

Financing & Pre-Approval Guide

Mortgages, Credit, Down Payments & More — Simplified for Buyers

Your complete roadmap to understanding home financing, building stronger offers, and securing the keys to your dream home with confidence.



Why Financing Education Matters

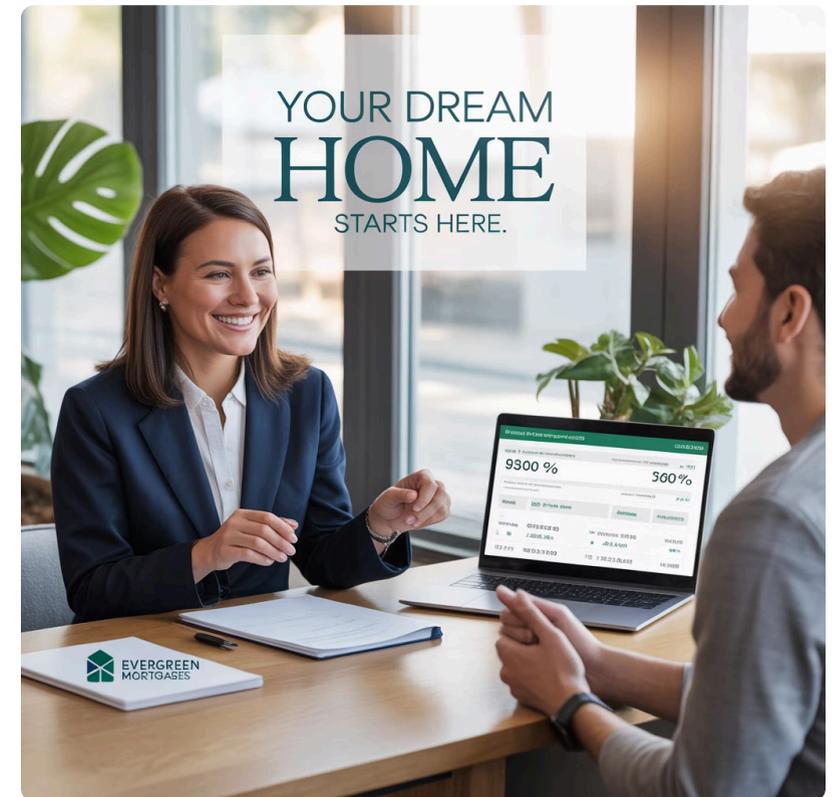
87%

Buyers Use Financing

Most homebuyers rely on mortgages to purchase their homes

Yet despite this overwhelming majority, most buyers enter the process without fully understanding how financing works. This knowledge gap leads to missed opportunities, weaker offers, and costly mistakes that could have been easily avoided.

This guide exists to create clarity around the financing process, boost your confidence when making offers, and help you navigate the mortgage landscape like a seasoned pro. Knowledge is power—especially when it comes to the largest financial decision of your life.



What is Mortgage Pre-Approval?

Mortgage pre-approval is a conditional commitment from a lender stating they're willing to loan you a specific amount based on a thorough review of your financial situation. Think of it as your financial credentials—proof that you're a serious, qualified buyer.

Stronger Offers

Sellers take pre-approved buyers seriously, giving you a competitive edge in multiple-offer situations

Budget Clarity

Know exactly how much house you can afford before you start shopping, preventing heartbreak and wasted time

Faster Closing

Much of the financial legwork is already done, streamlining your path to closing day

The best time to get pre-approved is before you start seriously house hunting—ideally 2-3 months before you plan to make offers. This gives you time to address any issues and shop with confidence.



Pre-Qualification vs. Pre-Approval

Understanding the difference between these two terms can make or break your home buying strategy. While they sound similar, they carry vastly different weight with sellers and real estate agents.

