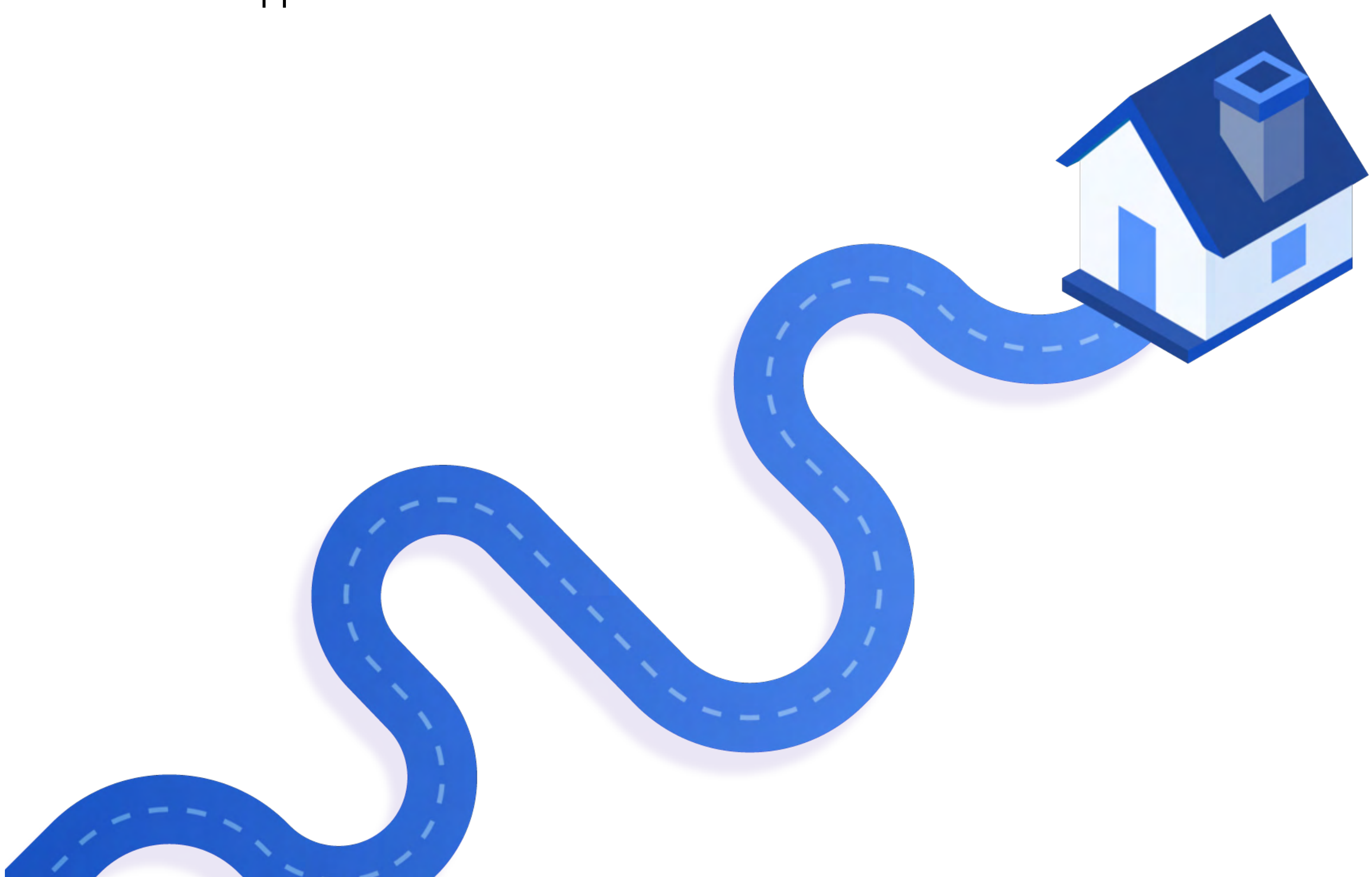
A Roadmap for Homebuyers to Achieve Mortgage Readiness in a Challenging Purchase Market

