

Memorandum from the Broker

November 1, 2004

To: **All Associates**

Subject: **Pre-qualified versus Pre-approved**

This Memorandum is to be considered an integral part of Continental Crown's Policy and Procedures Manual.

A question has been raised regarding the difference between a Client's being **pre-qualified** and being **pre-approved** for financing on a home or other property.

Getting **pre-qualified** is simply getting an idea of the price range a Client can afford. It is based on the Client's stated income, assets, and liabilities. With a pre-qualification, the Client's information is not verified and the loan amount they're pre-qualified for is not guaranteed to be made as a loan from any financial institution.

It is during the **pre-approval process** that the information the Client provides to a lender is verified. There are several aspects of the pre-approval process. Initially, the Client gives their lender permission to obtain their credit report. Their credit report will confirm the information they provided to them about their debts, their employer, and how long they have lived at their current address. It will also give the lender the Client's credit score, or credit rating. If the credit score falls within the acceptable range for the loan program that the Client is interested in, they may become pre-approved.

If the Client's credit score is too low for their preferred loan program, the lender should discuss their credit report with them. Some erroneous information may be on the report that can be removed to improve the Client's rating. Or perhaps the lender will allow an exception based on an explanation of a particular situation affecting the Client. If the Client doesn't qualify for a particular program, there may be another program that best fits their situation; the lender is there to help them work through this process and find the right loan for them. Once this phase is completed, most lenders consider the Client to be pre-approved for a home loan.

It may be important for you, the real estate professional, to explain this difference to your Client when you are discussing pre-qualification. Pre-qualification simply provides an

amount which should be considered the maximum amount the Client could borrow to acquire a home. There is no guarantee that this amount can actually be financed, so even if your Client is pre-qualified in the range necessary to purchase a property, always include a contingency in any Offer to Purchase making the offer, "...Subject to the Buyer obtaining acceptable financing."

If a Client comes to you with a letter from their lender stating clearly that they are Pre-approved for financing in \$ _____ amount and on stated terms, then you might consider dispensing with the contingency language, as the lender has made a commitment to actually provide financing to this level, up to the stated amount, and on the stated terms (interest rate, period of years, et cetera).

A handwritten signature in blue ink, appearing to be 'JH', is centered on the page.