Feature	Pre-Qualification	Pre-Approval
Purpose	Rough estimate of buying power	Conditional loan commitment
Process	Basic info and self-reported data	Full financial review and verification
Documentation	Minimal or none required	Pay stubs, tax returns, bank statements
Credibility	Low - educated guess	High - lender commitment
Time Investment	15-30 minutes	1-3 days
When to Use	Early research phase	When ready to make offers

✔ **Pro Tip:** In competitive markets, sellers may not even consider offers from buyers who only have pre-qualification letters. Pre-approval shows you're serious and financially capable.



Types of Mortgages: Conventional & FHA

1

Conventional Loans

Who it's for: Borrowers with good credit and stable income

Minimum down payment: 3% for first-time buyers, 5% for others

Credit requirements: Typically 620+ (varies by lender)

Pros: No upfront mortgage insurance with 20% down, competitive rates, flexible terms

Cons: Stricter credit requirements, PMI required under 20% down

2

FHA Loans

Who it's for: First-time buyers, those with lower credit scores or limited savings

Minimum down payment: 3.5% with 580+ credit score

Credit requirements: As low as 500 with 10% down, 580 with 3.5% down

Pros: Lower credit score requirements, smaller down payment, gift funds allowed

Cons: Mortgage insurance for life of loan (in most cases), loan limits vary by area

Types of Mortgages: VA & USDA

3

VA Loans

Who it's for: Active military, veterans, and eligible surviving spouses

Minimum down payment: \$0 - no down payment required

Credit requirements: No minimum, but most lenders prefer 620+

Pros: No down payment, no PMI, competitive rates, no prepayment penalties

Cons: VA funding fee (can be rolled into loan), property must be primary residence

4

USDA Loans

Who it's for: Buyers in eligible rural and suburban areas, income limits apply

Minimum down payment: \$0 - no down payment required

Credit requirements: Typically 640+ for automated approval

Pros: No down payment, low interest rates, flexible credit guidelines

Cons: Geographic restrictions, income limits, upfront and annual guarantee fees

📍 Eligibility Check: VA loans require military service verification, while USDA loans require income and location verification. Both offer incredible value for qualified buyers.

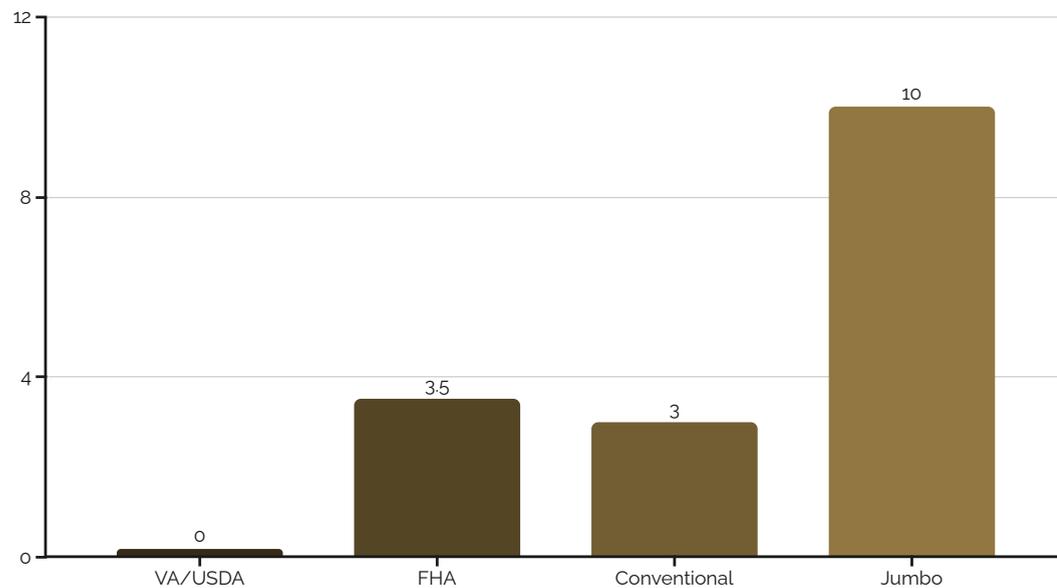
Down Payment Basics

One of the biggest misconceptions in home buying is that you need 20% down. While 20% is ideal for avoiding private mortgage insurance (PMI), many successful buyers put down much less.

