THE PRE-APPROVAL GUIDE for Home Buyers

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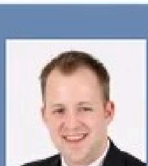

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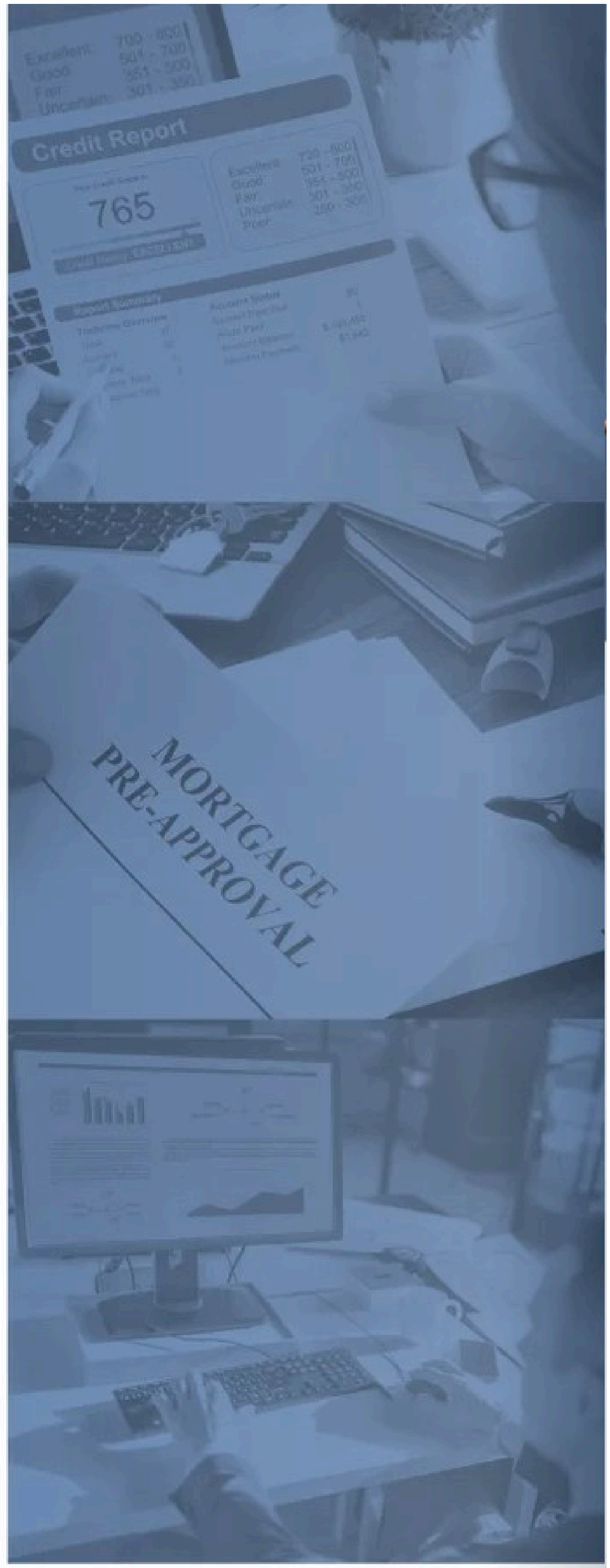
The Pre-approval Guide for Home Buyers

A pre-approval letter can make or break your homebuying process. It could mean the difference between the thrill of an accepted offer, and the heartbreak of a declined offer. In a hot market, you may need a pre-approval letter to even get in the door for a showing.

Not all pre-approval letters are created equal. The mortgage industry is lousy with lenders who will write a pre-approval letter just to lock in your business, only to fail to approve the loan at the eleventh hour. This hurts everyone involved — the buyer, the seller, their agents — who are all stuck with a deal that doesn't go through and results in time and money wasted.

