PRE-QUALIFIED VS. PRE-APPROVED: WHAT MORTGAGE SHOPPERS NEED TO KNOW

Getting approval on a mortgage is a process with no shortage of moving parts.

That's why residential mortgage consumers need to leave no stone unturned in figuring out where tripwires lie on the mortgage-approval landscape.

No question, the stakes are high, particularly given the lackluster U.S. economy.

Before the Great Recession, mortgage approvals were like ice cream flavors at Baskin-Robbins—numerous and easy to get. But in the last five years mortgage lenders have significantly restricted their offerings, and borrowers need to be prepared for the tougher requirements or risk being turned down by banks and other lenders.

One area where home buyers run into problems is failing to make the proper distinction between being qualified for a mortgage and being approved for one.

In short, just because you are pre-qualified for a mortgage doesn't mean you will get one. But when you are pre-approved your chances for a green light from a lender are greatly increased.

What's the difference between the two and how will it affect your hunt for the perfect mortgage?

The Definition

In general, a lender who prequalifies a buyer discusses a buyer's credit, income and assets with them. A lender who preapproves a buyer runs their actual credit and verifies their income and assets. That's a major difference since agents and sellers view a preapproval as a firmer start to the home-buying process.

Your loan would be submitted for preliminary underwriting, which normally takes no longer than 24 hours. Your mortgage consultant would then provide you with a preapproval letter that defines the loan amount you are approved to receive.

Preapprovals are normally good for a 120-day period, so it's important to begin your home search with your real estate professional as soon as possible after receiving your preapproval letter.

The Distinction

A mortgage prequalification is an initial assessment of a potential buyer, and often it's not worth the paper it's written on. But a preapproval goes deeper and involves a more thorough look into your income and expenses, including a look at your credit score.

Let's think in terms of the view from a plane. The prequalification is a 250,000-foot view, and a preapproval is a closer-up, 30,000-foot assessment of the eligibility of a client to secure a loan.

The Driver for Mortgage Borrowers

There's no harm in getting pre qualified – it's a good gateway to buying a home. But to lock down that home, focus on getting preapproved.

Buyers should always get preapproved only and here's why: First, a buyer can confirm the sample monthly payment that they may own when they close, and they can get an idea of the home's price range. Then, they can determine if there are any potential unknown credit issues that may need to be addressed prior to purchasing.

The Domino Effect

Getting square on prequalified versus preapproved streamlines the entire home-purchase process.

If all parties involved are aware of the distinction, it helps everyone play their role to the best of their ability. The listing agent who calls the mortgage originator to ask if the buyer's income and asset docs have been examined clearly understands the differences between prequalifications and preapprovals."

On the other hand, the mortgage loan originator who deals with the real estate agent has a better grip on the entire process, by providing clarity on the firm's prequalification or preapproval process.

Even homebuyers can leverage the distinction between the two processes to help their own cause.

Clients armed with this information can request a thorough preapproval rather than a cursory prequalification, and play a role in ensuring the best possible handling of their transaction.

The Deal

The takeaway for homebuyers? Know the difference between being prequalified and pre approved, and focus your energy on accepting the former, but aggressively seeking the latter.

Do that and you've taken a huge step in buying the home of your dreams.