

## **Pre-Qualification, Pre-Approval and Obtaining a New Loan**

After selecting an agent, the next logical step is to determine your financial eligibility. Unless you are paying all cash, assuming a loan, or the Seller is financing, you will need to apply for a home loan. There are many sources for home loans including banks, credit unions, mortgage companies, and mortgage brokers. Apply as soon as possible to avoid delaying the closing. It is a very good idea to get pre-approved before finding the home of your dreams.

Are you familiar with the phrase, "there's no use letting your mouth water for steak you can't taste?" Well, that old adage certainly applies to shopping for a new home. The first advantage of pre-qualification and pre-approval lies in helping you to determine your price range.

First let's discuss the difference between pre-qualification and pre-approval. Pre-qualification is a very brief process wherein you discuss your situation with your loan officer. Based on information you give, they can pre-qualify you for a loan. While this is a good thing, it is by no means certain. They don't do a thorough check.

That's where pre-approval comes in. Pre-approval is a virtual guarantee. Your loan officer processes your tax documents, credit history and all other relevant information to come to a very accurate picture of your financial status. Pre-approval usually comes in just a few days.

The loan application requires personal and financial information. Requirements may vary, but be prepared for your lender to request:

- Names and addresses of employers for last two years;
- Addresses of your residences for last two years;
- Your Social Security Numbers and Driver's License or other valid ID;
- Amount of gross monthly salary; may request two recent pay stubs showing year-to-date earnings and W-2s and Federal tax returns for last two years;
- Names, addresses, and account numbers for checking and savings accounts; may request three recent statements;
- Names, addresses, account numbers, and payment amounts on all loans, including real estate;
- Addresses and values of other real estate owned;
- Your best estimate of the value of all your personal property (autos, boats, furniture, jewelry, television, stereo, computer, other electronics, etc.); and
- For a VA loan, Certificate of Eligibility or DD214s.

Your lender will mail out verification requests and order an appraisal on the property you are buying. If your lender asks for additional items from you, please comply promptly with these requests to avoid delaying your loan approval.

In addition to knowing your price range, pre-approval has the added benefit of increasing your buying leverage. In a situation where a seller receives multiple offers, the seller will usually accept the pre-approved offer, sometimes even if it is for less money.

Hazard or fire insurance covers the dwelling itself and is required by the lender to protect their risk in your home. Your lender or agent will explain the necessary hazard insurance coverage to you. (If you are buying a condominium, a master policy already exists which includes your unit.) Contact your insurance agent early because this

coverage must be provided so the lender can release loan funds to the title company. Hazard insurance is one of the items frequently postponed until the last minute, and this can result in delaying the closing for a day or more. Order your insurance as soon as your loan is approved; then furnish your escrow officer with your insurance agent's name and phone number. When you talk with your insurance agent, be sure to ask about additional coverage in a homeowner's policy to insure your personal belongings and to protect against liability for such events as injuries to visitors.

After loan approval and just prior to your planned closing date, the lender will send loan documents to the title company, and your escrow officer will prepare an estimated settlement statement. This statement indicates what funds go where, and at this time your escrow officer can tell you how much money you need to bring to the closing. Be aware that this amount may be higher or lower than previously estimated due to changes in such items as prepaid interest, prorated fees, and impound accounts.