# Mortgage Pre-Approvals

When, how, and why you should always get one

**Lynda Thai-Baird**
Mortgage Professional

Dominion Lending Centres
*Mortgage Excellence*

## Table of Contents

## I. The Importance of a Pre-Approval

When searching for a home it is invaluable to get yourself pre-approved before you start looking at properties with a realtor.  An accurate pre-approval is vital to ensure your home shopping experience is a positive one, and will ultimately minimize the stress of the process. The pre-approval might not be the most enjoyable or exciting part of the home buying experience, but it will definitely save you time, money, and sanity.  This e-book will walk you through the process to help you understand how you can be proactive and ensure you have a pre-approval you can be confident shopping for your future home with.

The pre-approval triggers every single action you do during the home buying process. Every decision you make will hinge upon the outcome of your pre-approval, so getting started sooner rather than later, will pay off in the end.

### Benefits of an Early Pre-Approval

A comprehensive pre-approval will determine several things when it comes to the home you end up buying.  A top quality realtor can help direct you in your house shopping however, many of the decisions that are needed come down to one thing: the amount of money you can qualify for.  In fact, without a pre-approval, you could be wasting your time looking at homes you simply cannot afford.

An incredible amount of effort goes into purchasing a home - physically, mentally and emotionally. You pick the neighborhood you want to live in, and the layout of the house you prefer. Hours are spent on the internet dreaming and searching for the place you want to call home. What starts to occur, as you are looking around, is you get emotionally invested into all the decisions that you are making. The last thing you want to do is find out that all of your effort, time, and your expectations are totally compromised because you can't purchase the house you set your heart on. To go through all that work without knowing what you're pre-approved for seems counter-intuitive. Sadly enough, the statistics are astonishing on how many times individuals and couples prematurely shop for a home.

### Exposing Hurdles

A qualified pre-approval can help expose potential speed bumps you could encounter throughout the home buying process.  Sometimes, some details that are identified in the pre-approval process can make huge differences in the way lenders see you as a client.  Because of this, it is essential that you understand that a pre-approval is integral to your home buying success.

### Self-Approval Can Lead to False Hope

Today's technology allows you to visit any real estate website to use an online calculator to estimate your price range.  However, it is important to realize that what you are comfortable paying might not necessarily translate into how much you can purchase. Many people will look at a monthly payment, consider their budget, and determine whether they think they can handle it. This is good if the payment that you are contemplating is something that you are approved by a lender for, but if it happens to be higher it can lead to false hope. For example, if someone currently pays $1500 for rent a lender should approve him/her for a $1500 mortgage payment as they can currently pay it. However, this is not always the case. Most lenders prefer that you only be spending 35% of your income on a mortgage payment, property taxes, and a heating bill. They only want you to be spending 42% of your total gross (before tax) income on all debts, including your mortgage payment. So if that $1500 payment doesn't comply with their guidelines, it doesn't matter whether you feel you can handle it or not, they aren't going to allow you to borrow that much money. Seems harsh but that is how it works. So the job of the pre-approval is to show you how you fit within the guidelines. Let's give you a helpful calculation so that you can get a close estimate on how much of a monthly payment a lender estimates you can handle.

Take the number of your total monthly contractual debts. These include your credit cards, loans, and line of credit payments. Then divide that by your gross monthly income (your before tax income). You should get a number less than 1. Next, you subtract that number from 0.37. Once you have that number, multiply it by your gross monthly income and you will get a close estimate of the payment that a lender thinks you can handle.

Below is an example:

**$800 / $6000 = 0.13 next 0.37-0.13 = 0.24 next $6000 x 0.24 = $1440**

*In this example, if this person had $800 a month in contractual debts and $6000 per month in gross income he/she can afford a $1440 per month payment. Now, when you are on the online calculators you'll have a rough idea where you fit as far as how much you can purchase. Remember this is only an estimate as your mortgage professional will have the absolute exact number you can qualify for.*

