Can You Get A Mortgage Without A Credit Score?

Scott A. T.: Broadcasting from 1 Dallas Tower, it's the spinning beach ball of doom. If you own a Mac you know what I'm talking about. Welcome to the Financial Rockstar Show. I'm your host Scott Alan Turner. Ready to help you get out of debt, save more money, and retire early. In the studio with me is producer Katie with purple toe nails. On the show today can you get a mortgage without a credit score? I'll be answering your questions about money, business, and life. If you have a question you'd like answered on the show visit GoAskScott dot com. Please leave me a voicemail or shoot me an email. Click on the button on the side of the screen.

Elizabeth is taking me to task on credit scores. She says

Elizabeth: "I just listened to the do you really need a credit score episode and was wondering why you specifically think people need a credit score. I've always been told not to take the advice from broke people, and no offense to them but I don't know the people you were quoting in that episode. They could be totally broke. Most people are. Your opinion carries far more weight so I was wondering why you think credit is important. What on Earth do I need a credit score for?" This goes on in the email but I'm going to address this one first. We're going to write this down because it's a long email and we'll answer it as we go along rather than reading the whole thing first.

All those stories in that particular episode were from my peers. My peers in the personal finance industry. There were either bloggers, financial advisors, authors, credit counselors, I don't have their exact credentials in front of me, but they're people like me who teach others about money. I'm sure some of them used to be broke and probably living paycheck to paycheck but so did I. They're a very, very smart group. Very familiar with the 'you don't need a credit score' teachings that are out there and they're expressing from their own personal experiences from counseling other people who came to them with the credit scores based on following that advice. That's where all those stories came from.

Elizabeth goes on, "I have a credit score because I have a credit card but why should I care about that at all? I don't borrow money. I keep my insurance rates down by carrying high deductibles and paying in full. Sometimes I want to cancel my card altogether. It feels so stupid to charge stuff on it just to keep it active when I have the money in the bank and I'm going to pay it off in a couple weeks anyways. Should I care about my credit score only to get the best rates on a mortgage? If so, why should I care about that either? I know I can get a mortgage without a credit score. Even with a lower credit score how big of a difference is half a percent going to make over 30 years? I'm really honestly just curious because I read a lot of finance books, a lot of money articles, and no one can ever give me a good reason to care about my credit score except to get quote the best rates on loans and other canned overly textbook advice. As someone with real life experience please tell me why I should care from your perspective."

Scott A. T.: Elizabeth, it all comes down to this. Choice. Choice. Credit scores are like SAT scores. To get into college you can go to college without taking the SAT but you limit your choices. Some schools require you take the SAT as part of the application process. Others have stopped emphasizing SAT scores in recent years as much, other schools they don't use them altogether. If you decide your junior and senior year not to take the SAT maybe Harvard or whoever you scratch them off the list because they may require an SAT score as part of the application process so you don't have a choice to go to that school.

Same thing with mortgages. There are certainly mortgage companies that will do what's called manual underwriting of your mortgage. They don't look at your credit score, look at all the other information that you have such as your income, your savings, your earning potential. Well, are their rates as good as what you can shop for on Bank Rate dot com? I don't know because they don't show you on their website. I just went and looked and when I asked I was told I got to go talk to a loan specialist. By not having a credit score I've limited my choices from hundreds and hundreds of lenders down to just a handful. Probably even one or two that do this manual underwriting. The primary one that does it they are paying for advertising. Huge advertising dollars to promote manual underwriting. When you look at Yelp, because there are Yelp reviews on that particular company, they are very, very underwhelming. The reviews are very underwhelming.

Here's my opinion. The more choices you have the more you can save. If the price to pay for being able to choose from hundreds of lenders versus one or two is charging gas on a credit card once a month and then pay it off when the bill comes it's a small price.

