

# CULTURE REAL ESTATE

Micro:

Here is a micro-flowchart of your typical Close of Escrow for a purchase transaction. The purpose of breaking down the process in this particular fashion is to identify the different roles each party is to play, and demonstrate how progress is made. 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. 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.

## COMPLETE LOAN APPLICATION:

Completing a loan application for a home loan (also known as the 1003) is the first step to getting preapproved. The loan application is not a contract; it is simply an application for a loan. How you fill this out is going to determine your strength as a borrower. It is important to be as thorough and as accurate as possible; factors that you may not consider important could sway a lender for better or worse. While completing the loan application your loan consultant will gather the necessary information and begin to determine what home loan programs you qualify for and the interest rates associated with those programs. This is an excellent time to begin isolating the types of loan programs you are interested in.

You should trust your real estate consultant completely and not hold back. A good consultant has solutions to situations you may think insurmountable. Do not be embarrassed or elude topics, it will only complicate the process, because the underwriter will later scrutinize these aspects. With a complete loan application your loan consultant, needs only to review your credit to complete the preapproval.

## COMPLETE CREDIT REVIEW:

Many people are reluctant to run their credit. They think checking their credit will drop their scores. In excess, inquiries can have an adverse affect on your score, but it is a necessary step and why you take good care of your credit. Having your credit checked by a credible lender should not be an issue. Reviewing your credit with your lender will allow them to calculate your debt to income ratio, which is your gross monthly income in relation to your monthly liabilities, or expenses. Another important reason to review credit at this point in time is to make sure there are no mistakes. If something is reporting incorrectly, you will have ample time to get the mistake corrected. This process is not as difficult as some may lead you to believe, and it can be done without the assistance of a credit repair company.

The credit review is a tri-merge report from all three bureaus, TransUnion, Equifax, and Experian. It lists all three of your credit scores from which the lender uses the middle score. Upon review of your credit report and with a completed loan application your lender can issue a preapproval.

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## INITIAL PREAPPROVAL:

Initial preapproval means based on the current lending guidelines and available market rates you are qualified for the home loan you are looking for. With a preapproval you are able to make offers, and have isolated a couple different funding sources. At this time a preapproval letter is drafted and supplied to your real estate agent. You agent can then use this preapproval letter to demonstrate to other agents that you qualify for a home loan.

## DISCLOSURES:

As soon as you have completed an application your lender is required by law to provide you some specific disclosures, namely a good faith estimate, and a truth in lending (among others but these are the two big ones). They have three days to provide these to you. This time is granted to allow them the necessary time to research the market on your behalf. Both of these disclosures are important, and should be completed to represent worst case scenario.

The good faith estimate is a breakdown of closing costs. Review this paperwork closely and if there is something you do not understand contact your lender immediately.

The truth in lending will provide you with the APR or annual percentage rate. The APR takes all reoccurring and non-reoccurring closing costs and calculates them into a single percentage which a consumer can then use to compare like products. It is important to make sure completed the truth in lending APR calculations are made correctly, all fees are represented and the margin and caps are included if representing an adjustable rate mortgage. If researching adjustable rate mortgage programs, your APR is especially important because it will demonstrate how much the loan could end up costing you, and the caps associated with that particular program. Better caps will bring down an APR dramatically, which should be a signal on which lender is offering the better program.

Along with these disclosures your lender will probably elect to include the other mandatory disclosures which include: Equal Credit Opportunity Act, Servicing Disclosure Statement, Mortgage Loan Origination Agreement, Credit Score Disclosure, Borrower's Authorization, CA Fair Lending Notice, CA Real Estate Agency Disclosure, Flood Insurance Disclosure, etc... These documents inform you of your rights as a borrower. Review them with your loan consultant while signing.

## UNDERWRITING:

Underwriting is the process in which your loan application is evaluated by the bank's underwriter against the current loan guidelines. Assuming they do, the underwriter requests supplemental paperwork to support your claims on the application. Depending on how you are looking to qualify, what the underwriter requests will vary, but most loans and those that offer the best pricing are full doc.

