Getting Pre-Approved

Coldwell Banker Bain

Who Needs Pre-Approval? You Do!

Being pre-approved for a home loan makes buyers more attractive to sellers. Who wouldn't want that?

Buying a house is like making a cake: You've got to follow the right steps (a recipe) before you get to the fun part (eating). A crucial step in the home-buying process is getting pre-approved. Here's how.

What is pre-approval?

Being pre-approved for a mortgage means a lender agrees, in writing, to lend you a specific amount of money (say, $200,000) under certain conditions (e.g., 30 years at 3.25% interest). The lender makes this commitment based on a review of your income and credit information, and then gives you a letter stating that you'll get this loan when you make an offer on a house and subject to other conditions (house appraisal, other documents). Approval letters are typically good for 60 to 90 days and put house hunters with them in a stronger buying position: sellers love buyers who are pre-approved.

What isn't pre-approval?

Unlike pre-qualification – a more informal process that estimates your house-buying house range – pre-approval means a lender has looked closely at your credit report, job history and income to determine which loan programs you qualify for, the maximum amount of money you can borrow and at what interest rate. But being pre-approved does not guarantee you'll get a loan. That call is up to an underwriter who will scrupulously review all of your paperwork to determine that you have not only a down payment, but the income to cover your mortgage payments too. In other words, to make sure you're a good risk. Lenders hate to lose money.

Benefits of pre-approval

The beauty of being pre-approved is that it makes you a more confident house hunter. Before you set foot in your first open house you'll know exactly how much money you can borrow, for how long (30 years, 15 years, etc.), and perhaps even your interest rate. You'll also have a good idea of what your monthly mortgage payment will be. Sellers like working with buyers who have their financing in place and can come up with the money to buy a house. And agents know that pre-approved buyers tend to have an advantage in multipleoffer situations, often winning out over higher bids when sellers choose the pre-approved buyer(s) with a reputable lender.

How to get pre-approved

To get pre-approved, you'll need to contact a lender. If you used a lender to get pre-qualified and are happy in that relationship, you can ask that lender to help with your pre-approval. If you don't yet have a lender, or want a different one, now's the time to do so. Talk to several lenders and choose one that's right for you and your financial situation.

To get the ball rolling on pre-approval, your lender will ask for your Social Security number and permission to pull your credit report, which costs about $30. Beware that too many inquiries for your credit report could lower your credit rating and hurt your chances of getting a loan. That's why it's important to shop for and decide on a lender before you ask to get pre-approved. Your lender will also want to review other financial information, including:

- Pay stubs (past three months)
- Bank account statements (past three months)
- Tax returns (past two years)
- W-2 forms (past two years)
- Other income: e.g., overtime pay, second job, interest/dividend income, child support, alimony, VA/retirement benefits, etc. (past two months)
- Other assets: stocks, bonds, retirement accounts (past two months)
- Landlord name/phone or current mortgage papers
- Self-employment records, if applicable

Once all your documents are in hand and have been reviewed, you can expect to be pre-approved in about 24 to 48 hours. And many lenders use an automated underwriting system that significantly speeds the process, sometimes returning approval letters in minutes.

Roadblocks to pre-approval

What happens if after following the above steps you are denied pre-approval? Don't despair. Pre-approval often uncovers the red flags in your financial picture and buys you time to fix them. Problems tend to crop up in these categories. See if working on them will enhance your chances of getting a loan:

- **Fix errors on your credit report and raise your credit score.** Resolve any mistakes or discrepancies on your credit report and take steps to boost your credit score. Late payments, missed payments or too many credit inquiries can negatively affect your score. A FICO score above 720 will get you the best rates. Learn more about your credit rating.

- **Reduce your overall debt and improve your debt-to-income ratio.** Lenders look for you total debt to be no more than 36% of your gross income. If your number is higher, take a few months and pay down your debt. Learn more about how debt-to-income ratio.

- **Raise your down payment to better qualify for the house price you want.** Lenders require a down payment that's at least 5% of the home's purchase price. Also, making a higher down payment lowers the total you need to borrow, and raises your odds of getting pre-approved. Learn more about down payments.

In hot markets, being pre-approved gives buyers a competitive edge. Ask your lender for tips on how to improve your chances to get the loan you want and the house of your dreams.

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