



## **INFORMATION ON OBTAINING A PRE-APPROVAL FOR A MORTGAGE**

### **What Is a Pre-approval?**

A pre-approval is a determination by a financial institution of whether or not you will be approved for a mortgage and the maximum loan amount that you would receive. A pre-approval is not a mortgage commitment and has an expiration date. A financial institution can also issue a pre-qualification; however, the financial institution will not review any documentation, credit, or underwriting. Since information provided to the financial institution for a pre-qualification is verbal, the financial institution will not offer a mortgage commitment. **Most sellers requiring a pre-approval will not accept a pre-qualification. If a CJHRC application requires a pre-approval, we cannot accept a pre-qualification.**

### **What Type of Documentation Will I Need When Applying for a Pre-approval?**

You will be required to submit documentation regarding your financial status. The financial institution will review your household's income (pay stubs and tax returns), credit, and debt ratio. After reviewing the documentation, the financial institution will then complete the underwriting process. The lender you choose to apply to for the pre-approval should provide you a list of the documentation you will need to supply to the mortgage representative.

### **Where Should I Go for a Pre-approval?**

A pre-approval can be obtained from the financial institution that will provide you with a mortgage that will best suit your needs. To find out which mortgage best suits your needs, shop around and make phone calls to various financial institutions for information and find out what each institution has to offer. When you inquire about possible mortgages, ask about interest rates, APR, terms, points, percentage/amount of down payment required and various types of loans that are offered.

### **Is There a Fee for a Pre-approval?**

Some financial institutions will charge a fee for a pre-approval. Usually, the pre-approval fee will be credited to your application fee when you apply for a mortgage.

### **What Are the Disadvantages of a Pre-approval?**

When you are pre-approved, you are not obligated to stay with that particular lender. If you choose to use another lender that offers better terms, you will also have to qualify with them.



### **What Are the Benefits of a Pre-approval?**

If you have been pre-approved, you should have some type of letter or documentation with the maximum loan amount. This documentation proves that you have been pre-approved for a loan.

- Gives a clear idea of your financial limits on purchasing a home.
- Sellers are more at ease with going into contract with a person that has a mortgage pre-approval letter.
- Most Realtors are more willing to work with clients that have obtained a pre-approval.

### **Mortgage Companies vs Banks**

For clients using mortgage companies, you must make sure the lender understands the unit you are buying is affordable housing and there are rules and restrictions associated with this unit. The lender needs to state in the pre-approval letter that they understand these rules associated with affordable housing units and they will not have any problems getting the mortgage loan approved by their underwriting department. Some lenders have minimum requirements on the total amount of square feet in a unit, check with the lender (example, an efficiency with one lender must be over 600 sq. ft. before they will approve a mortgage).

### **Conventional vs FHA Loans**

If your lender is going to offer you an FHA loan product, you must make sure the condominium complex has been FHA approved. You can obtain this information by asking the seller for their condominium information and make a call. Also, you must get the information on the required down payment amount (this could be lower) and again, make sure the lender understands you are buying an affordable housing unit and can get the loan approved through underwriting. There are also some additional fees with an FHA Loan, one being Mortgage Insurance that is a set amount for the life of the loan. There is also a large payment that is due at the closing associated with the FHA loan and their mortgage insurance. If you are purchasing an affordable housing unit, be sure they are aware that there are liens that go with these affordable properties. They need to put something in their pre-approval stating that they understand they would be in 1<sup>st</sup> position and there are other legal documents that will go in 2<sup>nd</sup> and 3<sup>rd</sup> positions at closing.

If you are obtaining a Conventional loan, you still may need Private Mortgage Insurance. However, once you reach a certain percentage of equity earned verses mortgage balance and home worth, the mortgage insurance can be eliminated from your payment; all lenders are different.