

THE residential SPECIALIST



- ✦ Calculating **maintenance costs**
- ✦ Investing in **multifamily rentals**
- ✦ Emerging **trends in 2019**
- ✦ Up your game with **drones**
- ✦ Is your buyer **pre-approved?**
- ✦ Grow with **event marketing**

IN THIS ISSUE

READY TO ROCK?

A tower of strength, 2019 RRC President Michael Burkhard is poised to provide steadfast leadership





SEAL OF approval

**Inside
Track**
what's trending in real estate

Navigating the differences between 'pre-qualified' and 'pre-approved'

By Myrna Traylor

There are so many dreams and wishes involved with buying a home, but it all comes down to brass tacks in the end—the buyer who has the money lined up and ready to go will have the best chance of succeeding.

As competition for homes in hot markets becomes fiercer, buyers' agents must help their clients be as prepared as possible. Part of that preparation is helping buyers understand the difference between being "pre-qualified" for a loan and being "pre-approved" for one.

Generally, a buyer can be *pre-qualified* by a lender with a minimum of effort—the lender might not even ask for or be required

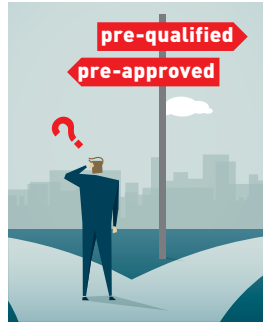
to check the potential buyer's credit report. A quick phone call between the two parties to discuss monthly income might be sufficient for the lender to say the buyer could qualify for a loan.

Getting *pre-approved* for a loan, however, is usually a little more complicated. Mortgage lenders will want to have complete documentation from the buyer with proof of income, credit reports and a list of monthly expenses, and there is an application and fee involved. When pre-approval is secured, it is usually for a loan up to a specified amount.

So, while it is no guarantee, a buyer who has a pre-approval is in a much better position to succeed with a seller, especially one who wants to close quickly.

Terminology confusion

Depending on the market that you are working in, however, those two terms might be used as if they are one and the same—sometimes even by lenders themselves, says Lilli Schipper, CRS, of Island Resort and Realty in Ft. Lauderdale, Florida. “It’s a problem that the terms are used interchangeably,” she says. “They’ve lost the meaning of what they should be. When I’m working for a seller and I get a letter [saying the buyer is approved], I always call the lender and ask questions such as, ‘Have you reviewed their tax returns? Pay stubs? Bank statements?’ Not all lenders will say yes. I have had some say that they have only run the buyer’s credit.”



Realtors in Palm Desert, California, “and I used to ask them about the neighborhood they wanted to live in or details about the house they might be interested in, but now I talk first about the finances.”

Schroeder says that it is often necessary to spend the first couple of hours talking to first-time buyers about financing and finding out where they stand. “Often a buyer will end up needing to regroup and bring their credit score up before they would be able to move from a ‘pre-qualified’ to a ‘pre-approved’ status,” she says. Lenders she works with are getting better about helping first-timers get credit assistance or loans with modified down payments.

For Kit Eschner, CRS, of RE/MAX Urban Properties in Denver, a very competitive market makes it essential that buyers walk in with loan pre-approval. “Buyers often will be competing with as many as 10 other buyers for a good property at the entry level,” she says. “The listing broker is required to present all offers to the seller, and the decision can come down to small differences. A listing broker will likely tell the

Continued on page 12 ▶

BY THE NUMBERS

A FICO score in the lowest (620-639) range would pay **\$1,491** per month on a **\$250,000** loan.

A FICO score in the highest (760-850) range would pay just **\$1,247** per month.

That’s a difference of **\$244** per month or almost **\$3,000** per year.

Having ‘the talk’ with first-time buyers

“People call saying that they want to buy,” says TJ Schroeder, broker associate at Tarbell,



THE LOCAL LENDER ADVANTAGE

A buyer’s lender should be as helpful as their agent, advises Lilli Schipper, CRS, of Island Resort and Realty. “I prefer for my buyers to have a direct relationship with a direct lender, where this is all they do, compared to a bank, which has many other services besides mortgages.” She also points out that different regions or communities might have unique conditions, such as condos that have minimum percentage down-payment requirements or other lending restrictions.

“Someone who knows the details for the local market, like the taxes, insurance estimates or appraisal issues, plays a very important role in the process,” Schipper says, “especially if the property is in an evacuation zone or flood zone. The buyer needs someone who’ll be a team player. Agents can guide the buyers with property issues, while lenders can guide buyers regarding financing education and concerns. Working together, the agent and the lender can help the buyer make the best decision for their situation.”



SEAL OF approval

▶Continued from page 11

seller that someone who is pre-approved is a stronger buyer. All the buyer's criteria have been vetted by a lender, so they can close sooner and with more confidence."



Go local

Once an agent has outlined the value to buyers of pursuing pre-approval, then it's time for lender recommendations. Many buyers find online mortgage lenders to be very appealing—those lenders' promises of speed

and easy-to-navigate applications are hard to beat. But many agents feel that it is wiser to go with a local lender.

Laura Shifrin, CRS, principal broker with Townsend Center Realty, Townsend, Massachusetts, has seen many buyers' financing fall through and wonders what is behind it. "This may be a reflection of the qualifying mortgage officers—those who have very little experience," she says. "As professionals, we need to be aware that our buyers may not be getting the best possible advice. Many buyers using

an online application process are thrilled when they are 'approved' by one company, but then they are refused by everyone else. Isn't that a red flag?"

Schipper agrees that you shouldn't take everything at face value. "Because it is so easy to get a pre-approval online, most of them aren't worth the paper they are printed on, which is why it is important as agents to follow up with the lender the buyer is using to discuss the extent of the pre-approval," she says.

When minutes can make the difference, having a local lender who the listing agent or seller can call directly is a big advantage. Eschner says that "an online lender might be in a different time zone, and if the seller has one afternoon to go through a stack of offers, the lender who responds quickly with reassurance about my buyer's qualifications will help my buyer rise to the top and increase their odds of getting the property."

"My job is to help my buyers prepare their strongest offer possible within their parameters," Eschner says. "Anything I can do to streamline that process, and make it easier for the broker/seller to accept my buyer's offer—that's what I do." ■■

Myrna Traylor is a freelance editor and writer based in the Chicago area.

■■ Want to take the next step? Take our Creative Real Estate Financing eLearning course.

TIP SHEET

NO PLACE LIKE HOME

The National Association of REALTORS® 2018 Profile of Home Buyers and Sellers provides updated insights into the experiences of homebuyers and sellers. Here are highlights from the latest report:

33% First-time buyers made up **33%** of all homebuyers, a decrease from last year's 34 percent. This figure has gravitated away from the historical norm at 40 percent of the market.

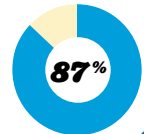


63% of recent buyers were married couples, 18 percent were single females, 9 percent were single males and 8 percent were unmarried couples.

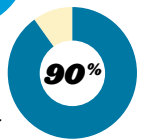


12% of homebuyers purchased a multigenerational home to take care of aging parents, because of children over the age of 18 moving back home and for cost-saving.

87% of buyers recently purchased their home through a real estate agent or broker.



90% of buyers would use their agent again or recommend their agent to others.



\$ The median **household income** of homeowners increased again this year, likely due to a nationwide increase in home prices caused by a lack of housing inventory, pushing out lower-income buyers.