Loan Pre-Qualification vs. Loan Pre-Approval

Getting pre-qualified is the initial step in the mortgage process, and it's generally fairly simple. You supply a bank or lender with your overall financial picture, including your debt, income and assets. After evaluating this information, a lender can give you an idea of the mortgage amount for which you qualify. Pre-qualification can be done over the phone or internet and usually no cost involved. Loan pre-qualification often does not include an analysis of your credit report, income verification or proof of funds. Because it's a quick procedure -and based only on the information you provide to the lender - your pre-qualified amount is not a sure thing. For this reason, being a pre-qualified buyer doesn't carry the same weight as being a pre-approved buyer who has been more thoroughly investigated.

Getting pre-approved is the next step, and it tends to be much more involved. You'll complete an official mortgage application (and usually pay an application fee), then supply the lender with the necessary documentation to perform an extensive check on your financial background and current credit rating. From this, the lender can tell you the specific mortgage amount for which you are approved. You'll also have a better idea of the interest rate you will be charged on the loan, and, in some cases, you might be able to lock in a specific rate.

With pre-approval, you will receive a conditional commitment in writing for an exact loan amount, allowing you to look for a home at or below that price level. Obviously, this puts you at an advantage when dealing with a potential seller, as he or she will know you're one step closer to obtaining an actual mortgage.

In any real estate transaction, obtaining loan pre-approval prior to submitting an offer is extremely important to both Buyer's and Seller's. As a Buyer, you and your agents primary goal is to submit the most attractive offer to a Seller, thus improving your chances of offer acceptance.

While price and terms are important, one of the top considerations for a Seller is removing or mitigating the risk of a Buyer failing to obtain a loan and canceling escrow 30-45 days into the process. Obtaining pre-approval in advance will provide the Buyer with a stronger negotiating position, an edge over competing homebuyers who are not pre-approved, and more assurances for the Seller when they compare offers. An offer with a pre-approved Buyer removes one of the top perceived risks in accepting an offer from a Seller's perspective.

Typical information a lender will require to process your loan pre-approval is as follows:

LENDER NEEDS LIST FOR LOAN PRE-APPROVAL

INCOME

Copies of your most current paycheck stubs for the last 2 months

Copies of your two most recent W-2's and/or 1099's

Copies of your two most recent submitted (1040) Federal Tax returns .

Copies of any pension, retirement, social security, disability income, child support, alimony or other income paperwork

ASSETS

Copies of your last 2 months bank statements- Checking, Savings or any account that you will be using money from; Be sure to include all pages, even if they're blank.

Copies of your last 2 months Retirement Accounts: IRA's, 401K, be sure to include all pages even if they're blank.

Our Team works closely with and highly recommends several local lenders: Augusta Financial, Finance of America Mortgage, AmeriTrust Home Loans and Cross Country Mortgage. By clicking any of the links below, you can begin the pre-approval process by completing an on-line loan application. Your application will immediately be processed and a loan officer will contact you to discuss your options and determine the best possible loan program that meets your needs before starting the pre-approval process.

Los Angeles County

Augusta Financial, Inc.
Valencia, CA
Mike Meena
661.260.2970
https://augustafinancial.com/apply

Finance of America Mortgage
Valencia, CA
Don Goettling and Gino Fronti
818.995.1700
https://foamortgage.com

Orange County

AmeriTrust Home Loans
Mission Viejo, CA
Lance Powell
949.795.6646
https://lancepowell.ameritrusthomeloans.com

Cross Country Mortgage
San Juan Capistrano
Mazzo Group
877.237.9694
www.TheMazzoGroup.com

Investors/Self-Employed - No Income, No Employment, No Tax Returns
25% DP, Min 620 FICO, Loans to $4M, Rates as Low as 5%
Christian Crandall
323.707.3532
Chris@HomeLoanAnswerGuy.com

KEY FACTORS INFLUENCING LOAN APPROVAL

If you have applied for a mortgage recently, you know how onerous this once-breezy task has become. "Zero down" and "instant, online approval" — those were the days.

Then again, the ease with which mortgages were obtained until 2008 also helped fuel the U.S. housing crisis. Now, nearly a quarter of the people who apply for home loans are denied, the Federal Reserve says.

Thinking about buying? You may be in for a rude awakening that includes mountains of documents to prove your financial suitability, plus sometimes-invasive questions from your would-be lender — Who is this Uncle Johnny guy who gave you $2,000 for your birthday? Was that a loan?

Here are 10 factors that can put your mortgage hunt in jeopardy or kill it outright. If you're about to go house hunting, know these well and, if possible, try to avoid them.

1. You're self-employed

Being your own boss lets you dictate your day and work when you want. Nice. But it also creates two major issues for lenders.

The income you earn from owning your own business can arrive in gushes or trickles, compared with the steady, reliable pay from a salaried job. Those fluctuations can create a higher apparent risk of default in lenders' eyes.

Also, documenting small-business income is more difficult (for a mortgage company) than simply looking at a base salary.

Lenders often require at least two years of tax returns to judge the income of a self-employed borrower. Then, they stick with the most conservative calculations when crunching the numbers.

Bonuses and commissions also fall into a similar category of wage "variability" and are equally challenging to document.

