

Generation Wealth Building

Understanding Your Credit

A Comprehensive Guide to Credit Readiness for NACA, USDA, FHA, VA, and Conventional Home Loans

1. What Credit Really Is

- Credit measures your history of borrowing and repaying money responsibly.
- There are three main types of credit:
 - Revolving Credit – Credit cards that allow ongoing borrowing.
 - Installment Credit – Loans with fixed payments, like car or student loans.
 - Open Accounts – Bills due in full monthly, such as utilities or charge cards.
- Your credit file age (how long you've had credit) also affects your score.
- Lenders also view rent, utility, and phone payments as part of overall payment behavior.

2. Credit Score Breakdown (with Examples)

- Payment History (35%): On-time payments build your score. A single missed payment can lower your score by 90–120 points.
- Credit Utilization (30%): Use less than 30% of your available limit. Example: \$300 used on a \$1,000 limit = 30%.
- Length of Credit History (15%): Older accounts increase credibility. Example: oldest account 8 years, average 4.5 years.
- New Credit (10%): Too many inquiries can lower scores. Limit new accounts.
- Credit Mix (10%): A combination of loans and credit cards improves your score.

3. How Each Lender Views Credit

- NACA: Focuses on payment behavior, not the score itself. Requires 12 months of on-time rent and bill payments.
- USDA: Prefers scores of 640+, but will accept lower with strong compensating factors such as low DTI or stable income.
- FHA: Minimum 580 for 3.5% down, or 500–579 with 10% down. Looks for financial recovery and stable job history.
- VA: No set minimum, but most lenders prefer 620+. Focuses on residual income and recent payment reliability.
- Conventional: Usually requires 620+. Strong credit history and low utilization lead to best rates.

4. How to Read a Credit Report

- Personal Information: Confirms your name, addresses, and employer history.

- Account Summary: Lists all open and closed credit lines.
- Payment History: Shows your on-time and late payments.
- Public Records: Bankruptcies, judgments, or liens.
- Inquiries: Credit pulls within the last 24 months.
- To dispute errors: Write to the bureau, include evidence, and allow 30–45 days for resolution.

5. Building Credit Without a Credit Card

- Become an authorized user on a trusted person's credit card.
- Open a secured credit card with a small deposit (e.g., \$300).
- Use a credit-builder loan through Self or CreditStrong.
- Report rent and utilities using services like Experian Boost or eCredable.

6. Understanding DTI and Credit Together

- Debt-to-Income (DTI) compares how much you owe versus your income.
- Good credit + high DTI = risk of denial; lenders see overextension.
- Moderate credit + low DTI = stronger approval potential.
- Example: If your monthly debt is \$1,500 and your income is \$5,000, your DTI = 30%.

7. 90-Day Credit Reset Plan

- Days 1–30: Pull all three credit reports. Dispute any errors and avoid new applications.
- Days 31–60: Pay down balances below 30%. Set up auto-pay to prevent missed payments.
- Days 61–90: Add 1–2 positive tradelines (secured card, rent reporting). Recheck your score.

8. Common Credit Errors to Dispute

- Incorrect personal details or outdated addresses.
- Accounts listed twice (duplicates).
- Closed accounts shown as open.
- Unauthorized or fraudulent accounts.
- Inaccurate late payments or wrong balances.

9. Steps to Improve or Build Credit

- Pay every bill on time.
- Keep balances low compared to limits.
- Avoid closing long-standing accounts.
- Limit new applications to one every 6–12 months.
- Review credit reports every 6 months and monitor for errors.

10. Credit Readiness Across Programs

- NACA: Focuses on on-time rent and savings consistency, not score.
- USDA: 640+ recommended, with compensating factors for lower scores.
- FHA: 580+ with flexibility for past issues; prioritizes recovery.
- VA: No set score; values stability and income more than credit depth.
- Conventional: 620+ minimum, with higher scores for lower interest rates.

11. Action Checklist

- ☐ Pull all three credit reports (Experian, TransUnion, Equifax).
- ☐ Create a payment calendar to track all due dates.
- ☐ Pay off small debts and collections first.
- ☐ Lower credit card balances below 30% utilization.
- ☐ Request goodwill adjustments from creditors.
- ☐ Recheck credit after 90 days to confirm improvements.