

GETTING A MORTGAGE TODAY

What can you do to help yourself get pre-approved?

Provided by Timothy C. Hucks, CEP, President, Rising Tide, Inc.

Remember when getting a mortgage was easy? Now, you need pre-approval. So how can you increase your chances of passing that all-important test?

You want a lender in your corner. Sellers and agents don't want to waste their time working with a buyer who isn't pre-approved. Why should they contend with uncertainty?

A buyer with a pre-approved loan gets respect when a seller gets multiple offers. A pre-approval shows the seller the size and terms of the loan the bank is ready to greenlight. Commonly, a pre-approval is good for 90-120 days.¹

Pre-approval is a whole different level than pre-qualification. You can supply very basic financial information to a bank or lender and walk out with an estimate of how much mortgage you might be able to carry. However, that is no promise. Pre-approval is an actual commitment from the lender to you.

So what can you do to earn that commitment?

Test the waters well before you test the housing market. Visit more than one lender, and see what you can borrow, just how much home you can afford, and what kind of mortgage options you have. Keep in mind that a pre-approval is a pledge that a mortgage lender makes to you, not a contract. Should some other bank or mortgage company make you a more attractive pledge, you are free to switch horses.²

Make your case. Don't skimp on the documentation you bring to the appointment. Usually, a mortgage lender will want to see the hard data of your financial life over the last couple of years: the bank statements, the federal tax returns, the W2s, the pay stubs. If you earn investment income, bring paperwork showing that you do. If you deposited any big sums into your bank account recently, you'll probably be asked what that deposit represents.

The amount you are pre-approved for typically reflects three factors: how much you have saved up for a down payment, your FICO score and your current address. It should only take a few business days for a lender to get back to you and let you know how much mortgage it will pre-approve for you.¹

Aim to get pre-approved within 30 days. This way, you don't risk harming your FICO score so much. The majority of credit-scoring paradigms out there don't penalize your credit rating for home loan, student loan and car loan inquiries made 1-30 days prior to the score calculation.²

Don't expect all the details right away. When you apply for a loan, your lender is using that day's mortgage rates to calculate costs and payments, and rates move. So the pre-approval may be light on particulars about the interest rate or the loan type.

Avoid fly-by-night lenders. The seller and the seller's agent want to see that a reliable, "name" lender is issuing its stamp of approval here, not an obscure Johnny-come-lately. Credibility counts.

Can't get a standard loan? Don't forget about the Federal Housing Administration, through which you might be able to arrange a mortgage with as little as 3.5% down. Most lenders can process an FHA loan like a standard loan, and commonly the rates are about an eighth of a point higher than a standard mortgage. Also, remember that first-time buyers have until the end of 2009 to qualify for an \$8,000 federal tax credit which can be put toward the down payment and closing costs.¹

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Citations.

- ¹ forbes.com/2009/07/01/pre-approval-mortgage-personal-finance-ask-money-builder.html [7/1/09]
² smartmoney.com/personal-finance/real-estate/7-tips-for-getting-a-preapproved-mortgage/ [8/6/09]