2. You have a subpar credit score

The average U.S. credit score is now 695, up from 690 a few years ago, according to a study earlier this year by credit reporting agency Experian. It's higher in some areas, too, as consumers have become far more careful about their money amid the recent lean times.

Technically, you can get a loan with a credit score under 620, but you won't want it. The rate and fees will be very high.

Most lenders require a credit score of 640 or higher to give you the money you need for your home purchase.

But, if other factors are favorable - such as a high, documented income and a long track record of paying your bills on time — some Federal Housing Administration-approved lenders will allow mortgages for consumers with credit scores of as low as 580.

3. You have little money for a down payment

Compared with past years, lenders are asking buyers to put more money down in relation to the amount of the loan. If you don't have enough cash or cannot qualify for down-payment assistance, you may look risky to lenders and they may turn you down.

The down payment doesn't necessarily have to be 15% to 20% of the home's value, as many consumers seem to believe these days. For example, you can still buy a primary residence with an FHA loan with only 3.5% down, if you qualify, and you can secure a standard loan through a Fannie Mae or Freddie Mac program with just 5% down.

The difference (with putting less money down) is you will now pay higher mortgage-insurance rates and have to have higher credit scores than you used to need.

4. You're new to the housing market

Squeezing into the market is trickier now for folks who have never owned or rented a home. Most lenders require all borrowers to have at least a two-year housing history. This can include verifiable rent payments.

In cases where the borrower is a newly graduated student, (a rental history) may not be required. First-time borrowers are often required to pass a 'rental shock' formula; if a young consumer's projected new mortgage payment is too much higher than their present housing payment, it may create an issue.

Typically, buyers must at least be able to document 12 consecutive months of rent payments to get a loan.

If you lived rent-free with a family member, this requirement is waived.

This tighter rule could be affecting the market. The National Association of Realtors says first-time buyers accounted for 32% of all buyers in 2015, down from 39% in 2012. Historically, they comprise about 40% of buyers.

5. You are a new employee

These days, most lenders ask potential homebuyers to show at least a two-year employment history in the same field of work before they'll write a loan. Mortgage companies simply can't ignore the high unemployment rates that have dogged much of the country for four or five years.

People re-entering the workforce must have a job for six months to use that income to qualify for a loan. Technically, if you are a full-time, W-2 employee with a verifiable base salary or hourly income, you need only one pay stub to obtain a mortgage. But in reality, gaps in employment can be problematic.

If you graduated recently and have a job in your field of study, lenders generally will waive that requirement.

6. Your income isn't high enough

If your monthly debt payments make up 45% of your gross monthly income, some lenders may see you as a worthwhile risk and write you a mortgage. Any extra debt, however, will likely take you out of the running, experts say.

A debt-to-income ratio of 45% is typically the highest threshold for approval for most borrowers.

Lenders may breathe easier about grabbing you as a customer if your debt ratio is below 40%. But if you have other positive factors — such as a long, stable work history, a high credit score and lots of money for a down payment, "getting a loan approval (at) up to 45% is possible.

7. You've applied too often

Borrowers in distress typically contact many lenders, thinking it takes just one company for mortgage approval. But how many is too many? Numerous loan applications can pull down a credit score, experts say.

Multiple credit inquiries for mortgage shopping are not supposed to count against you if they are done within a week or two of each other. Less than five inquiries should not have a huge impact. The problem is that even for someone with a credit score of 740, losing a single point can make the difference in cost or even getting a loan.

First and foremost, borrowers should get a referral to a mortgage professional that your realtor has a long-term relationship with and who has demonstrated a record of successfully getting client loans approved to the clients' satisfaction.

8. You have too much debt

Your bills truly add up when lenders are giving you a close look. Auto payments, credit cards and student loans all can reduce your odds of obtaining a mortgage, depending on how much you owe, experts say.

Even if your student loans are in deferment, those balances aren't always removed from your debt-to-income ratio. Fannie Mae and Freddie Mac guidelines, for example, do not exclude deferred student loans.

An FHA loan might allow for the exclusion of the monthly (student loan) obligation, provided there is sufficient proof that the deferment will be for at least one year after closing.

Meanwhile, payments that you receive for child support or alimony can offset your debt load, if you can prove they will continue for at least three years.

9. You just bought a car — or something big

Beware of those large, last-minute purchases before or during the loan-approval process. Always wait until after your mortgage loan has closed.

It is important to keep your credit history as stable as possible during the time following application until closing. A borrower's credit report will be re-pulled anywhere from the day of closing to 15 days prior to confirm that there has been no substantial change to the credit profile since the time of application. Changes to the credit report can impact closing.

This is one of the more common mistakes consumers make when house-hunting.

Don't apply for any new credit, don't let anyone pull your credit and don't make any large purchases without speaking to your lender first. Any new credit inquiry, large balance increase or new account will have to be explained and documented and could impact your ability to obtain a loan.

10. You picked the wrong lender

The lender you choose for your potential home purchase can make a large difference in the process, some experts say. Big national banks may scrutinize you more and only offer their own loan programs which may not be best suited for your situation.

On the other hand: A local mortgage company will typically have access to many national investors and their guidelines and can determine the one that best suits your needs. If you go to one large national bank, you are typically bound by their guidelines only. Still, different banks, no matter their size, have different rules on lending criteria.