FINLOCKER®

Guiding Homebuyers to Achieve Mortgage Readiness in a Challenging Purchase Market

The preparation for a mortgage transaction can be an emotional roller coaster, even for homeowners who've previously gone through the process, and time-consuming for mortgage originators and their operations team when homebuyers are ill-prepared. First-time homebuyers can enter an originator's sales pipeline at various stages of mortgage readiness and knowledge of the mortgage process. Homeowners may need to be introduced to a new purchase or refinance product and coached on processes that have changed since their last mortgage transactions.

The key to closing a mortgage loan is evaluating each homebuyer's unique financial situation and helping them overcome any barriers that may cause their application to be denied.



What determines a "Mortgage Ready" buyer?

Knowing the criteria for mortgage readiness can help you identify more qualified borrowers and equip you with the tools to help almost mortgage-ready and not currently mortgage-ready individuals achieve their homeownership goals.

When Freddie Mac explored mortgage readiness in a 2021 Insight Report, *Who are the Future Homebuyers*, they identified these characteristics in mortgage-ready individuals based on basic underwriting standards:

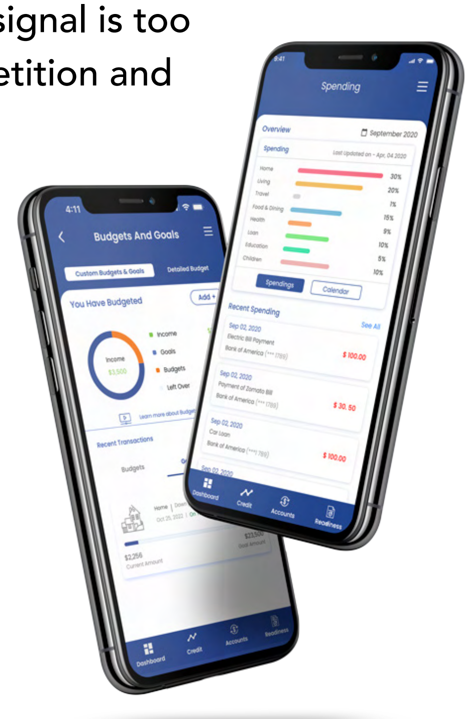
- Do not have a current mortgage
- Aged 18-45 years old
- A credit score of 661 or higher
- A debt-to-income ratio (DTI) of 25% or lower
- No foreclosures or bankruptcies in the past 84 months
- No delinquencies in the past 12 months

Homebuyers who are "near mortgage-ready" had the same attributes as "mortgage-ready homebuyers," except for a credit score between 600 and 660. While those homebuyers "not currently mortgage-ready" had a credit score of 599 or less, a DTI ratio greater than 25%, and had a foreclosure, bankruptcy, or delinquencies listed in their financial history.

Many first-time homebuyers hold common myths when it comes to mortgage readiness, particularly related to credit, down payments, and debt-to-income ratio. FinLocker has built tools based on the following minimum criteria to get first-time homebuyers mortgage ready for a conventional home loan. They can also view eligibility guidelines for FHA and VA loans.

	Mortgage Ready	Almost Mortgage Ready	Near Mortgage Ready
Credit score	640 or higher	580-639	579 or less
Foreclosures or bankruptcies in past 84 months	No	No	Yes
No late payments in the last 12 months	No	No	Yes
Debt-to-income ratio	45% or less	46% -55%	Greater than 55%
Minimum 3% down payment saved	Yes	Yes	No
Continuous employment for 2 years	Yes	Yes	No

Most mortgage lenders and originators have an established process to identify first-time homebuyers as they enter the proverbial marketing funnel, most commonly via online property search. However, this is the ‘tip of the iceberg’ for identifying a first-time homebuyer. Unfortunately, this signal is too late for far too many originators, given the extreme competition and marketing sophistication of other lenders.



