



Guide to Home Buying

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The Buying Process

The home buying process has many steps and can seem convoluted. Many pieces are handled “behind the scenes” by either the lender or title/escrow company and don’t necessarily require the attention of the buyer or seller. However, having an understanding of the full process can go a long way in ensuring it goes efficiently and without surprises.

Search

- 1) Choose a realtor to work with and discuss your needs, criteria, and financial qualifications
- 2) Seek loan pre-approval from a lender
- 3) Tour homes, receive competitive market analysis from realtor

Make an Offer

- 4) Your realtor will write the offer and present it to the seller’s agent
- 5) The seller may present a counter-offer at this point
- 6) Sign the purchase agreement based on the negotiated offer
- 7) Research and choose your title company
- 8) Submit the purchase agreement and earnest money deposit to title and escrow company

Open Escrow and Order Title

- 9) Receipt of purchase agreement and earnest money deposit will open the escrow account
- 10) Complete the loan application and submit to lender
- 11) Receive preliminary report from the title and escrow company and the seller disclosure statement
- 12) Inspections are carried out
- 13) Wait for the loan application approval and the appraisal
- 14) Obtain new homeowner’s insurance policy

Closing

- 15) Bring required documents to closing and sign documents
- 16) Receive copies of title, escrow docs
- 17) Receive a buyer’s closing disclosure or closing statement from the lender

Choosing Your Lender and Title Company

While finding a competitive rate is important when securing a new loan, a few other factors should come into play considering the magnitude of the purchase being made. What level of service will a lender or title company provide? Do they have stellar online reviews? Are they committed to closing your loan timely and without significant difficulty? Here are some tips to help guide your decision.

Make a list of potential lenders and title companies

Check with people you know who have recently bought or refinanced, and go online to search for the highest-rated companies and how long they have been in business. You may also want to check to see if they have an office local to you.

Talk to several lenders

Meet with 3-4 lenders to get a feel for what it is like to work with them. Compare their rates and fees. Determine how receptive they are to your needs and evaluate which might be the best fit.

Only about 53% of borrowers shop around for a mortgage when they buy a home. An alarming 77% of borrowers only apply with a single lender.



The Appraisal Process

Once the purchase is underway, an appraisal report will be ordered. An appraiser is a licensed professional specialized in determining real estate values. Familiarize yourself with the appraisal process to prevent re-inspections and get a better idea of the home's value.

The Appraiser...

- 1** Researches the basic characteristics of the property (size, number of bedrooms and bathrooms, year built, etc.)
- 2** Gathers information on 3 “comps”, or similar homes that have sold in the area in the past 3-6 months. These help to inform the appraiser of the relative value of the subject property.
- 3** Conducts a field inspection of the property. This includes the inside and outside of the 3 comps. The valuations of the comps are then adjusted if needed.

The appraisal will focus on all aspects of the home, including the exterior, street view, yard, and interior of the home. Anything affecting the value will be noted. After the subject property has been inspected, the appraiser will pull reports of the interior for the comps. This information will be used alongside the characteristics of the subject property in what is called the “Direct Sales Comparison Approach”, a method that is used in nearly all home sales in the U.S.

Inspections

Your realtor will order inspections during the contingency period to evaluate various physical characteristics of the property. Some inspections are required in order to complete the sale, while others may be negotiable in the purchase agreement. You will also receive a Seller's Real Estate Transfer Disclosure Agreement at this time. Under California Civil Code Section 1102, the seller is required to disclose any known characteristics about the home that a potential buyer may not be aware of otherwise.

Structural Pest Inspection

This is a specialized inspection generally required for all home sales. An inspector will determine if there are any structurally-damaging pests such as termites on the property and evaluate if there is active damage occurring. Active damage must be dealt with for the sale to proceed, while corrective actions for pests that are not causing active damage are not required and negotiable.

Geological Inspection

This inspection is usually optional and is only carried out at the buyer's request. An engineer will inspect the stability of the ground beneath and around the structure as well as the historical geological activity of the property.

Home Inspection

This inspection is usually paid for by the buyer and covers everything from plumbing to electrical systems to roofing. A detailed report will be compiled based on the findings, and the inspector may recommend a second look by a specialist. If repairs are needed to correct any issues that arise, the cost is negotiated and incorporated into the purchase contract. Sometimes a seller may offer a discount on the closing costs in exchange for waiving repair work.

What Does a Title Company Do?

Part of the process of buying a property is ensuring there are no disputes over its ownership prior to the transaction taking place. This is where title insurance comes in. A title company will carry out an extensive search and do all of the necessary research ensuring there are no disputes on the title of the property.

Three Steps of a Title Search

1

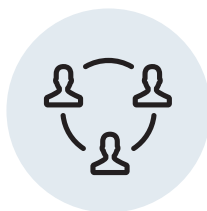
Chain of Title: the title company researches the history of ownership of the property to ensure the seller is listed as the current owner of record .

2

Tax Search: the tax search determines the current status of taxes and other assessments owed to the local taxing authorities.

3

Judgment and Name Search: this search gathers information relating to any judgments or liens against both the current owner and purchaser.



What Does a Title Company Do?

Crucial Review Items

- 1** **Current Ownership:** whether or not the party selling the property is listed as the owner of record
- 2** **Taxes:** whether or not there are any outstanding property taxes or assessments owed on the property
- 3** **Judgments:** whether or not there are any unsatisfied judgments against a previous owner, seller, or purchaser
- 4** **Liens:** whether or not there are mechanic liens, federal tax liens, or any other prior claims on the property

If the searches reveal any defect or issues on title, the title company will take corrective actions to resolve them. After the title examiner reviews and clears the title of all the above-listed liens and encumbrances, the title company will release the preliminary report. This document outlines the conditions in which the company will insure the property. The transaction will then move forward with you and your realtor receiving a copy of the preliminary report.