Aside from income the outcome of a pre-approval is centered on everything that a lender will need to know about you in order to feel secure in lending you money to purchase the home of your dreams. Lenders will consider factors such as: down payment, source of down payment, your job type, length of employment, credit rating, and more. A simple online calculator cannot produce accurate results when all of these things need to be considered. In essence, paperwork plays a huge role in how things pan out. Getting it out of the way before you begin looking for a home is the best plan if you want to save yourself time, money, and headaches. Your mortgage professional is much more accurate when he/she is able to see your paperwork. So if you ever get a pre-approval in which no one had asked to verify your information, it would be wise for you get a second opinion. Verbal pre-approvals in which no verification has been done is a recipe for disaster. You should have had a detailed conversation about: who you are, where you work, how long you have worked there, if you have down payment, and where the down payment is coming from. You also should have been asked for permission to access your credit report because no one can confidently pre-approve you without seeing that information. Then there will be a list of items you should collect after speaking with a professional. You will need a job letter, paystub, Notice of Assessments or T4s, and proof of your down payment. These are the big ones. When getting pre-approved there are 3 important areas that any professional should be paying attention to. That is your credit score, your employment details, and your down payment source. Those are what we call deal killers. If one of those topics doesn't line up or you are missing one of them, everything can become a lot more difficult.

The bottom line is that you should never go shopping for anything unless you knew how much money you had. Buying a house is no different. Trust me the last thing you want to do is show yourself and your spouse a beautiful house that you LOVE only to figure out later that you have to buy something much smaller or older. That feeling is never warm and fuzzy.

### “Eating the Frog”

Asking a financial institution for enough money to buy a house can be intimidating. Sometimes you will be requesting $300,000 or more without knowing what the outcome will be. Don’t put off this vital process to enjoy the fun parts first. Take care of the business end first so that you can enjoy shopping without disappointment. Go on and “Eat the Frog”, so-to-speak. Eating the Frog is a term in which that will be the worst thing you have to do in the whole process so if you get it out of the way the rest of the process will seem easy.

If you are ready to get serious about buying a home, knowing where you stand is the first step towards getting the keys to your dream house. Do not be afraid of the outcome of a pre-approval. In the end, clients are often surprised by what they can afford. Timing is everything and it is never too soon to get pre-approved. Getting a pre-approval well in advance of shopping can help you discover small problems before they become big ones. If you have to pay off a debt before you purchase, you will have time. If you have to fix something you didn’t know was on your credit report, you will have time. If you need to save up some more money, you will have time. Don’t be afraid to be proactive with a pre-approval. It is far better to get a pre-approval early then to realize you were too late.

## II. Know Yourself Better Than the Banks

The next step in the pre-approval process is focused on you, the buyer. You want to make sure that you are securely set up for a wonderful future in your new home. This is the time to create your game plan to ensure that you know yourself and your financial situation well once it comes time for you to apply for a mortgage. When it comes to a pre-approval the professional’s job is to let you know what your parameters are, then it’s your job to discuss how you want to fit within those parameters.

### The Right Frame of Mind

Do not get too excited just yet or allow yourself to get too carried away in the process. The point of no return is not too far ahead, as things will get quite serious after the pre-approval. It is important that you do not get emotionally invested too quickly. There are a couple of important factors that you need to become aware of prior to filling out a mortgage loan application.

*Ask yourself these vital questions*:

- *Why am I so excited about this?*
- *What is the purpose for this purchase?*
- *Can I afford it with my current salary?*
- *What are the cost comparisons between renting and owning a home?*

It is important that you understand all the differences between renting a home or apartment and owning a home. What you pay for rent will not be the same as what you pay for a mortgage payment. And even if you can find a house with a similar payment as your current rent, you have to consider all the other costs associated with home ownership. For example: utilities, home insurance, taxes, maintenance, and repairs. Working through a budget can help you determine your comfort level before you even start. If something breaks down in a home that you own the only person you can call to deal with it is you. It is important to go into home ownership with eyes wide open as to the little expenses that can come up.

## The First Time Can Be Scary

First time home buyers need to be aware and think about all important factors when applying for a mortgage loan. It is essential that you understand your goals before you approach a lender so that you can get exactly what you want. Work your budget based off of the data you gather by considering the details of your situation, and then go from there.

*Think about important factors like:*

- *Will the home be a rental property?*
- *Will the home be for a growing family?*
- *Will the home need renovations?*
- *Will your current income cover the cost/expenses?*

Knowing exactly what you are looking for is going to save you time and frustration. Are you looking for a fixer upper home that is a bit of a project? Are you looking for a home that you can stay in for at least 5 years? Are you likely to need to move in 2 years? Here are two perspectives that are going to help you make decisions: 1) Longevity, 2) Resale. The reason those are important is because they are going to help you with several decisions. If you are not staying long-term then you want to consider resale. Neighborhoods, style, upgrades within the home, if the upgrades are current. Because if you have to sell within a few years your home is more likely to move quickly if you have considered selling it upon purchasing it. Considering these topics in advance help both the realtor and mortgage professional get you what you want for the best possible price.

