LOAN PREQUALIFICATION AND PREAPPROVAL

In today's real estate market having an advantage over the competition can make the difference between being a homeowner and a renter. When your competition is other home buyers, a key advantage is being able to demonstrate to a seller that you are at least pre-qualified, if not pre-approved for a home loan.

The Basis of Prequalification

Lenders look at two figures to determine your pre-qualification amount:

1. **Front Ratio:** The percentage of your gross monthly income (before taxes are deducted) that will go towards monthly housing costs (mortgage payments, property taxes and insurance). The ratio that a lender uses is based upon loan program but usually fails between 28% and 36%.
2. **Back Ratio:** The percentage of your gross monthly income that will be used to pay your combined monthly housing costs and regular monthly payments (auto loans, credit card payments, etc). The precise ratio varies from one lender to another but typically lies between 32% and 45%.

Prequalification

Before searching for a new home, it is important to determine how much you can afford. Being pre-qualified before looking for a home can save time, energy and frustration.

Preapproval

Loan preapproval takes a pre-qualification one step further. Different from a prequalification, a preapproval means your application has actually been submitted to a lender and underwritten. The approval is generally subject to the purchase contract, appraisal, title report and any other items the underwriter may request. Being able to demonstrate to a seller that your loan is preapproved can be a great advantage when negotiating the purchase contract, and is a "must" in a competitive situation.