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MORTGAGE TEAM

Mortgage Pre-Approval: Everything You Need to Know

Pre-qualification vs. Pre-approval

Shopping for a home can be exciting and fun, but for the serious homebuyers the process starts with meeting a mortgage broker and getting a pre-approval, before meeting with a realtor. Being pre-approved helps you know how much you can afford to buy for, and allows you to see and understand how much your closing costs will be and what it looks like when you have a new home. What many people don't realize is that there's a difference between pre-qualification vs. pre-approval. Knowing how the two work could help you during your home search.

Mortgage pre-qualification

Both pre-qualification and pre-approval involve a review of an applicant's credit report. The difference is the degree of credit review.

If you need a quick answer on how much you may be approved for, then a mortgage pre-qualification is what you want. Pre-qualification involves a quick review of your credit and only provides you with a general idea of how much mortgage you could qualify for and under what terms.
Most financial institutions have an online tool where all you need to put in is your income, debt and assets. Based on that information, you'll get an *estimate* of how much you'd be approved for. Pre-qualifications only take a few minutes and can be done online or over the phone. It is important to know that while a pre-qualification provides you with an estimated numbers, it is just that, and in most cases should not be relied upon until a fill application has been completed.

Mortgage pre-approval

With mortgage pre-approval your credit will be required and a confirmation of your financial information. Once approved, your lender is committing a mortgage to you at a set interest rate for a fixed period of time.
When you're ready to close, the lender will do a final financial check to see if your finances have changed since the pre-approval was made. They may also appraise your home, as the property value of the home you purchased could also affect your mortgage.

With formal approval in place, you'll know exactly how much you can afford. That said, you need to factor in additional costs such as closing costs, moving costs, ongoing maintenance and any additional saving goals that you may have.

<u>To get pre-approved for a mortgage, you'll need 4 things:</u>

1. Proof of Income (may vary depending on the type of income)
2. Proof of Assets (including confirmation of downpayment)
3. Good Credit
4. Other Documentation (ID, SIN number to pull credit report etc.)

***Pre-approval involves a full credit review, while only offered for a limited time window, provides the potential borrower with a solid offer of credit from a lender, which they can use to make good faith offers on homes for sale. Although mortgage pre-approval is a promise from a lender, it's NOT a guarantee.

Mortgage Pre-Approval Tips

Mortgage Pre-approval Do's

1. Apply for a mortgage pre-approval first
Before meeting with your realtor, the first thing you should do is apply for a mortgage pre-approval. This way, if you find a home you like, you'll be able to move quickly. Being pre-approved also helps you know how much you can afford to spend.

2. Secure a great pre-approval rate
Just as you'll see several homes before finding 'the one', you should shop around for the best mortgage rate. Do your research and compare mortgage rates, or use a **mortgage broker** who will do all the leg work, compare options and negotiate on your behalf.
What happens after your mortgage pre-approval? Generally, you'll have a 90 to 120 day period where your offered rate will be held for you. This is when you should begin house-hunting!

3. Assemble your documentation
Ask your mortgage broker what documents are required to finalize your mortgage, and start gathering it all in one place.

4. Communicate with your mortgage broker and complete a Strategy Session
It may sound obvious, but stay reachable and connected with your mortgage broker. They will have questions that you need to be available to answer quickly.

Mortgage Pre-approval Don'ts

1. Don't get pre-approved over your budget
Don't make the upper ceiling of your mortgage pre-approval your maximum purchase price. Do your own calculations, figure out how much you can afford monthly (don't forget the other costs associated with homeownership, not just the mortgage) and go from there.

2. Hold off on major purchases
Once you've submitted your documentation to your loan officer, your financial situation shouldn't change from pre-approval to loan finalization. Changes to your financial situation could ultimately result in loan rejection, even if you were initially pre-approved. To avoid rejection, don't make any major purchases that change your debt service ratios.

3. Don't apply for new credit
You also shouldn't apply for new forms of credit, like a personal loan or credit card, and don't co-sign a loan for a friend or family member. Your debt level and available credit are both factors in mortgage approval, so increasing them may risk your pre-approval.

4. Don't quit or change jobs
Finally, try to avoid changes to your employment status after you've been pre-approved. Steady and predictable income is crucial to most mortgage applications. Changing jobs or becoming self-employed will most likely throw a wrench into the mortgage approval process. Instead, if possible, hold off changing employers or starting a company until after you have the keys to your new place.

What if You Don't Get Approved?

Unfortunately, not everyone gets approved. If that happens to you, there are a few things you could consider depending on the reason why you were declined.

Lower your budget
Lenders might approve you for a lower amount than you were originally looking for.

Check with other lenders
Other lenders may approve you, but they could charge a higher interest rate for the additional risk. Make sure you know how to choose a mortgage lender.

Save a larger down payment
Having more money saved means you may not need to borrow as much.

Improve your credit
Your credit score could affect your mortgage approval. Improve your credit score by paying down debt, making your payments on time and avoiding applying for new credit.

Don’t change jobs
Steady employment is something lenders want to see.

Get a co-signer
If your income and/or credit score are not good enough to qualify for a mortgage with a desirable rate, you could add a co-signer to your application. A co-signer is responsible to make your mortgage payments if you can’t, however, so this option should not be undertaken lightly.

Discuss with your mortgage broker a game plan going forward to get to where you want to be. It may not be possible to purchase right now, however a mortgage broker can create a plan for you and outline the next steps you’ll need to purchase. I.e. improve credit, increase income, save more down payment etc?

How can we help you get there?

It’s common that we work with clients months if not years before they end up purchasing, and can coach and help them get to the point where their desired purchase price is possible.

Next Steps?

Click here to book your Strategy Session

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