Many Realtors refer clients to me because I don't do this. I stand behind my pre-approval letters. I don't tell you what you want to hear just to win your business. If I don't think I can get you the loan you want, I will tell you. If I issue a pre-approval letter, 99.99% of the time you're getting the loan. My reputation depends on it. I am trusted in this business because of the trustworthiness of my pre-approval.

This guide is to help you understand the pre-approval process, why it is important, and what it takes to make it successful.



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What's the Difference Between Pre-Qualification and Pre-Approval

Pre-qualification and Pre-approval: same difference, right? They sound the same ... is it all just semantics?

No. Hard no. "Pre-qualification" and "pre-approval" may sound interchangeable, but the weight they carry is like the difference between an ant and an elephant. Let's break down the difference so you don't get blindsided by the complications of either one.

Pre-Qualification

Pre-qualification is quick and easy - and everybody knows it, which is a problem.

A pre-qualification letter, even from a reputable lender, carries almost no weight in the housing industry. If 2 people are bidding on a house, and one of them is pre-qualified and the other pre-approved, bet on the pre-approved bidder to win the deal — even with a lower bid.

Why is this? Because getting prequalified requires no verification. The borrower essentially self-reports all the data needed to qualify them for a loan.

A borrower could tell the lender that they have $1 million in the bank, a salary of $300,000, and a credit score of 850. The lender will then write a pre-qualification letter stating what mortgage they would most likely get approved for, based on criteria given.

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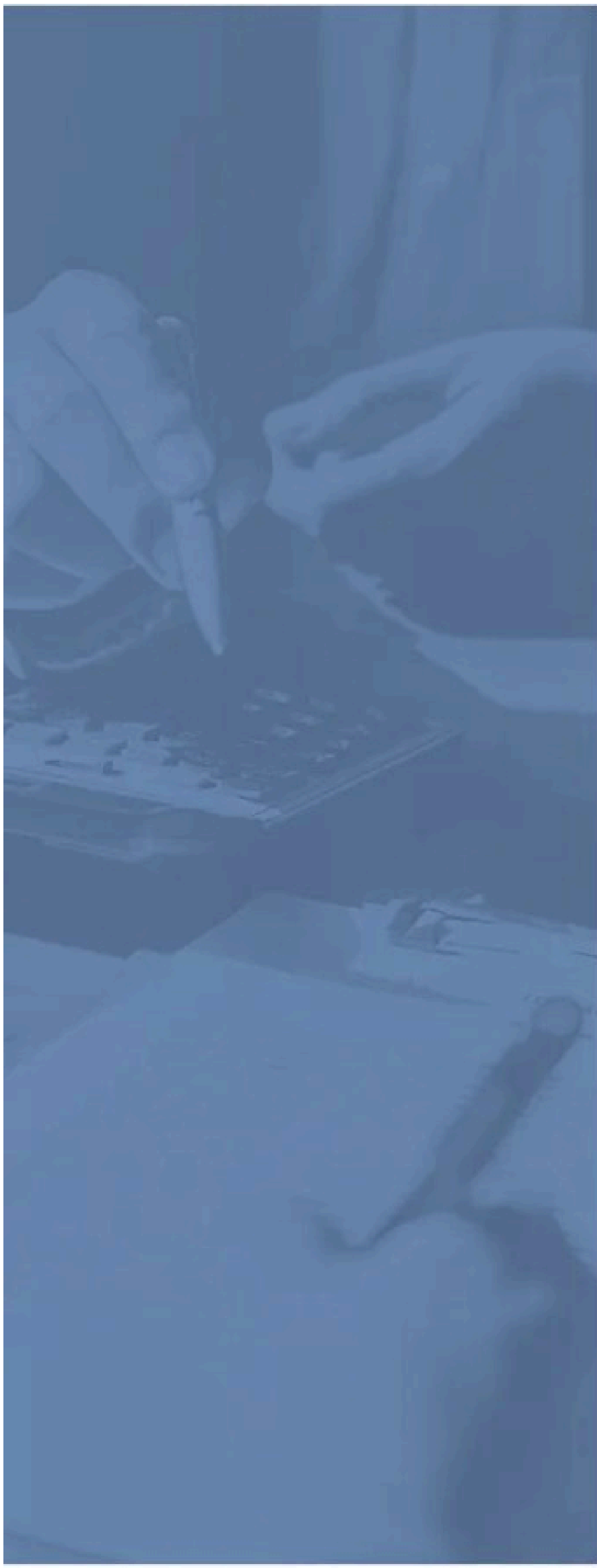

