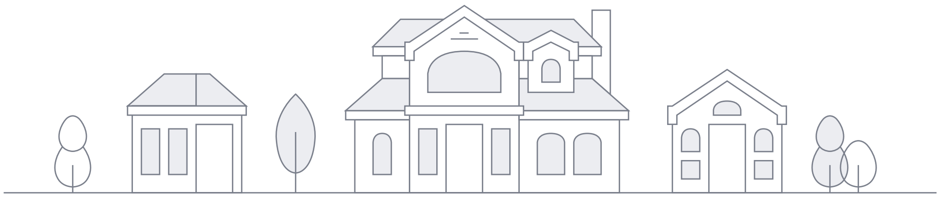

Pre-Qualified vs Pre-Approval

What's the Difference?

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Pre-Qualified vs. Pre-Approved: What's the Difference?
Both are good, but one has more heft than the other
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Pre-Qualified vs. Pre-Approved:
An Overview

Most real estate buyers have heard that they need to pre-qualify or be pre-approved for a mortgage if they're looking to buy a property. These are two key steps in the mortgage application process. Some people use the terms interchangeably, but there are important differences that every homebuyer should understand.
Pre-qualifying is just the first step. It gives you an idea of how large a loan can expect to receive. Pre-qualification can be done over the phone or online, and there's usually no cost involved.

Pre-qualification is quick, usually taking just one to three days to get a pre-qualification letter. Keep in mind that loan pre-qualification does not include an analysis of credit reports or an in-depth look at the borrower's ability to purchase a home.

The initial pre-qualification step allows for the discussions of any goals or needs regarding a mortgage. The lender will explain various mortgage options and recommend the type that might be best suited.

Mortgage lending discrimination is illegal. If you think you've been discriminated against based on race, religion, sex, marital status, use of public assistance, national origin, disability, or age, there are steps you can take. One such step is to file a report to the Consumer Financial Protection Bureau or with the U.S. Department of Housing and Urban Development (HUD).1

Again, the pre-qualified amount isn't a sure thing, because it's based only on the information provided. It's just the amount the borrower might expect to get. A pre-qualified buyer doesn't carry the same weight as a pre-approved buyer, who has been more thoroughly investigated background check. The lender will then offer pre-approval up to a specified amount.

Going through the pre-approval process also offers a better idea of the interest rate to be charged. Some lenders allow borrowers to lock in an interest rate or charge an application fee for pre-approval, which can amount to several hundred dollars.

Lenders will provide a conditional commitment in writing for an exact loan amount, allowing borrowers to look for homes at or below that price level. This puts borrowers at an advantage when dealing with a seller because they're one step closer to getting an actual mortgage.

Keep in mind that you don't have to shop at the top of your price range. Depending on the market, you might be able to get into a home you like for less money than you're approved for, leaving you with extra cash each month to set aside for retirement, kids' college funds, or checking something off your bucket list.

Key Differences
Below is a quick rundown of how pre-qualification and pre-approval differ.

	Pre-qualification	Pre-approval
Do I need to fill out a mortgage application?	No	Yes
Do I have to pay an application fee?	No	Maybe
Does it require a credit history check?	No	Yes
Is it based on a review of my finances?	No	Yes
Does it require an estimate of my down payment amount?	No	Yes
Will the lender give me an estimate for a loan amount?	Yes	No
Will the lender give me a specific loan amount?	No	Yes
Will the lender give me interest rate information?	No	Yes

Special Considerations
The advantage of completing both steps—pre-qualification and pre-approval—before looking for a home is that it offers an idea of how much a borrower has to spend. This prevents wasted time looking at properties that are too expensive. Getting pre-approved for a mortgage also speeds up the actual buying process, letting the seller know that the offer is serious in a competitive market.

The borrower gives the lender a copy of the purchase agreement and any other documentation necessary as part of the full underwriting process after a home has been chosen and an offer made. The lender hires a third-party certified or licensed contractor to do a home appraisal to determine the home's value.

The final step in the process is a loan commitment, which is only issued by a bank when it has approved the borrower, as well as the home in question—meaning the property is appraised at or above the sales price. The bank might also require more information if the appraiser brings up anything that should be investigated, such as structural problems or a faulty HVAC system.

Your income and credit profile will be checked once again to ensure that nothing has changed since the initial approval, so this isn't the time to go out and finance a large furniture purchase.

Getting pre-qualified and pre-approved for a mortgage gives potential homebuyers a good idea in advance of how much house they can afford. But most sellers will be more willing to negotiate with those who are pre-approved. Pre-approval also allows borrowers to close on a home more quickly, offering an edge in a competitive market.

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