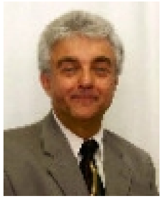
Your REALTOR:



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Real Estate Update

4 Things About Preapprovals That You Should Know

Getting preapproved for a mortgage is almost a requirement in today's real estate world. In fact, many real estate agents won't even let you into their cars to go look at houses until you've got your preapproval letter in your hand. And that makes perfect sense. Why would a real estate agent take some professional time showing houses if you've no such letter in hand. A preapproval letter lets the agent know right off the bat that you're a serious candidate as a home buyer. Let's look at four things you need to know about these preapproval letters.

The first thing to know is a preapproval is not the same as a prequalification. Although the terms sound similar they're not. Both terms apply to the mortgage industry but there are some key differences. A prequalification letter - the letter will state that it's a 'pre-qual' - signifies that you've had a conversation with a licensed loan officer. With a prequalification, the loan officer will go through a series of questions and at the end of these queries the loan officer will or will not put together a letter that states 'based upon the information provided' the individual is in good shape to obtain financing from a mortgage company.

The key here however is nothing in this loan officer conversation is documented. It's typically nothing more than a phone call or perhaps an in-office meeting. A preapproval means the needed documentation has been provided and reviewed. If you state that you make $6,000 per month, a prequalification letter will take your word for it but the preapproval status means you've backed that income up with things such as paycheck stubs and W2 forms.

Next, the information provided in order to obtain the preapproval letter must be recent. Your loan officer will ask for your two most recent paycheck stubs covering a 30 day period. Note that paycheck stubs have typically been replaced by remittance advice from your employer. This documentation will provide a gross as well as a net amount of income to be used when calculating debt to income ratios. Providing some paycheck stubs you've left in your drawer at home won't cut it. They need to be the most recent. Why? The lender needs to know how much money you make now, not six months ago.

Bank statements will also be needed in order to get a preapproval letter. For those that are self-employed, these bank statements will work in lieu of any paycheck stubs. Bank statements, again your most recent ones, will third-party verify you have enough money that is yours in your bank account to cover the down payment, closing costs and some left over when the dust has settled. The leftover amounts are referred to as 'cash reserves.'

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