

The Value of a Pre-Approval: You'll be Halfway (to a) Home

Chicken or egg? Which comes first, shopping for a home or financing its purchase? Most homebuyers buy a home the traditional way –backwards. Here's the scenario, which is typically followed by 90 percent of homebuyers: First negotiate hard until both parties agree to sales terms. Then the buyer panics, suddenly realizing a home loan must be shopped for, arranged and finalized to complete the home purchase. Yikes! Savvy homebuyers, real estate agents, and financial consultants agree that the best way to buy and finance a home is to first arrange for a mortgage. Here are some of the benefits a pre-approval brings:

- Armed with the knowledge of how much the loan amount will be; Realtors and sellers will know you are a serious buyer.
- You may be able to negotiate a better price because sellers will know you're a qualified buyer, and more of a "sure thing."
- It takes the stress and panic out of the home buying process. You can concentrate on one thing at a time, giving your undivided best to the important decisions you have to make regarding home selection, home inspections, legal ramifications and more.

A pre-approval tells you exactly what you can afford. Maybe you're selling yourself short, and can afford more than you had thought. Conversely, maybe that home you've fallen in love with – and gotta have – will stretch your finances to a no margin-for-error level. With loan approval in hand, your financial parameters are now set and this makes you a better buyer.

You get clout. Say that your bid on a must-have home is similar to that of another homebuyer's. But you're pre-approved for a home loan up to a specific amount; the other buyer has only the hope that he or she can obtain financing. Which bid do you think the seller would consider first? How do you get pre-approved? In many ways, the process is similar to applying for a loan, except that you are arranging the financing before you shop for a home. And, once you've done it, you won't have to do it again. All the information on the pre-approval is transferred to your actual loan. It makes so much sense to reverse the traditional sequence of buying a home. Imagine the worry-free and speedy service real estate agents and builders will be able to deliver when a client has been pre-approved for a loan. And with your pre-approval, you'll show everyone – Realtors, builders and home sellers – that you're not just window shopping, you're ready to buy.

Chicken or egg? Why not have both, with the advantages of getting a loan pre-approval before you shop for home.