

What Are Pre-Qualification and Pre-Approval?

Sellers and agents like to see that their buyers can secure the financing needed to purchase a home. That's where pre-approval and pre-qualification come into play. But what's the difference between the two?



What is pre-qualification?

Mortgage pre-qualification is an informal assessment by a mortgage professional of a buyer's ability to obtain financing for a home. The prospective buyer usually provides the mortgage broker with basic, self-reported financial information. The broker may then issue a pre-qualification letter which can be shown to the seller or agent.

Buyers may choose pre-qualification over pre-approval when they're just starting their search for a home, to get a sense of what kind of mortgage they could potentially secure. It's a good way to estimate how much house you can comfortably afford.

What is pre-approval?

Pre-approval is when a mortgage broker formally determines if a buyer can qualify for a mortgage of a specified value. The process is more formal than pre-qualification and involves more paperwork, such as pay stubs, tax returns, bank statements, and a credit report. All financial information will be verified. At the conclusion of the process, the buyer will receive an official pre-approval letter to provide to the seller or seller's agent.

When we do submit it to underwriting, we get a quick approval. Because we've done a fair amount of the heavy lifting already.

– Kevin Leibowitz,
Grayton Mortgage

It is important not to waste time if you are seriously looking to buy. Going through the actual pre-approval process shows you are a serious home buyer.

– Robert Niyazov,
R&J Capital Group

The mortgage broker may additionally ask for details on the specific property the buyer is looking to purchase, or similar properties. Providing a price range is also acceptable.



Brokers use the same programs that Fannie Mae and Freddie Mac do to make their determination, called Automated Underwriting Systems.

What's the purpose of pre-approval?

What's the point of getting pre-approval, besides sellers and agents liking it? Well, banks won't officially approve you for a mortgage before you have a purchase agreement in your hands. By getting pre-approved, in addition to showing you *can* get a mortgage, you're making it much easier to get that mortgage once the deal goes through. It's a win-win!

How long do they take?

It depends on the brokerage, but both processes are quick. You should hear back about a pre-approval within a few days. Pre-qualifications are usually instantaneous, since there isn't any paperwork to fill out. Pre-approvals expire every three months, though, so make sure yours is current.

Key differences

In general, pre-approval is more formal than pre-qualification. Pre-qualification doesn't use automated software to determine eligibility. It relies on self-reported financial information that is not necessarily verified. Also, not all mortgage lenders provide pre-qualifications.