Often house buyers rely on their peer's advice because it's safe and comfortable. However, it's important to make your decisions based on current, accurate, and professional information. It is great to get others opinions but remember mortgage professionals and realtors do this for a living. They are talking about prices, processes, rates, and homes all day. If someone you know has only bought one house, you don't necessarily want to follow their advice because when purchasing a home there are many variables that can make each buyer's experience unique. Your mortgage professional and realtor have seen many different situations and will know how best advise you.

## This Time it's Personal

Buying a house is personal. It can show that you are making progress in your life. Some people compare the kind of house they buy to themselves personally. Everybody has their own reasons for buying a house, and furthermore, each buyer has his or her own type of house they are looking for. A home purchase comes with a lifestyle and you get to choose what that lifestyle will be.

Being "house poor" is no fun for anyone. Pick a place that allows you to live an enjoyable life. Knowing the difference between your personal wants and needs will ensure that you do not get carried away in the process. Now is not the time to try to keep up with the Jones'. Buy something that you love but you don't have to love so much that you cannot afford to leave it!

## III. Is It Time For a Pre-Approval?

If you are wondering when the best time for a pre-approval is, the answer is NOW. It is ideal to get pre-approved as soon as you're thinking about home ownership as a goal.

However, there are still some skeptics who do not understand why going through this process with a professional is so important.

Knowing the most recent market rule changes, your credit score, and other issues beforehand will help expedite the process and make it less of a headache for you. It also gives you time to address any potential concerns before you buy your home.

### The Importance of Knowing Your Credit Score

Knowing your credit score is an important factor when it comes to the pre-approval. However, it can sometimes be a pain to find complete versions of this information without the help of a professional. Even a bank loan officer can produce incomplete data here, all the while giving you either a false sense of hope or a false sense of frustration. Many get declined when they should be approved and pre-approved when they should be declined. The credit score is the first key to all of this. Look at it this way, if your credit score is not good, the lenders do not care how much money you make because your score is telling them you are not responsible with credit. The outcome of a mortgage credit check relies on your score. If you are a 620 to a 679 you can be approved, but the box that the lender wants you to fit in is pretty firm. If you are a 680 or higher sometimes they will let you stretch the numbers a little because your score is exceptional. This is why it is crucial that your mortgage professional knows and understands your score. Also make sure that whoever is looking into your credit sees the whole bureau. Some lenders don’t get all the details, so if they tell you that you have a derogatory on your credit, and they cannot explain what it is, then it is especially important get a second opinion. Professionals who pull your credit should be able to identify where any concerns are. Working with a professional to find out this information during the pre-approval process will provide accurate results for you, giving you the right information the first time. Accuracy is key to a pre-approval. You want an accurate answer so you can proceed intelligently.

It is not uncommon for a person to have something reported to collections without even knowing it. Perhaps an old utility or cell phone bill is still lingering on your credit report. Collections companies won’t typically call over a $100 charge. Meanwhile, you could be assuming that you have spotless credit knowing that you pay all your other bills on time. This all might result in you getting declined for the mortgage loan you need. Which is unfortunate as the fix for this can be quick and could have easily been taken care of.

Your credit report can be obtained through working with a mortgage professional or contacting and requesting directly from the credit agency.

### The Good, the Bad, and the Hopeful

Reputable pre-approval experts specialize in obtaining this data in a timely manner while offering tips and tricks on how to improve your situation in as little time as possible. In fact, if you ever go through a pre-approval process and you are not given a line-by-line credit report, then you are not working with the best. When getting things in order for a home purchase you want to be aware of all the options placed before you. This is why having an accurate starting point and a qualified team of professionals to help you succeed is so important.

### Smooth Sailing

When considering entering into home ownership, being prepared can improve your odds of approval as well as the speed in which you get your answers.

There are a few key areas that need to be addressed prior to shopping for a home. Knowing the details which surround these considerations will increase the probability of getting the home that you always wanted.

- **Down Payment –** For many hopeful homeowners, the down payment can be an issue. With the 0% down payment mortgage options being taken off the table, some home shoppers are finding it difficult to get into the home of their dreams. Recent rule changes have also changed the financing options available. A mortgage professional worthy of your business will no doubt be on top of this for you. The pros understand the nuances of the system, and they can help you get your down payment plan figured out before it is too late. The minimum down payment for a home that you are going purchase is 5%. That down payment can come in different forms depending on your situation: a gift from family, inheritance, proceeds of selling of vehicle, savings, RRSPs, etc. Just remember this about down payments, you have to prove that it came from a legitimate source. By law, lenders have to confirm the money is yours and they cannot do this with just cash. Unfortunately, some people don't realize this important fact until it is too late, causing avoidable delays in the process. If you have a large cash deposit the rule the lenders have is that is has to be in your account for at least 90 days before they consider them legitimate funds. So if you get pre-approved, your professional will guide you to make sure you did that first so once you start shopping everything is all taken care of. Having all of these things in order before you approach a lender will allow you to enjoy smooth sailing towards securing home ownership.