What is Escrow?

Escrow is a process by which a neutral third party organizes and allocates the funds in a transaction. An escrow account is where the funds are stored. The escrow holder assumes the responsibility of correctly disbursing the funds according to the escrow instructions laid out by the other parties in the transaction and safeguards the funds while the transaction is underway.

The Escrow Process

The principals (buyer, seller, lender) in a transaction create escrow instructions and send them to the escrow officer. The officer will collect and organize the funds and process them according to the satisfaction of the escrow instructions. When all conditions listed in the instructions are met, the officer will “close” the escrow and deposit the necessary funds.



The Life of an Escrow



Who Pays What?

Seller

- Transfer taxes (city and county)
- Judgments or tax liens
- Local bonds or special assessments
- Existing loan payoff (plus any applicable penalties)
- Loan interest accrued to time of sale
- Tax proration (based on next installment due date)
- Unpaid property taxes
- Unpaid HOA fees and dues
- Pest inspection and repairs (if needed)
- Escrow and doc prep fees (buyer and seller may split)
- Recording charges to clear name
- Title insurance premium (buyer and seller may split)

Buyer

- New loan charges
- Interest on new loan from transfer to 30 days prior to first payment
- Change of record fees and beneficiary statement fees (for takeover of existing loan, if applicable)
- Home inspection fees
- HOA fees and dues
- Tax proration (from date of transfer)
- Escrow account deposit (for future property taxes and insurance)
- Hazard/fire insurance premium (covers first year)
- Escrow and doc prep fees (buyer and seller may split)
- Recording charges
- Title insurance premium for lender's policy (buyer and seller may split)

**Disclaimer: the items listed above are categorized based on convention in a particular geographic area. Depending on the state, county, and specific location, these items may change. Above all else, many items are negotiable and vary based on the arrangements made in the specific contract.*

Glossary of Terms

Appraisal - an opinion or estimate of value by a licensed professional based on a variety of factors surrounding a property

APR - annual percentage rate. The annual rate charged for borrowing which is expressed as a percentage representing the yearly cost of funds over the term of a loan

Assessments - a special type of tax levied on a property to pay for public improvements that is separate from regular property taxes

CC&R's - covenants, conditions, and restrictions. A document that restricts usage or modification on a property

Closing Statement - a document outlining all of the funds collected at the time of closing, including deposits and insurance payments

Competitive Market Analysis - a report prepared by a realtor that analyzes home sales data to help determine the appropriate sales price for a listing

Comps - properties analyzed as part of the appraisal process that are of similar quality and value to a subject property

Contingency - a condition that must be satisfied in order to make a contract binding

Contingency Period - the period during which various approvals and processes are taking place to complete a transaction

Deed - a written instrument by which a piece of real estate is transferred from one owner to another

Deed of Trust - a written instrument by which a piece of real estate is transferred from an owner to a trustee as security for a debt. Used in lieu of a mortgage in some states

Direct Sales Comparison Approach - a common method of property valuation in which a subject property is compared to similar properties in an area

Earnest Money - a deposit placed by a potential buyer that serves as evidence that the interest in a sale is legitimate. Also referred to as a "good faith deposit"

Glossary of Terms

Easement - a right given to a party to access or use the land owned by another party, such as for roads or utilities

Encumbrance - a claim or right attached to a piece of real property by a party other than the owner that reflects an interest in the property

Escrow - a process by which funds allocated during a transaction are held by a neutral third party. The third party carries out instructions for disbursing funds and assumes the responsibility of handling the transaction correctly

FHA Loan - Federal Housing Administration loan. This type of loan is secured by the U.S. government and encourages private home ownership on a long-term, low down-payment basis, especially for persons with a low credit rating

HOA - Home Owner's Association. An authority existing in certain residential areas or neighborhoods that may impose recurring fees for property maintenance or shared residential areas. An HOA may also set rules on what is or is not acceptable with regards to property within a community

Home Inspection Report - a report created by a licensed home inspector that details the physical characteristics of a home including recommendations on conditions that may need corrective action

Home Owner's Insurance Policy - a form of insurance that covers both loss or damage to a party's house and damages caused by accidents in the house

Loan Application - a document submitted to a lender for review covering personal financial information, including income, debt level, and detailed credit report that ultimately determines the loan amount and rate a homeowner may qualify for

Mechanic Lien - a lien created in order to prioritize payment for work and materials for the modification to or repair of land or permanently attached improvements on a property

Glossary of Terms

Preliminary Report - a report generated by a title company that outlines the conditions in which a property will be insured. Given to the buyer after an extensive title search is performed

Purchase Agreement - a contract created between two parties for the purpose of transferring a property that outlines the terms and conditions under which the sale is acceptable

Realtor - a licensed professional affiliated with the National Association of Realtors who facilitates the sale of a property

Seller's Real Estate Transfer Disclosure Agreement - a document required by the State of California in which a seller discloses certain material facts regarding the condition of the real property being sold

Tax Lien - a lien created by the non-payment of property taxes or special assessments held by a local taxing authority. Also may refer to a federal tax lien for non-payment of federal income taxes

Title - official evidence of a party's ownership of a property

Title Examiner - the professional representing the title company that reviews a property and determines whether or not corrective action is needed to issue the preliminary report

Title Insurance Policy - a special type of insurance that protects the purchaser, lender, or other party against losses arising from issues surrounding property ownership

Transfer Tax - state tax on the transfer of real estate that is typically reflective of the purchase price of the property

VA Loans - Veterans Administration loan secured by the federal government to encourage long-term, low down-payment mortgages to eligible military veterans