CULTURE REAL ESTATE

Macro:

Here is a macro-flowchart depicting a typical purchase transaction that involves financing. The purpose of breaking down the process in this particular fashion is to identify the different roles each party is to play, and when they are typically introduced into the transaction. It should be noted that certain boxes could be highlighted with more than one color because more than one party is involved. However true, for simplicity, we have elected to demonstrate a single color because they are the major contributor and key player involved in that stage despite other involved parties. For each box or stage, there is a detailed explanation of what it means; simply double-click and you will be redirected to a thorough explanation of that box.

RESEARCH/LENDER PREAPPROVAL:

If you have spoken to a real estate agent before you have contacted a lender, then they probably told you that you need to get preapproved before they can begin working with you, and if this is not the case they will definitely have you speak to a lender before submitting any offers. The reason is simple if you are not paying cash for your new home, you need financing, and if you need financing, the real estate agent will want to make sure you qualify before they begin negotiating into a contract. Therefore your research should really begin at seeking lender preapproval.

Preapproval is the process of reviewing your financial situation against lender guidelines to see if you qualify for the loan you will need to purchase a home. Despite you're not having a home in mind specifics can be generated that will guide you and your real estate agent in your house hunt. Namely, the largest loan you qualify for based off current and projected market rates. This does not mean you borrow as much money as you can. This ceiling loan amount is used to identify your market cap and the highest purchase price you can legitimately offer and secure financing behind.

It is during this stage that different loan amounts are discussed and the payments associated with each. The advantages and disadvantages of different programs are reviewed and a general plan of action is prepared. This plan of action takes the form of a loan application that outlines all of your personal information as well as information pertaining to the loan you will be seeking: loan amount, interest rate, down payment, type of loan, term, estimated cost to close, etc… It should be noted that at this stage, these figures can and usually do change, however they should not vary significantly otherwise re-disclosure is required.

YOUR REAL ESTATE AGENT:

Choosing the right real estate agent is very important. Although it may seem like their job is showing you homes, their real value comes in their ability to negotiate. If you followed the first step and can prove to an agent that you are preapproved to buy a home, most agents will be more than willing to work with you, but choose carefully, and realize what you are hiring them to do – negotiate a purchase price for you under the best terms possible. When it comes to choosing the right agent, there is no perfect model; each person is different and has different expectations. What we suggest is make sure you enjoy the time you spend with your agent, your agent always has enough time for you, and that they are focused on the market you are looking in.

HOUSE HUNTING:

Once preapproved, and having identified the right real estate agent to represent you, you are ready to house hunt. This process usually begins with your agent showing you some listings, you pointing out the homes that you like, and going to view them. The house hunting phase could take days, months, or even years depending on your prerequisites. Should this stage take a significant period of time it is you and your lender's responsibility that you remain in preapproval status. Many find house hunting to be quite enjoyable; however during this stage you are susceptible to the sliding scale of home prices. Remember to keep your target figures in mind and work within your budget despite temptation.

MARKET WATCH/PREAPPROVAL LETTERS:

During the house hunting stage a professional lender will be tracking the market for you, and issuing preapproval letters to your real estate agent for offer purposes. Tracking the market involves monitoring interest rates and guidelines to make sure the financing vehicle you are looking to take advantage of once you do find a home, do not change or disappear. Any major change, or the dissolution of a product line, could compromise your ability to purchase a home. It is your lender's job to make sure that this does not happen, and if it does, to identify an alternative solution that is as agreeable to you. Various lenders weigh this responsibility differently. It is important to find a lender that is dedicated to market analysis, for this reason as well as reasons to be discussed in other sections.

Preapproval letters, demonstrate your ability to secure financing to other agents in the market, and become necessary once you begin making offers. The reason your lenders should be ready and willing to draft multiple preapproval letters rather than one letter stating the maximum loan you qualify for, is to assist your agent in negotiating. A single preapproval letter with the maximum loan amount you qualify for would tip your hand informing the listing agent of how much you can afford. If this number is significantly higher than your offer, you will most likely be getting a counteroffer asking for more. With specific preapproval letters, the listing agent only knows that you qualify for the offer being made, and therefore a counter-offer may not be realistic. For this reason alone the seller and listing agent will take your offer more seriously. Needless to say, because preapproval letters are the first point of contact with the listing agent, it is important that preapproval letters are professional, and the originating lender is available for questions should the listing agent have them.

OFFERS AND COUNTEROFFERS:

As mentioned above, with a preapproval, you are ready to make offers on homes that you find agreeable. It is your real estate agent that prepares an offer for a home for sale. Offers and counteroffers is the beginning of negotiation for your new home. You can ask for whatever you like inside an offer, just remember that the seller can remove it inside their counter-offer should they feel compelled to. During this stage you and your real estate agent ultimately agree to terms with a seller and their listing agent. Once terms have been agreed upon, through various counteroffers, the offer is considered accepted, and you are then considered in contract. Once in contract the rules are set, and expectations outlined. This point is made because if you have an expectation that must be met, it should be reinforced inside every offer and counter-offer you make.