- **Co-signers** – Perhaps you need a cosigner. There are a few things to understand when it comes to obtaining a co-signer. It is fairly common for a first time buyer to need a co-signer. Here are several reasons as to why you might need a co-signer:

    - **Your credit might not be strong enough on your own**. This can occur due to a lack of credit history, which can identify that you just started borrowing, or you may have made some mistakes in paying back your bills in the past that requires you need to borrow a financially strong family member's credibility.
    - **You just switched careers and the lender won't accept your new income**. Sometimes if you switch careers and start working in a different industry the lender needs to feel secure that you will continue to earn this income. Therefore, they might want a co-signer to stay on the file until you are employed in this type of work for more than a year.
    - **You are carrying too much debt**. If you have too much debt on your own and you cannot get approved for the house that you want you have the option to obtain a co-signer that can provide additional income to help you qualify. Understand you should be very cautious that you are not purchasing something that you cannot afford. If you cannot qualify on your own the rules are set up to recommend that you purchase something more appropriate for your situation.
    - **You are self-employed and not claiming as much income as you actually make**. When you are in commission sales, piece-work, or are self-employed, most times your cash flow is sufficient. However, once you write-off your expenses and take advantage of accounting advantages, it results to you not being able to claim as much income as you actually earn. So in the lender's eyes, you don't qualify even though you are personally comfortable with the payment. This would be another example when you can get a co-signer to help you qualify.

Many lenders will let you take a co-signer off the mortgage in a little as one year. Now they will never guarantee this, of course, but if after 12 months, your situation puts you in a position where they would qualify you on your own, some lenders will take the co-signer off of the mortgage and title of the property. This comes at a cost of the title change which can range between $200-$400. If you need a co-signer check with your mortgage professional about the current options as rules do change. Most lenders want to see that the co-signer is an immediate family member (grandparent, parent, sibling, or child), but on occasion some will make exceptions as to who the co-signer can be.

- **Rate Holds** – A rate hold is something that you want to make sure you request any time you get a pre-approval. This is where you can shop with security for up to 120 days while the rate is protected from going up. It will hold your rate where it was when you got pre-approved, and the great thing about a pre-approved rate hold is if the rate goes down they will match the rate, and if it goes up they will leave it where it is.

In order to enjoy smooth sailing during the home buying process it's best to get pre-approved. However, making sure that this pre-approval process is accurate, legitimate, and all-encompassing is crucial.

## IV. Professional Importance

Just as it is important for professionals to know their respective role, it is important for you to understand these boundaries as well. The average home purchase involves 5 main parties*:* the buyer, the lender, the mortgage professional, the realtor, and the lawyer. Understanding the role of each party will help you to purchase your home without getting your wires crossed.

### Mortgage Professional

These professionals know the pre-approval process like the back of their hands. With a vast understanding of lenders and their specific guidelines, these pros can explain everything you in a way that you can easily comprehend. You can go to these experts for questions about the documents you need, how to get things done, and for valuable opinions on what you should and shouldn't do as far as your home purchase. What you need to understand is that an independent mortgage professional truly works for you. They will go through all of your information and determine what is best to increase your odds of approval or increase the speed at which everything will be done. They get paid when you are happy and get approved for a mortgage. Therefore, you always have someone on your side. If they see something that the lender shouldn't do, or ask for, they fight it on your behalf. If they see a better rate they'll go get it. This is by far the most effective way to obtain a mortgage, all at no cost to you! The lender that you end up getting a mortgage from pays them for their work. A win-win situation for everyone.

### Realtors

Realtors are experts as well. They will take you through the process of shopping and negotiating for your home purchase. A good realtor knows where the well-priced properties are, stays on top of the market trends, and ensures you don't overpay for a house. *A reputable realtor will take care of things like:*

- *Neighborhood reviews*
- *Property Negotiations*
- *Contracts*
- *Conditions*

- *Inspections*
- *Buyer/Seller requests*

### Lawyers

Your lawyer is there to make sure at the end of the day you legally own your house. They are going to deal with money switching hands, collecting your down payment, witnessing your signatures for the lender, putting your name on title, and anything else that is required by the lender. This can vary from province to province as some provinces will allow you to use a notary. Check with your mortgage professional as to what your provincial requirements are.

