

HOW TO PREPARE TO FINANCE A HOME TO IMPROVE YOUR CREDIT

HOW TO Improve Your Credit

Credit scores play a big role in determining whether you'll qualify for a loan and what your loan terms will be. So, keep your credit score high by doing the following:

Check for errors in your credit report.

Thanks to an act of Congress, you can download one free credit report each year at annualcreditreport.com. If you find any errors, correct them immediately.

Pay down credit card bills.

If possible, pay off the entire balance every month. Transferring credit card debt from one card to another could lower your score.

Don't charge your credit cards to the max.

Pay down as much as you can every month.

Wait 12 months after credit difficulties to apply for a mortgage (talk to your lender)

You're penalized less severely for problems after a year.

Don't order items for your new home on credit.

Wait until after your home loan is approved to charge appliances and furniture, as that will add to your debt.

Don't open new credit card accounts.

If you're applying for a mortgage, having too much available credit can lower your score.

Shop for mortgage rates all at once.

Having too many credit applications can lower your score. However, multiple inquiries about your credit score from the same type of lender are counted as one if submitted over a short period of time.

Avoid finance companies.

Even if you pay off their loan on time, the interest is high, and it may be considered a sign of poor credit management.

HOW TO Prepare to Finance a Home

Develop a budget: Use receipts and your banking transaction history to create a budget that reflects your actual habits over the last several months. This approach will better factor in unexpected expenses alongside more predictable costs such as utility bills and groceries. You'll probably spot ways to save, whether it's cutting out a Starbucks run or eating dinner at home more often.

Reduce debt: Lenders generally look for a debt load of no more than 36 percent of income. This figure includes your mortgage, which typically ranges between 25 and 28 percent of your net household income. So, you need to get monthly payments on the rest of your installment debt—

car loans, student loans, and revolving balances on credit cards — down to between 8 and 10 percent of your net monthly income. You can confirm with a loan officer of debt-to-income ratios for various loan products.

Increase your income: Now's the time to ask for a raise! If that's not an option, you may want to consider taking on a second job to get your income at a level high enough to qualify for the home you want.

Save for a down payment: Designate a certain amount of money to put away in your savings account each month. Although it's possible to get a mortgage with less than 5 percent down, you can usually get a better rate if you put down more. Aim for 20 percent of the purchase price.

Keep your job: While you don't need to be in the same job forever to qualify for a home loan, having a job for less than two years may mean you have to pay a higher interest rate.

Establish a good credit history: Get a credit card and make all your bill payments on time. Pay off entire balances as promptly as possible. Also, obtain a copy of your credit report, which includes a history of your credit, bad debts, and late payments. Ensure that it's accurate and correct any errors immediately.

Keep saving: Even if you have enough money to qualify for a mortgage and cover your down payment, you will also need to factor in closing costs, which can average between 2 and 7 percent of the home price, and incidentals such as the cost of hiring a home inspector.

Decide what kind of mortgage you can afford: Generally, you want to look for homes valued between two and three times your gross income, but a financing professional can help determine the size of loan for which you'll qualify. Find out what kind of mortgage (30-year or 15-year? Fixed or adjustable rate?) is best for you. Also, gather the documentation a lender will need to preapprove you for a loan, such as W-2s, pay stub copies, account numbers, and copies of two to four months of bank or credit union statements. Don't forget property taxes, insurance, maintenance, utilities, and association fees, if applicable.

Seek down payment help: Check with your state and local government to find out whether you qualify for special mortgage or down payment assistance programs. If you have an IRA account, you can use the money you've saved to buy your first home without paying a penalty for early withdrawal. Also check with your loan officer, they may know of down payment assistance loan products that you may qualify for.