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Question & Answer "What is the difference between pre-qualified, pre-approved, and approved?"

QUESTION-

Recently I received an offer from a buyer who said they were pre-approved. I want to start moving. Can I be sure that my house will close with a "pre approved" buyer?

ANSWER:

There are terms in the industry of "pre-qualify", "pre-approved" and "approved". These are often misinterpreted to mean that you are "clear to close" and you should start moving. Before you start to move or even start to pack, lets be sure you know some of the lingo out there.

Pre-qualified means that a buyer told a lender their income and debts. The lender punched a few numbers in their computer and told the buyer, "based on the information that the information that the borrower gave the lender. The price range the buyer would probably be able to buy is (lets just say) \$100,000". The lender typically does not even pull up a credit report. The key here is the phrase in all caps. If the buyer forgot about a few loans or did not know that a creditor sent something to collections a few years ago, the \$100,000 "qualified" price may drop down to \$80,000 or even drop to "sorry we are unable to give you a loan"

The term "pre-approved" typically means that the lender has run a credit report, however the lender may not have verified income or debt of the borrower. Recently I received a letter from a lender that states, "A pre-approval is in the process subject to review of the complete file and standard conditions". So that does not give the approval for the loan! It says just what it says, "subject to review of the file".

So what is left, "APPROVED". Well, even the term "approved" does not necessarily mean, "clear to close". Approved typically means that the lender has run a credit report and has verified income and debt. They, however, will also give a list of conditions that need to be met before the lender forks over the

loan. It is important to know if these conditions are going to be met easily or not. The conditions could be as simple as the :borrower can not have an alteration in their income of debt prior to closing on the home. Or, the conditions could be as challenging as: "Borrower must get tax rebate back from the IRS of at least \$2,000; Borrower must have verification that ABC credit collection of \$836.11 has been paid; Borrower must have gift letter signed." You get the idea.

After the lender approves the buyer and has received satisfactory title work and an appraisal on the home, the lender will say the beautiful phrase I love to hear "We are clear to close". The lender is only waiting for the signed documents from the closing table. Now, you can pack confidently. I'll do my best to be sure the buyers come to closing. ☺