Now let's move on from opinion to the numbers. You mentioned half percent difference on a mortgage. We'll use the average home mortgage $250,000. We're going to take off our mortgage at 4%, current interest rates, 30 years what we're going to pay over the lifetime of that is $430,000. If it's 4.5%, half a point higher, we are going to pay $456,000 over those 30 years. A $26,000 difference is the half point that you mentioned. Now, what if we do a 15 year loan? We're going to pay it off quick. Total we're going to pay out $344,000 at the 4.5% higher interest rate. At 4% we're only going to pay $332,000. A $12,000 difference. The lower rate saved us $12,000 over 15 years. What if I own 10 rental homes? What's the half percent difference on that? $260,000 over 30 years.

"All right," you're saying. "I don't own 10 rental homes. That's never going to be me." Let's go even further. For 30 years at 4% your monthly payment is $1194 a month. For 30 years a 4.5% monthly payment is $1267 a month. A $70 a month difference. That's only $70, right? If I took that extra money this $70 a month I invested it for 30 years at 10%. Average rate at the stock market. In 30 years I would have $158,000 in investments. The difference between 4% and 4.5% if I invest the difference over those 30 years on the money I save is nearly $200,000. That is why it's important. Point made there, interest rates do matter because what you can do with the savings and the power of compound interest.

Elizabeth goes on, "The other question I have is wondering if I should do more with my emergency fund? I would like to get more money into my Roth IRA since I'm 32 and have practically nothing saved for retirement. Is it okay for me to mix my savings with my investing? I don't know if it's worth the risk of losing part of it if the market nosedives at the same time I'm having an emergency." You're always looking at the risk versus reward when deciding what to do with your money. Roth? It's just a container. You can have cash in it, you can have stocks in it, you can have bonds in it. There's not much reason to have cash in it in my opinion. You can get the same savings rate as an online bank if you were going to do that.

Let's pretend your 6 month emergency fund is $20,000 for you and you put that money in the Roth and then you invest it all in stocks. Well, in 2008, 2009 we have a repeat of that, the market drops 50%. Your emergency fund is now only $10,000. That's going to last you 3 months. Are you okay with that? Maybe you would be. That works for you. If you decide that you want to invest some in your Roth then it can grow a little bit over time. The thing about the Roth though is it isn't very liquid. It's going to take you 5-7 business days to sell your investments, get that cash into your bank account. If someone calls up and they say, "I need $5000 tomorrow or we're losing the house" you can't help him. You can't have access to your cash that quick. You may not want to help him if you don't like him very much but you don't have a choice. You can get the cash from your local bank if it's there, walk over to Western Union, send the money the same day.

Now does this situation happen? Absolutely. Absolutely. Does it happen much? Oh yeah. People get arrested every day and they need to be bailed out of jail. You never know when you're going to get the call as someone needs a pickup. Or some other strange emergency which is why it's good to have your emergency fund, at least some of it, a little bit liquid so you can get access to it quickly. I like my emergency fund in cash because I always know what the amount is going to be no matter what the stock market is doing. It's not a good place to be if you have a 6 month emergency fund that suddenly becomes a 3 month emergency fund because the stock market tanks and you get a job loss and you're out of work for 6 months. That's an oops moment. Cash in a boring online savings account is best in my opinion. Thanks Elizabeth for the challenge.

Rashaad wants to dip a toe in investing and not get soaked.

Rashaad: "I am 23 years old and would like to start securing my future a little bit at a time. I've always wanted to invest but never have. I was hoping one of the Robo Advisors would be a way for me to test the water without my whole body getting wet." Good analogy. "I was hoping you could tell me anything I needed to know to help encourage me to get started with it. Or not, if that's the case. I'm very stingy with my money. I really do not want to lose it unless I am helping someone by giving it away."

Scott A. T: There was a survey done in 2014 by UBS. It reports that the public, the vast majority of us, continue to avoid the stock market but that the youngest investors are even more conservative than their older peers. Millennials in the 21-36 year age range, they hold 50% of their savings in cash, and only 28% in stocks and the rest in bonds. Non-Millennials, if you're older than 36, 46% on average in stocks and 23% in cash. Those are very concerning numbers considering the stock market it's one of the best and one of the easiest ways to grow your money through the power of compound interest over time.