LISTING AGENT:

The listing agent is the agent that has been contracted by the seller to sell their home. Because the listing agent works for the seller, they are the closest thing to an adversary in the sales process; after all, a listing agent's job is to make sure the seller gets everything they can for the sale of their home, and you are buying that home. That is not to say listing agents do not benefit the buyer. A listing agent makes sure everything about the subject property is fully disclosed; which is a common mistake owner's selling without representation make. Often times listing agents can turn out to be true assets, and at no time should they be treated with animosity simply because they are working for the seller.

It should be mentioned there are times when one agent can represent both parties – the seller and the buyer. This is known as dual agency, and in my professional opinion, is not recommended due to a natural conflict of interest. Because agency involves a fiduciary responsibility, which is the highest level of trust the law recognizes, I find it difficult for a single person to mediate a transaction between two parties with conflicting interests and honor their fiduciary pledge to each independently. For this reason I do not support dual agency. Dual agency disclosure is required, if you run into it, I simply recommend you telling the agent you have a problem with dual agency, then find another agent, and have them submit your offer.

OFFER ACCEPTED/IN CONTRACT:

It could be on your first offer, or after a dozen counter-offers have changed hands, once an offer has been accept, you are considered in contract. Once in contact, you are expected to fulfill certain obligations, as is the seller. A contract is a binding legal document, however at this point the contract is still vulnerable to contingencies. Contingencies refer to specific points that must be met in order for the contract to be valid. Typical contingencies are written in to protect the buyer and seller. The clearest example of such a contingency that benefits both buyer and seller is the 17 day loan contingency which is a typical contingency in most purchase contracts. Ultimately it gives the buyer 17 days to secure financing. If they cannot secure financing within this 17 day period, they can back out of the contract, if however they let this 17 days expire and are still not able to find financing, because the 17 day contingency expired, they will be forced to surrender their earnest money deposit to the seller as compensation for their time wasted. Notice how both the buyer and seller are provided a specific form of compensation by this contingency.

There are many different forms of contingency, from interest rate, to appraised value - with the accepted offer, all contingencies are outlined, and a clear direction and deadline is presented. With the acceptance of an offer, you make the transition from the first step in the macro timeline to the second step – namely the close of escrow period.

ESCROW/OPEN ESCROW:

Escrow represents a third neutral party that is hired to ensure everyone involved with the transaction gets what they are expecting. They are the ultimate mediator. Opening escrow means you are getting an escrow officer involved to mitigate the transaction and make sure all facets of the contract are fulfilled. Once escrow is opened escrow instructions are produced as well as a preliminary title report, which will be discussed next. The escrow officer is the final authority that all parties answer to, including the lender, listing agent, buyer's agent and title representative. The escrow officer is working for you, but they are also working for everyone else, therefore whatever is disclosed to escrow must be disclosed to all parties. When dealing with escrow, it is advisable to communicate through your lender and buyer's agent, to limit exposure and the ensure escrow is only informed of information that they absolutely need. It is your lender and agent's responsibility to ensure you remain in compliance with disclosure. Take their advice when discussing matters with escrow.

PRELIMINARY TITLE REPORT:

The preliminary title report is going to be ordered immediately upon the opening of escrow. Preliminary title is the active search of public records associated with the home in question. It is a legal description of the home, but more importantly it includes specific details including who the owner or owners are, and if there are any liens tied against the home. In order for a bank to lender money it is crucial that the home have a clean title. Because title is so important it is ordered and reviewed early to ensure there is nothing reporting that would compromise closing.

CLOSE OF ESCROW PERIOD (COE):

The close of escrow period is a period of time that you negotiate with the seller while negotiating. It is a specific number of days in which the contract must be fulfilled. Close of escrow periods vary, however a typical close of escrow is 30 to 45 days. There is no disadvantage to having a long close of escrow. As long as both parties agree you can close early, or late however closing late can have consequences and should be avoided at all cost.

The close of escrow period is important because you are now under a deadline to perform in accordance to the purchase contract. Make sure during this stage you can commit to your agent and lender the time necessary for them to do their job. An agent waiting for a signed disclosure, or postponing the appraisal can cost valuable time that can usually be avoided with proper planning.

PEST INSPECTION:

Although a pest inspection is not included in all purchase contracts, it is advisable to have one completed. A pest inspection, usually a buyer expense, involves an outside contractor that inspects the home for any damage done to the home. The inspector will inform you as to what the inspection does and does not include, and the final report will include a call to action in two phases. The first phase calls for immediate and mandatory action, the second phase is more discretionary. It is typical for the seller to pay for phase one repairs that come up in this report, and the buyer's responsibility for phase two. For obvious reasons the pest inspection should be set up and completed as early into escrow as possible.

