Take These 5 Financial Steps Before Starting Your Home Search

Doing some financial housekeeping before purchasing a home can pay dividends in the long run, especially if you're attempting to buy in a competitive market. Take these steps before buying.

1. Improve Your Credit Score

The higher your credit score, the lower your qualifying interest rates will be—meaning you'll pay less on your mortgage over time.

For a conventional mortgage, you'll need a credit score of at least 620 to qualify and a mid-700's score to access lower interest rates.[1] Credit score qualifications are more lenient for Veterans Administration (VA) and the Federal Housing Administration (FHA) loans.[1]

Some of the best ways to raise your score include paying bills on time, paying off debt, aiming for a credit utilization ratio of 30 percent or lower, and maintaining your existing lines of credit.[2]

Discover your current credit score by requesting a free annual report from the three major credit reporting agencies at **annualcreditreport.com**.

2. Pay Down Debt

Aside from boosting your credit score, paying off debt before buying a house improves your debt-to-income (DTI) ratio—another factor that lenders use to determine your mortgage qualifications.

Your DTI ratio is how much debt you have relative to your income. Calculate your DTI ratio by dividing you're your monthly minimum debt payments by your monthly gross income.

From a lender's point of view, the less your DTI is, the less likely you are to default on your loan. Most conventional mortgage lenders look for a DTI of less than 43 percent and, unlike credit scores, conventional mortgages, VA loans, and FHA loans have similar DTI ratio requirements.[1]

3. Avoid Major Financial Change

Major purchases or changes that affect your finances can be a red flag for lenders. Here are some changes you should consider delaying until after you've purchased your home:

- **Opening or closing credit lines:** Opening new lines of credit and closing existing ones can lower your credit score.
- **Making major purchases:** Charging large purchases on credit can lower your credit score and increase your DTI ratio, such as new furniture.
- **Changing jobs:** Lenders want to see proof of stable employment and income to ensure you can afford your mortgage.

4. Save for Homebuying Costs

The more you can save toward your down payment, the more house you'll be able to afford. Your minimum down payment will depend on the type of loan you apply for, your credit score, your DTI ratio, and other factors.

In addition to the down payment, don't forget to save for other costs associated with the home buying process, such as an earnest deposit, closing costs, and home repairs. Closing costs are known for blindsiding buyers, with the average totaling $6,837 including taxes.[3]

5. Compare Mortgage Preapprovals

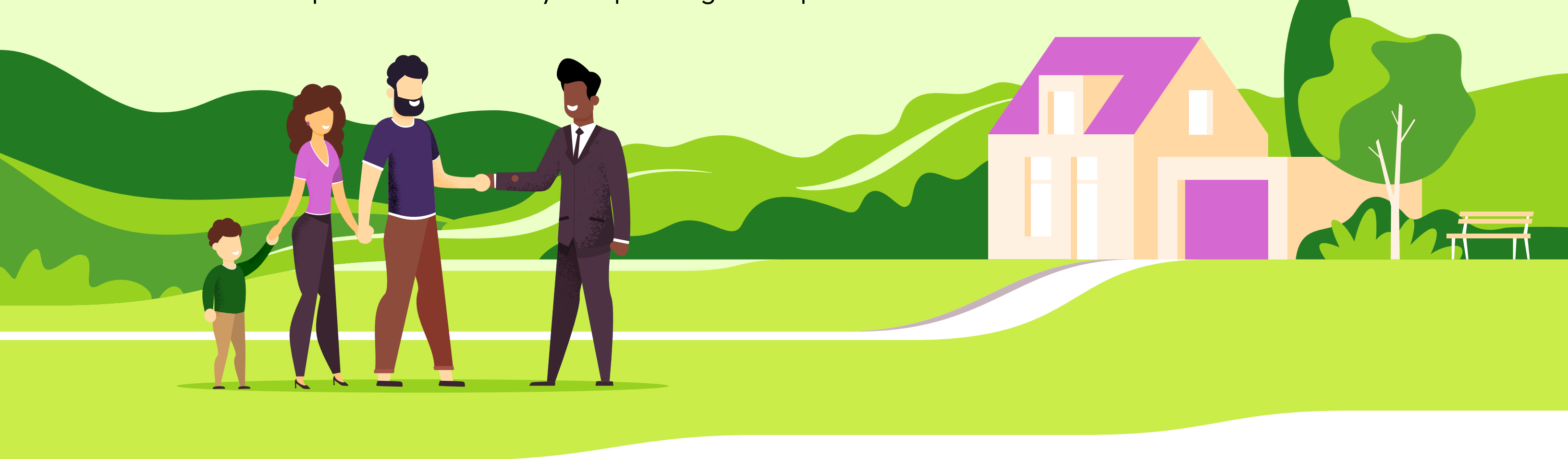
In most cases, you need a preapproval letter to make a competitive offer on a home.

For preapproval, lenders evaluate various aspects of your finances, including your credit score, tax returns, and recent pay stubs. They then produce a document stating how much they're willing to loan you within a set period—usually between 30 to 90 days.

Getting preapprovals from multiple lenders allows you to rate-shop for the best loan possible. Though getting preapproved involves a hard credit pull, both the FICO® and VantageScore® credit scoring models allow you to apply for multiple mortgage preapprovals within a 45-day window where all mortgage-related credit pulls are treated as one inquiry—thus having minimal impact on your score.[4]

Be prepared to buy a home.

Talk to a financial professional about your upcoming home purchase.



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