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3 mortgage myths holding back aspiring homeowners

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Many Americans believe the dream of homeownership is out of reach, but a Bankrate survey revealed that at least some of those frustrations may be due to misconceptions that make homeownership seem harder than it really is.



Note

The public opinion poll, fielded earlier this year, found that 41% of U.S. adults think now is a "bad time" to buy a home, and 26% say they'll "never" be able to afford their dream home. It also showed that many have over-inflated perceived barriers to getting a home loan, such as less-than-stellar credit. Here are the most common myths revealed in the survey, and how they stack up to reality.

Myth: I need excellent credit to land a mortgage

The survey found 39% of Americans believe a home buyer needs "excellent" credit to get a mortgage. While it's true that excellent credit will help you qualify for the best deal, it's quite possible to land a mortgage with a credit score of less than 700.

According to Equifax, credit score of 800 or higher qualifies as "excellent." "Very good" means 740 to 799, which is still quite creditworthy. A credit score of 670 to 739 is considered "good," while 580 to 669

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is "fair."

The reality is that borrowers with credit scores as low as 620 can qualify for Federal Housing Administration (FHA) loans, while the requirements for loans through the U.S. Department of Veterans Affairs (VA) can go as low as 580.

"Someone with a 620 credit score or higher is eligible for many of our first-time homebuyer programs," says Scott Linder, senior vice president at TD Bank.

You will pay more as a borrower with a lower credit score — FHA and VA loans carry higher fees than conventional loans. But you still can qualify for a mortgage with a score well below the excellent range.

Myth: You need 20% down

With home prices still at record levels, many potential buyers are pessimistic they can afford down payments and closing costs. According to Bankrate's survey, 39% believe a buyer needs a 20% down payment.

A 20% down payment indeed helps qualify you for the best combination of mortgage rate and fees, but many people qualify for a mortgage with less than 20% down. FHA loans require just 3.5% down, while VA loans require nothing down. You can get a conventional loan with less than 20% down, although you'll have to pay private mortgage insurance (PMI) in that case.

That's good news, because the typical home price nationally is around \$400,000, and most first-time buyers don't have \$80,000 to devote to the down payment.

It's possible that Americans know they can qualify for a loan with less than 20% down but simply don't think it's wise, says Brad Case, chief residential economist at Homes.com.

"People have different ways of interpreting the question," he says. "It may be that 19% of them think that's a requirement, and the other 20% think they shouldn't buy with less than 20% down. You're signing up for the biggest loan you'll ever take, and it lasts for 30 years. So you're taking on a lot of risk."

Myth: Owning is cheaper than renting

Unlike the other two, this last myth doesn't speak to the barriers of homeownership as much as it illustrates a general misunderstanding about financing a home purchase.

According to the survey, just 18% of American adults agreed that renting is cheaper than owning a home, even though it's generally the case in much of the country. According to Realtor.com's March Rental Report, renting is more affordable than buying in all 50 of the largest U. S. metro areas, with an average monthly savings of \$920 compared to buying.

In some places, the gap is massive. In Northern California, you'll spend about \$6,000 more a month owning versus renting, according to Bankrate data. In only a couple of metro areas is the math even close: In Detroit, where the average rent was \$1,481 and the average homeownership cost was \$1,515 last year, and in Pittsburgh, where the typical rent was \$1,452 a month and the typical homeownership cost was \$1,601.

That doesn't mean homeownership is not a valid goal. You could view savings from a rental as an opportunity to build toward tomorrow's purchase. "Renters who are intentional about saving have a real opportunity to build toward a down payment faster than they might think," says Danielle Hale, chief economist at Realtor.com.

One reason to buy a home: Households that purchase their first home by age 30 see a 22.5% higher net worth by midlife compared to those who wait until their 40s, according to Realtor.com. That corresponds with the well-worn notion that renting amounts to throwing away money each month, while owning is akin to paying yourself.

