Pre-Approval: The Key To A Successful Closing

Free Mortgage Blog

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Pre-Approval: The key to a successful closing

We've all heard them; the horror stories of people having the worst time getting to the closing table. The lender kept asking for more and more documents; there were multiple extensions needed, additional non-refundable deposit money was required, and so on. I cringe when I hear these stories not just because they are horrible stories, but because the whole darn mess was avoidable.

So what caused this fresh hell of mortgage drama? The answer is easy; you were pre-qualified by your lender, not pre-approved.

There is a HUGE difference between being pre-qualified and pre-approved. To make sure you're getting what you need to close quickly and easily, you need to know what the differences are. Read on to make sure your loan is on the right track.

Pre-qualifications are most famously provided by banks, out of state and, large online lenders. This fact happens to be precisely why it's nearly impossible to close a loan on time, or at all if you work with either of these lender types. Typically, but not always, they'll pull your credit. They'll look at your score and say, "Great; you have a 700 score. You're pre-qualified! I'll go ahead and send a letter to your realtor."

Fast forward a couple of weeks. You're now under contract, have spent money on inspections and the appraisal, and are looking forward to your closing. But suddenly, you get a call and are advised that the 'underwriter' is requesting more documents. Ok, no big deal, you send them in. A few more days go by, and now the 'underwriter' wants more information, and, by the way, a contract extension is likely going to be needed. A few more days pass again, and now a contract extension is for sure needed because the 'underwriter' has denied your loan, and now you have to start the loan process over using another program. Now you're furious; the seller has lost a sale, the realtors are beside themselves, and everyone is up in arms, wondering what to do now. The whole situation is a colossal mess; how did it all go wrong?

How it went wrong is the lender only performed a cursory review of your credit score. They did not analyze your credit report, nor did they review your income and asset documentation. In short, they did not examine what's necessary to see if you are a viable borrower.

Before I go on to how a pre-approval is different, let me share with you a little tip. Any experienced mortgage professional knows what documents are required to close a loan. The guidelines are not a surprise to anyone; they are prominently posted for us all to see. In my example above, the 'underwriter' doesn't want additional documents. What the underwriter wants are the qualifying documents your mortgage professional should've obtained from you upfront in the first place. The long and the short of what happened is your loan officer did not give you, or your loan file, the attention it deserves. The underwriter isn't the culprit here, the lazy loan officer is. There I said it.

Ok, so I digress. Let's get back to the topic at hand. This whole mess never would've happened if your loan officer had taken the steps to properly pre-approve you. Here's how the pre-approval process works:

1. You interview with your loan officer to discuss your goals, the payment you are comfortable with, and how much your down payment is going to be.

2. Your loan officer pulls your credit. They then carefully review your entire credit report. Your credit score is the least important part of the credit report! Your loan officer is going to review every single tradeline listed on the credit report to check payment histories, account status, etc.

3. Your loan officer will then discuss your credit report in detail with you. Do you have collections? Charge offs? A bankruptcy or foreclosure in the past? What's the deal with the late car payment four months ago? Why was your credit pulled 17 times by 12 other mortgage lenders? And so on. All of this is highly relevant to your mortgage application and needs discussion upfront.

4. If the credit report discussion reveals no issues, then your loan officer will request your income and asset documentation. Documents vary depending on your specific situation, but the most often required documents are:

    - 30 days worth of paystubs
    - Two years W2's or 1099's
    - Award letters for retirement benefits
    - Two years of tax returns
    - Document taxes, insurance, HOA, and the mortgage payment on all properties owned
    - Divorce decree/child support order
    - Two months most recent bank statement, all pages

5. After reviewing the above documents, your loan officer now knows for sure whether or not you can get approved. If you can, you'll chat again to go over the parameters of your approval and will provide a pre-approval letter for you and your realtor.

Failure to get correctly pre-approved is the reason drama occurs with loan closings. If you haven't gone through the pre-approval process that I just detailed above, then you are not ready to start shopping for houses yet.

BEFORE you begin the house-hunting process, make sure your loan scenario is adequately reviewed by a qualified mortgage broker first. If you do that, you'll have a super smooth loan closing with zero drama!

If you have questions about any part of the mortgage process, feel free to contact us.

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