### Keeping the Lines Sharp

When working with a team it is important to avoid getting the wires crossed. When it comes to your mortgage always check and confirm everything with your mortgage professional. Do not let your realtor and lawyer provide you inaccurate information as they are not the ones dealing with rule changes and communication back and forth to your lender. Unnecessary stress is created when one professional gets information wrong when talking about a topic that is not within their specialty. This rule applies to all parties. When talking about the law listen to the lawyer, when talking about real estate listen to the realtor. Following this rule can save you confusion and stress.

In addition, you may be hearing a lot of information and opinions coming from your family, friends, and loved ones. It may be difficult to ignore their unsolicited advice, but keep this in mind: unless that loved one is an expert in the field, do not let them meddle in your decision making. Your best bet is to find a team of knowledgeable professionals that you can trust. Gather all the expert's advice, then make your own informed decision.

## V. Application Walk-Through

So you think you're ready to start the pre-approval process. You have identified your goals, considered your current financial position, sharpened the lines within your professional team, and started looking at properties on the market. Now is the time for you to begin completing the application for your pre-approval.

### Get Ready With the Basics

There are still a couple things you still need to provide. Having the basic documentation ready is important here, so take out your social security card, driver's license, birth certificate, and any other mandatory personal information that might apply. The professionals on your team will need this information as it will be required in the application.

Most mortgage professionals need to know this information in order to effectively engage a variety of banks and lenders, each with their own guidelines for required documentation. The basic information requested typically applies to all lending institutions, but having as much personal data gathered as possible will help to make the pre-approval and application process much more efficient.

**Important Considerations**

When a mortgage professional asks you to be honest about your income, down payment options, and income history, it does not mean that they think you are withholding information. Experts simply reinforce this to establish a sense of trust with you. They do not judge you, so there is no reason not to be forthcoming about your personal financial information.

You should start by tracking your income and taking note of any unique characteristics of your current employment situation. You want to avoid dealing with surprises during the process. So the more you know and the more upfront you are, the smoother the process in the end.

## VI. Timelines: Before, During, & After

Now that you have an idea of the application process, it is time to understand the stages of a typical mortgage timeline: before, during, and after. As you would agree, it is important to have clear expectations with anything, especially your mortgage. Here is what you can expect for a typical mortgage timeline:

**Before (before having a mortgage):**

The application itself does not take much time at all. Basic information is taken down and equates to a few minutes online, about 10 minutes over the phone, and approximately 30-60 minutes for a face to face meeting. During the "before" stage you can expect to gather paperwork which can take a day or a week depending on whether you have good document management or not. If you do, you will find the basic documents we need in a matter of minutes.

Average time: 3-5 business days

**During (during the approval stage of getting a mortgage):**

Once you have made an offer on a house with your pre-approval in mind you will now be looking to get your full-approval from the lenders we work with. If all the paperwork has been delivered up front, this portion of the timeline will take approximately 3-4 days. We have accomplished approvals in less than 24 hours many times, which is always our goal. Meeting this goal is dependent on having the correct paperwork as requested. Secondly, it will depend on the speed of the lenders we have applied to with your mortgage, and whether there is an appraisal required to verify the home value. Our goal is always: As-soon-as-possible!

Average time: 4-5 business days

**After (after you have been approved):**

Congrats - you have secured your mortgage! This stage is fairly stress-free as the hard part is over. You simply are waiting for the lawyer, realtor, lender, and land titles to organize your file for completion. Lawyers will be gathering your information for registration of your name on title as well as the mortgage lender/bank.

Average time: 5 days

Adding these up, you can see that the average transaction can take up to 3 weeks to close from start to finish. This allows time for all the professionals along the way to work their magic and perform their duties. It can be faster, and sometimes slower, but now you at least have the expectation set that the average deal will close in 3 weeks' time if everything lines up perfectly. Keep in mind that after the pre-approval "before" stage takes place, it may take weeks or months before you find a home you want to make an offer on. Those variables are hard to control but still need to be mentioned here to manage your expectations of a typical "mortgage timeline".

## VII. Paperwork 101

The documents that you are asked to gather play a huge role in the outcome of your pre-approval and subsequent mortgage. Regardless of the amount, it is important that you get it compiled as quickly and accurately as possible. These documents are needed to make the process easier for everyone involved.