ORDER APPRAISAL:

Ordering the appraisal occurs right after the inspection is completed. Again because an independent contractor is involved it is important to order the appraisal as early as possible, however most like to wait for the pest inspection results because the appraisal is a buyer expense, and they want the home to clear inspection before paying for the appraisal. The lender that will be securing your financing will be responsible for ordering the appraisal, no one else, because it must be completed in their name to be valid and in bank compliance. Usually the appraiser will need the assistance of either the buyer's agent or the listing agent for access to the home, and it will take a couple of days for the appraisal to be completed. For the above reasons coordinating with an appraisal and getting it ordered is an important step. It allows the appraiser to begin his research on comparable home sales to see if the purchase price is supported. In addition the appraisal will have to clear underwriting, and this will take a couple of days depending on the underwriting staff.

UNDERWRITING:

Underwriting is the process in which your loan is approved. It involves an underwriter reviewing the application and supporting documents against the current guidelines. You as a borrower do not have the ability to speak with the underwriter, the lender however does, and they represent you in these matters. Submission is the process of submitting your case or file to underwriting for review. Once through underwriting you get one of three responses: approved, denied, or suspended. Denied simply means why you do not meet the current guidelines. This should not happen if you have been properly preapproved, and your lender has been actively watching the market. If you are denied, in the denial the lender will provide an explanation as to why. Suspended usually means flags have come up, and the underwriter needs more information before they are willing to give you the green light. There can be many different reasons why a file is suspended. If this happens do not panic, but take it seriously, you will need to put in some extra effort if you plan on closing with that particular bank. A more immediate option is to look for another lending institution and get a clear approval– an easy transition if you are working with a broker. If you are working directly with a retail bank, you will be back to square one. Approval means your case meets the guideline standards. Usually approval comes with conditions in two forms: prior to doc conditions, and prior to funding conditions. Prior to doc conditions are the major conditions required. They must be fulfilled before the final paperwork will be issued by the bank. The prior to funding conditions refer to conditions that must be fulfilled but are less pertinent.

SECURE FINANCING:

With the submission of all the conditions that are asked for by the lender you are securing financing. This stage is meant to reference the entire process which takes a significant period of time. From start to finish a fast funding would be two weeks, or ten business days, realistically it takes between three and four weeks, which is why your typical close of escrow is one month.

PTD CONDITIONS FULFILLED:

With your prior to doc conditions fulfilled your lender is clear to order the final paperwork. This is an important milestone because there is very little in the way of funding. Everything is set, the interest rate is locked, the terms are finalized, so the final paperwork can be drawn.

REMOVE CONTINGENCIES:

This is something the listing agent will press for early, but usually you want to delay this as long as possible because by removing all contingencies you are leaving no exits in the purchase contract and if you need to back out after the contingencies have been removed, the law allows the seller to keep your earnest money deposit, no matter what the sum. For this reason it is advisable to waiting until all prior to doc conditions have been signed off, and you are clear for the final paperwork. This can all be accomplished within the typical seventeen day contingency period, and should be the goal of your lender. Do not fear signing off on contingencies, it is part of the process, simply consequences and make sure everything is in order before doing so.

DRAW FINAL PAPERWORK:

CULTURE REAL ESTATE

The final paperwork is going to be drawn by the lender, and then sent to escrow. Escrow will then print, and prepare the final paperwork for you to sign. This process is not immediate, and usually takes about a day, so plan accordingly.

SIGN WITH NOTARY:

With the final paperwork printed you will sit down with a notary to sign the final paperwork. You will need proof of who you are, so do not forget identification. This final paperwork should be complete and accurate. If you run into any discrepancy contact your lender and get it resolved before signing. There is no rescission period in a purchase transaction.

PAPERWORK RETURNED TO LENDER:

Once the final paperwork is signed it is returned to the lender for review, and to draft funding conditions which are then issued to escrow. Funding conditions are minimal and escrow can often times fulfill them in the same day they are issued.

PTF CONDITIONS FULFILLED:

With funding conditions fulfilled your lender is ready to fund the loan, however this may not happen in the same day depending on what time it is. Funding cut off times vary depending on the lender from noon to 1:30pm so you may have a day to wait before funding, but ultimately funding will occur.

LENDER FUNDS:

Lender wires money over to escrow.

ESCROW DISPURSES FUNDS & RECORDS:

Escrow takes wired money and money deposited to cover down payment and closing costs and begins the process of reconciliation. Escrow is responsible for distributing all funds to all parties, the seller, listing agent, buyer's agent, and lender. In doing so escrow can then prepare a final HUD settlement statement. In conclusion they order title to record new ownership.

BUYER'S AGENT TURNS OVER KEYS TO YOUR NEW HOME:

You receive the keys to your new home.

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EQUAL HOUSING LENDER