What's Required vs. What's Ideal:

- **Required:** As little as 0% (VA/USDA) to 3.5% (FHA)
- **Ideal:** 20% to avoid PMI and strengthen your offer
- **Sweet spot:** 10-15% balances monthly payments with upfront costs

Remember, your down payment affects your monthly payment, loan terms, and overall costs. More isn't always better if it depletes your emergency fund or prevents you from buying altogether.



Credit Score Requirements by Loan Type

Your credit score is one of the most important factors in mortgage approval and determines your interest rate. Higher scores unlock better terms and more loan options.

Loan Type	Minimum Score	Preferred Score	Best Rates
Conventional	620	680+	740+
FHA	500*	580+	660+
VA	No minimum**	620+	720+
USDA	640	660+	720+
Jumbo	700	740+	760+

⚠ Important Notes:

- *500 score requires 10% down payment
- **Individual lenders set VA minimums, typically 620+

Rate Impact

A 100-point credit score difference can cost thousands over the life of your loan

CONVENTI	OFF	LOIAD	CODID	FVILCO
CONVENTIONAL	FHA	4.9.9%	235%	120.00
CREIT SCORE	FHA	U.9.9%	5.12%	19.00
CREIT SCORE	VAA	4.5.0%	28.6%	15.10

How to Improve Your Credit Before Applying

Improving your credit score before applying for a mortgage can save you thousands of dollars and open doors to better loan options. Here are the first four essential steps:

01

Check Reports for Errors

Get free reports from annualcreditreport.com and dispute any inaccuracies. Even small errors can impact your score significantly.

03

Pay Down Existing Debt

Focus on credit cards first. Aim to keep balances under 30% of limits, ideally under 10% for the best score impact.

02

Pay Bills on Time

Payment history is 35% of your score. Set up autopay for at least minimum payments to avoid any late payments.

04

Avoid Opening New Credit

New accounts temporarily lower your score and increase your debt-to-income ratio. Hold off until after closing.

How to Improve Your Credit (Continued)

These additional strategies can further boost your credit score and strengthen your mortgage application:

01

Keep Old Accounts Open

Length of credit history accounts for 15% of your score. Keep older accounts open even if you don't use them regularly.

02

Become an Authorized User

Ask a family member with excellent credit to add you as an authorized user on their account to potentially boost your score.

03

Monitor Your Score Regularly

Use free tools like Credit Karma or your bank's credit monitoring to track progress and catch issues early.

Remember, every point counts when it comes to mortgage rates. A score increase from 620 to 740 could save you over \$50,000 in interest over a 30-year loan.

- ✔ **Timeline Tip:** Significant credit improvements typically take 3-6 months to reflect in your score. Start early in your home buying journey for maximum impact.



What is DTI (Debt-to-Income Ratio)?

Your debt-to-income ratio (DTI) is one of the most critical factors lenders use to determine your mortgage eligibility. It measures how much of your monthly income goes toward debt payments.

Front-End DTI

Housing expenses only (mortgage, taxes, insurance, HOA)

Preferred: 28% or less



Back-End DTI

All monthly debt payments including housing, credit cards, auto loans, student loans

Preferred: 36% or less

Lenders focus primarily on your back-end DTI because it gives a complete picture of your financial obligations. This ratio helps them determine whether you can comfortably afford both your mortgage payment and your existing debts.

A lower DTI not only improves your chances of approval but also qualifies you for better interest rates and loan terms.