Let me share with you a few ways, Rashaad, that you will lose money investing. First, you buy and sell stocks based on the next hot stock tip that your friend tells you about, that your relative tells you about, your coworker tells you about, the guy on the nightly news tells you about, the magazines tell you about, the internet websites tell you about. Buying and selling individual stock is a loser's game. Very few people profit from it over a long period of time. A lot of people make money quickly in a couple of days, a month, a year, they might do well. Just like a gambler in Vegas can do well every so often. Every once in awhile you bet on black you'll hit black. Stocks, individually, same way.

Timing the market is the next thing. Getting in and out based on when you think the market is going to go up or when it's going to go down. Somebody's saying, "The market's going to crash. It's going to crash. Get all your money out right now." Or, "The market's going to go up. It's going to go up. It's going to go up. Put all your money in it right now you'll make a bunch of money." It doesn't work. Studies show that by very smart people.

Next, treating your investment account like a piggy bank, getting in and out. You need some money to go out and buy a new car so you pull it out of your retirement account. Or you want to put a down payment on a house so you pull money out of your retirement account. Your retirement account is for retirement. Treat it as off limits. Not as a piggy bank. If you do that, that'll keep you from losing money. Never taking it out. That is where people lose money. It's not in the ups and downs of the market if you're staying in it for a long period of time. It's something called dollar cost averaging. Cashing out your account because of the ups and downs it will set you back decades.

The number one reason people don't do well in the market is because they don't invest in the market. They stay out of it. The number one way to build wealth investing when you have set things up properly is patience. It's patience. It's investing in low cost index funds like those found in the Robo Advisor that you mentioned, and investing month after month after month, year after year after year, decade after decade after decade, and allow your money to grow. It's proven. It's proven. It's down, the market is down, 1 out of every 3 year periods. It's down about 1 out of every 7 5 year periods. That means if you're looking at the past 80 years of the market if you look at any 5 year period in those ... I'll give an example. In 1990-1995 or the year 2003-2008. Again, I'm just making up those numbers, those ranges, but one out of every 75 years periods you look at the market is going to be down. Approximately 1 out of every 10 10 year periods. If you look at any 10 year period over the past 80 years, one out of every 10 periods the market is going to be down.

Over time it averages about 10%. One day you may have $1000 in your investment account and a month later you might have $750 because the market goes down. A year later you may be up to $1250. Maybe in 7 years it grows to $2000. Well, then it goes back down to $1500. Up, down, up, down, up, down. Over a period of decades, though, it goes up. An average 10% a year over a period of decades. Now how do you make 10% a year over a period of decades? You invest your money and let it grow for a period of decades. It's not rocket science. $1000, you get a 10% return on that, which is the average stock market return, over a 40 year period a thousand dollars becomes $53,000. That's the power of compound interest.

You put that money in a Robo Advisor and did nothing else but let it grow for 40 years, you'd end up with $53,000 if you just stuck a thousand dollars in there today and said, "Alright. See you later money. I'll check back in 40 years." Then as you count some of the yearly fees and inflation but the money grows. Put a thousand dollars in a cookie jar like half of millennials are currently doing? In 40 years you can buy a good 6 pack of beer, maybe a 6 pack of diet Coke, because of inflation prices go up over time. Your money buys less. You don't get much if you don't do anything. If you don't invest that's what you want to buy with your thousand dollars, lots of beer, cookies, chocolate covered bon bons, whatever to drown your sorrows in because that's what you're going to be feeling when you look back and wish you had done this and started sooner. I've got an investment calculator on my site that you can check out. It's a compound interest calculator. You plug in money and you can see how much it's going to be worth in however many years that you plug in. Use that 10% average rate of return.

