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MORTGAGES

The Advantages of Preapproval

By VICKIE ELMER

WITH the housing market warming up in many areas, and multiple offers becoming more commonplace, buyers who want an advantage in the bidding process will need more than a [mortgage](#) prequalification. They will need a preapproval.

The difference is significant. Prequalifying for a mortgage is based solely on what you disclose to the [loan](#) officer or broker about your earnings, credit score and total assets, including what is available for a down payment.

“It’s verbal — it doesn’t really mean anything,” beyond providing some basic guidance on the range of prices you may be able to afford, said Kevin Chittenden, a vice president and regional sales manager in Paramus, N.J., for Wells Fargo Home Mortgage.

A preapproval, by contrast, requires borrowers to provide documentation of their income and their assets.

The lender typically pulls your credit report and score, and you should gather together almost everything you will need for the actual mortgage underwriting: W-2 wage statements; 1099s, which show things like dividends and interest income; recent pay stubs; bank statements; and statements from Individual [Retirement](#) Accounts and [401\(k\)s](#) and other assets that could show you have the resources to buy and maintain a home.

At Wells Fargo, one of the country’s largest mortgage lenders, the first quick review provided by an underwriter constitutes an agreement to lend. “It’s a real commitment, a commitment to lend,” Mr. Chittenden said.

Other lenders may treat preapprovals as more of an opinion on the person’s ability to borrow, not a guarantee to lend, said Jack Guttentag, who runs the Mortgage Professor Web site. Generally, borrowers need to have chosen a property and have it appraised before they can expect a firm commitment from a lender, he said.

Still, a preapproval is more important now, with so many more homes receiving multiple bids, and because the housing market in many parts of the New York region has been getting stronger.

“Preapproval carries more weight when you go to negotiate a deal,” said Ray Mignone, a certified [financial planner](#) in Little Neck, [Queens](#). “It gives them bargaining power.”

Borrowers should ask the lender to provide a good-faith estimate on closing costs and fees along with the preapproval. Many will provide this only once you have a home under contract, but some will give you an estimate of those costs, said Sofi Cordero, a senior housing counselor with La Casa De Don Pedro, which works on affordable housing and neighborhood development in Newark.

The preapproval letter should include the amount a borrower is qualified to borrow, as well as the loan officer's contact information. Some letters may have an estimated monthly payment. But details about the loan type and interest rate will not be included; those are filled in when you are ready to receive the loan, experts say.

Timing is important. Buyers should aim for obtaining a preapproval letter from a lender within 30 to 60 days of the expected purchase date, Ms. Cordero said. That is because some letters expire in 90 days or so. (Wells Fargo's, for instance, last for 120 days.)

Your income and bank statements may also need to be updated if it has been a few months between preapproval and the signed contract for buying, Mr. Chittenden said.

Certain lenders may waive the preapproval and application fees because they want to sign you on as a customer, Ms. Cordero noted, adding that if you find another lender with better terms, you are under no obligation to use the lender that provided the preapproval.

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