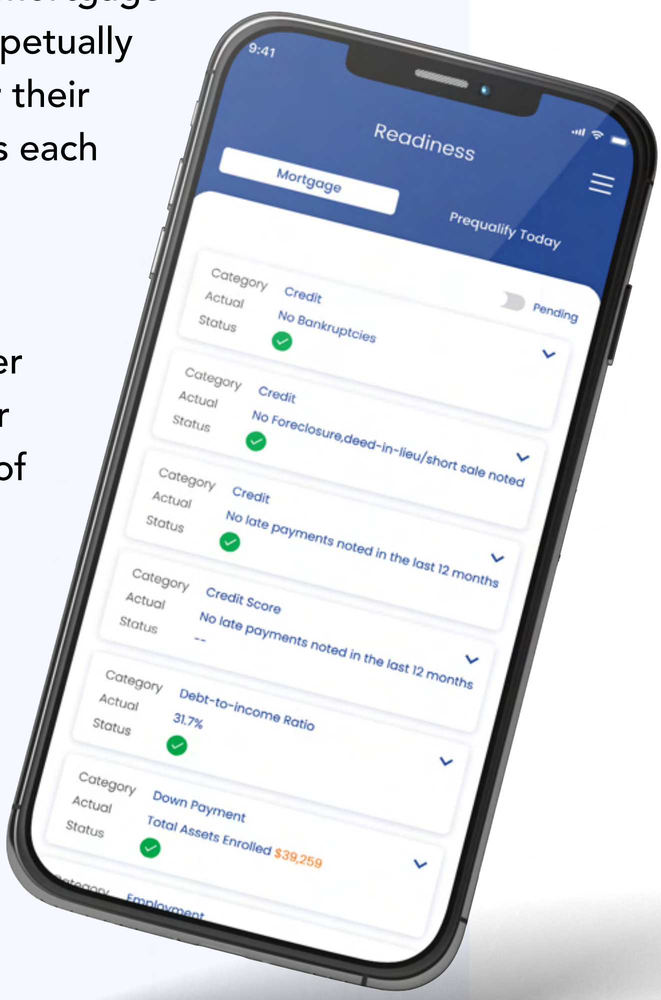
Originators need to use early indicators to connect with first-time homebuyers – things we know a consumer does or has to do to prepare for a mortgage, such as:

1. Exploring how much home they can afford.
2. Researching products that can finance their home purchase.
3. Reviewing their credit profile to determine if their credit score meets the minimum requirements for their preferred loan product or to be eligible for good terms.
4. Decide if their finances and cash flow can support a mortgage payment.

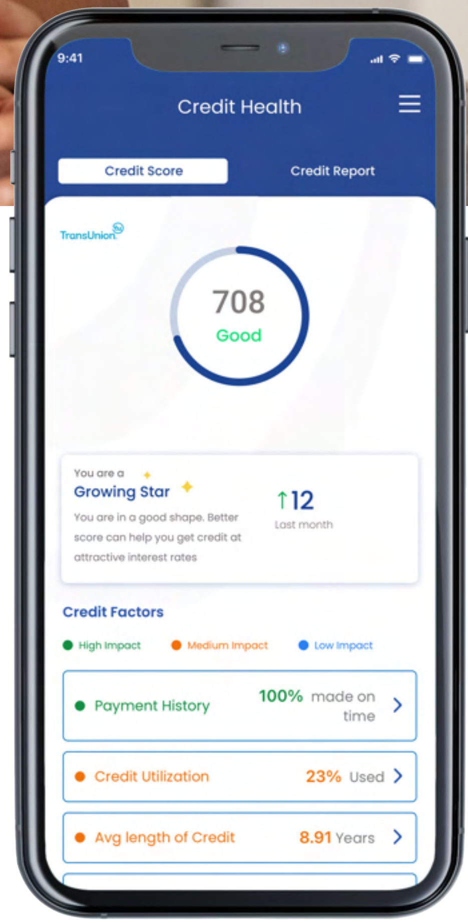
FinLocker addresses the criteria for mortgage readiness

Consumers make the decision to buy a home at various stages of mortgage readiness. Having a solution that provides your mortgage originators with the mortgage readiness profile of each prospective homebuyer without the expense of running their credit report also makes it easier to nurture multiple consumers to overcome any barriers to reaching their goals.

