

8 Steps to Getting Your Finances in Order

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.

