

Module 1 Workbook

Understanding Your Financial Foundation

Credit scores, debt-to-income ratio, and what lenders actually look at. Use this workbook alongside Module 1 online at yourmortgagetoolbox.com/learn/ or in a class led by an instructor. Type directly into the shaded boxes on screen, or print it and write by hand.

Name

Date started

Instructor or class (if any)

Target month to apply for a mortgage

How to use this workbook

1. Read or attend each lesson, then fill in the matching worksheet.
2. Use real numbers from your own credit reports, pay stubs and bank statements. Nothing here is submitted anywhere. It stays with you.
3. Take the self-assessment quiz on page 9 before you check the answers online.
4. Finish with your 30-60-90 day action plan. That plan is the real goal of this module.

Lessons in this module

Lesson	Topic	Worksheet	Done
1.1	Credit scores and how they are calculated	A. My score snapshot	☐
1.2	Reading your credit report	B. Report review and error log	☐
1.3	Improving your score before you apply	C. Utilization and action plan	☐
1.4	Debt-to-income ratio	D. My DTI worksheet	☐
1.5	Emergency fund before you buy	E. Emergency fund target	☐
Quiz	Self-assessment (7 questions)	Page 9	☐

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LESSON 1.1

Credit Scores

Your score is a quick, standardized measure of how reliably you have handled debt. It affects the rate you are offered and the loan programs open to you.

Score ranges and what they usually mean

FICO range	Rating	Typical impact on a mortgage
760-850	Exceptional	Best available rates; access to all programs
720-759	Very good	Near-best rates; minimal pricing adjustments
680-719	Good	Competitive rates; minor pricing adjustments
640-679	Fair	Higher rates; some programs restricted
620-639	Borderline	FHA and VA available; conventional rates much higher
580-619	Weak	FHA with 3.5% down; most conventional programs closed
Below 580	Poor	Very limited; FHA requires 10% down

Lenders pull all three bureaus (Equifax, Experian, TransUnion) and use the **middle** score for one borrower, or the lower of the two middle scores for co-borrowers.

The five factors: where do I stand?

Factor	Weight	How am I doing, and what will I change?
Payment history	35%	
Amounts owed (utilization)	30%	
Length of credit history	15%	
Credit mix	10%	
New credit and inquiries	10%	

Worksheet A: My score snapshot

	Equifax	Experian	TransUnion
My score			
Date pulled			

My middle score (the one lenders use)

Open, active accounts (need 3 or more)

Age of my oldest open account (need 12+ months)

A usable "predictive" score generally needs at least 3 open, active accounts and at least one open 12 months or longer. A card sitting unused for two years does not count as active. Use it at least once every six months and pay it off.

Lesson 1.1 notes: things I want to remember or ask about

Questions for my instructor, counselor or loan officer

LESSON 1.2

Reading Your Credit Report

Your score tells you the result. Your report tells you why. Review it six to twelve months before you plan to apply, because errors are common and fixing them takes time.

Worksheet B: Report review checklist

- ☐ I pulled my report from Equifax at AnnualCreditReport.com
- ☐ I pulled my report from Experian at AnnualCreditReport.com
- ☐ I pulled my report from TransUnion at AnnualCreditReport.com
- ☐ Personal information is correct (names, addresses, SSN, employer)
- ☐ Every account listed is really mine
- ☐ No late payments are shown that I actually paid on time
- ☐ No paid-in-full accounts still show a balance
- ☐ No closed accounts still show as open
- ☐ No duplicate accounts (same debt listed twice)
- ☐ No negative items older than seven years
- ☐ Hard inquiries all look familiar to me

Hard inquiries stay on the report two years and affect the score for about one year. Mortgage rate shopping within a short window (about 30 days) is treated as a single inquiry.

Error log

About one in five consumers has an error on at least one report, according to FTC research. Dispute each error directly with the bureau that shows it, with documentation such as a bank statement or a letter from the creditor. The bureau has 30 days to investigate. Allow 45 to 90 days in total.

Bureau	Account or item	What is wrong	Date disputed	Result

Date I will pull my reports again

Lesson 1.2 notes

LESSON 1.3

Improving Your Score Before You Apply

A 60-point score difference can mean about half a point of interest rate. On a \$350,000 loan, that is roughly \$115 a month, or about \$41,000 over 30 years.

Worksheet C: Credit card utilization

Utilization = balance divided by credit limit. First milestone: under 50% on each card. Better: under 30%. Best: under 10%. Paying down balances is the fastest factor to move, often within one or two billing cycles.

