

8 Steps to Getting Your Finances in Order – A complete guide for buyers

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1. **Develop a family budget.** Instead of budgeting what you'd like to spend, use receipts to create a budget for what you actually spent over the last six months. One advantage of this approach is that it factors in unexpected expenses, such as car repairs, illnesses, etc., as well as predictable costs such as rent.
2. **Reduce your debt.** Generally speaking, lenders look for a total debt load of no more than 36 percent of income. Since this figure includes your mortgage, which typically ranges between 25 percent and 28 percent of income, you need to get the rest of installment debt—car loans, student loans, revolving balances on credit cards—down to between 8 percent and 10 percent of your total income.
3. **Get a handle on expenses.** You probably know how much you spend on rent and utilities, but little expenses add up. Try writing down *everything* you spend for one month. You'll probably see some great ways to save.
4. **Increase your income.** It may be necessary to take on a second, part-time job to get your income at a high-enough level to qualify for the home you want.
5. **Save for a downpayment.** Although it's possible to get a mortgage with only 5 percent down—or even less in some cases—you can usually get a better rate and a lower overall cost if you put down more. Shoot for saving a 20 percent downpayment.
6. **Create a house fund.** Don't just plan on saving whatever's left toward a downpayment. Instead decide on a certain amount a month you want to save, then put it away as you pay your monthly bills.
7. **Keep your job.** While you don't need to be in the same job forever to qualify, having a job for less than two years may mean you have to pay a higher interest rate.
8. **Establish a good credit history.** Get a credit card and make payments by the due date. Do the same for all your other bills. Pay off the entire balance promptly.

Budget Basics Work Sheet

The first step in getting yourself in financial shape to buy a home is to know what you make and what you spend now. List your income and expenses below.

<i>Income</i>	
Take-Home Pay/All Family Members	
Child Support/Alimony	
Pension/Social Security	
Disability/Other Insurance	
Interest/Dividends	
Other	
<i>Total Income</i>	

<i>Expenses</i>	
Rent/Mortgage	
Life Insurance	
Health/Disability Insurance	
Vehicle Insurance	
Homeowners or Other Insurance	
Car Payments	
Other Loan Payments	
Savings/Pension Contribution	
Utilities	
Credit Card Payments	
Car Upkeep	
Clothing	
Personal Care Products	
Groceries	
Food Prepared Outside the Home	
Medical/Dental/Prescriptions	
Household Goods	
Recreation/Entertainment	
Child Care	
Education	
Charitable Donations	
Miscellaneous	
<i>Total Expenses=</i>	
<i>Remaining Income After Expenses=</i>	

8 Ways to Improve Your Credit

Credit scores, along with your overall income and debt, are a big factor in determining if you'll qualify for a loan and what loan terms you'll be able to qualify for.

1. Check for and correct errors in your credit report. Mistakes happen, and you could be paying for someone else's poor financial management.
2. Pay down credit card bills. If possible, pay off the entire balance every month. However, transferring credit card debt from one card to another could lower your score.
3. Don't charge your credit cards to the maximum limit.
4. Wait 12 months after credit difficulties to apply for a mortgage. You're penalized less for problems after a year.
5. Don't purchase big-ticket items for your new home on credit cards until after the loan is approved. The amounts will add to your debt.
6. Don't open new credit card accounts before applying for a mortgage. Having too much available credit can lower your score.
7. Shop for mortgage rates all at once. Too many credit applications can lower your score, but multiple inquiries from the same type of lender are counted as one inquiry if submitted over a short period of time.
8. Avoid finance companies. Even if you pay the loan on time, the interest is high and it will probably be considered a sign of poor credit management.

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5 Factors That Decide Your Credit Score

Credit scores range between 200 and 800. Scores above 620 are considered desirable for obtaining a mortgage. These factors will affect your score.

1. Your payment history. Whether you paid credit card obligations on time.
2. How much you owe. Owing a great deal of money on numerous accounts can indicate that you are overextended.
3. The length of your credit history. In general, the longer the better.
4. How much new credit you have. New credit, either installment payments or new credit cards, are considered more risky, even if you pay promptly.
5. The types of credit you use. Generally, it's desirable to have more than one type of credit—installment loans, credit cards, and a mortgage, for example.

For more on evaluating and understanding your credit score, go to <http://www.myfico.com>.