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Full doc is an industry term referring to full documentation of income, employment, and assets. Documenting these things means gathering supplemental paperwork. This supplemental paperwork includes: 2 years of income history with either tax returns or W2s along with your two most recent paystubs, you will need to document a two month history of assets and your asset statements should include all the pages. You will need to provide the number to you human resources division or your company's counterpart for lender verification of employment. In addition should you happen to own any current real estate, they will want a copy of your other mortgage coupons taken out against any other real estate you own, and copies of rental agreements should you have renters. Full doc is truly full documentation; however, as difficult, unappealing, or time consuming as this may sound the effort is well worth it. More importantly a good lender has an idea of what particular banks are going to ask for and can isolate the right bank for your documentation purposes, so that should not be your primary concern. You should however be prepared to provide the supplemental paperwork necessary for your lender to provide to the underwriter.

## FORMAL CONDITIONAL APPROVAL:

Formal condition approval comes from the underwriter. Once the underwriter has reviewed the file, if it meets guidelines you will get a conditional approval for your home loan. Conditional approval means as long as you can provide the following supplemental paperwork; the bank will fund your loan. Conditional approval occurs after preapproval, and usually once you are in escrow, however you can get a conditional approval before entering escrow. It is important to understand this approval is not indefinite and will eventually expire which is why it is common practice to wait until in escrow. If you will inevitably be purchasing in the next 90 days, you can get approved before you enter escrow.

Your formal conditional approval is going to outline what is left to be done before the loan funds. This list of conditions is what your lender is now going to focus on and should be reviewed very carefully.

## PRIOR TO DOC (PTD) CONDITIONS:

Prior to doc conditions are going to be the major conditions that must clear before the file is to pass through underwriting. If you fulfill these prior to doc conditions, there is very little in your way to final approval. Here is a list of some of the things that the underwriter will most likely condition for:

**Income Documentation:** Documentation supporting 2 years of income either tax returns or W2s along with you two most recent paystubs. They will use this information to verify the income you are claiming you make on your loan application.

**Asset statements** for all assets you have declared on the loan application. They will want a two to four month history with all the pages for every account.

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Verification of rent of mortgage is required, and is either ordered or pulled off of your credit report. If you rent you will need to include the name and contact information for your landlord.

Letters of explanation for anything out of the ordinary will be requested to explain irregularities, gaps in employment for example.

The appraisal must be completed by a licensed appraiser, and must support the purchase price of the home. This will be ordered by the lender but is a buyer expense.

Every condition list is going to vary slightly from the next so it is impossible to predict a complete list of conditions. Moreover, depending on the type of program you are qualifying for, some of the conditions listed here may not be required. Stated income and Stated Asset programs are available to qualified borrowers, and these programs do not require some of these conditions. Use this list as a reference rather than definitive proof; your lender will instruct you on your particular conditions. Get them what they need and your home loan will be approved.

## PRIOR TO FUNDING (PTF) CONDITIONS PREVIEW:

Prior to funding conditions are the conditions that are to be fulfilled after the final paperwork has been signed. Because all the major conditions of any file will be required to be signed off by the underwriter before the final paperwork is drawn, prior to funding conditions are usually minimal. Although you get a list of prior to funding conditions here, this is only a preview. The final list of prior to funding conditions is not generated until the funder from the bank receives the signed final paperwork.

## 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. The escrow company that is chosen is ultimately up to the buyer and seller, and should be discussed before the contract is completed if this is an important point for either side of the transaction.

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## OPEN TITLE:

Opening title occurs at the same time (or virtually) as escrow is opened. The escrow officer is responsible for opening title, however the title company used does not have to be the same escrow company, but unless specified it usually works out this way. Ultimately who handles both escrow and title is up to the buyer and seller, and this point should be worked out at point of contract. 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 lend money it is crucial that the home have a clean title.