Card	Balance	Limit	Utilization %	Balance at 30% of limit	Pay down by
Totals					

My action plan

Quick wins (30 to 90 days)

- ☐ Pay down card balances, starting with any card above 50% utilization
- ☐ Pay every bill on time for the next 6 months or more
- ☐ Keep old accounts open unless they carry a high annual fee
- ☐ Hold off on opening any new credit for 12 months before applying

Longer term (6 to 24 months)

- ☐ Ask a trusted person with excellent credit about adding me as an authorized user (get their permission first)
- ☐ Request a credit limit increase (ask whether it needs a hard pull)
- ☐ Talk to a HUD-approved housing counselor about any collection accounts

Do not: close cards to "simplify," pay off an old installment loan with a clean history, open a new card to lower utilization on another, or pay a credit repair service that promises to remove accurate negative items. They cannot.

Lesson 1.3 notes

LESSON 1.4

Debt-to-Income Ratio

Your credit score gets you into the program. Your DTI decides how large a loan you can qualify for.

Worksheet D: My DTI

Step 1. Gross monthly income (before taxes). Use income you can document for two years.

Gross monthly income (me)	
Gross monthly income (co-borrower, if any)	
Total gross monthly income	

Step 2. Monthly debts that count (minimum payments only): car, student and personal loans, credit card minimums, child support or alimony, co-signed loans. Do not list utilities, insurance, subscriptions or groceries.

Debt	Monthly payment	Balance left	Payment / balance
Total monthly debts			

Step 3. Estimated housing payment (PITI): principal, interest, taxes and insurance. Run your numbers in the Pre-Qualification Calculator at yourmortgagetoolbox.com.

Estimated monthly PITI	
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Step 4. Calculate.

Ratio	Formula	My result
Front-end (housing)	$\text{PITI} / \text{total gross monthly income} \times 100$	
Back-end (total debt)	$(\text{PITI} + \text{total monthly debts}) / \text{total gross monthly income} \times 100$	

Example. Income \$7,000 a month; other debts \$450 (car and student loan); PITI \$2,700. Front-end = $2,700 / 7,000 = 38.6\%$. Back-end = $(2,700 + 450) / 7,000 = 45.0\%$. A conventional loan looks at back-end only. FHA also checks front-end, with a standard limit of 31%.

General ratio guidelines

These vary by lender, program and compensating factors such as reserves, stable employment and a larger down payment.

Program	Front-end	Back-end
Conventional	Not used	Generally around 45 to 50%
FHA	31% standard	43% standard; up to 57% with compensating factors
VA	Not used	No fixed cap; lenders typically want under 41 to 45%
USDA	29%	Set by program and lender

Which debt should I eliminate first?

The goal is to remove the most monthly payment from your DTI with the money you have. Paying a balance down only trims the minimum a little. Paying it off removes the payment entirely. Use the payment-to-balance column on the previous page: a high ratio (for example, a \$550 car payment with 8 months left) is usually the best target.

Debt I will target first

Cash needed to pay it off

Monthly payment that removes from my DTI

Back-end DTI after payoff

Other ways to improve my DTI

- ☐ Increase documented gross income (raise, second job, rental income)
- ☐ Compare loan programs: FHA allows higher DTI with compensating factors
- ☐ Re-run my DTI after every debt change

Lesson 1.4 notes: questions about my DTI

Reminder: credit score and DTI are independent. You can have a 750 score and a DTI that limits your loan, or a 660 score and a low DTI that opens options. Both need attention.

LESSON 1.5

Building an Emergency Fund Before You Buy

A renter can downsize or move after a financial shock. A homeowner still owes the mortgage, and homes create their own surprises: a water heater, an HVAC system, a roof after a hail storm.

Worksheet E: My emergency fund target

Recommended for a new homeowner: 3 to 6 months of PITI in a liquid account, **plus** a separate home repair reserve of 1 to 2% of the home value.

Estimated monthly PITI (from Worksheet D)

Emergency fund minimum (PITI x 3)

Emergency fund stronger target (PITI x 6)

Estimated home value

Repair reserve low (home value x 1%)

Repair reserve high (home value x 2%)

My totals	Amount
Target emergency fund + repair reserve	
Saved for this today (separate from down payment and closing costs)	
Gap (target minus saved)	
Amount I can save each month	
Months to reach my target (gap / monthly savings)	

Lenders and reserves

For a primary residence, lenders may require 2 to 6 months of PITI in reserves after closing, depending on the loan amount and program. Treat that as a floor, not a target.