But how does the lender really know if this borrower qualifies for that loan? The lender has not reviewed bank statements, looked at pay stubs, or pulled the borrower's credit. For all the lender knows, the borrower in front of her could be telling a tall tale and be broke, unemployed, and freshly bankrupt.

Even if the borrower isn't blatantly lying to the lender, many nuances of the borrower's financial situation may affect their qualification for a loan — nuances the borrower may not understand or know to report.

Bottom line — a pre-qualification letter is very unreliable as a predictor of the borrower's eligibility for a mortgage. Listing agents and home sellers tend to take them with a grain of salt. A buyer with a pre-qualification letter might just as well be coming asking for a favor, with no qualifications to buy whatsoever.

Does Pre-Qualification Affect My Credit Score?

Pre-qualification usually does not entail a "hard pull" on the borrower's credit (more on this later). That means that the credit score remains unchanged after pre-qualification.

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The Pre-Approval

Pre-approval is a different story. A credible pre-approval letter from a reputable lender carries a lot of weight with listing agents and sellers. They see it as a serious indicator that if they accept an offer from this buyer, the deal will go through because the buyer is very likely to qualify for the loan described in the pre-approval letter.

Why? Because unlike pre-qualification, pre-approval entails a lot of verification. It's almost as intensive as actually applying for the loan. All that's missing is the house itself, which will eventually act as collateral for the loan. But the borrower is thoroughly checked — income, assets, credit.

Once the check is done, the lender issues a formal letter stating how much they are willing to lend to the borrower, as well as verification that the buyer can afford the down payment.

If the down payment and the pre-approved loan balance are enough to buy the house, the seller can accept the pre-approved buyer's offer with a great deal of confidence that the deal won't fall apart in the loan-application process.

Is Pre-Approval a Guarantee that My Loan Will Be Approved?

Pre-approval isn't a guarantee. Pre-approval presumes that the borrower's financial condition will be the same at the time of approval as it is at the time of pre-approval. But life happens, and things change.

The pre-approval process may take place months before closing. If the borrower loses their job, loses all their money, and/or defaults on all their bills in those intervening months, they might ultimately be declined for the loan.

But if no major changes transpire in the borrower's income, assets, or credit, nothing should stand in the way of getting approved.

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Does Pre-Approval Affect My Credit Score?

Yes. Pre-approval requires a “hard pull” of the borrower’s credit (see pages 9-11).

Does Pre-Approval Cost Money?

Many lenders offer pre-approval for no fee. Some charge an application fee, usually in the range of $300-$400.

What Is Required for Pre-Approval?

- Proof of Identity
- Employment Verification
- Credit
- Proof of Income
- Proof of Assets

We have established that pre-approval is an intensive process, with a great deal of verification required. So what, exactly, is required? Here's what needs to be verified for a solid, trustworthy pre-approval letter that will help you win the deal on your dream home.

Proof of Identity

First things first… are you who you say you are? You will need to provide proof of your identity — driver's license, passport, etc. — plus your Social Security number, which will be needed to pull your credit.

Proof of Income

Lenders want to see stable, consistent income. It's their proof that you can make your monthly mortgage payments.

So what do you need to present to verify income? For most employees, it starts with the two most recent pay stubs. These verify not only your current monthly income, but also your year-to-date income.

But income verification for mortgage pre-approval requires more than just pay stubs. You will most likely need to submit your tax returns from the previous two years. If you have additional income from businesses, side hustles, or investments, you will need to submit documentation of that too.