FinLocker developed a Readiness assessment that uses proprietary analytics to analyze consumers' enrolled financial data to show prospective homebuyers their current stage of mortgage readiness and what they need to improve their mortgage eligibility. The data in their FinLocker app is perpetually analyzed to motivate each consumer to monitor their progress towards achieving mortgage readiness each time they log in to their FinLocker app.



Once a consumer completes the Readiness assessment, FinLocker provides each homebuyer with a personalized path to use the tools in their FinLocker to achieve homeownership from any of the three stages of mortgage readiness.



Homebuyers can receive their credit score and simulate how their actions can build their credit score

In preparation for a mortgage, it's important that all prospective homebuyers know their credit score. FinLocker users can receive their credit score, credit score history, and monthly notifications when their score increases or decreases. Prospective homebuyers can view overall payment history, credit utilization, average length of credit, number of active accounts, credit inquiries, credit alerts, and learn the impact that each factor has on their credit score. Credit-related educational resources to help prospective homebuyer better manage their credit are also provided.

Almost Mortgage Ready consumers whose credit score is below 640 can use the credit score simulator to evaluate the potential impact of various credit-related scenarios, such as paying off or closing a credit card, on their credit score in a safe and secure environment.

Ongoing Credit Monitoring

Whether they are purchasing their first or subsequent home, a consumer's financial history impacts their credit score and creditworthiness. Some of your homebuyers who have previously purchased a home may have suffered a foreclosure or bankruptcy, whereas a first-time homebuyer may not understand the negative impact that a few late payments or past delinquencies can have on their credit health.

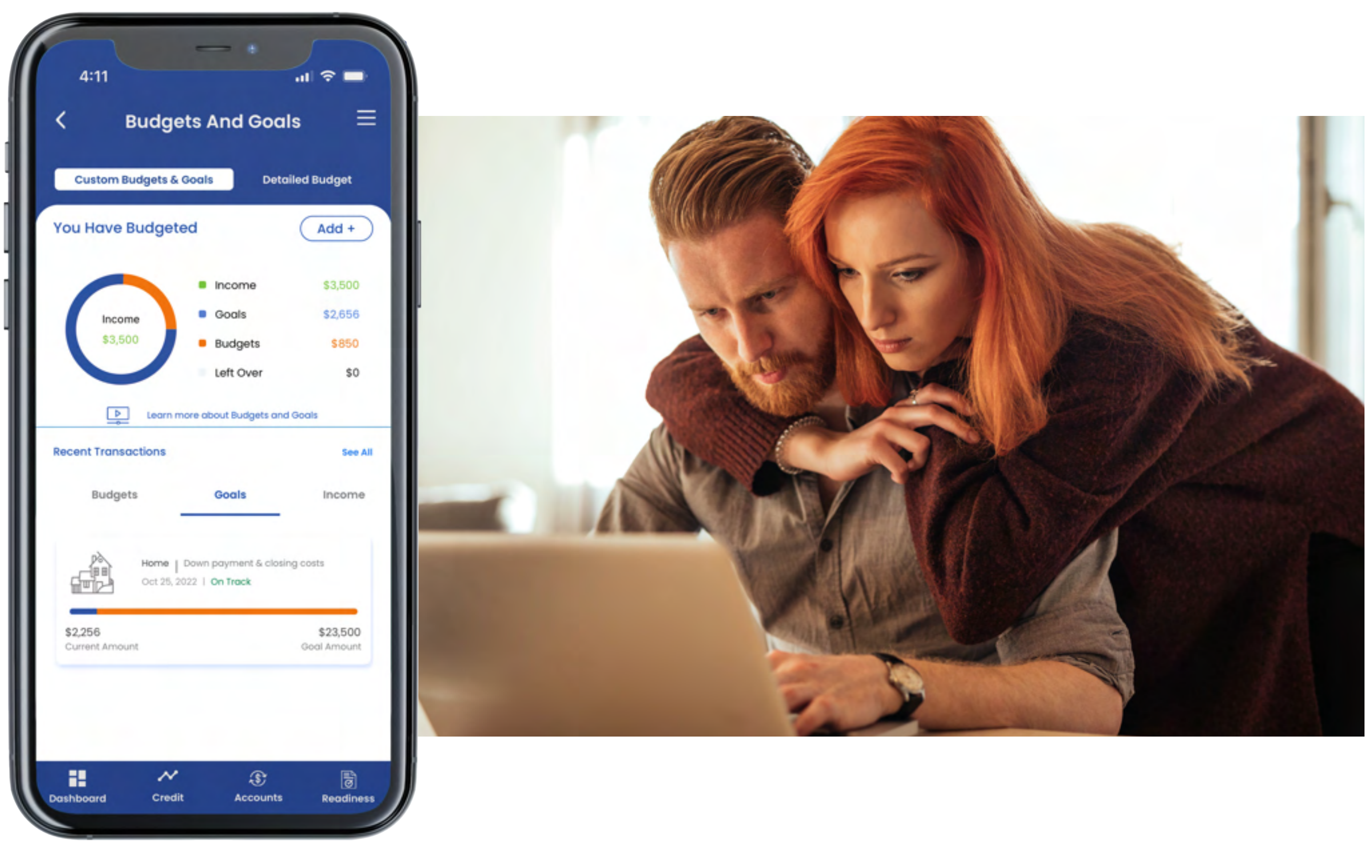
FinLocker enables all consumers to access their TransUnion credit report for free. The service shows the standing of all active and closed accounts, and the payment history on those accounts for up to seven years.

