LEN Danger Pre-Approval Letters – the Good, the Bad & the Ugly!
Lender Pre-Approval Letters—the Good, the Bad & the Ugly!

As you may already know, we are still in an era where mortgage financing is sometimes problematic. As such, sellers and listing agents have become increasingly scrutinous of buyers, mortgage brokers and their documentation. I cannot stress this enough. A fully-documented “pre-approval” letter from Wells Fargo is much stronger than a “pre-qualified” letter from a mortgage broker no one has ever heard of. A letter which has wording to the effect: “subject to review of a credit application and buyer’s financial documents” tells the listing agent you have not submitted anything to get pre-approved and therefore your approval letter is almost worthless.

No matter how creditworthy you are, all buyers should get as far down the loan approval path as possible before making an offer. Some lenders are willing to go as far as full underwriting review of all documentation prior to even identifying a home. As you can imagine, having this type of approval letter gives the buyer, seller and listing agent a greater sense of confidence. No lenders advertise this type of review as it requires a lot of work on their part for what is a very uncertain outcome (in light of the fact the buyer doesn’t even have a home identified yet). Talk to your lender and see how far they will go. Remember, the squeaky wheel gets the grease.

Can a Second Pre-Approval Letter Improve My Chances in a Multiple Offer Situation?

All real estate agents have a loan broker they like, trust and refer business to. A buyer who gets pre-approved with the listing agent’s preferred lender will have a small leg up on the competition. The goal is to get the listing agent’s preferred loan broker to tell the listing agent your financial documents look great and that you should have no problem getting a loan. This is a powerful recommendation from a trusted source. These loan brokers are more than happy to run your information through their system and give you a quote and some sort of pre-approval letter as they are hoping to earn your business.

In these multiple offer situations there is a little trick I like to use which can really give you a leg up on the competition. Usually a listing agent knows right away whether or not his listing is going to attract multiple offers and he or she will tell you this right up front. Usually they will set a future date on which they will review all offers at the same time. These few days are all you need to get an additional preapproval letter from the listing agent’s preferred loan broker. Yes, that’s right, get TWO preapproval letters.
Whatever your current pre-approval situation, you can only benefit from seeking a secondary or backup pre-approval letter from the listing agent’s preferred lender. It never costs anything to get pre-approved and you are never obligated to use the listing agent’s lender once approved. The listing agent will feel good that you are willing to go the extra mile and happy they were able to refer someone to their friend/loan broker.

Since you have already assembled all of your financial documentation (including your credit reports) to give to your first choice lender, it should be a very simple matter to email this information to the listing agent’s loan broker.

**Which type of lender should you choose?**

For most people, the purchase of a home is the largest investment they will make in their lifetime. Therefore, putting some thought into selecting a mortgage company should be a top priority.

There are three basic types of mortgage lenders in the banking industry. Below I have outlined some of the pros and cons of each type. This should help point you in the right direction in making the best selection for your home purchase.

- **DIRECT/WHOLESALE LENDERS.** Direct lenders fund loans for major banks, such as Bank of America, GMAC, U.S. Bank, etc, but they do so from satellite offices. These major banks have given these satellite offices the “right” to underwrite and fund loans in the name of the bank.

  The interest rates from a direct lender can sometimes be lower than from a bank branch because a loan from a bank branch includes padded costs and rates needed to keep the actual bank branch open.

  Direct or “wholesale” lenders are often the lowest-priced option for buyers. Plus, wholesale lenders are willing to have their underwriting departments review your application and documentation PRIOR to actually having a specific home in mind. Call your current loan broker and see if he or she can give you that same level of approval and confidence. Once your application has been reviewed, approved and a condition list has been generated, you will have a much higher level of confidence your loan will sail right through without any hiccups. This level of approval can give you the confidence to write your offer with a very short loan contingency or perhaps no loan contingency at all. As I have discussed in my document titled “How-to-create-a-winning-offer-package” a short or non-existent loan contingency is one of the cornerstones of a strong offer, particularly in a multiple offer situation.

  Finally, direct lenders are faster than the other two options because the actual loan file is underwritten in the satellite office, rather than being shipped off to an operation center like a bank branch or broker would do. This faster processing time can give you the confidence to offer a shorter close of escrow.

