

# How to Secure a Strong Mortgage Pre-Approval

## What is a Mortgage Pre-Approval?

A “mortgage pre-approval” is a document from your lender affirming their willingness to lend you money to purchase a home, up to a specific amount. It is based on the financial information you provide them, such as your pay stubs, list of debts and assets, and credit reports. In many areas with competitive markets, a seller will not consider your offer without a pre-approval letter, and in some cases may even require it before you can view the property (so that they know you are a serious buyer). Completing the mortgage pre-approval process will confirm the amount of loan you will be able to obtain and maximum home price you can afford.



# The Importance of a “Fully-Underwritten” Pre-Approval

If you are looking to purchase a home in a competitive market, sellers expect a “fully underwritten” pre-approval, which is stronger than a standard pre-approval. Sellers will view an offer with a fully-underwritten pre-approval as better, since the chance of the buyer’s financing falling through – and thus the sale falling through – is extremely low compared to a buyer who only has a standard pre-approval.

## ● **Standard Pre-Approval:**

Requires you to fill out the loan application, provide documentation to support all of the information in the application, and provide your consent for the lender to pull your credit report. The pre-approval is completed by a loan officer (LO), an LO assistant, or a loan processor, who may serve as your point of contact and administrate the loan paperwork. They will match your documentation to various line items in your application, pull your hard credit report, and in general look for any red flags. If everything matches and can be verified, you receive your pre-approval letter.

## ● **Fully-Underwritten Pre-Approval:**

Goes one step further as it requires you to go through the full underwriting process. Your entire file will be reviewed by an actual underwriter, who is the person actually responsible for assessing the risk associated with a loan application and making the final approval or denial decision. This process requires more time and effort upfront (mostly on the lender’s part), but it ensures a faster and smoother loan finalization process once you are ready to make an offer. In competitive markets, many homebuyers seek a fully-underwritten pre-approval so that they can feel comfortable removing the financing contingency from their offer.

## Shopping for Lenders

Ask family and friends for referrals and/or search online to compare offers from various types of lenders. Lenders will typically advertise their current mortgage rates online, but these published rates come with a lot of fine print and vary significantly based on the borrower’s specific situation. You can usually get a quick, more personalized estimated rate by calling them and just providing some of your basic financial information verbally (e.g. income, existing debts, existing assets, estimated credit score, estimated budget). This can help you decide which lenders for which you want to take the next step of filling out an application.

You may want to apply and compare offers from at least a few of different types of lenders:

- **Banks:**

You may want to ask your existing bank as well as compare offers from other large national banks (e.g. Bank of America) or small, local banks (e.g. Fremont Bank). These options are usually convenient and often offer competitive rates, but they can vary widely depending on the bank, so you should shop around.

- **Credit Unions:**

Smaller financial institutions which are not-for-profit, member-owned institutions (e.g. Redwood Credit Union). To obtain a loan from a credit union, you will likely have to become a member which may require opening an account with them. Some credit unions have other membership requirements like living in a certain city, having a specific type of job, etc. Credit unions may offer more competitive rates and more personalized customer service compared to large banks, and may have less strict approval requirements.

- **Mortgage Lenders:**

Specialize specifically in mortgages (e.g. Freedom Mortgage), in contrast to banks and credit unions who offer a full range of retail banking products and services. They often offer a variety of mortgage options tailored to specific needs, though some of these might come with higher interest rates.

- **Online Lenders:**

Offer loans primarily or exclusively through online platforms, rather than through traditional brick-and-mortar branches (e.g. RocketMortgage, Loan Depot). They leverage technology to streamline the application and approval process, which can result in faster funding and potentially lower interest rates and fees for borrowers. However, they may offer less personalized customer service and be less reliable when it comes to closing on your loan.

Another option is to work with a **mortgage broker**, who is not a lender, but who instead will do the loan shopping for you. They act as the intermediary between the borrower and lenders, and typically have a large network of lenders they can utilize to find the most competitive offers for your specific financial situation. However, you will usually pay more in fees if you utilize a mortgage broker.

# Applying with Lenders

You should confirm with the lender before submitting your application whether or not the lender will need a soft or hard credit check. A soft credit check (or soft inquiry) is a review of your credit report that does not impact your credit score. Hard credit checks (or hard inquiries) can temporarily lower your credit score, but multiple inquiries within a short period (e.g., 14 – 45 days) may be treated as a single inquiry when calculating your score, so you would want to apply with all lenders you are considering within a short timeframe in order to minimize the impact on your credit score.

Sometimes, filling out the initial application will not involve a hard credit check if it only gets you a basic “pre-qualification” (which shows you a snapshot example of what the loan terms may look like), and is not yet an actual pre-approval. You should explicitly ask each lender if and when they will submit your credit check and whether it is a soft or hard credit check, and ask that they not conduct a hard credit check without your explicit consent so that you stay in control of the process.

