



Importance of Pre-Approval

What does it mean to be “Pre-Approved”?

Pre-approval means you have met with a loan officer, your credit files have been reviewed and the loan officer believes you can readily qualify for a given loan amount with one or more specific mortgage programs. Based on this information, the lender will provide a pre- approval letter, which shows your borrowing power.

Although not a final loan commitment, the pre-approval letter should be presented with an offer to purchase a property. It demonstrates your financial strength and shows that you have the ability to go through with a purchase. This information is important to owners since they do not want to accept an offer that is likely to fail because financing cannot be obtained. I always ask my buyers if we were selling their house and two offers came in; one with a pre-approval and one without, which would they look at?

How do you get pre-approval?

Real estate financing is available from numerous sources. Based on his or her experience, your Buyer’s Agent may suggest one or more lenders with a history of offering competitive programs and delivering promised rates and terms. The loan officer will carefully review your financial situation, including your credit report and other information. The lender will then suggest programs which most-closely meet your needs.

What is the Difference from a Pre-Qualification Letter?

A pre-approval letter is more reliable than a pre-qualification letter. Getting a pre- qualification letter is easy. You just call a mortgage broker or lender, provide some basic financial information, then wait a few minutes for the letter to come through your fax machine. Getting a "pre-qual" from a web site is just as easy. Enter some information, click "submit" and voilà. A pre-approval letter, on the other hand, involves verification of the information. Rather than taking your word on faith, the lender will ask for documentation to confirm your employment, the source of your down payment and other aspects of your financial circumstances. Granted, a pre-approval is more time-consuming than a pre- qualification, but that is why the pre-approval carries more weight.

Is it Just About Strengthening the Offer?

No. You'll know how much money you can qualify to borrow. Most home buyers have a rough idea of how much they would feel comfortable paying every month on their mortgage. However, there's no quick way to translate that monthly payment into a specific maximum mortgage amount because other factors, i.e. down payment percentage, mortgage insurance, property taxes, adjustable interest rates and so on -- are part of the calculation. And, you might not be qualified to borrow as much as you think you should be able to borrow, depending on your income, your debts and your credit history.

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