

# Getting a Mortgage with No Credit History

## **Dear To Her Credit,**

I'm 27 years old and shopping for my first house. The problem is that I have no credit. I've avoided getting a credit card or buying a car on time because I've heard all the horror stories about getting into debt. You'd think the fact that I've kept myself out of debt and saved up a down payment of about 5 percent of the price of the house would make me seem like a good customer, but it seems like it's just the opposite.

I just spoke to a Chase loan officer on the phone, and she said that there's basically no way to get a mortgage these days with no credit. I've been trying to research how long it would take to establish credit if I got a credit card, and I'm getting conflicting stories ranging from six months to two years. I don't want to wait that long with home prices so low right now.

Do I really have to get a credit card before I can buy a house? -- *Ashley*

## **Dear Ashley,**

You can get a home mortgage without ever having a credit card. It might not be as easy as it would be if you had used credit cards and other means to build up a credit history over the past several years, but it can be done.

As you've discovered, if you call a bank about a regular, non-FHA mortgage, you probably won't get far. Most banks make loans and then sell them to investors. "The one catch is that many investors require a credit score and don't allow nontraditional credit," says California mortgage banker Michael Regan of The Regan Team.

However, Regan says it is possible to get a loan without a credit history. "I haven't seen that flexibility as much on conventional loans, but I have on FHA loans," he says. "The FHA allows what's called nontraditional credit; we can use rent payments, phone bills, utility bills, etc., as a trade line."

You will probably want to get an FHA loan anyway, because most non-FHA lenders expect a larger down payment -- 20 percent is standard. With an FHA loan, you can put as little as 3.5 percent down, and you can roll the closing costs into your loan balance.

FHA loans are guaranteed by the Federal Housing Administration and are designed to help lower income and first-time homebuyers get into homes. Investors who may be skittish lending to buyers without proven credit track records and more equity in their homes are willing to lend when the U.S. government stands behind the loans.

There's a price to having the government guarantee your loan. There's more paperwork involved, and it takes longer to get the loan. You must actually live in the home, and you can't buy it as an investment property.

You also must pay mortgage insurance premiums on an FHA loan. There's a 1.75 percent fee when you get the loan. Plus, you pay ongoing insurance premiums. For example, if you get a 30-year loan with a down payment of less than 5 percent, your premiums will be 1 percent of the outstanding balance every year. If you put more than 5 percent down, your premiums will be 0.95 percent. The mortgage insurance premiums are added to your monthly mortgage payments, and you'll have to keep paying them until you pay down your balance to 78 percent of the purchase price.

Another difference with FHA loans that's good or bad, depending on how you look at it, is that the house must meet minimum standards. A distressed property may not be approved, at least not until basic repairs are made.

Many 27-year-olds would no doubt trade places with you, having no debt and getting ready to buy your first house! With a little help from Uncle Sam and the FHA program, you can get a house despite having never had a credit card or other loan. (Under new FHA rules, people with "unresolved" debts won't be so lucky.) Once you have a mortgage, you'll start building credit based on how you repay your mortgage. It wouldn't hurt to take out a credit card to help build your credit more quickly. Just pay it off every month -- there's no need to carry a balance to build credit history.

Good luck house hunting and take care of your credit!