

Deciding How Much House You Can Afford

Before you start house hunting, you need to determine how much house you can afford, which will entail getting either prequalified or preapproved for a home loan. A real estate agent can help you find a mortgage broker to begin the process. While getting preapproved is a more in-depth process, a preapproval letter lets both real estate agents and sellers know that you're a serious shopper who means business.

What do I do to get prequalified? A prequalification can be done online or over the phone and does not require your submitting financial documents. You will be asked to provide basic information about your finances — for instance, your household income versus your debt load. With this information, the lender will estimate what your maximum loan amount could be if you were to apply.

What about getting preapproved? A preapproval is more involved and a real estate agent can help you prepare your documentation. The lender will perform an extensive review of your finances, requiring pay stubs, tax records, credit accounts, bank statements and more. This figure will not only be a more reliable estimate of what you can afford, but your preapproval also indicates that a lender is willing to do business with you, pending the purchase price, market appraisal and the underwriting process.

What should I ask when shopping for a lender? Your real estate agent should have a mortgage broker they are willing to put you in contact with — this lender will be someone they have done business with in the past, and feel comfortable recommending. However, if you decide to do a little comparison shopping and look for a lender on your own, here are a few important questions to ask.

- What loan programs do you offer and which one do you think is best for me?
- How long will the loan approval process take?
- What line items of the loan agreement — if any — are negotiable?
- What is your policy for locking in interest rates, and will you honor a lower rate if it declines during the lock-in period?
- Are there fees for prepaying on my loan?