Most investors can't help but shoot themselves in the foot in making those mistakes I just mentioned. If I was 23, I wish I had known at 23 what I didn't learn until after I lost $40,000 in the stock market making those mistakes that I just told you about being a bad investor doing all the things that I teach people not to do. Get started investing, Rashaad. Invest as often as possible and never touch it. The money will go up and down but over the long haul if you have patience it always, always, always goes up. Thanks for the question.

A couple shout outs. Robin Roark in White Hall, Arkansas, hello! Delores in Jackson, Michigan, hello! Thank you guys for subscribing to the show. If you want to get your name heard around the world, all you gotta do is take a screenshot showing me you subscribed, email it to me, and I'll call you out on the show. I thank you guys so much for listening.

Sorry, Fitnation, pumping iron at the gym and your spin class are personal expenses according to the IRS. IRS publication 502 medical and dental expenses tells us, "You cannot include in medical expenses health club dues paid to improve one's general health or to relieve physical or mental discomfort not related to a particular medical condition." For those of you that are running a small business you can't run your gym membership through it. However, you can take the membership as a person deduction under certain conditions. They are, a doctor has to diagnose you with a specific medical condition, or some type of illness and you have to have written documentation of the diagnosis, you have to use the health club facilities to treat that condition or illness, and you must not have belonged to the health club or gym before the diagnosis or illness.

If you had polio, for example, and the MD says, "You need a pool." Then you went and joined a health club, you used the pool to treat your post-Polio syndrome, you can deduct it personally only once you meet the 10% of the adjusted gross income hurdle. Now what if you're a professional athlete? Then you're not listening to this show. That doesn't matter. What if you're a pro golfer? Again, you're not listening to this show. That's nobody but if maybe you know someone. According to a couple wealth management companies that do this stuff and that cater to those pro athlete clientele most or all of the conditioning and training exercises incurred by a professional athlete can be deducted as a miscellaneous itemized deduction they turned pro at wakeboarding, we can deduct their $12 a month gym memberships or the memberships at the gymnastics clubs where they're all learning to do the cool spin moves and flips. Hopefully we deduct the gas for the boat. That would be better. Now back to your questions.

Anna on the Twitter asked if she should invest in company stock. She says,

Anna: "My company's 401K plan lets you spread your investments across funds, stocks, and bonds, should we invest in company stock?" Absolutely 100% definitely no. No. The reason behind that is because you're already invested by working at the company. You don't want to have your retirement plan and your retirement money tied up with them too. What has happened in the past repeatedly in times of stock market distress companies end up going bankrupt. The people who lose the most money and you hear about them in the news going, "Oh my goodness. We lost our retirement money" are those people who were heavily, heavily invested in their own company's stock.

Scott A. T.: In the dot com bubble crash of 2000 Worldcom was a company, you may or may not have heard of them, they went bankrupt so everybody who had company stock in their 401K plan lost it because the company went bankrupt. Enron in 2001 bankrupt so people who were heavily invested in Enron, the employees who had money in their 401K, company stock, lost it. 2008-2009 during that market crash Lehman Brothers is a big financial firm that went bankrupt. General Motors went bankrupt. People who were heavily invested in their company's stock lost it. Putting your money in your company's stock it's really no different than going out on the stock market and buying Apple stock or Google stock. You're not well-diversified you're not going to be well-protected if a market crash happens. You've got all your eggs in one basket. Very bad idea. Just stick with the mutual funds, the bond funds that you have in your 401K plan, preferably index funds if you have those available to you but look for those funds that have the low fees within them.

If you're just dying to invest in your company's stock, you really believe in it, no more than 10%. No more than 10% of what you're investing in your 401K so that's after the mutual funds, after the bonds, 10% in your company's stock. You shouldn't feel bad about this. Don't feel bad about not investing in your company's stock. Your company is looking out for the company, number one. You're number two. You should do the same. You look out for you, number one, the company is number two. You don't have to be loyal to them in your 401K plan. You've got to be loyal to your retirement. Thanks Anna, for the question.

