

Prequalified, Preapproved or Supposition

As a prospective homebuyer, you tell your Realtor you have been “preapproved.” You use that information to spend your next three weeks looking at properties, falling in love with one of them and convincing a listing broker to accept the offer you have so painstakingly prepared. By this time, in your mind, the movers are ready, the address change has been filed with the post office and the redecorating has started. Two weeks after the offer is presented your loan application is rejected for the financing for which you were “preapproved.” What went wrong?

Simply put, nothing more than miscommunication. Real Estate and Mortgage Professionals should expect “preapprovals” to be a full loan application minus only the appraisal. This means all the documentation that would normally be presented during a full loan application must be collected and then evaluated by the Underwriter. This allows for no miscommunication, misinterpretation or later statements such as “but you didn’t tell me about.....”

A “prequalification,” on the other hand, is not a “preapproval” and can mean a variety of things. It could be a ten minute conversation on the phone with a Loan Originator who does not have the opportunity to investigate any documentation such as W-2’s, tax returns, pay stubs, bank statements or credit reports. It could be the same conversation with a Loan Originator who has had less than a year’s experience in the industry, or it could reference a conversation with someone who is not even directly involved with mortgage financing. Whatever the situation, the fact is, a “prequalification” without a full “preapproval” followed by firm written preapproval terms should always cause a question as to how in depth the interview really was.

A good “prequalification” (remember this is not a full “preapproval”) will include completion of the entire loan application, a review of a full two year's tax records and current year-to-date income information; a review of bank statements or other documentation to establish the source of down payment; and completion of an in-file credit report. Anything less, delivers more opportunities for miscommunication, subsequently resulting in much wasted time and emotional stress. The “prequalification” is normally opted for due to time constraints.

To guard against miscommunication or misconceptions, question the Loan Originator completing the “preapproval” or “prequalification.” Ask them what concerns could still be present, what documentation is needed and whether their company is willing to put anything in writing. If a full “preapproval” was not completed why didn’t you as a prospective buyer want it completed? If there is a concern, talk about it, correct it and be certain. Deal only with professional mortgage personnel. Do not be hesitant to ask your Loan Originator his or her experience level and to insist on a written commitment or other certificate.

Mortgage lending is an industry founded on tradition, guidelines, regulations and many constant changes. A full time mortgage professional who you feel you can trust will make the completion of your purchase go much easier. If the service provided is not what you or your Realtor requires, look to someone who will professionally provide that service.

Not only will this information save you time (and time is money), your representations as to the validity of any submitted offer can damage any future dealing with the mortgage staff you might have. As with all situations in your industry, control the transaction rather than letting it control you.