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# What's the Difference Between Prequalification and Pre-approval?

Two very common words floating around the mortgage industry these days are prequalification and pre-approval. When applying for a new home loan, knowing the difference between these two terms can save you a lot of time and headaches.

Prequalification is an unofficial estimate of how much house you can afford. A loan officer will make an educated guess about your ability to buy a home based on your verbal or written submissions of income, finances, and credit history. Lenders will not generally pull your credit report during this evaluation. They will calculate your debt-to-income ratio and write you a letter of prequalification stating how much you should be able to borrow. This process is usually free, but it does not give you any real credibility with lenders or sellers. The prequalification is based on vague figures and does not take into account all your financial factors. Also, many mortgage websites today offer on-line prequalification assessments so that you're not even required to speak to a live person to get pre-qualified. The main benefit of prequalification is getting a general idea of how much you can afford.

Pre-approval on the other hand really carries a lot of weight in the mortgage and real estate industry. In order to be pre-approved for a loan you must sit down with your preferred lender and provide them with documents such as tax returns, bank statements, and business licenses among others. Lenders will analyze these and other information gained by calling your employer and pulling your credit report. (The fee for pulling your credit scores may be the only cost you pay in the pre-approval process.) They will then produce a pre-approval letter that certifies that you have the resources to afford to buy a home for a certain amount. The pre-approval letter will also usually specify the interest rate you'll pay for borrowing such a sum. Sellers love buyers who are pre-approved because they have proof that the buyers have financial backing and are prepared to pay the required amount. In real estate hot spots, some sellers won't even consider offers from buyers without pre-approval letters.

So if you are just in the preliminary stages of finding a home, you may want to surf the internet and find a pre-qualification calculator to get an estimate of your general price range. If you are more serious about buying, however, you should definitely seek out a mortgage professional that can help you get pre-approved.