How to Calculate DTI

The Formula

$$\text{DTI} = \frac{\text{Total Monthly Debt Payments}}{\text{Gross Monthly Income}} \times 100$$

What to Include:

Monthly Debt Payments:

- Future mortgage payment (PITI)
- Credit card minimum payments
- Auto loan payments
- Student loan payments
- Personal loan payments
- Alimony or child support

Gross Monthly Income: Your income before taxes and deductions

Example Calculation

Monthly Income: \$6,000

Monthly Debts:

- Future mortgage: \$1,800
- Car payment: \$450
- Student loans: \$300
- Credit cards: \$100

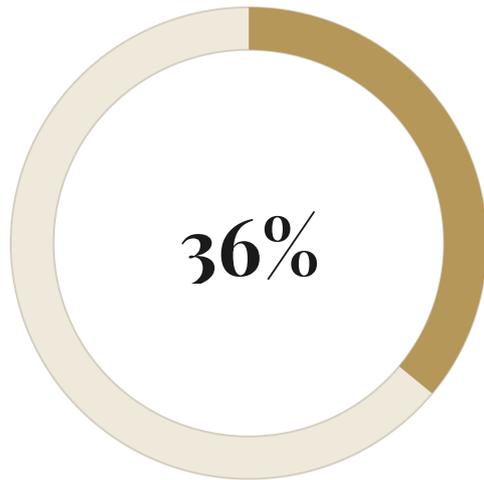
Total Debt: \$2,650

Calculation: \$2,650 ÷ \$6,000 = 0.4417

DTI: 44.17%

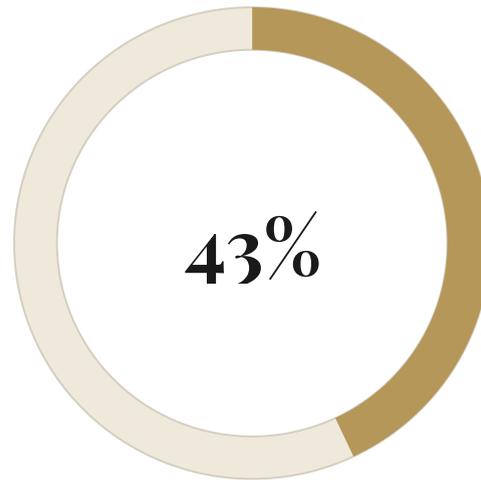
Use online DTI calculators or create a simple spreadsheet to track your numbers. Many lenders provide DTI calculators on their websites to help you determine what you can afford.

What's a Good DTI?



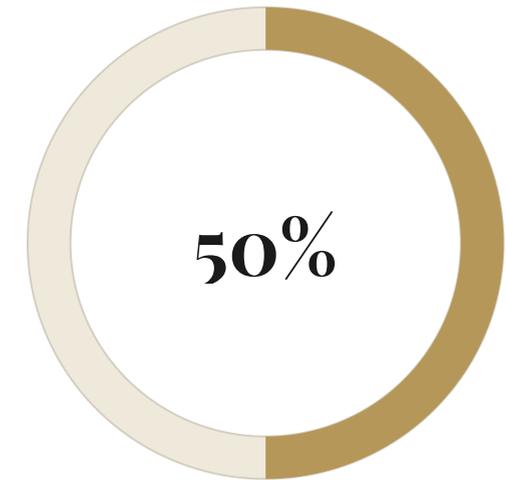
Ideal DTI

Best rates and terms available



Conventional Max

Most conventional loans allow up to 43%



FHA Max

FHA loans may allow up to 50% in some cases



While lenders have maximum DTI limits, staying well below these thresholds gives you several advantages:

- **Better interest rates:** Lower DTI often qualifies you for preferred pricing
- **Stronger approval odds:** More cushion for underwriter approval
- **Financial flexibility:** More room in your budget for unexpected expenses
- **Competitive offers:** Sellers prefer buyers with conservative DTI ratios

If your DTI is above 43%, consider paying down debt, increasing your income, or looking at less expensive homes before applying for pre-approval.