Homebuyers with a high debt-to-income ratio can create trackable goals and budgets to pay down debt

Many first-time homebuyers are burdened with student loans, credit card debt, car loans, child care expenses, and health care costs, which makes it challenging to pay down debt and contributes to a high debt-to-income ratio.

According to the *2021 NAR Home Buyer and Seller Generational Trends*, the top reason a mortgage lender rejected their mortgage application was their debt-to-income ratio (35%), followed by a low credit score (24%).

Almost Mortgage Ready and Near Mortgage Ready homebuyers can utilize FinLocker's goals and budget tools to help them reduce their debt-to-income ratio. They can create trackable personal goals to pay off their credit card, pay down their car loan or student loan debt, and budget to save money to achieve those financial goals.



Homebuyers can budget and save their down payment and closing costs

The majority of first-time homebuyers source their down payment from their savings. While many face challenges to save their down payment, committed first-time homebuyers are prepared to make a few sacrifices to purchase their first home.

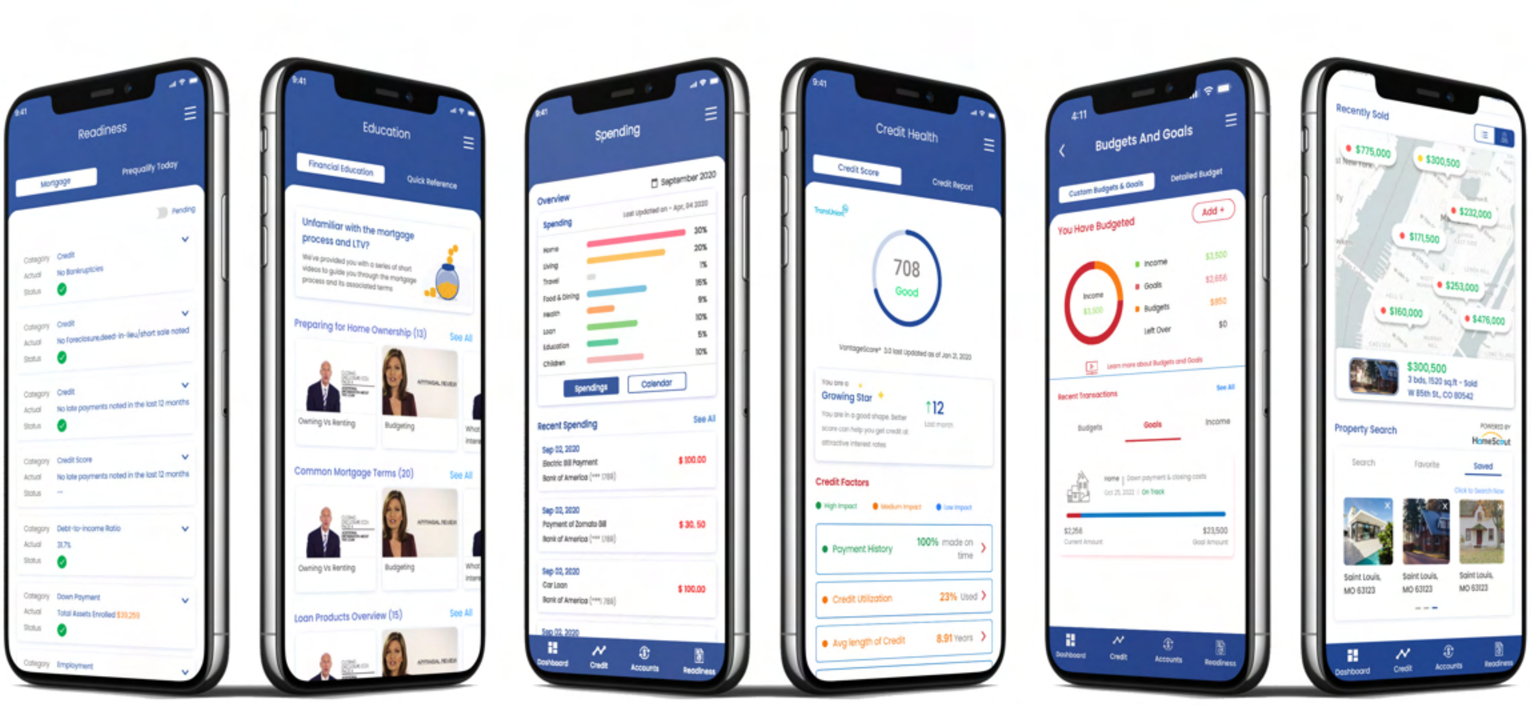
The Spending tool in FinLocker categorizes every transaction in a consumer's enrolled financial accounts and provides a visual summary to show exactly how they are spending their income. This analysis also makes it easier for homebuyers to identify how to reduce their spending on non-essential items, so they can create a trackable goal to save for their down payment.

Improve certainty of readiness for homebuyers

With the rise of resignations, unemployment, the gig economy, and self-employment over the past few years, verifying a homebuyer's employment has become complex, costly, and can increase cycle times.

FinLocker integrated the Argyle employment data platform to enable homebuyers to easily verify their employment and income before applying for a pre-qualification or mortgage application. The consumer signs into their payroll system directly from their FinLocker to securely connect their payroll data from 500,000 U.S. employers.

FinLocker improves certainty for borrowers by providing an "always-on" secure connection to their income and employment data. The process also reduces friction caused by manual document uploads or employment verification phone calls for underwriting teams. That means shorter turn times for mortgage lenders, instant verifications for over 70% of the U.S. workforce, and dramatically reduced overall verification costs per loan.



Let FinLocker guide your homebuyers towards mortgage readiness

Understanding your homebuyer's mortgage readiness profile can determine how you can help them achieve homeownership. Providing a private-labeled FinLocker to your prospective homebuyers at the start of their quest for homeownership will provide them with a personalized path to use the full suite of tools and educational resources to get mortgage ready.

[Watch an online demo, attend a live demo or schedule a 1:1 consultation to see how FinLocker can help to get more of your homebuyers mortgage ready.]