

## Prequalified Versus Preapproved: What Is the Difference?

SUGAR RIVER BANK MAKES THE MORTGAGE PROCESS LESS DAUNTING



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The two key steps in the mortgage application process are sometimes used interchangeably. There are important differences that every home buyer should understand. Sugar River Bank offers both options for home buyers.

### Prequalification: The First Step

Getting prequalified involves the borrower supplying a bank or lender with their overall financial picture, including debt, income, and assets. The lender reviews the information and gives an estimate of how much the borrower can expect to borrow. Prequalification can be done over the phone or online, and there's usually no cost involved.

Prequalification is a quick process to obtain a prequalification letter. One thing to note is that loan prequalification does not always include an analysis of credit reports or an in-depth look at the borrower's financial ability to purchase a home.

The initial prequalification step can open a discussion with the borrower to determine any specific needs they may have regarding a mortgage. The lender will explain various mortgage options and recommend the type of loan that may best suit the home buyer. One of the first questions a real estate agent will ask of a potential buyer is if they have been prequalified, and what their status is. The Realtor usually keeps a copy of the prequalification letter on file.

Keep in mind, it's just the amount the borrower might expect to borrow and does not provide any commitments; thus, a prequalified buyer doesn't carry the same weight as a preapproved buyer, who has been more thoroughly investigated.

### The Preapproval Process: More Conclusive

A prequalification provides a good indication of creditworthiness and one's ability to borrow, but a preapproval is generally the definitive word. To get preapproved, the borrower must complete a formal mortgage application, as well as supply the lender with all the necessary documentation to perform an extensive credit check and financial analysis. The lender will then offer a mortgage loan preapproval up to a specified amount. Going through the preapproval process also offers a better idea of the interest rate to be charged and a discussion of the best loan option available.

Lenders will provide a conditional commitment in writing for an exact loan amount, allowing borrowers to look for homes at or below that price level with much higher confidence than provided by a prequalification. This puts borrowers at an advantage when dealing with a seller because they're one significant step closer to getting an actual mortgage.

Both processes give potential home buyers a good idea in advance of how much house they can afford; however, sellers are generally more willing to negotiate with home buyers who are preapproved. As preapproved borrowers are further along in the loan process, they are more likely to close on a home purchase more quickly, offering a distinctive edge in a competitive market. **rw**



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# Pre-Approvals at Your Hometown Bank.



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During every step of your journey, from pre-approval to selecting the right mortgage program, to closing on your new home, you can expect personal service from our lending professionals.

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