

## BUYING A HOME

04/21/11

## A Home Buyer's Story: Getting Pre-Approved for a Home Loan

By Kristin Offiler

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*It's home buying season, and recent home buyer Kristin Offiler shares tips on her experience. Third in an ongoing series:*

It helps to have a good idea from the start as to [how much home you can afford](#). That's what my now-husband Matt and I learned after we started out looking for a house in a certain price range, and then learned we had woefully overestimated our capabilities.

We might have had a better idea if we had gotten pre-qualified *before* we started browsing home listings. Being new at house-hunting, we didn't realize how important this step would be until we went through with it. About a month into the house hunt, we met with a loan officer to go through the pre-qualification process, during which you provide a lender with basic information to get a ballpark figure of the house you can afford. Turns out we had over-estimated our house potential by about \$200,000!

### Getting Pre-Qualified

Our loan officer evaluated our income, assets and debt according to an industry standard of how much house you can afford. The process also included looking at our credit scores, and that's how we learned that an identity theft issue and a few other frustrations were impacting the scores and our pre-qualification numbers.

We ended up being pre-qualified in the low \$100,000s, which was much lower than what we had expected. Once we had a better idea of our budget, we went with our realtor to see houses in that price range, most of which were foreclosures that hadn't been taken care of in months. We quickly learned that in our part of the country, \$100,000 might not get us the house we hoped for unless we were willing to pour lots of money and elbow grease into fixing it up. We didn't think we'd be able to renovate a house right before our wedding, so we were hoping to find a home that wouldn't need too much work.

### Getting Pre-Approved

At the beginning of our search, we worried that our pre-qualification amount was limiting us to houses that needed too much TLC. We fixed the glitches that had shown up on the credit report and then we proceeded with the more formal pre-approval process a couple of months later. At that point, we were pre-approved for about \$40,000 more than our pre-qualification figure. Our pre-approval figure continued to grow over the next five months as we took other steps to improve our credit.

That meant we could start looking at houses that needed a little less work. We even placed a couple of offers, and even though they didn't work out for us, they were more the types of homes we were originally hoping to find before we overestimated our budget.

### Getting Pre-Qualified vs Getting Pre-Approved

What's the difference between getting [pre-qualified vs. getting pre-approved](#)?

- Pre-qualified helps you know what kind of house you can afford. It is a ballpark figure and is a good first-step. It is not, however, the same thing as getting pre-approved since it's not guaranteed.
- Getting pre-approved involves a more thorough and official look at your finances and it can expedite the home buying process. It may help you stand out from other buyers who haven't been pre-approved because you can make an offer that is not contingent upon obtaining financing.

Photo: [Seattle Clouds](#), Creative Commons 2.0



Kristin Offiler is a freelance writer who recently completed a Master of Fine Arts in Creative Writing. She lives happily in her new home in the Northeast with her husband and dog.

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The biggest slip-up that anyone can make is to start submitting offers on a real estate property before having their financing lined up! If you don't have the full amount of the offers that you are submitting sitting in your bank account, then speaking to a trustworthy and knowledgeable mortgage banker would be priceless. Oversight happens frequently in purchase financing; this is mainly due to the fact that new home-buyers don't realize what their total housing obligation would be until it their dream becomes a reality. For a first time home buyer, it is very important to know that buying a home isn't at all like renting. Renting, is clear and has a specific payment amount that you would pay and you are able to make your own decision on whether or not it is affordable for you instantly. With buying a home, you would have to do a lot more home-work up-front and figure out what the mortgage payment would run you in addition to what the home-owners insurance policy would cost (flood and hurricane could also bump this payment up depending on the location that the home is located in) and real estate taxes would cost (Mello-Roos could also bump this payment up depending on the location of the property too), and not to forget that if the property is located in a planned unit development (PUD), there might be Home Owner's Association payments to consider factoring it into the total housing expense too. Of-course, should you require mortgage insurance (which borrowers dislike having to pay unless they invest 20% in down payment in advance), there would be additional qualifying details to be considered given that mortgage insurance companies (similar to almost every borrower out there) have set their qualification bar so high to minimize the risk of having to pay in their contracts too.

A seasoned purchase mortgage banker knows what to look out for and protect their clients from making mistakes. This post on the LendingTree blog lays it out so well and I hope that any person that is looking to buy a home in our current market makes the responsible choice and take the time to talk with an experienced and seasoned mortgage banker prior to falling in love with a dream-home that they wouldn't be able to afford or qualify for.

Joe Totah, LendingTree Loans, Purchase Mortgage Banker April 21, 2011



Joe's comments are very relevant and accurate in the current lending market. One additional point I would add is that often the "great deals" are indeed foreclosures, and do require "elbow grease" to make them liveable, and this can present a major problem for most lenders. Most borrowers will use a Fannie, Freddie, or FHA loan product, and appraisal, and when the appraisal comments on the condition of the home in it's current condition this can cause the underwriters to not approve the loan based on current condition. You should remember that although you have hopes and dreams for what your home could/will be, a lender looks at it in it's current condition. The pre-"APPROVAL" process is crucial to your success, but also be very upfront with your mortgage banker about the CURRENT condition of the property, because they have not seen it, so he/she can comment on the best way to approach the loan. I think the original article, and our subsequent posts show that there are great deals in the current market to be had, but you absolutely should only try to deal with "licensed mortgage bankers" who are trained to handle some of the many obstacles "up front" and before they hinder the dream of home ownership.

Ted May, LendingTree Loans Mortgage Banker April 21, 2011



Thank you Ted & Joe for the great additional points on what a buyer should be thinking/doing before starting the hunt. There are so many details that go into the process that first timers might be unaware of (like me and my husband when we were looking). And I definitely agree with you Joe-- we fell in love with a house before we had even really started looking. We guessed it was in our price range, but we really had no clue. Better it be sure before you fall in love!

Kristin Offler April 21, 2011

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