Quick break, back in 3 hours. You're listening to Scott Alan Turner. Hey nation. Scott Alan Turner here. Now for those of you that are my long time listeners you know I'm not one of those guys on the radio who promotes every product that shows up on their desk. You're never going to hear me trying to get you to buy high fructose corn syrup or recommending you buy the DVD collection for Star Trek: Deep Space Nine. No. I have a name to uphold to you, the Rockstar Nation.

If I were, if I were to recommend something to you I would tell you about Spoon City. Many of you are sitting there right now listening to this mindless drivel at home eating a bowl of cereal for breakfast and unless you're like my two year old's using their hands you're using a spoon to shovel in those chocolate marshmallow sugaroos. Spoon design has remained unchanged for hundreds of years until now. The fine folks at Spoon City have come up with the first ergonomic spoon to take your eating experience and health to a whole new level. Eating with a non-ergonomic spoon can cause side effects such as headaches, nausea, cramping, bloating, lightheadedness, stuffy runny noses, chest pain, and in some rare cases spontaneous combustion. Head down to your local Spoon City today, your mouth deserves the best.

Robert from Arizona says,

Robert: "My number one problem is small business budgeting. Planning ahead for the slow times of lower cash flow." Any business that is seasonal, landscaping always comes to mind to me, needs a feast and famine fund to survive the down seasons. It's really no different than budgeting on an inconsistent income for somebody who's in sales. Robert, you've got your building rent, probably, your trucks, your insurance, your repairs, your phones, your marketing, maybe you've got snacks around the office, write down all your expenses and then you just put them in priority order that they need to be paid in. Rent is probably going to be at the top of the list. Trucks probably going to be number two in there as well. You've got to have trucks to run the business. You go through, you prioritize them all, and each month you pay the bills in that order based on your income that you have for that month starting at number one, and just going down the list until you run out of money.

Scott A. T.: You want to add up the totals for your absolute needs, everything you need for the business to survive, and then you want to add up a separate total for your business wants, marketing, snacks, those are kinds of wants. They're not necessary to run the business. Marketing is important but it's not necessary. If you have leftover on a particular month you take some of that and you put it into what's called your feast and famine business fund. It's just a little savings account. It's kind of like an emergency fund. You set it aside. How much? You want enough in it to cover your needs for several months. That's why you need to tally up what your needs are. During the famine months when you're not pulling enough money you take money from the feast and famine fund and you pay your bills out of that to cover your costs. During your feast months when you're making a lot more money you replenish the account.

Let's just make up numbers. If you have a $10,000 surplus one month and your monthly needs are $6000 to pay your business expenses you put $6000 or some amount in that feast and famine fund out of your extra $10,000. You put in as much as you're comfortable contributing so that you can ride out 3-4 slow months. You want to be able to ride out at least that much. It's really like an emergency fund but you expect to use it for your business so you are going to be touching it periodically, unlike with an emergency fund that's just for dire emergencies. It's just that simple. You just have a little buffer account sitting around. It grows and shrinks as the seasons come and go and that's going to work easiest for you. Thanks Robert for the question.

Jordan is with us again. Let me give you the backstory if you're not familiar with it. Jordan lives in Arkansas and is trying to get to LA. He's living in a small town and has big city dreams. He's trying to save up enough money to go out there and live his dream. He writes,

Jordan: "Just an update on things. I also need some advice. I finally got information on how much I'll be paying for back taxes, which is $1000. My mom helped me figure it out. It's a pretty big amount which is quite huge to me. I've never had anything like that in my back account before, let alone paying someone else that much money." Yeah, it's a stinger.

"Currently I have saved up some money for my LA fund. I've been trying to put back money into it each week. Now I've been having trouble with my car." Long story, I'm not going to repeat it all but the alternator went out on

Jordan's car. I'd had the same thing happen with two of my vehicles. My advice to that is get the alternator fixed. Advice he got from someone was to sell the car. I don't think that's necessarily the best advice. Alternators, yeah, they go out on cars just like batteries go out on cars. They don't last forever. It's not a super expensive thing to get fixed compared to a complete transmission overhaul or anything like that. Plus, once they're swapped out your car will run for a couple more years, at least in my experience.