Pre-Approval Document Checklist

Being prepared with the right documents speeds up the pre-approval process and demonstrates your organization to lenders. Gather these items before meeting with your lender:



Government ID

Driver's license, passport, or state ID for all borrowers



Tax Returns & W-2s

Last 2 years of complete tax returns and W-2 forms



Debt Statements

Current statements for credit cards, auto loans, student loans, etc.



Pay Stubs

Most recent 30 days of pay stubs showing year-to-date earnings



Bank Statements

2-3 months of checking, savings, and investment account statements



Additional Items

Divorce decree, gift letters, proof of other income if applicable

 **Pro Tip:** Organize documents in labeled folders (digital or physical) to impress your lender and streamline the process. Consider scanning everything to PDF for easy sharing.

How Long Pre-Approval Lasts



60-90 Days

Standard validity period for most pre-approval letters

Pre-approval letters aren't permanent—they expire because your financial situation and market conditions change over time. Most lenders issue letters valid for 60-90 days, though some may be shorter.

Renewal Process:

- Updated pay stubs and bank statements
- Fresh credit report pull
- Verification that circumstances haven't changed
- Possible rate adjustment based on current market

If you're house hunting longer than expected, plan to refresh your pre-approval before it expires. Some lenders will extend the letter with minimal documentation if nothing has changed significantly.

⚠ Important: Keep your financial situation stable throughout the validity period. Major changes require a new pre-approval application and could affect your approved loan amount.

How to Stay Pre-Approved: Common Mistakes

Getting pre-approved is just the beginning. Maintaining your pre-approval status through closing requires avoiding these critical mistakes that can derail your loan:

DON'T Make Large Purchases

Avoid furniture, cars, appliances, or any major purchases that affect your DTI or deplete your cash reserves

DON'T Open New Credit Accounts

Credit cards, store cards, or loans change your credit profile and debt obligations

DON'T Change Jobs Suddenly

Job changes require income verification and may delay closing. Discuss career moves with your lender first

DON'T Miss Any Payments

Late payments on any account can trigger a loan denial, even days before closing

DON'T Accept Large Deposits

Unexplained deposits raise red flags. Document any gifts or windfalls immediately

DON'T Close Credit Accounts

Closing accounts can hurt your credit score by reducing available credit

DON'T Go Silent

Maintain regular communication with your lender and report any financial changes immediately

Remember: Lenders verify your financial information right up until closing day. What seems like a minor change to you could be a major red flag to your underwriter.



Your Path Forward

You Don't Need to Be Perfect

Perfect credit, massive savings, and ideal DTI aren't required. Many successful buyers start with less-than-perfect situations and work to improve them.

Preparation Equals Power

The time you invest in understanding financing, improving your credit, and gathering documents pays dividends in better rates and smoother transactions.

Find Your Trusted Team

Work with a lender who explains the process clearly, responds promptly, and has your best interests at heart. Recommendations from your real estate agent are invaluable.

Take the First Step

The mortgage process might seem overwhelming, but it's more straightforward than you think. Start by checking your credit score, gathering your documents, and reaching out to 2-3 recommended lenders for rate quotes.

Every homeowner started exactly where you are now. With the right preparation and professional guidance, you'll be holding the keys to your new home sooner than you imagine.

Your dream home is waiting—and now you have the knowledge to make it yours.

Thinking About Financing Your Home?

You Don't Have to Do It Alone

Just because you're embarking on the home-buying journey doesn't mean you have to figure out financing on your own.

Hi, I'm your local Tulsa-based real estate professional, here to support you at every stage, even if you're just testing the waters. Whether you need a little guidance on getting pre-approved, want a professional second opinion on down payment strategies, or decide you'd rather have an expert handle the details, I've got you covered.

I'm passionate about helping people get into the right home with a financing plan that fits their budget. If at any point you want to explore what working with a real estate professional could look like (or just want to talk strategy), I'm here for that too.

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