## EARNEST MONEY DEPOSIT:

The earnest money deposit is a deposit made by the buyer in good faith to the seller. This deposit is held in escrow and demonstrates a commitment to buy. This typically happens when the contract is signed and completed. It is turned over to escrow as soon as escrow is opened. If the money is not turned over to escrow the broker that is holding the money must keep it in a separate account so not to commingle your funds with their own.

## WALKTHROUGH:

The walkthrough is something that is going to be done with your agent alongside the listing agent. During the walkthrough you are looking for anything that is a concern and pointing it out. If you are uncomfortable about something, or are unclear whether it comes or goes with the property now is the time to seek clarification. Take your time and be thorough however do not expect the seller to make major concessions at this time simply because you have now chosen to point them out. All major deficiencies are required by law to be disclosed to you by the seller so long as they know about them. Now is the time to look for things they may not be aware of.

## PEST INSPECTION:

Sometimes the pest inspection occurs right before or after your walkthrough. Ultimately you are not required to get a pest inspection, however it is an excellent idea, because once you are the owner you will assume any and all responsibility to the property. Getting a pest inspection relieves some of this burden because any specific and immediate damage can be placed on the seller. There are two types of damage that is reported phase one and phase two. Phase one damage needs immediate action and is usually the seller's responsibility. Phase two damage is not as serious, and is usually considered the buyer's responsibility; however depending on the seriousness of this damage it may make sense to walk

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away from buying this home. To do so you will want to make sure a pest inspection is included in the contract as a contingency.

## SUBMIT CONDITIONS:

Submitting home loan conditions involves gathering all the necessary supplemental paperwork the underwriter has asked for and submitting it for review. This is absolutely necessary for home loan approval. You will want to get this information back to your lender as quickly as possible so he can get it in front of the underwriter. There are underwriting turn times, which fluctuate depending on lender and volume, which you will want to prepare for. These turn times represent how long it takes for the underwriter to review conditions submitted. If their turn time is 48 hours, your conditions will be reviewed within 2 business days after they have been submitted to underwriting. Understanding these turn times is important because while working inside the close of escrow you will need to realize there are days in which your lender will have their hands tied waiting for underwriting. By getting conditions submitted early, you will have time to react to the underwriter's decision based on the supplemental paperwork provided, and if there is something else needed, you will have time to get it in.

Submitting conditions is an ongoing process that never truly ends until your home loan is approved and funded, and should not be taken lightly. If your lender needs some paperwork to fulfill a condition to get your home loan approved, get it to him immediately, if you cannot provide what he is asking for there are sometimes alternative solutions. Do not avoid the issue discuss it immediately so your lender can discuss alternative solutions with the underwriter. The rule you want to follow when submitting conditions is get it in to your lender fast. As long as you get him what he needs quickly, you should not run into any issues.

## 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 appraiser 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.

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## PEST INSPECTION RESULTS:

You will get pest inspection results a day or so after the inspection has been completed. These results are going to outline any issues the home has and recommend specific action to be taken. The pest inspection is an excellent reason to cancel a purchase if the report comes back unfavorably. More often than not, the report will come back with some minor issues reporting. This is typical.

## COMPLETE APPRAISAL:

Approximately three days (sometimes sooner, sometimes slightly longer) after the appraiser inspects the home the appraisal will be complete. The appraiser will forward the completed appraisal directly to your lender. This completed appraisal will help determine the home's value, but is not the tool banks use to evaluate home value. The appraisal itself will have to pass through an AVM, or automated value matrix, to make sure that the comparable sales used are reasonable and the appraiser has not overinflated value. Your lender will forward the appraisal directly over to the underwriter. You do have a right to a copy of the appraisal, and it is recommended that at this time you request a copy for review and your records.

## SUBMIT APPRAISAL:

Upon receiving the appraisal your lender will review it for any immediate mistake and forward it over to the underwriter. Make sure your lender gets the appraisal submitted and into the lender as quickly as possible. This means not pushing back the scheduled date of appraisal earlier in the transaction.