- **BANK BRANCH/RETAIL LOAN OFFICERS.** The only real benefit of getting a loan from your local bank branch is convenience. You can walk into your local branch and apply for a mortgage.

  However, the problem with this path is that your loan package will get shipped off to a regional or national operation center and placed in the back of the queue. This process can sometimes take 30-45 days from start to finish. In other words, the loan officer at your local bank branch is nothing more
than an order taker. Bank branch loan officers are usually new in the business and lack the skill and knowledge of a veteran loan officer.

In addition to the slower processing times, interest rates at bank branches are higher than with wholesale lenders. Why put your hard earned money into the pocket of a large corporation when you can get a discounted rate somewhere else?

Why wait 30-45 days to get your loan approved and funded when you can get the same loan processed in 2-3 weeks at a lower rate with a wholesale lender?

- BROKERS. Brokers are usually as highly-skilled as a direct lender, but have not earned the ability to approve and fund loans directly. A broker will take a loan application and ship the loan off to the bank of their choice. This goes into the same queue as a bank branch loan and often takes 30 or more days to process.

  The interest rates offered by brokers are usually very competitive, but the broker will have to add on additional fees for underwriting since they are not underwriting and processing the loan at their actual office. In some cases, the rates are padded quite a bit, depending on the relationship the broker has with the bank they are working with.

**SUMMARY**

Borrowers with good credit, good income and healthy assets are often best suited to work with a direct lender. By doing so, they will be rewarded with lower interest rates and a faster processing time from start to finish which in turn makes them more competitive buyers.

Returning back to the original intent of this document, I have included some examples of various lender letters. As you will see not all letters are created the same. Some are good, some are bad and some are downright ugly!

My scathing review of these letters does not mean all letters from any particular bank will be useless. It really boils down to the person writing up the letter and how far buyers got in the loan approval process. With the knowledge you gain from this document you will be able to extract a much better pre-approval letter from your loan person even if that person works in a branch office of a large bank like Wells Fargo, BofA or Chase.
Example #1 – What a disservice it is to a buyer to provide a pre-approval letter which clearly states “this is not a loan approval”!

The term “approval” is used very loosely in this business. Listing agents are very scrupulous of these types of letters. The more solid your letter the more likely you will get the deal. In areas where the market is super slow (East bay) they are just happy to have a warm body interested and are more likely to accept whatever letter you have.

Dear CRAIG,

I am pleased to inform you that you have been pre-approved for a home loan of up to $722,000 with a purchase price of $760,000. This loan pre-approved is subject to the terms and conditions below:

- Property Address: 30 YR Fixed Conforming
- Occupancy: Owner-Occupied
- Property Type: Single Family Residence / Condominium
- Use: Purchase

This pre-approval is OCTOBER 30. If we have not heard from you by that date, no further action will be taken by Bank of America.

This is not a loan approval. Loan approval and commitment is subject to completion of a residential loan application and conditions that include, but are not limited to:

- An evaluation and review of the property by and satisfactory to Bank of America.
- A satisfactory verification by Bank of America of all pertinent information, including further substantiation of income, credit, property insurance, source of funds and supporting documentation.
- A 100% policy acceptable to Bank of America.

Thank you for selecting Bank of America. We look forward to meeting your home financing needs, now and in the future. If you should have any questions regarding this pre-approved, please give us a call.

Sincerely,

David Lo
Mortgage Loan Officer
Bank of America Home Loans
4066 722.1839 Cell
510.896.4634 Office
800-1-839-141 E-Fax
david.lo@bankofamerica.com
3921 Civic Center Drive, Suite 150
Fremont, CA 94538
DBA Equal Housing Lender

OCPS! I thought this was an approval letter.

This sentence insinuates the buyer has not even filled out the loan application!!

