A FINANCIAL TIME LINE 12 MONTHS TO HOMEOWNERSHIP

Buying a home can be complicated but preparations can help make it less so. Before starting to seriously shop for a home seriously consider the following one-year timeline to help you arrange your finances. The more time you give yourself for this process, the better.

ONE YEAR IN ADVANCE

Get your credit reports

If there are errors on your reports, you could pay a higher interest rate on your mortgage. You might also have issues getting a loan. Free credit reports from the three major credit bureaus (Equifax, Experian and Transunion) are available from AnnualCreditReport.com. Scan the reports for suspicious activity, debts you don't owe and negative marks (other than bankruptcy).

Obtain your FICO credit scores

Your credit scores are three-digit numbers used to measure your creditworthiness. They help determine the rates and terms for your loan. While there are different credit-scoring formulas, most lenders use FICO.

Attack your debt

Try to eradicate bad debt such as credit-card balances and payday loans which signal that you could be living beyond your means. Reducing overspending before you buy a home is critical because homeownership typically involves costs not currently in your budget, such as property taxes, insurance, maintenance, repairs, improvements and decorating.

Save Money

Cut back on luxury expenses and put as much money aside as possible. Think about your dream of homeownership. Ideally, try to have at least a 5% down payment, but putting down 10% will give you even more financing options.

Switch to automatic bill pay

A single, 30-day late payment can knock 100 points off your score so be sure every bill gets paid when it's due. Consider using an online bill-payment system's recurring-payment feature.

SIX MONTHS OUT

Research mortgage options

Educate yourself on different types of loan programs and consider interviewing several mortgage professionals. Different lenders may have different loan products and offerings.

Hone your saving strategy

A more significant down payment could result in a larger home or a lower mortgage payment. Build up your emergency fund to three months of income for unexpected home expenses.

THREE MONTHS OUT

Reduce your credit utilization

Remember, less is better, at least when it comes to the FICO scoring formula. It's sensitive to how much of your available limits you're using on your credit cards and other revolving lines of credit. Even if you pay your balances in full every month, the balance on your most recent statement is the formula used. Keep that balance below 30%.

Don't open or close any accounts

Until the mortgage process is complete and you've received the deed to your new home, avoid opening new credit accounts or closing old ones that could potentially harm your credit. If your loan officer later advises you to pay off certain debts in order to qualify for the loan, follow that advice, but otherwise, leave your accounts as they are.

TWO MONTHS OUT

Look into potential mortgage rates

Order a fresh set of your FICO credit scores and speak to a few mortgage lenders about rates. Don't apply yet or give permission for your credit to be pulled; just get a feel for what you can expect. Each time a lender checks your credit, a "hard inquiry" appears on your credit report and dings your score slightly. The good news is that the FICO scoring formula counts all mortgage related inquiries within a specified period as one. It is essential to do your serious mortgage shopping in a relatively concentrated time frame.

Get approved for a mortgage in advance

A pre-approval, in which a lender commits to giving you a loan, is different and more valuable to sellers than pre-qualification, which only provides you with and idea of an affordable mortgage amount without any commitment. You are not obligated to get a loan from the lender that pre-approves you. Even though a pre-approval involves a hard credit inquiry, the small potential ding on your credit is worth it because you'll be in a stronger position with sellers.

Avoid switching banks or making major purchases

After the lender has verified your funds at one or more institutions, the money should remain there until needed for the purchase. Purchases that require a withdrawal from your verified funds or increase your debt could affect your loan approval, as your lender may check your credit or re-verify funds at the last minute.

Avoid changing jobs

A job change may result in a loan denial, particularly if you are taking a lower-paying position or moving into a different field. Don't think you're safe because you've received approval earlier in the process, as the lender may call your employer to re-verify your employment before funding the loan.

Shop for a mortgage

Consider national mortgage lenders, local lenders, and online brokers. The full approval process could vary in length of time so be sure to move quickly.

Conduct appraisal, home inspection and walk-through

An appraisal is required for loan approval. An inspection is not required but can alert you to any serious problems before the deal closes. The walk-through, is usually right before signing final documents, is so you can make sure that the sellers have performed any agreed-upon repairs and the place is in move-in condition.

Confirm closing costs

Your settlement entails signing all loan and escrow paperwork and paying agreed-upon amounts, which can include your down payment and your share of legal fees, paperwork costs, property taxes, and title insurance.