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CONSUMER ACTION

# Seeking a Mortgage in Today's Market Is Not Easy

By [Aleksandra Todorova](#) | Aleksandra Todorova [Archive](#) | Published: March 27, 2008



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**WITH FALLING HOUSING PRICES**, relatively low interest rates and an abundant inventory of properties to choose from, you'd think buying a home these days would be a breeze.

That's until you start shopping for a mortgage. Stung by the subprime mortgage crisis, lenders have tightened their requirements considerably, giving even the most creditworthy borrowers a hard time when it comes to qualifying for a new mortgage or refinancing an existing one.

"Financing has become the single most important factor for home buyers and sellers," says Anthony Marguleas, owner of real estate brokerage Amalfi Estates in Pacific Palisades, Calif. Marguleas recently represented several sellers who had been preapproved for loans with a 10% down payment. But as they moved toward closing they were told that, due to a change in lending requirements, they would need to put 20% or even 25% down to gain approval.

"Lenders are changing their guidelines every day and making them more restrictive," Marguleas notes. He now asks that all new clients have a mortgage preapproval that's no more than a few weeks old. "If they show a preapproval from three months ago, it may no longer be valid," he explains.

While real estate and mortgage brokers may resent this more stringent lending landscape, lenders counter that things are simply getting back to the way they should be. "To me, it's like it was back in the 1980s," says Steve Jacobson, president of Fairway Independent Mortgage Corporation, a Madison, Wis.-based lender. "When you sat with someone 20 years ago, you had to discuss four things: job stability, cash, credit and income. All four had to make sense for a loan to work."

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Now, if you lack in one area (say, your credit score isn't great or your assets are insufficient) you'd have to make up for it in others (with a higher down payment, for example). Here's what it takes to get approved for a loan in this environment.

## A healthy credit score

The almighty [FICO score](#) has long been crucial to people's ability to borrow. During the real estate boom, however, the ready availability of subprime loans ensured that even borrowers with scores in the 500s could qualify for a mortgage. "A few years ago, you could get a 100% stated-income loan with a 640 FICO score," says A. W. Pickel, president of LeaderOne Financial, a Overland Park, Kan.-based mortgage lender. (Stated-income loans don't require borrowers to show proof of income, such as tax forms and pay stubs.) One company, he says, even offered such loans to home buyers with scores as low as 580.

The bar for what's considered a healthy score is decidedly higher today, making it difficult for consumers with mediocre credit to qualify for a mortgage they can afford. "To be a successful borrower today at the best possible rate available, you have to have a FICO score of at least 700 or 720," says Keith Gumbinger, vice president of mortgage research firm HSH Associates.

Earlier this month, Fannie Mae issued a directive requiring lenders to adjust loan pricing by 0.5% to 2.75% of a loan's value based on a borrower's credit score, says Bruce Brown, president of First Security Mortgage Company, a Liberty, Miss.-based mortgage lender. Those with scores of 720 or more can qualify for the cheapest rates and no fees. But with scores between 700 and 719, borrowers will have to pay an additional 0.5% of the borrowed amount in the form of a fee or a higher interest rate. That's an added \$1,000 fee on a \$200,000 mortgage, or a rate increase that would be equivalent to that amount.

This makes [boosting](#) your credit score even more imperative. "These [cost] adjustments are done in 20-point increments so if you jump your score by as little as 20 points, the cost savings are significant," Brown says.

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