This bullet item insinuates the buyers have not submitted any documentation.
Example #2 – This letter almost seems accusatory and/or doubtful with the sentence “This prequalification is based solely on the limited and unverified information you supplied”. If a buyer has not submitted all of their financial documentation a listing agent will be reluctant to accept the offer.
Example #3 – This letter clearly states the lender has not reviewed any of the pertinent buyer documentation such as paycheck stubs, tax returns and asset statements.
Example #4 – While not very in-depth, this letter is well-worded and clearly states they have received, reviewed and verified various buyer documentation. Ideally the letter would spell out some or all of the lender conditions.
Example #5 — This letter has everything a listing agent could want. It says clearly the loan application has been approved and it details precisely what the bank needs prior to funding. A letter like this does a great job of giving a listing agent confidence your loan will not cause any grief during the escrow process. This letter may not get you the deal but it will surely help.
**COMMITMENT LETTER (NOTICE OF TERMS)**

**Date: JANUARY 8, 2011**

Lender: WELLS FARGO BANK, N.A.

**Borrower(s):**

**Property Address:** TO BE DETERMINED

**Property Type:** PRIMARY OCCUPANCY

**Loan Number:**

**Loan Type:** 5/1 LIBOR ADJUSTABLE ARM

**Loan Amount:** $625,000

**Loan Term:** 360 MONTHS

**Interest Rate:** N/A

**Loan Purpose:** PURCHASE

**Pricing Program**

- Interest Only (Months): N/A
- Amortization Type: Principal and Interest
- LTV: 73.53%
- Mortgage Insurance Premium: N/A
- Mortgage Insurance Initial Premium: N/A
- Initial Interest Rate: 4.625%
- Prepayment Penalty: N/A
- 11th Year Renewal Rate: N/A
- Index: 0.98%
- Margin: 2.250%
- Interest Rate Caps: 5.000%

**Max. First Adjustment:** N/A
**Max. Periodic Adj. Thereafter:** N/A
**Max. Lifetime Adj.:** N/A

This comprehensive approval was generated prior to having identified a specific home.
CONDITIONS OF LOAN APPROVAL (Cont’d)

EXEMPTIONS
You will not be required to escrow for taxes and/or insurance premiums.

EXISTING LIENS
Unless otherwise provided in the specific conditions section of this commitment, any and all existing liens on the property must be paid in full at closing.

FLOOD INSURANCE
If at any time the property is in a Special Flood Hazard Area, as determined by the Federal Emergency Management Agency, flood insurance is required under the National Flood Insurance Act of 1968 as amended.

CONDITIONS OF LOAN APPROVAL

The following conditions must be satisfied prior to the issuance of Closing Instructions to your settlement agent or attorney:

1. The Lender is required to provide a final Truth in Lending Disclosure to you three days before closing. Pursuant to federal law, the Final Truth in Lending Disclosure document must be provided during the final three-day period or a rescission must be provided, which might result in an additional rescission period before closing can occur. Refer to the Truth in Lending Disclosure form to verify that the loan amount and fees or Firoswal finance charge (APR FEES) need to change, contact your Broker.

2. Borrower to provide a Hazard Insurance Policy or Insurance Bearer.

3. Borrower to provide an executed sales contract for a specific property with all terms acceptable to lender by 01/16/10. All changes, corrections, and deletions must be approved by all parties to the contract. Failure to present the contract with the sales contract may result in the withdrawal of this commitment letter and any terminate any rate lock-in.

4. Lender to receive a satisfactory Appraisal for the subject property, meeting lender’s underwriting and loan-to-value requirements.

5. Borrower to provide a copy of executed settlement statement showing net proceeds no less than $220,000.00 received from the sale of property located at:

SAN FRANCISCO, CA SHOWING WELLS FAIR OF

6. Lender to receive an original, signed General Authorization form.

7. This commitment letter is based upon a single family detached dwelling. Selection of a different property type or a change in loan payment or any other loan terms could change the terms and conditions of this commitment letter and any rate lock-in.

8. LENDER TO RECEIVE SPECIAL INSTRUCTIONS FOR CALIFORNIA RESIDENTS’ FORM.

9. LEADER TO RECEIVE SATISFACTORY DOCUMENTATION THAT THE SUBJECT PROPERTY IS COVERED BY A HAZARD INSURANCE POLICY WITH REPLACEMENT COST COVERAGE AND AN EFFECTIVE DATE NO LATER THAN THE DATE OF CLOSING OR LOAN, AND DOCUMENTATION MUST BE PROVIDED TO LENDER PRIOR TO CLOSING.