Continuing on, "With the way things are going I don't even know if I'll have enough to leave and get to LA but it's my only choice. I need stable work in my field, a job that takes out taxes, it has been very difficult being home after graduating college in 2014. I had planned to audition hopefully everything will work out. I'm literally at the ends of my rope with everything. I honestly don't know what to do. I love to dance so much it's been what I strived for all my life to do ever since I was 7 years old. If you've seen some of my work I think you'd agree about my passion and I need to get away to better my life and share my work but also make a living for myself. I think if I had more support for my goals from my family I'd be a lot farther along." End of message.

Scott A. T.: Let me share a story about someone with you, and it is someone you probably know. No, it's not me. After high school he enrolled in the University of Missouri as a journalism major. As graduation approached he felt unsatisfied, in fact he dropped out about 6 credits short of getting a degree. Two weeks before earning his degree he packed up and headed to Los Angeles to cut his teeth as an actor. To support himself while he auditioned the future star worked at the El Pollo Loco in Hollywood. His job required that he wear a chicken suit and dance around to attract customers to the restaurant. A chicken suit. A chicken suit. What did he go on to accomplish? He's an Academy Award winner. He's a Golden Globe award winner. Twice voted at People Magazine's Sexiest Man Alive. Who is it that I speak of? Any guesses? It is Brad Pitt. Brad Pitt, when he arrived in Hollywood had to wear a chicken suit and dance around to make ends meet.

There's a common thread among famous actors, famous musicians, famous artists. Number one, they're all fueled by one thing and that is their passion. The unquenching desire to live out their passions and dreams. You'll also find another common thread for a lot of them is that they struggled to get started. They struggled. If you have been dancing since you're 7, Jordan, and you're 23 and still doing it I think you've found your calling in life. Pretty good chance. It's good to have a get out of town plan. At the end of the day nothing is stopping you from hopping on the next bus.

For me, I prefer a little more security, a little cushion, other people that are willing to take on more risk and hop on a bus with $20 in their pocket. You get to LA, you do whatever it takes to survive, all the while learning the principles of how to thrive, proper financial management, staying out of debt, and avoid digging yourself into a hole. Surrounding yourself with people who will encourage you, yes, that can be a challenge. You may not find it in your friends. You may not find it in your family.

You can find it from within. That's what you've got to tap. It is you against the world and the only thing that can stop you is you. Here's what I know to be true. All great things rose out of great failures and they all started with a dream. That dream is what will power you through the grunt work, the plateaus, the down slides. If you're on a diet it gives you the power to say no to dessert. If you're on a budget it gives you power to say no to the purchase. If you're in sales it gives you the power to make one more phone call. If you want to change the world it gives you the power to take one more step outside of your comfort zone and make it happen. Dream big dreams and make them happen. Keep on pushing and never give up. Thanks, Jordan, for writing in again. Keep us up to date on your progress.

Debbie from Portland, Oregon is going to lead you with today's final thought. She sent me these kind words,

Debbie: "I truly enjoy your commentary and it is my goal to be a not average family that makes an average wage but will have a net worth of over a million dollars before I retire by having no debt, saving and investing. I have 20 years so I am hopeful. Thank you for all that you do."

Scott A. T.: Thank you Debbie for committing to not being average and for inspiring others to do the same. Those are the words.

Do me a favor, please. If you're enjoying the show and you have saved at least 25 cents by now listening to it, or you just like the cats, please text the link get fr dot com to three to help spread the word about the show. If you don't like the show, hey, I don't know why you made it this long into it but if you don't like it send the link get fr dot com to three people you wish would be on the first manned trip to Mars. That's it for this episode. I'm your host, Scott Alan Turner. Rockstar Katie is my producer. All the lives mentioned in the show are available in the shouts on Scott Alan Turner dot com. If you have a question you'd like answered by me visit go ask Scott dot com. Thanks for listening.

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