Confused about home loan pre-approvals? Follow these four steps.

Ready to buy a property? You’ll need to show the seller you have enough money. For most people, this will mean getting a loan, and the first step to getting one is obtaining pre-approval for it.

Pre-approval – also known as conditional approval or approval in principle – is an indication from a lender as to how much you can borrow. If you have pre-approval, vendors and agents know you’re serious about buying. Here are the steps you need to follow.

1.Gather your financial information

To get an idea of how much you can borrow, and therefore what you can afford to buy, you need to give the lender a comprehensive picture of your finances. This includes your income and assets, and your financial obligations such as existing debts and living expenses (including ongoing bills, entertainment, food and car expenses, etc).

You’ll need evidence of everything:

Pay slips and tax returns for your income.

Title deeds for tangible assets (i.e. physical items such as buildings, machinery and inventory), and portfolio statements for intangible assets (non-physical items such as copyrights and patents).

Loan statements for existing loans.

Credit card statements showing your credit limit.If you already stick to a budget and have a regular savings history, you may want to provide bank statements to demonstrate this.

You can use all of this information to get an idea of how much you may be able to borrow. There are a number of free mortgage tools and calculators that can help.

2.Meet a lender or broker

Make an appointment to speak to a lender or mortgage broker. Most will provide a list of what you need to bring with you, such as the evidence explained above and the required forms of ID.

At the appointment, the lender or broker will use your information to calculate an approximate borrowing figure. If you want to proceed, you can fill in a pre-approval application form.

3.Undergo a credit check

The lender will arrange for an independent credit bureau to perform a credit check on you. This may affect whether or not you can borrow money, and how much.

4.Receive conditional approval

Assuming your credit rating allows you to borrow, you’ll then receive a conditional approval certificate from the lender. The certificate is usually valid for 90 days. This is an indication, not a guarantee, of the amount you can borrow.

Use this figure to work out how much you can spend on a property, taking into account the size of your deposit. Factor in expenses such as conveyancing fees, stamp duty and so on. Also consider that you may not be able to borrow as much as the conditional approval certificate indicates.

Securing pre-approval will allow you to househunt with confidence.

What happens next

Once you’ve put in an offer on a house – whether at auction or a private sale – you’ll need to get full approval on a loan. Contact your lender or mortgage broker with details of the property, and they’ll work through the home loan application process with you.

Obtaining pre-approval for your loan is an important part of the home-buying process. Contact your mortgage broker today for help with finding out how much you can borrow.