



Pre-qualification vs. Pre-approval

These terms appear to be similar, but can be quite different. Not only do they cause confusion for home buyers, there seems to be many interpretations from those in the real estate and mortgage industry as well.

The difference is in documentation and verification. In other words, is the buyer providing copies of income paystubs and bank account statements to the Mortgage Lender or is the Mortgage Lender simply relying on verbal information provided by the buyer? More often than not, the difference between the two terms is that one is issued without any verification of information and the other starts with the buyer providing written documentation of all information provided. While neither is considered to be a mortgage commitment, nor a written mortgage guarantee, obtaining a Mortgage Pre-Approval letter is more preferred than obtaining a Mortgage Pre-Qualification letter.

Mortgage Pre-Qualification is generally a process where a buyer contacts a Mortgage Lender/Mortgage Representative, often on the telephone, who then asks the buyer to provide some information. The information requested involves a current address and how long living there, a social security number and permission to order a credit report, annual income and hopefully the amount of down payment.

After the credit check is ordered and received by the Mortgage Lender, the Mortgage Rep then estimates the amount of mortgage the buyer can afford and sends (via fax or email) a letter to the buyer with the title Congratulations, You Are Pre-Qualified, for a mortgage loan in the amount of \$__ or Congratulations, You Are Pre-Qualified, for a mortgage loan in the amount of \$__ and a purchase price of \$___. This is usually done within a half hour or so of the initial phone call, and at best can be described as an estimate of potential mortgage ability and purchasing power, and not Mortgage Pre-Approval.

The pre-qualification letter always includes varying type disclaimer information, such as: Subject to a formal mortgage application and payment of an application fee, subject to verification of employment, subject to verification of assets, subject to credit review, subject to mortgage underwriting guidelines, interest rate to be the prevailing rate of interest for the mortgage type applied for, among many other "subject to"-like statements. In other words, we will give you a mortgage when we see that the information you provided is correct and meets certain qualifying standards.



What problems could arise when a formal mortgage application is submitted by a buyer after they've obtained a Mortgage Pre-Qualification letter like that? The mortgage application process involves somewhat standard underwriting criteria and guidelines for each particular type mortgage, whether the mortgage is VA, FHA or Conventional. The varying underwriting criteria involves guidelines, whether Fannie Mae, Freddie Mac or the Lenders specific qualifying criteria, for verification of income, income qualifying ratios, verification of down payment, cash reserves after closing, credit check scores and work history, among others.

Yes, it is possible that the buyer provided correct information, and will obtain a mortgage commitment when a mortgage application is submitted. However, there are many circumstances where even though the information verbally provided is accurate, certain other details are not mentioned which may have a negative impact on the mortgage approval process. Details like income being received off the books, down payment being borrowed (not gifted from a family member), and savings for the down payment but no other assets for closing costs or inconsistency in work history, to name just a few situations that can cause problems in obtaining mortgage approval.

While Pre-Qualification letters like the previous example are common, not all Mortgage Lenders provide them in that manner. Many Mortgage Lenders require a more thorough process in providing Mortgage Pre-Approval. In addition to obtaining a credit report, many Lenders require the buyer to provide proof of two years of work history, pay-stubs or income tax forms, copies of bank statements for source of funds verification and copies of charge card statements.

The Mortgage Pre-Approval letter is worded something like this: Congratulations, You Are Pre-Approved for a mortgage loan in the amount of \$__ and a purchase price of \$__ subject to a Contract of Sale and a satisfactory Bank Appraisal on the home being purchased. While more time consuming than the previous pre-qualification practice discussed above, it is more thorough and more reliable, shortens the formal mortgage application and approval process and provides the ability for a fast closing if one is desired.

Consider the advantages of this type Mortgage Pre-Approval. First of all, the buyer and REALTOR will have confidence in a price range and confidence in obtaining mortgage approval. In submitting offers, sellers will know they have a serious buyer who has taken the time to arrange for mortgage financing first. And just as important, the buyer will be more relaxed in spending money to hire an Attorney for contract review, providing the



earnest money deposit, hiring a home inspector to perform the home inspection, termite inspection, radon inspection plus any other required inspections and paying for the mortgage application and appraisal fee. Why? They are concentrating on the home they have purchased, and not worrying about the mortgage approval process.

Countless real estate transactions fall apart after a buyer has paid all those fees for the home they hoped to purchase, only to find out they were not able to obtain mortgage approval, even with a Pre-Qualification letter. These are the financial ramifications for a buyer, but what about the ramifications for the others involved in a lost real estate transaction, the selling agent, the listing agent and the seller. Consider the time, energy, emotional strains and on and on.