

Pre-Qualified vs. Pre-Approved

Understanding the Difference

Contrary to popular belief, being pre-qualified for a home loan and becoming pre-approved aren't the same thing.

What does it mean to be pre-qualified for a mortgage?

A pre-qualification will provide a borrower with a good idea of how much house they can afford. It's a rough, informal estimate of what you're most likely qualified for, as well as the different rates, terms and options you could get through the mortgage company. This number's determined by a simple calculation using basic information such as the borrower's monthly income and debt. The mortgage company often verbally provides such information but may elect to E-Mail it at the borrower's request. While you may start looking at homes at this point, you can't really confidently make an offer on a home with just word of mouth or a congratulatory E-Mail from a loan officer. Loan pre-qualification is simply a **BEST GUESS** or **PRELIMINARY DETERMINATION** at your ability to afford a home. A loan pre-qualification **ISN'T** a commitment to lend.

What does it mean to be pre-approved for a mortgage?

A pre-approval is only achieved after a more thorough analysis. It'll require the lender to review the borrower's debt and income information along with factual information obtained from credit reports. It's a more formal statement of what you're qualified for, as well as the type of loan you're eligible for (conventional, FHA, etc...), the duration of that loan and at what interest rate. You'll also learn if the interest rate is fixed or not and whether you need to meet any specific requirements such as a home contingency sale. With a pre-approval letter in hand, a borrower can be more confident when shopping around because they know the lender is **COMMITTED TO LEND**. It allows the buyer to find a REALTOR® and actually start looking at homes as a serious buyer. Your pre-approval letter will actually be included with an offer to show a seller you're financially capable of buying their home. Being pre-approved makes you **A MORE ATTRACTIVE** shopper. It makes you as close to a cash buyer as possible thereby giving you a much larger advantage over other buyers in the market.

	PRE-APPROVAL	PRE-QUALIFICATION
Financial documentation is required	X	
Financial documentation isn't required		X
Credit report is required	X	
Credit report isn't required		X

Lender is committed to lend	X	
Lender isn't committed to lend		X
Provides the most accurate home affordability estimate	X	
Provides the less accurate home affordability estimate		X

Before you begin working with a lender, find out you'll be pre-qualified or pre-approved. If you're pre-qualified, as the lender what you have to do or how long it'll take to be pre-approved for a home loan.