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**Why Get Pre-Approved FIRST?**

 Ralph Waldo Emerson, American essayist and poet, once said that the future belongs to those who prepare for it. This is sage advice for home buyers who need to lay the necessary groundwork to buy the home of their dreams.

 Anyone who has seen the news for the last 10 years knows that borrowing “ain’t what it used to be”. There are lots of new regulations and procedures in place, mostly with the intent of protecting the borrower. That being said, the same changes have made the borrowing process a little more arduous.

 For that reason you should start the process earlier and certainly **before** you go home shopping.

 There are 3 legs that your mortgage application needs to be able to stand on –

1. Income / Employment
2. Assets / Down Payment
3. Credit / Debt

 It is never too early to start getting your "ducks in a row" in any of these 3 areas. It is strongly suggested that you meet with a mortgage banker for a professional consultation very early in this process.

 Here's what the mortgage banker will do –

* Pull a credit report and credit scores from all 3 repositories: Equifax, Experian and Trans Union.
* Carefully review and analyze all 3 credit reports for accuracy and then calculate applicable monthly debt totals.
* Calculate the income that will be used to offset your monthly debt.
* Explain the acceptable sources and minimum asset requirements for the applicable mortgage loan program.

**How will planning ahead help you?**

* Income – Certain types of income, commissions, bonus', part time, self employment, etc have to have been received for certain minimum periods. Other types of income need to be documented that they will continue for designated periods. So, timing may be everything for some applicants.
* Down Payments – It's best to know how much cash you will need to close so you can be ready when the time comes. Also, if you don't want to be buried in unnecessary documentation of a paper trail, the mortgage banker will show you what assets to consolidate so that aggravation can be avoided.
* Credit – The best practice is to check your credit report yearly for accuracy and to check for signs of identity theft but it really becomes critical when applying for a mortgage.

 There is a fine line between approval and denial and it is drawn by your credit score! The rate of interest is also affected by your score, so if you don't make every effort to increase your credit score BEFORE application it may end up costing you an avoidable fortune over the life of your mortgage loan.

**The Difference Between being Pre-Qualified and Pre-Approved**

 Without good preparation, many buyers get lulled into the mistaken notion that if a lender [pre-qualifies](http://www.investopedia.com/terms/p/prequalification.asp) them for a mortgage this means that they have been [pre-approved](http://www.investopedia.com/terms/p/preapproval.asp) for a home loan. Unfortunately, there's a world of difference between these two terms. If you've ever been confused by the two, we'll bring you up to speed on how these terms differ - and why a misunderstanding can mean disaster for borrowers.

**The Skinny on Getting Pre-Qualified** Getting pre-qualified is the initial step in the mortgage process, and it's generally fairly simple. You supply a bank or lender with your overall financial picture, including your debt, income and assets. After evaluating this information, a lender can give you an idea of the mortgage amount for which you qualify. Pre-qualification can be done over the phone or on the internet, and there is usually no cost involved. Loan pre-qualification does ***not*** include an analysis of your [credit report](http://www.investopedia.com/terms/c/creditreport.asp) or an in-depth look at your ability to purchase a home.

 The initial pre-qualification step allows you to discuss any goals or needs you may have regarding your mortgage with your lender. At this point, a lender can explain your various mortgage options and recommend the type that might be best suited to your situation.

 Because it's a quick procedure, and based only on the information you provide to the lender, your pre-qualified amount is not a sure thing. The pre-qualification really is just the amount for which you might expect to be approved based on the information you have provided. For this reason, a pre-qualified buyer doesn't carry the same weight as a pre-approved buyer who has been more thoroughly investigated.

**The Skinny on Getting Pre-Approved**

 Getting pre-approved is the next step, and it tends to be much more involved. You'll complete an official mortgage application (and usually pay an application fee), and then supply the lender with the necessary documentation to perform an extensive check on your financial background and current [credit rating](http://www.investopedia.com/terms/c/creditrating.asp). (Typically at this stage, you will not have found a house yet, so any reference to "property" on the application will be left blank). From this, the lender can tell you the specific mortgage amount for which you are approved. You'll also have a better idea of the interest rate you will be charged on the loan and, in some cases, you might be able to lock-in a specific rate.    With pre-approval, you will receive a conditional commitment in writing for an exact loan amount, allowing you to look for a home at or below that price level. Obviously, this puts you at an advantage when dealing with a potential seller, as he or she will know you're one step closer to obtaining an actual mortgage.

 The other advantage of completing both of these steps - pre-qualification *and* pre-approval - before you start to look for a home is that you'll know in advance how much you can afford. This way, you don't waste time with guessing or looking at properties that are beyond your means. Getting pre-approved for a mortgage also enables you to move quickly when you find the perfect place. When you make an offer, it won't be contingent on obtaining financing, which can save you valuable time. In a competitive market, this lets the seller know that your offer is serious - and could prevent you from losing out to another potential buyer who already has financing arranged.

 Once you and your **Realtor**® have found the right house for you, you'll fill in the appropriate details and your pre-approval will become a complete application.

**Getting Committed** The final step in the process is what's called a "[loan commitment](http://www.investopedia.com/terms/f/firmcommitment.asp)", which is only issued by a bank when it has approved you, the borrower, and the house in question. This means the home should be appraised at or above the sales price. The bank may also require more information if the appraiser brings up anything he or she feels should be investigated (i.e. structural problems, accessibility issues, outstanding [liens](http://www.investopedia.com/terms/l/lien.asp) or litigation in progress). Your income and [credit](http://www.investopedia.com/articles/basics/07/prequalified-approved.asp) profile will be checked once again to ensure nothing has changed since the initial approval.

 A loan commitment letter is issued only when the bank is certain it will lend, so the commitment date on your purchase contract should be closer to closing than to the date of your offer. (The seller can ask to see that letter as soon as the date has passed, so beware of anyone who tries to put an early commitment date into your contract).

**Wrap Up**

* Plan ahead and speak to a mortgage banker as early as possible in the process
* Pre-approved and pre-qualified are not the same thing, so don't assume that the bank will provide your loan until you have the former.
* Have your pre-approval in hand so that you and your **Realtor**® can shop with confidence and make the strongest offers at the best price.

