnythzl

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It's a seller's market on Long Island, and that means home buyers with mediocre credit scores are likely to miss out in more ways than one.

Sellers who have their pick of offers are more likely to avoid buyers with weak credit, real estate experts say. And mortgage lenders are less likely to give them loans or good terms. That can add up to more money spent over the life of a mortgage.

A national report from Zillow earlier this year found that a buyer with a fair credit score could end up spending $21,000 more than a buyer with an excellent credit score for the typical U.S. home. For a conventional loan, lenders like to see a credit score of 620 or higher.

“It’s pretty obvious,” says Melissa J. Shea of the Long Island Real Estate Investors Association, a Middle Island group that provides education and support to people looking to invest in real estate. “The better the credit, the better the score.”

While it’s still possible for buyers with fair or poor credit to secure a loan, sellers in Long Island’s strong real estate market may turn them down in favor of someone with a stronger financial profile. And as mortgage interest rates continue to creep up, experts say it’s more important than ever for potential home buyers to have a solid credit rating.

“If they have bad credit, then they’ll get an interest rate somewhere in the sixes,” Shea said. “If you have better credit, you’re going to have it in the four and a half [percent range]. That equates to a $50,000, sometimes $60,000 difference in your price for your house that you can afford.”

One option for people with a lower credit score is an FHA loan. Those with a credit score of at least 500 generally get approved for FHA loans, but will have to put down 10 percent. For buyers who want to put down 3.5 percent, these loans generally require a score of 580.

However, in a competitive market such Long Island, sellers often have their pick of buyers and may not want to deal with someone who can’t make a larger down payment or has weaker credit.

Other factors that can make up for bad credit:

- A down payment of more than 10 percent.
- Large cash reserves or savings even after closing. Lenders know that more cash on hand makes it more likely for borrowers to be able to repay their home loans.
- A low amount of debt.

But fixing a credit score should be the first line of defense, Shea says.

“What I think a lot of people don’t realize is how easy it is to fix your credit,” Shea says. “If you can hold off on buying a house for an extra three to four months to repair your credit, you can literally save thousands, tens of thousands of dollars in interest over the life of your loan.”

Shea recommends paying down a credit card to 30 percent or less of the credit limit. “That sometimes changes your score by 50 points,” says Shea, who teaches techniques on how to improve credit.

“Sometimes people think, ‘Well, I don’t have the money to pay it down.’ Well, get an installment loan and pay them down,” Shea says. That helps by giving people another type of credit, and it keeps down the ratio of debt to credit. “I’ve seen people’s points jump by 70 to 100 points by doing that,” Shea says.

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