A GUIDE FOR BUYERS REBUILDING CREDIT

500

A 500 CREDIT SCORE DOESN'T HAVE TO MEAN NO

FHA has a path. Let's find yours.

How FHA lending works for scores from 500 to 579, the 10% down rule, manual underwriting and compensating factors, and a plan to reach 580 if that's the better move.



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START HERE

YOUR CREDIT TOOK A HIT. YOUR HOMEOWNERSHIP PLANS DON'T HAVE TO.

Life happens. A job loss, a medical bill, a divorce. Credit scores drop for all kinds of reasons, and a lot of people assume that means **years of waiting** before they can buy.

FHA guidelines allow credit scores **as low as 500** with a 10% down payment. It's not the easiest path, and not every lender offers it, but for the right buyer it can work.

I've been helping families into homes since 1993, first as a Realtor and now as a mortgage lender. Read this, then call me. I'll tell you honestly whether to buy now at 10% down, or spend a few months getting to 580.

Brian

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HOW FHA CREDIT TIERS WORK

Your score sets your minimum down payment.

580 AND UP	Minimum **3.5%** down payment. The standard FHA path.
500 TO 579	Minimum **10%** down payment. Fewer lenders offer it, and the file gets a closer look.
BELOW 500	Not eligible for FHA. Let's build a plan to get you to 500 or higher.

SAME LOAN

Same FHA loan, rates and protections. The difference is the down payment.

PRIMARY HOME

Must be a home you'll live in, from 1 to 4 units.

LENDER RULES

FHA allows 500, but lenders can set higher minimums.

GOOD TO KNOW: "Credit score" here means the score used for your loan, usually the middle of your three bureau scores.

WHO THIS PATH FITS

Built for buyers with savings and steady income, but bruised credit.

USUALLY A GOOD FIT

- Your score is between 500 and 579
- You have 10% saved, or family help
- Your income is steady and documented
- Your credit problems are in the past
- You've paid rent on time
- Your debts are low

KNOW GOING IN

- You'll need **10% down**
- Not every lender offers it
- **Manual underwriting** may be required
- **Debt-to-income limits** are tighter
- **Compensating factors** matter
- Your rate may be higher

REAL TALK: If you're at 560 and could be at 580 in a few months, waiting may save you a lot of cash up front. We'll look at both options together.

MANUAL UNDERWRITING, EXPLAINED

A person reviews your file, not just a computer.

Most loans are approved by an automated system. Files with lower scores often get a **refer**, meaning a human underwriter has to review them by hand. That's called **manual underwriting**.

WHAT CHANGES

Your debt-to-income ratio limits are **tighter**, often starting around 31% for housing and 43% for total debt.

WHAT HELPS

Compensating factors can allow higher ratios. They show the underwriter you're a lower risk.

YOUR STORY MATTERS

Manual underwriting looks at the whole picture. A clear explanation of what happened to your credit, and what's changed, can help.

GOOD TO KNOW: Ratio limits and compensating factors are set by HUD and can change. I'll tell you exactly what applies to your file.

COMPENSATING FACTORS

What can help offset a lower score.

1. **CASH RESERVES**
   Savings left after closing, ideally several months of payments.

2. **SMALL PAYMENT INCREASE**
   Your new payment is close to your current rent.

3. **STEADY EMPLOYMENT**
   Years in the same job or line of work.

4. **LOW DEBT**
   Few or no other monthly payments.

5. **EXTRA INCOME NOT COUNTED**
   Income that isn't used to qualify, like a part-time job.

6. **RESIDUAL INCOME**
   Plenty left each month after all your bills.

REAL TALK: You don't need all of these. One or two strong compensating factors can make a big difference in a manual review.

07 · THE MATH

10% DOWN VS. 3.5% DOWN

What a 580 score is worth in cash.

Here's the same $200,000 home at two credit tiers. Your price, rate and costs will be different.

	SCORE 500–579	SCORE 580+
PURCHASE PRICE	$200,000	$200,000
MINIMUM DOWN PAYMENT	$20,000 (10%)	$7,000 (3.5%)
BASE LOAN AMOUNT	$180,000	$193,000
MONTHLY MORTGAGE INSURANCE LASTS	11 years	The life of the loan

EXAMPLE ONLY. NOT A RATE QUOTE OR LOAN ESTIMATE.

THE TRADE-OFF

10% down costs more up front, but means a smaller loan and mortgage insurance that ends after 11 years.

THE GAP

Getting to 580 could save $13,000 in cash needed at closing on this home.

COMING UP WITH 10%

More ways to get there than you might think.

GIFT FUNDS

Your **entire down payment** can be a gift from family or other approved donors, with a gift letter.

YOUR OWN SAVINGS

Money that's been in your account for a couple of months is easiest to use.

DOWN PAYMENT ASSISTANCE

Some programs can work with FHA. Eligibility at lower scores varies. Ask me.

SELLER HELP

The seller can contribute up to 6% toward your closing costs, not your down payment.

REAL TALK: Many buyers at 500–579 use a family gift for the 10%. If that's an option for you, it can open the door right now.

CREDIT EVENTS & REBUILDING

What FHA looks at in your history.