## UNDERWRITING CONDITION/APPRaisal REVIEW:

The underwriter is going to be reviewing all of the file conditions throughout the approval process, however with the appraisal completed and submitted; there is now no reason why any other conditions should not be completed. This point marks a milestone because you should not have anything left to get over to the lender. There will be some internal conditions that need fulfillment, but your lender is responsible for these and will undoubtedly satisfy them. These internal conditions will be discussed later, simply understand at this point in time you should have all the supplemental paperwork your lender is requiring over to them. The review of conditions is going to take a couple of days depending on turn times. Remember this and be prepared for a couple of inactive days as the underwriter reviews the conditions and appraisal.

## ESTIMATED HUD SETTLEMENT STATEMENT:

The estimated HUD Settlement statement is going to be produced by escrow and required for review by the underwriter as one of your final conditions of home loan approval. Your lender is going to send

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escrow a copy of their good faith estimate confirming lender fees. Escrow will then enter in all the third party fees that they are aware of, thereby creating a third party estimate of closing. This will be more accurate than the original good faith estimate, and although no signatures are required, there is no reason that your lender cannot forward you a copy for your review. Because the cost of closing can change, it is important that this evolving number always be represented to you. If your lender has done a good job the good faith estimate representing closing costs associated with your home loan, then the estimated HUD Settlement statement should not be too far off from the original good faith estimate, regardless expect some movement in figures when reviewing this document. Nothing is required of you for this step to be completed, however it is mentioned because it is an excellent opportunity for you to get an update on closing costs.

## FINAL WALKTHROUGH:

Your final walkthrough is completed after you get the results of the pest inspection and appraisal, and the seller has had time address any concerns or issues that were brought up in the inspection or your first walkthrough. This is basically your last look at the home you are about to buy, so if there is anything that you see, mention it to your agent. Both your agent and the listing agent will be here for this, and at the conclusion of this walkthrough you should be satisfied with the condition of the home.

## REMOVE CONTINGENCIES:

This is something the listing agent will press for early, but usually you want to delay 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. It is advisable to wait 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 understand the consequences and make sure everything is in order. It is possible to get longer or shorter home loan contingency periods. This is a point up for negotiation and should be discussed with your agent while submitting your offers.

## SECURE HOMEOWNERS INSURANCE:

Securing homeowners insurance is going to be really the last thing required of you. It is a prior to funding condition but is mentioned here because you are going to need to contact an insurance agent and most people like to shop around to make sure that they are getting a good premium. Usually your agent and lender can recommend insurance agents if you do not know of any, however you should not feel obligated or pressured into using their recommendation, ultimately like escrow and title this decision is up to you.

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## LOCK INTEREST RATE:

There is an excellent chance that your lender has already locked you interest rate by now, but if they have not it will need to be locked for them to order the final paperwork. Locking your loan guarantees a rate for a period of time, and comes with a cost. The longer the lock period, the more risk to the lender, therefore the higher the cost. This cost is not something that you should be too concerned about. A good lender will adjust pricing to lock periods as they quote your rates, or you can ask them specifically what lock period they are quoting that interest rate for, and they should be able to tell you. Generally lenders offer lock periods for 8, 15, 30, 45, or 60 days. There are reasons to take longer lock periods, but in favorable markets, floating the interest rate as far through escrow as possible will mean lower closing costs, or even a slightly lower interest rate. Generally speaking a thirty day lock is customary, however shorter lock periods should be taken advantage of when possible, and is one good reason to begin the submission and underwriting process before escrow is opened and you are officially in contract. When it comes to purchase home loans, locking a loan should be done with respect to the close of escrow. It makes no sense to lock a loan for a period of 15 days if the close of escrow is 30 days. The lock period should extend past the close of escrow by a few days. If all parties are willing you can extend escrow, usually at no cost, however lock extensions always come with a fee. A lock extension is purchased when you need to guarantee the interest rate past the lock deadline. If it becomes necessary purchasing a lock extension can make a lot of sense.

