

Step 3: Get Loan Pre-Approval

Few people can buy a home for cash. According to the National Association of REALTORS® (NAR), nearly nine out of 10 buyers in 1999 financed their purchase, which means that virtually all buyers -- especially first-time purchasers -- required a loan.

The real issue with real estate financing is not getting a loan (virtually anyone willing to pay lofty interest rates can find a mortgage). Instead, the idea is to get the loan that's right for you -- the mortgage with the lowest cost and best terms.

We also recommend pre-approvals for another reason: Purchase forms often require buyers to apply for financing within a given time period, in many cases, seven to 10 days. By meeting with loan officers in advance and identifying mortgage programs, it won't be necessary to quickly find a lender, check credit, and rush into a financing decision that may not be the best option.

What is it?

"Pre-approval" means you have met with a loan officer, your credit files have been reviewed and the loan officer believes you can readily qualify for a given loan amount with one or more specific mortgage programs. Based on this information, the lender will provide a pre-approval letter, which shows your borrowing power. You can visit as many lenders as you like and get several pre-approvals, but keep in mind that each one carries with it a new credit check, which will show up on future credit reports.

Although not a final loan commitment, the pre-approval letter can be shown to listing brokers when bidding on a home. It demonstrates your financial strength and shows that you have the ability to go through with a purchase. This information is important to owners since they do not want to accept an offer that is likely to fail because financing cannot be obtained.

How do you get preapproval?

Real estate financing is available from numerous sources. Based on our experience, we may suggest one or more lenders with a history of offering competitive programs and delivering promised rates and terms.

The loan officer will carefully review your financial situation, including your credit report and other information. The lender will then suggest programs which most-closely meet your needs. For instance, a first-time buyer may qualify for state-backed mortgage programs with little money down and low interest rates, while a repeat purchaser (someone who has bought a home before) with more equity (money invested in the home) might want to get a 15-year loan and the lower overall interest costs it represents. Typically, first-time buyers opt for the traditional 30-year loan, with either a floating interest rate or a fixed rate of interest over the life of the loan.

Once hired for the job, we will provide you with information detailing current market conditions, financing options and negotiating issues that might apply to a given situation. Remember: Because market conditions can change and the strategies that apply in one negotiation may be inappropriate in another, this information should not be set in stone.

