Mortgage Prequalification and Preapproval

Why get prequalified and then preapproved for a mortgage before you begin your search for a home? Because there are 3 people who will benefit from your preapproval: You, your Agent, and the seller from whom you eventually buy a home!

You: The most important beneficiary, of course, is you. One of the most common questions we get from users of this site goes something along the lines of "Please let us know how much house we can afford." We're stumped! Why? There are simply too many variables--credit history, income, debt, special mortgage programs and variations in qualifying guidelines between different mortgage types--to answer that question. The only sure way of getting the question answered is through prequalification. The mortgage prequalification step is a relatively simple one, but it is an important one. It begins the process of formally applying for a mortgage, and it gives everyone involved--especially you--a clear sense of the direction they should be headed.

Your Agent: By knowing what your financial parameters are, your Agent can spend more time looking for houses that "fit" and less time pursuing dead ends. No matter how much you might *want* a 4000 square foot home for $275,000, if your qualifications say $125,000, your qualifications say $125,000. When it comes to mortgages, "yes, but" doesn't carry much weight!

The Seller: Want to strengthen your bargaining position? Get prequalified. Want your offer to stand out in a case of multiple offers for the same house? Get prequalified. Look at it from the seller's perspective. If you had 2 offers on the table for your house, one from a fully prequalified buyer and the other from an "I'll get around to that soon" buyer--to which offer would you devote the most attention? Even if the prequalified buyer's offer was $1000 less, would you take the chance on the buyer that perhaps may not be qualified? When it comes to a seller evaluating offers, "a bird in the hand..." definitely applies.

It is important to remember that the amount of mortgage you will qualify for is the *maximum*. It is the amount that the lender feels you can *afford*, but it is not necessarily the amount that you *want to pay*. It sometimes is advantageous to be conservative here. For example, if you qualify for a $100,000 mortgage and you have $15,000 available in cash for downpayment and closing costs, you are qualified to buy homes with a maximum selling price of $115,000. So as to not push yourself to the limit, you may want to look at homes that sell in the $100,000 to $110,000 range. Too many buyers simply rush off to the $115,000 level and some find themselves strapped when it comes time to purchase necessary items (such as draperies, additional furniture and lawn and garden tools, for example) or when they forget to factor in increases in monthly expenses (for example utilities and maintenance and repair costs).

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