Employment Verification

Lenders don't just take your pay stubs at face value. Before issuing a pre-approval letter, the lender will usually call your employer to verify you work there for the salary or wage listed on the paystub, and how long you have worked there.

Proof of Assets

Assets are anything of value — cash, stocks, bonds, other real estate, retirement accounts, automobiles, business assets, accounts receivable, precious metals, jewelry, etc. Your lender will want an account of everything of value you own. Then they will want proof — bank statements, investment account statements, title to vehicles, pictures, etc.

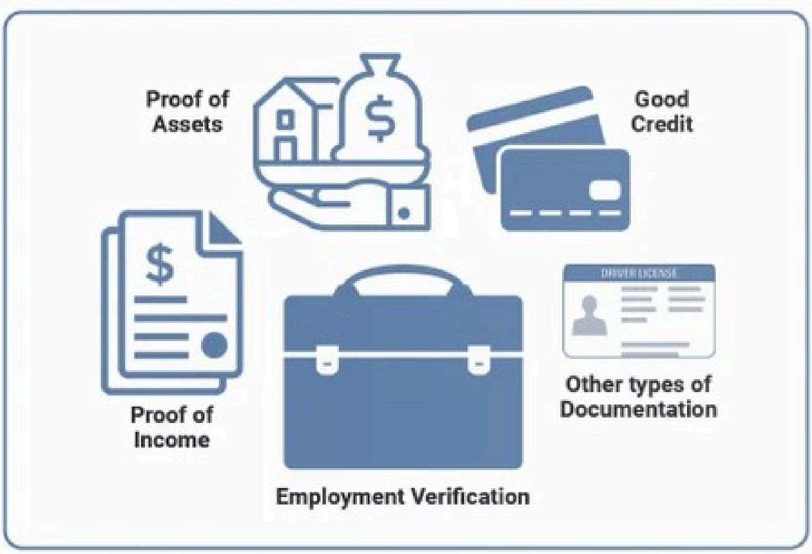
This is first to verify that you have the liquid cash needed to make the down payment. Second, it is used to assess your worthiness as a borrower. If you have assets to liquidate in the event of a personal financial crunch, you are considered less likely to default on your mortgage and a better risk for the lender.

Credit

Before pre-approving you for a mortgage, your lender will pull your credit. This is a big subject, covered in its own section (pages 9-12). In a nutshell, though, lenders use your credit to evaluate how much risk they are taking on by lending you money.

Borrowers with high credit scores and pristine credit reports are considered low-risk borrowers and may qualify for higher balances, lower interest rates, better terms, and lower down payments. On the other hand, a borrower with a low enough credit score and a spotty credit report may qualify for no mortgage at all.

You don't need to do anything other than provide your Social Security number and authorize the pull. Your lender will do the rest.



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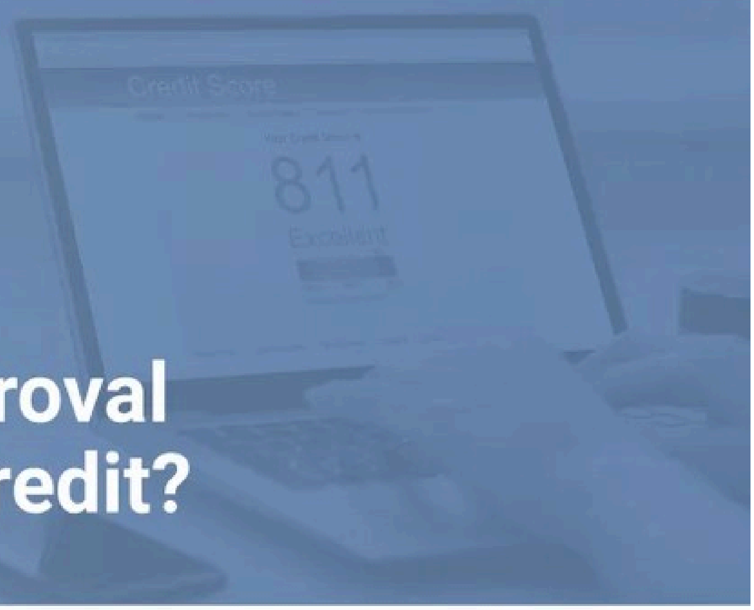


How Does the Pre-Approval Affect My Credit?