Where my money is kept

- ☐ My emergency fund is in a liquid account (high-yield savings or money market) I can reach quickly
- ☐ Cash kept at home is deposited in a bank or credit union at least 3 to 4 months before I apply, so it can be sourced and verified
- ☐ I understand lenders review two months of bank statements and trace large deposits
- ☐ I will not drain my emergency fund to make a larger down payment

Think about it. A smaller down payment with a healthy cushion is usually a stronger position than a larger down payment with no safety net. PMI costs money. A crisis with no cushion costs more.

Module 1 Quiz

Type the letter of your answer, or write it in by hand. Then check your results online at yourmortgagetoolbox.com/learn/financial-foundation/ or ask your instructor for the answer key.

- | | |
|--|--|
| 1. The most heavily weighted factor in a FICO credit score is: | My answer |
| A. Credit utilization (amounts owed)
B. Payment history
C. Length of credit history | <input style="width: 100px; height: 25px; border: 1px solid #ccc;" type="text"/> |
| <hr/> | |
| 2. Which action is most likely to quickly improve a credit score in 30 to 60 days? | My answer |
| A. Closing several old credit card accounts
B. Opening a new credit card to increase available credit
C. Paying down credit card balances to reduce utilization | <input style="width: 100px; height: 25px; border: 1px solid #ccc;" type="text"/> |
| <hr/> | |
| 3. When a mortgage lender pulls your credit, which score do they typically use? | My answer |
| A. The highest of three bureau scores
B. The middle of three bureau scores
C. The average of three bureau scores | <input style="width: 100px; height: 25px; border: 1px solid #ccc;" type="text"/> |
| <hr/> | |
| 4. Which loan programs require lenders to evaluate a front-end (housing ratio) DTI in addition to back-end DTI? | My answer |
| A. All mortgage loan programs; front-end DTI is universal
B. FHA and USDA only; conventional loans evaluate back-end DTI only
C. Conventional and VA loans only | <input style="width: 100px; height: 25px; border: 1px solid #ccc;" type="text"/> |
| <hr/> | |
| 5. Getting mortgage rate quotes from multiple lenders in a 30-day window: | My answer |
| A. Damages your credit score because each lender pulls your credit
B. Is treated as a single inquiry, so it will not significantly hurt your score
C. Is only allowed once per year | <input style="width: 100px; height: 25px; border: 1px solid #ccc;" type="text"/> |
| <hr/> | |
| 6. Errors on credit reports that could affect a consumer's score: | My answer |
| A. Are extremely rare, affecting fewer than 1 in 100 consumers
B. Affect approximately 1 in 5 consumers, per FTC research
C. Only appear on older credit files | <input style="width: 100px; height: 25px; border: 1px solid #ccc;" type="text"/> |
| <hr/> | |
| 7. A homeowner's emergency fund recommendation is: | My answer |
| A. The same as for renters; 1 month of expenses is sufficient
B. Unnecessary once you have equity in the home
C. 3 to 6 months of PITI plus a separate home maintenance reserve of 1 to 2% of home value | <input style="width: 100px; height: 25px; border: 1px solid #ccc;" type="text"/> |

My score (out of 7)

Topics I want to review

My 30-60-90 Day Action Plan

Pick the three or four actions that will move your numbers the most. Be specific: what, how much, and by when.

Next 30 days

31 to 60 days

61 to 90 days and beyond

My Module 1 readiness check

- ☐ I know my middle credit score and what range it falls in
- ☐ I have reviewed all three credit reports and logged any errors
- ☐ I have a plan to bring each card under 50% utilization, then 30%
- ☐ I know my front-end and back-end DTI
- ☐ I know which debt to eliminate first
- ☐ I have an emergency fund target and a monthly savings amount
- ☐ I know my target month to apply

Questions for my housing counselor or loan officer

Next: Module 2, Saving for Homeownership, at yourmortgagetoolbox.com/learn/. Try the calculators at yourmortgagetoolbox.com to see how your income, debts and down payment translate into a price range.

This workbook is for educational purposes only. Your Mortgage Toolbox is not a mortgage lender, broker, or financial advisor. Always consult a licensed professional before making financial decisions. Credit scoring, loan program requirements and ratio limits change; confirm current requirements with your lender.