If you elect to float your interest rate, you are at the mercy of the markets, and should be prepared if the market moves against you. Ultimately if you are working with an honest lender, than it is not their fault. They should however have reason for recommending lock or float decisions, and these reasons should make sense to you. Ultimately it is your decision, but seek advice from your lender, they know the players, and watch the market daily; their advice is worth its weight in gold – literally. Regardless once in escrow, your interest rate choices are reduced to a micro scale, that being how long your escrow period is. You cannot accept a rate available after close of escrow, obviously, so you should strive for the best rate available during this time, and not be upset if a lower rate comes along in the near future. There are always opportunities to refinance if the numbers support such action. Once your rate is locked the terms of your loan are set, and guaranteed for the life of the lock period.

## PTD CONDITONS FULFILLED ORDER FINAL PAPERWORK:

With the lock confirmation submitted and the doc order request filled out and submitted, your loan is passed from underwriter to funder. Your lender instructs the funder that docs are to be drawn and the final paperwork is produced according to the specifications listed on the doc order form.

## DRAW FINAL PAPERWORK:

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The final paperwork drawn is then sent to escrow. Escrow will 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:

Signing with a notary is important because it is the process of acknowledgement. Acknowledgement is someone being able to testify that the right person signed the right paperwork. Because of this it is important when you meet with the notary to have some form of valid identification with you.

## DEPOSIT REMAINING FUNDS TO CLOSE IN ESCROW:

At this point in time you are going to need to deposit the remaining funds into escrow. Different escrow companies handle this step differently, some allowing you to give the check to the notary, others insist it be delivered to their office. Whatever the case, these funds will need to clear before escrow is to close, so it is recommended that you use a cashier's check or money order. If you decide to draft a personal check it can take up to five days for it to clear holding up the close of escrow. Whatever method of final payment you decide check with escrow to find out how it should be made out. The final settlement figure will depend on the final settlement statement, and how large of an earnest money deposit you already put down. Usually you will be required to put down slightly more than is needed to close escrow. This is done to ensure the books can be correctly balanced. In the end, you are reimbursed the extra you put forward. This is known as an escrow pad.

## SIGNED FINAL PAPERWORK RETURNED TO LENDER:

The signed final paperwork that you went over with the notary is forwarded back to the funder to review. How escrow forwards this paperwork is important. Usually it is sent one day air, which means a day spent without anything accomplished, this should be accounted and prepared for. All in all this step will take care of itself and does not require any work on your part. Your lender will follow up with escrow, confirm these points with your lender and simply wait for your funding conditions.

## FINAL PTF CONDITIONS:

These conditions are drafted by the funder once they have had the opportunity to review the signed final paperwork that you went through with the notary. It is difficult to say what the funder is going to condition for. Sometimes it is a missed set of initials, or a signature, they'll have some title work for the escrow agent to fulfill, and they'll want proof that insurance is bound. These conditions will be provided to both escrow and your lender. Your lender will review these conditions with you, if you have made it this far there is little left to stop you and these conditions will probably be minimal.

## PTF CONDITIONS FULFILLED:

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With the prior to funding conditions fulfilled. The lender is going to look to fund the loan, but this is not an instantaneous event, and in some instances it can take a couple of days. Be patient, your lender is working overtime at this stage of the game to get your loan funded and finalized.

## INSURANCE BOUND:

This is the finalizing your homeowner's insurance, and is a prior to funding condition, however because it involves your insurance agent as well as escrow it is appropriate to include it in its own section. The escrow agent gets an insurance binder from your insurance agent demonstrating their willingness to insure the home. If you contacted insurance agents earlier as suggested in this timeline, this step will take care of itself.

## LENDER FUNDS:

The lender wires money over to escrow.

## ESCROW DISPURSES FUNDS & RECORDS:

Escrow takes wired money and your deposit 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 prepares a final HUD settlement statement. In conclusion they order title to record new ownership.

## BUYER'S AGENT TURNS OVER KEYS:

Your agent turns over the keys to your new home.

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