### Now VS Then

In 2008, the housing market crashed. In summary, this was caused by a large number of mortgage loans defaulting because people purchased homes that they simply could not afford. Thus, the market took a huge hit as the lenders ended up holding mortgages which they we unable to collect payments on.

As a result, lenders have now become cautious when offering mortgages to hopeful homeowners. You now have to provide what seems like an excessive amount of paperwork. Providing this documentation as soon as possible gets the headache out of the way nice and early and provides you with multiple more options for approval. In this case, "less is not more". More paperwork means more options and lenders to choose from, which increases your odds of approval. On a corporate level, documentation also creates security and stability in the industry and a level of professionalism that was previously not there before.

The "Big Three" in documentation:

1) Income verification
2) Down payment confirmation
3) Credit (score and history)

If you can cover those three major aspects to a mortgage application with satisfactory paperwork, you will be good to go. Here are some examples of each:

1) Income – employment letter, pay stub, and 2 most recent years of income taxes.
2) Down payment – Most recent 3 months of bank statements showing the accumulation of savings in the bank account.
3) Credit – We look to ensure payments are made on time, there is no over-borrowing on credit, and the credit history is satisfactory.

When gathering paperwork, make sure you contact us with any questions about what is needed. If you are unsure, we always recommend sending the document in to us anyways. It never hurts to have too much paperwork as it is easier to shred an extra document, than it is to ask you for more. You can also lean on your lawyer, accountant, or the Canada Revenue Agency. Those 3 sources will have most of your paperwork needed to make your approval happen with ease. If you cannot find the documentation requested, ask those professionals to provide you with another copy.

The last reason we want to provide you will encourage you to dig deep into your files. Options equals better deals. Every lender is different and requires a different set of paperwork to approve your application. If you can provide more information initially, it allows us to evaluate the mortgage market better and move your application around to different lenders if rate specials or mortgage promotions pop up. We can then move your mortgage to a lender with a better rate without having to ask for more paperwork, because we have already done the hard work earlier. We will be working in the background, and you will only notice a competitive rate and an excellent mortgage product in the end.

## VIII. Affordability VS Qualification

When it comes time to choose the house that you want to purchase, you will want to be 100% sure that you have made the best decision. Factoring in things like your income, job stability, goals, and your family's needs is important here. However, it is imperative that you understand the difference between the amount for which you qualified and the amount you can actually afford.

### See the Difference

As with any expert pre-approval, you will be given 2 different figures to consider when the smoke clears. These numbers represent **a)** the max mortgage amount that you can get with current income level and financial situation, and **b)** the amount with which you are most comfortable based on your budget and lifestyle. Finding that happy medium will help you to live a life as a homeowner without becoming "house poor" and stressed out. Remember these differences in definition:

- **Qualification:** *the lenders dictate*
- **Affordability:** *the purchaser dictates*

If you want to stay satisfied with your home purchase, you want to make sure that you do not overshoot the goal too much when it comes time to make an offer. Stay excited about your home while being responsible with your funds and insightful about your financial situation. It certainly helps to remain grounded now. What you do not want to do is let your emotions and excitement get the best of you. Studying the market and your personal financial situation as well as preparing for the outcome will help to ensure that you remain happy with your decisions long after the paperwork is signed.

### On The Other Hand

You could always max out your home purchase, adding thousands of dollars to your overall credit liabilities. However, you'll probably find that you become frustrated 6 months in, once you realize that your over-stretched budget doesn't allow for you and your family to really enjoy life. If you opt for a house that you're qualified for but is on the upper limit of your affordability, then you better make sure that you love the place a lot. After all, you're going to be spending most of your time there because your budget will be too tight to do anything else.

## IX. What NOT To Do

If you've made it this far on your pre-approval, congratulations! This is the time to be patient and cautious as material changes to your personal finances or employment could make a huge impact to your pre-approval. In general there are 7 major things that should be avoided:

***Think of these as the 7 Commandments to protect your Pre-approval:***

1) **Don't change your debt situation in any way.** Remember that your pre-approval is based on a percentage of your gross income going towards debt. Any increase in borrowings means there is less of your income available to be put towards the mortgage. These changes include increase in a credit card, line of credit, or home equity line of credit, purchase of a new vehicle, or a new term loan. Even if the payment doesn't change the debt structure, it can complicate your approval. If there is a situation where you need to borrow, just talk to your mortgage professional first and let them help you through the best way to structure it.
2) **Stay the course.** Stay steady with your vision as a homeowner and don't let anything deter you. Life is full of ups and downs, but your mortgage professional works hard to give you as many advantages as he/she can. Sometimes the pre-approval process takes some time, and since life is ever-changing, it is inevitable that your financial situation will change somewhat over the course of the deal. This is another good reason for having an open line of communication with your mortgage professional. If a lot of time has gone by and your employment or borrowing has changed in any way, make sure you update your mortgage professional to keep your pre-approval application accurate.
3) **Avoid additional credit bureau inquiries.** One of the advantages of a mortgage broker is that they are able to apply on your behalf to many lenders while only accessing your credit report once. Every time a utility company, cell phone company, or other credit provider pulls your credit it is counted as a small negative on your credit report. This can be especially problematic for individuals that are self-employed as business suppliers will need to pull a credit report to set up business accounts. These can quickly add up and negatively impact your credit score as a result.
4) **Don't miss payments.** Each time that you miss a payment on a credit card, utility bill, cell phone bill, or just about anything else it is promptly reported to the credit reporting agencies. If a credit score is above a 680 there are a number of options that open up to you. The scores are calculated in a way that it each missed payment can have a large impact on the options and programs available to you.
5) **Don't go bankrupt.** This should be fairly obvious, but there have been people who have decided to file for bankruptcy during the pre-approval process. Please be aware that a recent bankruptcy will null and void any work that you or your mortgage professional have completed to date.
6) **Don't get divorced.** Divorce is a terrible thing no matter when it happens, but it is especially damaging during the mortgage pre-approval process. There are available programs specifically aimed at clients that have completed a divorce, however if you are in the middle of a divorce it is difficult to get a mortgage as spousal support and

other payments are often up in the air and lenders cannot accurately determine your financial position.

7) **Don't change your employment.** Switching up the employment and income information on your pre-approval application at the last minute can affect your application. This doesn't mean that you should pass up that great promotion or job opportunity if it is offered to you while you're purchasing a home. Just make sure that you make your mortgage professional aware of it so he or she can evaluate the impact that it could make to your application.

Now that you know what NOT to do, you should be better equipped to make wiser decisions regarding your financial standing. If you have any questions, it is important that you ask the right people so you don't make any mistakes.

### No Such Thing as a Decline

The typical mortgage pre-approval process is full of surprises – various ups and downs that can be very disappointing. You should not become discouraged if something goes wrong. There are several common problems that home buyers face, just remember they are not insurmountable and the effort you put in now is all worth it in the end.

Some of the more common hurdles that homebuyers face during the pre-approval process are:

- *Credit issues*
- *Income verification difficulties*
- *Lack of Income strength*
- *Down payment concerns*
- *Affordability concerns*

If you encounter one or more of these on your application please know that it is not uncommon, and it is something you can work through. We get pre-approved to find out where we currently stand. It is a starting point that allows us to get all our "ducks-in-a-row" for when we submit your application to potential lenders.

### Setting Up a Game Plan

If your mortgage professional identifies a few concerns to work through you should ask him/her to help you develop a game plan to get yourself to a position where you can buy a home. Be prepared however, it can be a lot of work, require a significant amount of focus and time, but with a plan you can work through it and get into a home. Most of the concerns we identified above can be worked through within a year or less with the right attention from you.

Buying a home is a huge goal and an emotional process. Please ask your professional for tips and help to get on the right path to get there.

## XI. Owning a Home Costs How Much?!

It can be really surprising to home buyers when it comes time to talk about how much owning a home really costs. You have probably heard of the term "house poor". This is the result of not factoring in all the costs of home ownership.  Let's look at some of the costs you should consider when budgeting for your new home.

### Common Factors That Affect Cost

There are some common costs that would be wise to research and identify for your new home.  You will become responsible for timely payments of the following:

- *Your mortgage*
- *Property taxes*
- *Utilities*
- *Homeowner's insurance*
- *Maintenance and Upkeep*
- *Life insurance (in some cases)*

Factoring the amount of each of these things will help you to better understand the actual cost of home ownership. We're not trying to talk you out of owning a home, it is a great investment and source of personal satisfaction.  A mortgage professional should help you make the best financial decisions for your situation.

## XII. Remember That You Are Saving Time and Money

Doing a little hard work now will save you from having to do so much of it later. Remember that the pre-approval process is designed to save you time and money. By providing all the information up front you are saving yourself massive amounts of work after you have made an offer, which is when things can become rushed and feel stressful.