## Choosing a Lender

After applying, each lender will provide a Loan Estimate. This standardized form makes it easier to compare offers. Review your Loan Estimates, discuss with each lender, and pay special attention to each of the following:

### ● **Loan Terms:**

In addition to the interest rate, it is important to look at the “annual percentage rate” (APR), which gives you the total cost of the loan on a yearly basis, including both interest and fees. It provides a more comprehensive view of the cost of borrowing than just the interest rate alone, because even though one lender may have the lower interest rate, it may be ultimately more expensive to you due to fees. Comparing APRs gives you a more accurate way to compare offers from different lenders. The “5 Year Total Cost of Loan” from the Loan Estimate is also a helpful data point, particularly if you envision moving (and paying off this mortgage) in around 5 years. You will also want to compare down payment requirements, loan duration, fixed vs. adjustable rate options, prepayment penalties, rate lock options, any requirements for private mortgage insurance, closing costs, and all other fees.

## ● Time Needed between Sign and Close:

Lenders move at different speeds, and will usually each require a different amount of time following offer acceptance before they can fund your loan and you can close the purchase. You will want to tailor the number of days you include in your offer based on how much time your lender needs. Usually, the shorter the amount of time, the more competitive your offer is (unless the sellers prefer more time, e.g., if they are still living in the house).

## ● Customer Service:

You will want to choose a lender who has good reviews, and who you experience to be knowledgeable, responsive and reliable during your communications. A good loan officer should explain things to you in clear terms, answer all of your questions, and handle things promptly. You want to be able to rely on them funding your loan in accordance with the timeframe required by your home purchase agreement, and not experience any last minute surprises or hiccups. In addition, your lender will be heavily involved in the homebuying process on top of providing the loan – e.g. they will usually require an appraisal, title report, title insurance and homeowners insurance. Each of these is its own workstream and involves coordinating with other third parties, so it is imperative that your lender is organized and on top of things.

## ● Tailored Pre-Approval Letters:

Ask the lenders if once you are ready to make an offer on a home, they will re-issue your pre-approval letter at the exact amount you wish to offer. This will help avoid showing your hand to the seller if your pre-approval letter is for much higher than the amount you wish to offer. You should also ask how quickly they can get you this type of tailored pre-approval letter after you request it. This is another area where the responsiveness of the lender can be paramount.



# Obtaining your “Fully-Underwritten” Pre-Approval

Once you have decided on a lender, to obtain your fully-underwritten pre-approval letter, you may need to provide additional information and documentation. If you haven't already, you will also need to authorize the lender to conduct a hard credit check. You will likely have back-and-forth with your loan officer who may have a few rounds of follow-up questions and/or documentation requests before providing you with your pre-approval letter.

Remember, if you are looking to purchase a home in a competitive market, sellers expect a “fully underwritten” pre-approval, which is stronger than a standard pre-approval. Ask your lender to explicitly confirm that you have been fully-underwritten and whether there is any chance of the loan falling through at closing. You can also ask if, based on their fully-underwritten pre-approval, you can feel confident removing the financing contingency from your offer.

## After Pre-Approval

A pre-approval is typically valid for 60–90 days, but you should confirm with your lender. If your home search takes longer, you may need to get re-approved.

In addition, once you've been pre-approved, you should avoid making any major financial decisions like changing your job or buying a car, and avoid opening or closing any credit lines, as these can impact your lender's willingness to make your loan. If such a financial change is necessary, you should alert your lender as soon as possible so that they can re-confirm your pre-approval and there are

no surprises that may impact your ability to obtain your loan at closing.

It is also a good idea to re-confirm how much time the lender needs following offer acceptance to be ready to close, so that you know the minimum number of days between sign and close to include in your offer. You may also want to remind them that you will be reaching back out to them once you are ready to make an offer to get a more tailored version of the pre-approval letter that references the specific amount you are offering on the home.

# Ready to make an offer?

When you're ready to make an offer, WiseBuy will guide you through the offer and negotiation process, providing you the combined advantages of a Realtor® with legal expertise. For a one-time flat-fee of \$5,000, we'll prepare your offer, negotiate on your behalf, and finalize the purchase agreements, ensuring you feel guided and supported throughout the entire process.

Once the purchase agreements are finalized, we'll walk you through a comprehensive step-by-step homebuyer's checklist so you can confidently handle the administrative items that need to happen between signing and closing, saving you thousands.

If you decide you want additional support or guidance during the closing process, you can elect to pay for additional consulting advice on an hourly basis, so that you stay in control and pay only for what you need.

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