Mortgage approval depends on two factors — the worthiness of the property to act as collateral for a loan, and the worthiness of the buyer to borrow money. How does a lender evaluate a person's trustworthiness as a buyer? By checking their credit reports and credit scores. The better the borrower's credit, the lower the risk of lending to them.

Credit Reports

Several private companies, known as credit bureaus, aggregate data on every American citizen and compile it into credit reports — their detailed history as a borrower or bill-payer. The three major credit bureaus that prepare these reports are Equifax, Experian, and TransUnion. A lender may request credit reports from one, two, or all three of these bureaus to evaluate the risk of lending to this person.

What Is On a Credit Report?

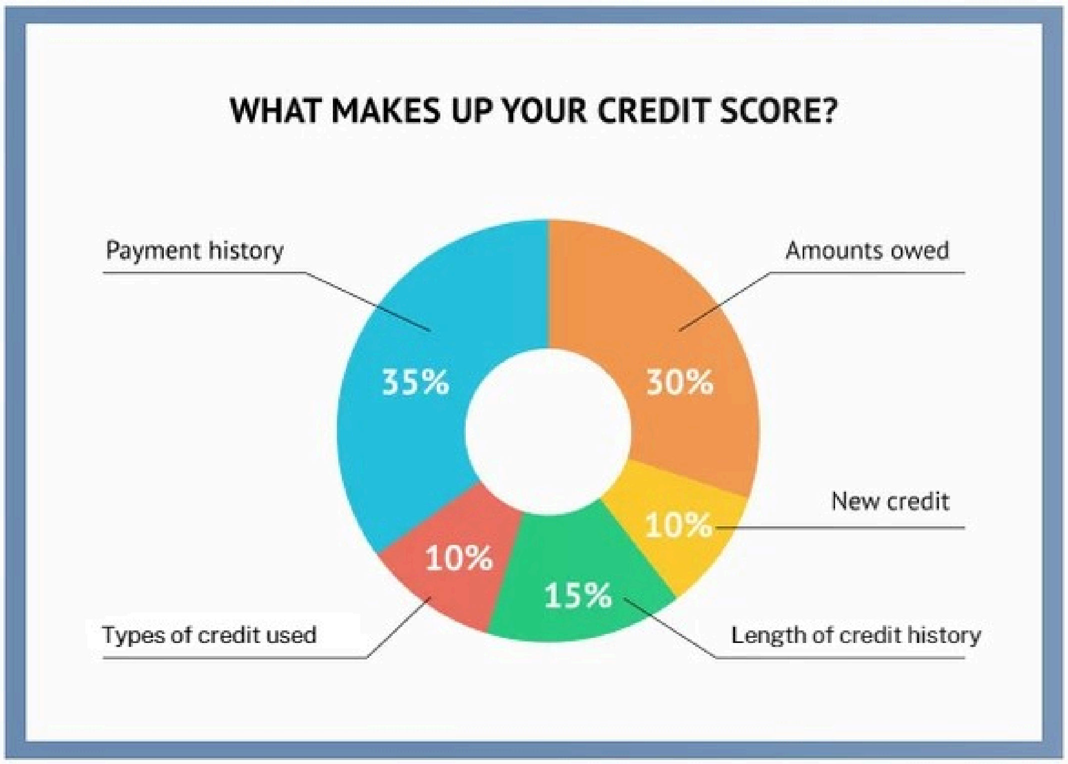
Credit reports compile a variety of information that lenders use to predict whether you will pay back the loan as agreed. This includes:

- **Payment History.** Whether or not you pay your bills on time and in full. If you are delinquent on your bills, the creditor may report the delinquency to the credit bureaus, creating a black mark on your credit.
- **Derogatory Marks.** Bankruptcies, evictions, foreclosures, judgments and things that happen in a court.

