

# What's The Difference Between Preapproval And Prequalification In Your Mortgage?

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You may have heard the preapproval and prequalification used interchangeably in discussions of mortgage loans. On the surface, they do appear very similar. You'll also likely need both at some point in the buying process.

However, preapproval and prequalification are two different processes and also serve two different purposes. Let's explain their key differences and how you can use both during your homebuying journey.

## What is prequalification?



Prequalification is usually the first step in buying a home, and you can complete it online or over the phone. It's a simple process: You will give a lender details about your overall financial shape. This includes your income, your levels of debt and any assets you own. Usually, you will get your results in just a few days.

Most real estate agents will ask you to complete prequalification before they'll show you any homes. This step is to make sure that neither of you wastes time looking at homes that are out of your price range.

A prequalification will not impact your credit score in most cases. Since it is only a good faith estimate of your finances, a credit pull usually isn't necessary.

Importantly, a prequalification doesn't take into account some important financial information, including your credit report and other finer details of your financial picture. For that reason, your prequalified amount may be different from your preapproval amount.

## **What is preapproval?**

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A preapproval is a much more official, in-depth look at your finances. You will need to fill out a mortgage application to get one. After you fill out that application, your lender will take a deep dive into your financial history. This includes a hard credit pull and a financial background check. Then, the lender will offer you a preapproval up to a certain amount.

The preapproval process puts you closer to buying a home than a prequalification. It gives you a better idea of what kind of APR you can expect to get. Sometimes, a lender will even allow you to lock in a certain interest rate.

Once your lender preapproves you, they will issue you a conditional commitment — essentially a guarantee from your lender that you will be approved for up to that amount. Preapproval gives you more leverage in a sale because the seller gets a guarantee that you can actually purchase the home.

### **Should I get prequalified before getting preapproved?**

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It's worth getting prequalified before you get preapproved for a few reasons.

First, prequalification is usually quick and easy. In most cases, you can complete it online in just a few minutes. After that, you'll get your results back in a few days. It's also usually free, and it won't impact your credit score.

Second, prequalification will give you a chance to observe the market before you choose a lender. Once you are prequalified, your real estate agent can give you a list of options. Then you can use that information to get a better idea of how much you'll need to borrow.

In addition, a prequalification letter will help you shop for lenders. You may even want to get prequalifications from multiple lenders. Again, it doesn't impact your credit, and so shopping around doesn't hurt your situation in any way.

Getting prequalified before seeking preapproval makes you a more educated and prepared buyer. It will also make you more attractive to real estate agents, sellers and even lenders.

## **Summed Up: The Difference Between Preapproval and Prequalification for Your Mortgage**

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Prequalification and preapproval are similar, but they are not the same thing for your mortgage application. Getting prequalified is a simple process that you can do in a few minutes online or over the phone. It doesn't involve a hard credit pull and is more of an estimate of your ability to afford a home. In contrast, preapproval is a more intensive process and involves a hard credit pull. You will need to fill out a mortgage application to get preapproval.

Most real estate agents require prequalification. In most cases, sellers will want you to have preapproval to enter the buying process.

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