

Pre-Approval vs. Pre-Qualification: What's the Difference?

As you prepare to finance a new home, chances are you've come across mortgage pre-approval, mortgage pre-qualification, or possibly even both. So what does it mean to get pre-approved vs. get pre-qualified for a mortgage, and what's the difference between the two? Let's take a look.

The Similarities of Pre-Approval and Pre-Qualification

Mortgage pre-approval and mortgage pre-qualification have the same great benefits for anyone considering purchasing a home with a mortgage:

- Both can help estimate the loan amount that you will likely qualify for. This can help you save time by starting your home search by looking only at homes that you know will fit in your budget. And it will also prevent the frustration of finding out that the house you wanted to buy is actually out of your budget.
- Regardless of whether you have a pre-approval letter or a pre-qualification letter, both can help show sellers that you're a serious contender when submitting your offer. For a seller to confidently accept your offer, they'll want to know that you'll be approved for a mortgage and the home sale will close. A pre-approval letter or a pre-qualification letter can help demonstrate that you have a good chance of being approved for a mortgage for the amount that you've offered on the home.
- Many sellers will require a pre-approval or pre-qualification letter if you're planning to get a mortgage. If it's not required, a pre-approval letter or pre-qualification letter may help your offer stand out. This can be especially helpful in competitive real estate markets.

In addition to the benefits mentioned above, it's important to remember that neither pre-approval nor pre-qualification is a guarantee that you'll receive a loan from the lender. You are also not obligated to get a mortgage from the lender who pre-approved or pre-qualified you. While many home shoppers opt to apply for a mortgage with the lender who pre-qualified or pre-approved them, you should always shop around before applying for a mortgage.

The Differences between Pre-Approval and Pre-Qualification

According to the Consumer Finance Protection Bureau, there is often not a lot of difference between pre-approval and pre-qualification. Sometimes, lenders use the terms "pre-qualification" and "pre-approval" interchangeably. And different lenders might have different definitions for each. But generally, here's how the two may differ.

Pre-qualification is often seen as the first step in the mortgage process, and pre-approval is the next step. With pre-qualification, you'll supply an overview of your financial history to the lender, including income, assets, debts, and credit score. The lender will review this information to give you an estimate of what you would qualify for. Mortgage pre-qualification doesn't always require documentation of your financial history; it can often be self-reported. Mortgage pre-approval is very similar, but it usually requires documentation and verification of your income, assets, and debts. And it will often require a credit check, which will result in a hard inquiry on your credit report.

Which One Should You Get?

Since the terms "mortgage pre-approval" and "mortgage pre-qualification" are often used interchangeably, it can be hard to know which one you need. It really depends on how your lender defines the service, if you want a credit check or not, and what real estate market you are in. Be sure to ask your lender exactly how he or she defines "pre-approval" or "pre-qualification" (and if it requires a credit check). Then find out from your real estate agent which version has more credibility in your market. That way, when it comes time to make an offer, you'll have what you need to give sellers confidence that you'll be approved for a loan.