

# The Power of Being Pre-approved versus Pre-qualified

Not knowing the difference could cost you thousands of dollars

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Buying a home is the biggest investment most people will ever make. The traditional process is to look at homes (usually with a Realtor), find one you like, maybe calculate some rough numbers with the Realtor, make an offer and then apply for the financing with the loan agent that the Realtor uses. Sometimes, the Realtor will have you meet with the loan agent before you look at homes, to give you a pre-qualification letter.

So, what's wrong with this process? It causes stress. A lot of it. From the minute you sign on the dotted line, the clock is ticking. You only have a short period of time to select a loan program, complete the loan application package, and obtain loan approval. Many real estate transactions fall out of escrow because the buyer (even with a pre-qualification) is unable to qualify for a large enough mortgage with acceptable terms, sending you back to begin the process all over again.

How do you avoid this stress? Get pre-approved for your loan before you begin to look at homes. And don't confuse pre-qualification with pre-approval.

Pre-qualification is not a loan commitment from a lending institution. It's a loan agent's opinion that you'll be able to obtain financing, and is usually based on a quick review of your credit report and your paystubs. These days, anyone can get a pre-qualification letter. It's great to get you started but unless the seller personally knows the loan agent involved, and is 100% confident that the loan agent can obtain a loan commitment, they may not bet the sale of their home on it (very rare).

Pre-approval, on the other hand, is a written commitment by the lender (not the loan agent), that you may borrow a specific loan amount. To get a pre-approval, you actually apply for a loan. The loan agent puts together a "credit package" - a complete loan application, your credit report, complete income documentation, asset verification and any supporting documentation needed - which is then submitted to the lender. The lender actually "underwrites" your file and issues a credit approval, or pre-approval, subject to finding an acceptable property.

So, what are the advantages of being pre-approved, rather than just pre-qualified?

- Working with a loan agent first allows you to decide what type of loan product is best for you. When you already have an accepted offer, and the clock is ticking, you are in the position of taking whatever you can get, without being able to really investigate the loan products available and how they might help you meet your financial goals.
- Getting pre-approved for a loan lets you determine, in advance, how much money you qualify for, and in what price range you can purchase. As a result, you do not waste your time looking at homes that are out of your financial reach and worrying about whether you will be able to get a loan.
- Taking the time to be pre-approved also allows you to select a loan amount that is comfortable for you. Quite frankly, many buyers can qualify for mortgages that are more expensive than what they really want to pay. Buyers can find themselves being pressured to buy a more expensive house than they want simply because it works on paper. Spending the time to be pre-approved gives you the confidence that you are purchasing a home that you can own - not one that will own you.
- Having a pre-approval letter from a lender gives you an edge in a multiple-offer situation. Look at it from the seller's viewpoint: They don't want to keep their home off the market for 30 to 60 days, only to have the

transaction fall through because the buyer couldn't obtain financing. By that time, a "hot" housing market can cool considerably, leaving the seller to sell their home in a less-than-favorable market. With a pre-approval letter, your offer will carry considerably more weight than offers with only a pre-qualification letter or no letter at all. In fact, sellers have chosen to accept offers of lower dollar amounts from pre-approved buyers over higher offers from buyers who have not been pre-approved. With a pre-approval, they are more confident that the deal will go through.

Pre-approved buyers can close escrow more quickly. You have already submitted your "credit package" and had it approved. When a property is found, a "property package" is then assembled, consisting of the purchase contract, an appraisal, the preliminary title report and any required inspections. The property package is submitted to the lender, loan documents are drawn and signed, and the escrow is closed. This portion of the process can take as little as 10 days (depending on the market and the inspections required). With the traditional process of finding a home first and then obtaining the financing, it takes 30 to 60 days to close escrow.

There is one caution about using a pre-approval letter. If the letter states a maximum loan amount higher than the price the buyer is offering for a home, a savvy seller will counter-offer for the highest amount for which the borrower has been pre-approved. It is wise, therefore, to request a letter with a specific loan amount based on the price you are offering for the home to present with the offer. A good loan agent, one who cares about serving your needs, will not have a problem accommodating this request.