CREDIT EVENT	FHA WAITING PERIOD (GENERAL)
CHAPTER 7 BANKRUPTCY	2 years from discharge
CHAPTER 13 BANKRUPTCY	12 months of on-time plan payments, with court approval
FORECLOSURE	3 years from completion

COLLECTIONS

Large collection balances may need to be paid or factored into your ratios.

DISPUTES

Open disputes on your report can complicate approval.

RECENT LATES

On-time payments for the last 12 months matter a lot.

RENT HISTORY

A clean rent record helps, especially in manual underwriting.

GOOD TO KNOW: Ask for my credit prep guide. It covers disputes, collections and letters of explanation in more detail.

GETTING TO 580

Sometimes a few months makes a big difference.

1 PAY CARDS DOWN
Getting balances under 30% of the limit can raise your score quickly.

2 PAY ON TIME, EVERY TIME
One new late payment can set you back months.

3 FIX ERRORS
Dispute anything on your report that's wrong.

4 DON'T OPEN NEW CREDIT
Hold off on new cards and loans.

5 DON'T CLOSE OLD ACCOUNTS
Older accounts help your score.

6 CHECK BACK IN
I'll re-run your credit when you're ready to see progress.

REAL TALK: I can't promise a score change, and I'm not a credit repair service. But I can show you what's holding your score down and what's most likely to help.

COMMON MISTAKES THAT DELAY APPROVAL

Most of these are easy to fix ahead of time.

1 NEW CREDIT DURING THE LOAN
Any new account can drop your score below the line.

2 A LATE PAYMENT MID-PROCESS
It can turn a yes into a no.

3 GIFT MONEY WITH NO PAPER TRAIL
Gifts need a letter and proof of the transfer.

4 UNEXPLAINED DEPOSITS
Large deposits need a source.

5 PAYING THE WRONG COLLECTION
Talk to me before paying old collections.

6 CHANGING JOBS
Steady employment is a key compensating factor.

7 ASSUMING EVERY LENDER SAYS YES
Many lenders won't go below 580.

8 GIVING UP TOO SOON
A few months of work can open more options.

REAL TALK: Almost every one of these is avoidable with a 15-minute conversation before you apply. That's the cheapest time to fix a problem.

DOCUMENT CHECKLIST

Have these ready, and the process moves a lot faster.

- [ ] Pay stubs covering the last 30 days
- [ ] W-2s for the last 2 years
- [ ] Tax returns, if self-employed or required
- [ ] Bank statements, last 2 months, all pages
- [ ] Gift letter and proof of transfer, if applicable
- [ ] 12 months of rent payment history
- [ ] Letters explaining past credit problems
- [ ] Bankruptcy or foreclosure papers, if applicable
- [ ] Government-issued photo ID
- [ ] Social Security number for each borrower

Every situation is a little different. I'll give you the exact list for your scenario before you gather anything.



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BOOK 15 MINUTES

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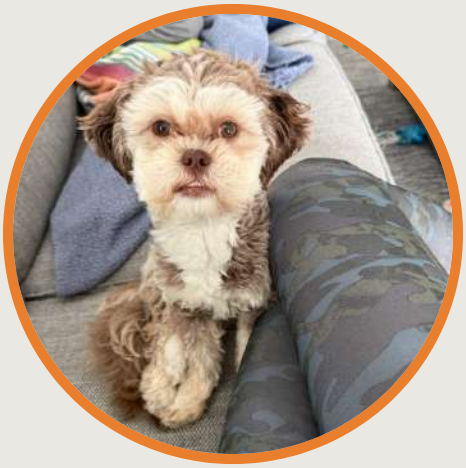
EQUAL HOUSING OPPORTUNITY

This guide is for educational purposes only and is not a loan commitment or guarantee of approval. All loans are subject to credit, income, asset, property and appraisal approval; not all applicants will qualify. FHA program guidelines allow minimum decision credit scores of 500 to 579 with a minimum 10% down payment and 580 or higher with a minimum 3.5% down payment; lender requirements may be higher and not all lenders offer financing below 580. Loans may require manual underwriting with stricter debt-to-income limits and compensating factors. Mortgage insurance premiums and guidelines are set by HUD, are current as of October 2026 and are subject to change. The Marchand Team and New American Funding are not credit repair organizations and do not guarantee any change to your credit score. Examples are illustrations only and are not a rate quote or Loan Estimate. Program availability and guidelines are subject to change without notice. © 2026 New American Funding, LLC. NMLS #6606 (nmlsconsumeraccess.org). 1 MacArthur Place, Suite 800, Santa Ana, CA 92707 · newamericanfunding.com · (800) 450-2010. Licensed Mortgage Banker, NYS Department of Financial Services. Equal Housing Lender. October 2026.

PENNY'S CORNER

A few words from our Chief Belly-Rub Officer.



PENNY SAYS

CHIEF BELLY-RUB OFFICER

Dad has helped a lot of people whose credit took a hit. Life happens. I once ate a whole sock. We all have a past.

Whether you buy now with 10% down or spend a few months getting to 580, Dad will tell you the truth. And I'll be honest too: no judgment from me.

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Tips, updates and plenty of Penny.

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