- **Credit Utilization.** How much of your revolving credit (credit cards, lines of credit, etc.) are used. Maxing out your credit cards looks bad on this part of your report.
- **Age of Credit History.** How long each of your accounts have been open. A long credit history means a lower-risk borrower, because the lender has more data from which to evaluate their financial behavior.
- **Number of Accounts.** More accounts is seen as an indication of a reliable borrower — as long as the borrower has paid their bills on time.
- **Hard Inquiries.** More hard inquiries, or "hard pulls," are seen as a red flag, since the borrower may be on the verge of taking on more debt than they can handle.

What is a Credit Score?

Several companies evaluate borrower's full credit report and boil it down to a single number, called a credit score, an at-a-glance evaluation of that borrower's creditworthiness. The most famous credit score is kept by Fair Isaac & Co (FICO).



The FICO score ranges from 300 to 850. To get a conventional loan, you usually need a FICO score of at least 620. FHA loans require a credit score of at least 580. Borrowers with higher FICO scores may qualify for lower interest rates, lower down payments, and better terms.

FICO SCORE RANGE	620-639	640-659	660-679	680-699	700-759	760-850
Interest Rate	8.00%	7.60%	6.90%	5.60%	4.80%	4.20%
$150,000 loan	$1,101	$1,059	$988	$861	$787	$734
$200,00 loan	$1,468	$1,412	$1,317	$1,148	$1,049	$978
$250,000 loan	$1,834	$1,765	$1,547	$1,435	$1,312	$1,223
$300,000 loan	$2,201	$2,118	$1,979	$1,722	$1,574	$1,467
$350,000 loan	$2,568	$2,471	$2,305	$2,009	$1,836	$1,712
$500,000 loan	$3,669	$3,530	$3,293	$2,870	$2,623	$2,445
$650,000 loan	$4,769	$4,589	$4,281	$3,732	$3,410	$3,179
$800,000 loan	$5,870	$5,649	$5,269	$4,593	$4,197	$3,912
$1,000,000 loan	$7,338	$7,061	$6,586	$5,741	$5,247	$4,890
$1,200,000 loan	$8,805	$8,473	$7,903	$6,889	$6,296	$5,868

FAQ

What Is A Hard Pull On My Credit?

A hard inquiry or hard pull is an official request for your credit reports for the purposes of evaluating your creditworthiness as a borrower. Pre-qualification for a mortgage usually doesn't require a hard pull, but pre-approval does.

Does a Hard Pull Hurt My Credit?

As mentioned, the credit bureaus keep track of how times your credit has been pulled recently. Because several hard pulls are seen as an indicator of a risky borrower, hard pulls tend to lower your FICO score. This has led to the popular perception that "pulling your credit hurts your credit."

Is this true? Yes … but it's not a big deal. First of all, a hard pull usually only decreases your FICO score a few points. Rarely does that make a big difference.

Second, the damage to your credit is temporary. Delinquent payments stay on your credit for as long as seven years; derogatory marks as long as ten years. But a hard inquiry only affects your credit score for one year, and after two years it disappears from your credit like it never happened.

Finally, you can't get pre-approved without a hard credit pull, so don't worry about it. If the pre-approval letter will help you get your dream home, isn't it worth the temporary loss of a few measly credit points?

If I Get Pre-Approved, Will I Get Two Hard Pulls on My Credit?

The short answer is "yes." Pre-approval requires a hard credit pull, and so does final approval for your loan. But don't worry about that. Mortgage approval is a big process — much bigger than a single number. The few FICO points you lose from the pre-approval is almost never make-or-break in terms of final loan approval or loan terms.

EQUAL HOUSING LENDER

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