

PRE-APPROVAL FOR A HOME LOAN

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So, you have decided that you are going to buy a new or a different home! Congratulations, it's a wonderful decision. What's the first step? Find out how much you can afford and how much borrowed money you can get approved for, based on your financial profile. Of course this assumes that you will need a loan at all – and that you are not going to be paying cash.

Why not wait and find the house you want to buy first? Well, for several reasons this may not be in your best interest and it is just not a very practical approach. Here's why. Let's assume that you have the wisdom to find a real estate agent to assist you in the search for your new home. Let's further assume that you find not only a real estate agent, but you find one that is a REALTOR® (a member in good standing with the National Association of REALTORS®) and one that has the professional designation of Accredited Buyer's Representative (ABR). And though a good REALTOR® and ABR would likely encourage you to obtain the loan pre-approval before you start looking, let's assume that you don't like that idea. You're excited and want to begin looking at houses now.

Naturally, you will have to decide what basic parameters or search criteria to start with. What area, what part of town, how many bedrooms, one story or two, and any other basic amenities you may need or desire. Oh, but wait a minute, you will also have to decide what price range. On what will you base that decision, if not on how much you can afford? Certainly you are free to buy a home that is less expensive than one that you can afford, but how can you buy one that is more expensive than you can get loan approval to buy?

So, before we even get started, we cannot determine where to begin looking. Why exert the time, energy and expense of looking at houses that you may not be able to afford? Would that be fair to your REALTOR®?

And, would it serve the interest of the sellers of the homes you are looking through that you cannot afford. Remember too, that they are likely to be represented by a REALTOR® who has the responsibility to ensure that only qualified buyers are coming through their homes? Then too, of what value is it to find the home of your dreams only to be heartbroken to find out you cannot qualify for the necessary financing?

So, let's do it the right way. Simply contact several lenders - do some shopping. Find out what kinds of interest rates and terms are currently available. Select one or two lenders that appeal to you and have them get you pre-approved. In most cases, the cost of getting that pre-approval is minimal (typically from \$20 to \$100) compared to what you are going to spend. Sometimes you can get pre-approved on the same day or the next day. Your lender should provide you with a written letter or certificate of pre-approval. Note the distinction here between pre-qualification and pre-approval. Pre-qualification is simply an estimate of what you should be spending on your monthly housing expense based on your income to debt ratio. This can be done by anyone who is familiar with basic finance concepts (like your REALTOR®). An actual pre-approval can only be accomplished by the lender by verifying your complete income, debt, and credit profile, to include obtaining a certified credit report. You are going to have to do this anyway - why not go ahead and get it done first?

Once you are pre-approved you know exactly how much house you can buy. Again, you don't have to spend that much, but at least you know that you can, if you want to. Most importantly, the pre-approved status can put you in a position of greater strength when it comes time to make an offer and negotiate on the home you want to buy.

Think about it from the seller's point of view. When they receive an offer on their house, if they have written proof that the buyers are actually already approved for their loan, they can be confident that they have serious buyers who will not have to back out of the contract because they couldn't obtain the necessary financing. They may even be willing to negotiate a lower sale price or more favorable terms in some other way - simply because you come to them pre-approved!

And, by the way, once you have gotten pre-approved and all the way through the home buying process, until final settlement, it is important that you avoid doing anything that could adversely affect your credit status. It is best not to purchase anything of significance like appliances, furniture, or especially something large, like an automobile. Don't run your credit card bills up any higher than normal.

Make all of your existing debt payments on time and in full. Additionally, any transfers of significant amounts into or out of any of your money accounts will be subject to close scrutiny. If you are going to be receiving money (either as a loan or a gift) from parents or someone else to help with the down payment, it will have to be fully documented and disclosed.

DISCLAIMER

John P. Hale is a licensed real estate agent in Maryland and Pennsylvania. He is affiliated with Coldwell Banker Residential Brokerage in Westminster, Maryland. John has been licensed since 2000 and also practiced in Tucson, Arizona for many years. Mr. Hale holds the following designations and certifications awarded by the National Association of REALTORS® (NAR) and other authorized institutions: ABR-Accredited Buyers Representative, AHWD-At Home With Diversity, CNE-Certified Negotiation Expert, CRMS-Certified Risk Management Specialist, CRS-Certified Residential Specialist, CTA-Certified Tourism Ambassador, e-PRO-Online Real Estate Practice, GRI-Graduate of Realtor Institute, MRE-Master of Real Estate, MREP-Mortgage Real Estate Professional, and MRP-Military Relocation Professional.

Please note that this article was written by John to provide objective information and to also reflect his opinion of good practice at the time of its' writing for the general benefit of those considering sale or purchase of real estate. It is not intended as definitive legal advice and you should not act upon it as such without seeking independent legal and financial counsel. Frequent changes in the law and standards of practice may cause this information to become outdated and no longer applicable or incorrect.