### Pre-Approvals Speak a Professional Language

A strong pre-approval will allow your mortgage professional to make recommendations with confidence and provide you with the best service possible.  With a guaranteed pre-approval in your hand, the seller and the seller's realtor are going to be more willing to negotiate with you.  After all, you will be coming from a place of financial and organizational power.  A solid pre-approval speaks a language that the professionals can understand, and because of this, it will save you time and money.

### No More Run-Around

A pre-approval will allow you and your realtors to zero in on the houses that are right for you and your needs.  With potentially hundreds of homes on the market, knowing the purchase price you are looking for eliminates hours of shopping.

### Planning For the Long Haul

Planning your future by completing a pre-approval automatically forces you to think more critically about your decisions.  It creates a virtual bird's-eye view of your finances, and it makes it easier for you to choose the house that is right for you, while taking away as many costly surprises as possible.

There should be no surprises about lawyer fees, closing costs, taxes or any other expenses. In essence, going through the work associated with an accurate pre-approval will help prepare you to become a homeowner.

## XIII. Length of the Average Pre-Approval

How long will your pre-approved be valid for? Great question, difficult answer. The information gathered in a pre-approval is reviewed by the lenders and considered at the time of the pre-approval. A rate hold is then put in place for a set period of time. If an offer is made on a home and your mortgage is submitted as a full approval during the rate hold period, it is submitted at the rate you were pre-approved for (if it's lower than current rates). The good news is that your pre-approval can be used as long as your financial position doesn't change and the lender or government regulations have not changed.

### Rate Hold Duration

A rate hold is used to lock in your rate or payment on the mortgage loan. Usually, a rate hold will last anywhere from 90 to 120 days. Each rate hold differs slightly based on the lenders involved, but your mortgage professional will have all the information you need. The good news is you are not tied to the lenders that have provided the rate hold and your mortgage broker will continue to look for the best rate for you to ensure you get the best options available for you.

### Pre-Approval Duration

Essentially, a pre-approval never goes bad. Once you have been pre-approved for a mortgage, you are free to progress in the process as you see fit. However, it's vital that you understand how time plays a huge role in the accuracy of your initial pre-approval.

You will need to be proactive when it comes to updating your information. This will ensure your broker keeps all information current. Because of this, most pre-approval experts suggest that you brush up on your application information every 90-120 days – at about the same time as the standard rate hold lasts. This will ensure that you are always getting the best deal and the most up-to-date opportunities.

### Staying on Top of Your Game

Even if you are not ready to buy a home at this particular moment, a pre-approval sets the stage for your future purchase. By going through the process now you can prevent that there are no major issues when you are ready to proceed.

Although your pre-approval never expires, your rate hold will. These changes could mean differences in what you end up being able to purchase. If rates increase after you have been pre-approved, your rate hold will lock in those payments you've calculated. If your rate hold is outdated, then you might become subject to current rates and increased payments.

## XIV. Take the Stress Out

Now that you know all the ins and outs of the technical side of the pre-approval, let's discuss a little about the emotional side of buying your home.

### Once in a Lifetime Opportunity

Buying a home is not a purchase that you make frequently. Purchasing a home has huge impact on your future, so it is not surprising that most home buyers have varying emotions throughout the duration of the process.

It is especially important to consider the counsel you receive from the advisors you have chosen. Your mortgage professional will have many suggestions to help you along the way. They know the intricacies of getting your mortgage and can help you understand the best ways to get your mortgage in place.

### No Such Thing as a Stupid Question

You should always feel comfortable to ask your mortgage professional questions. You are not expected to know the process and specific details about how to get a mortgage. A great mortgage professional takes pride answering questions. It is really satisfying to help a client understand the process!

You're not supposed to know everything that the pros know. A good mortgage professional won't make you feel foolish for asking (and re-asking) any question. Asking for an itemized breakdown is the best way to take the stress out of the process. Getting educated will help you stay informed and comfortable throughout the whole process.

Keep in mind the massive amount of questions the lender is asking you for. It's Ok for you to ask some as well. This is the most important purchase you will make in your life and it generally comes with a big bill at the end. Because of the magnitude of this purchase and what it is going to mean to you in years to come. Do not apologize or refrain from asking for clarification. That is what the professionals that surround you are there for.

### You Have the Final Say

We love working with our clients. We love to help them and will do all we can to get them into a home they will love. One thing we want all our clients to remember is that when working with a mortgage professional the client always has the final say. You should be presented with options and suggestions however, you should be the one making the ultimate decisions. There are literally hundreds of mortgage products and lenders out there. It is worth your time and your money to work with advisors that will educate you on more than one and help you make a decision you feel great about.