What Not to Do After a Mortgage Preapproval

Don’t jeopardize your chances of getting your dream home after getting preapproved for a mortgage by taking out new lines of credit or other missteps.

If you're ready to shop for a new home, a mortgage preapproval letter shows sellers that you're a serious buyer who can secure financing from a lender. It also gives you a clear idea of how much you may be eligible to borrow.

To show lenders that you're a qualified borrower, you'll need personal identification, pay stubs, bank account statements, a list of your monthly debts, tax returns, W-2 statements and information about your down payment. You'll also need to submit to a credit check. Most lenders require a credit score of at least 620 for a conventional mortgage, but a higher score will increase your chances of getting preapproved and can lead to lower rate offers.

The lender may also verify your history of making your rent or mortgage payments on time. Depending on whether the lender has additional questions and how much of its preapproval process is automated, accepted borrowers can expect to receive a preapproval letter anywhere from a few hours to a few days after applying.

Even if you have all of the required documentation and a qualifying credit score, don't take the application process for granted. Lenders will be scrutinizing your financial readiness. Avoiding potential pitfalls will help keep your homebuying goal on track.

Don't take on any new debts or lines of credit

Lenders want to see that your finances are stable, including your obligations to creditors. Avoid making large purchases on credit or opening additional credit lines, including new credit cards.

"Making large purchases, such as buying a car or expensive furniture on credit, can significantly impact your debt-to-income ratio" says Matt Vernon, head of consumer lending at Bank of America in Charlotte, North Carolina. "By taking on more debt before obtaining preapproval, you could potentially exceed the debt-to-income ratio threshold that lenders are comfortable with, making it harder to qualify for the mortgage amount you need or to obtain favorable terms."

Don't create job or income instability

"Lenders prefer borrowers with stable employment and income histories because they view them as less risky," says Vernon. He adds that changing jobs or having irregular streams of income can alarm lenders and jeopardize your application, even if your income is higher as a result.

If your income fluctuates or is unpredictable — for instance, if you're in a commission-based role or self-employed — you will also need to demonstrate that your earnings are consistent enough to make your monthly mortgage payment, says Steve Kaminski, head of U.S. residential lending at TD Bank, also based in Charlotte.

Don't make large deposits without documentation

"Large, unexplained deposits might raise questions about the source of funds or suggest undisclosed debts, which could impact the borrower's ability to repay the mortgage," says Vernon. If you've received money from a family member toward a down payment, be prepared to provide the lender with a signed letter from your relative that confirms the funds are not a loan. The lender may also ask for additional documentation, such as withdrawal and deposit slips.

Don't rush the process

Even if you're eager to shop for homes, it's imperative to take your time with your mortgage preapproval application. "If anything's off or missing, it could slow down or even hurt your preapproval process. Take a little extra time to double-check everything to avoid any delays," Vernon says.

It's worth your while to look at multiple lenders. Comparing quotes could get you the lowest rate and save you thousands in interest. Researching and narrowing your lender options during preapproval will help you act quickly once you've found a home and are ready to move forward with a mortgage application.

Kaminski says, "There is a lot to consider, and it can be overwhelming when combined with the emotion of home shopping and potential stress of low housing inventory and competitive offers."

While you can't control the market, you can present the strongest possible personal financial profile. In addition to providing the right information at the right time, you want to avoid any moves that could damage lenders' perception of your ability to make loan payments. By getting preapproved, you'll have successfully completed an important step in your homebuying journey.

By Taylor Getler