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## 4 Steps To Prepare Your Finances for Homebuying

If buying a home is on your to-do list in the next year, cleaning up your finances and saving for a down payment need to come first. Local real estate pro [Michelle Lloyd](#) invites you to use these tips to pay down debt, save effectively and get the best rate possible when you apply for your home loan.

### **Assess Your Finances**

To be able to make progress and improve your credit profile, you need to know what lenders will see when they consider you. Utilize an [online service](#) to get your free complete credit report. Use it to compile a list of debts and see if there are any negative factors you need to work on before applying for your loan, such as accounts in collections.

Make a list of all the money you have coming in during a month and all the expenses you have chipping away at that total. Look for accounts or costs you can [eliminate](#) or cut down on, even if only temporarily, to focus on paying down debt and saving for purchasing a home.

### **Determine Your DTI**

When lenders look at your finances, one of the most important pieces they consider is your DTI or debt-to-income ratio. This is calculated by adding up the amount of outgoing money you have out of your income. For instance, if you have a car payment, student loan and credit card payment, the total sum will be divided by the total money you bring in each month.

You can use an [online calculator](#) to determine your DTI. According to [Investopedia](#), lenders generally require a DTI of 43 percent or lower. If yours is close to or higher than that, find a way to eliminate one or more of those monthly payments to get your DTI at an acceptable level.

### **Figure Out How Much to Save**

To purchase a home, you need to have money for a down payment and money for closing costs. While you can't know exactly how much that will amount to, by [researching homes](#) in your area, you can get an idea of how much money you are going to need to spend on a home. From there, you can calculate your likely costs. |

Down payments are often thought of as 20 percent of the total home loan, but that isn't always the case. There are [many types of loans](#) that require a much lower down payment, with some such as FHA loans as low as 3.5 percent or USDA loans requiring no money down. Research options to see which loan is best for your situation.

### **Pay Down Debt Efficiently**

Decide what debt is the highest priority, and then tackle that one first. If there is one that puts your DTI over the percentage that lenders want, focus on it to make yourself a more appealing borrower. One effective way to [pay down debt](#) is to pay off the debts you have with the highest rates first. By doing so, you save money over time that you would've lost paying down interest. Others choose to start with the debt that is the smallest. Then, roll the money that would have gone toward the smaller debt's payment into a larger payment on the next biggest debt.

Once you've strengthened your credit profile and paid down debt, you'll be ready to apply for loan preapproval. After you're preapproved, hire a savvy real estate professional like Michelle Lloy to help you navigate the homebuying experience. With your hard work and a realtor's help, you'll be moving into the home of your dreams in no time. Call [Michelle Lloyd](#) today at (623) 888-9060 or fill out the contact form on her website.