THE STEP-BY-STEP HOME BUYING PROCESS

Susie Delava Real Estate is ready to serve you no matter which neighborhood you are looking to buy a new home in Los Angeles.

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RODEO REALTY Fine Estates®

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1. Talk to a Mortgage Specialist

The Decision to Buy a Home is a Big One.

It's easy to get overwhelmed when figuring out where to start. Here is a step-by-step guide to help you navigate the process. I'm always available to give advice and answer any specific questions that you may have, but this is a good start to get the ball rolling.

Talk to a Mortgage Specialist.

Especially if you have never bought a home before, the very first step should be to talk to a qualified mortgage specialist. Even if you are not ready to buy, most are happy to talk to you about your options. It's their job to provide you with helpful information, and they know that if they treat you well, you will come back to them when you are ready. They can tell you what kinds of loans are available and might be the best fit for you, how to improve your credit score, how to file your taxes to that you will qualify for the best loan, and answer any questions you have about the process. Once you are armed with this knowledge, you can move on to the next step.

2. Saving For A Down Payment

Many people think that they need 20% minimum to put down while buying a home, but that is not always true. The down payment required to buy a home will vary based your loan program, and there are a few down payment assistance programs (DPA) available to first time homebuyers. The majority of first time home-buyers, however, should expect to put down anywhere from 3% (if it's an FHA loan) to twenty percent of the purchase price. Of course, buyers can put more than twenty percent down at any time.

Besides the down payment, buyers will have closing costs to pay as well. Closing costs vary, and your mortgage broker could give you an idea of how much they might be for you. Lastly, be mindful that some lenders may require additional cash reserves, so don't plan on spending everything you have on your home. Aside from putting your ability to get approved in jeopardy, it's poor financial judgment to leave yourself without money in reserve.

3. Determine Home Affordability

When buying a home, mortgage lenders will look at your income, your assets, the down payment you have, as well as your other debts, liabilities, and obligations.

A general guideline is that a buyer's total debt payments should not exceed 36% of their total household income, a ratio known as debt-to-income (DTI). Lenders use this guideline because it has been shown to be a level at which most borrowers can comfortably repay their mortgage, while still having money left over for "life". The "36% figure" is just a recommendation, however. Some households are able to manage ratios in excess of 36 percent and, for some households, 36 percent is too high. The best approach is to work with a mortgage professional to determine exactly what you can afford, both from a loan approval standpoint, as well as a comfort level for making the monthly payments.

4. Check Your Credit

Before applying for a mortgage — or any other loan type — it's helpful to know your credit standing. By law, you can receive one free copy of your credit report per year.

Mortgage lenders will evaluate your credit using the FICO scoring model. The FICO model scoring ranges from 300-850. Generally, the higher your credit score, the better loan for which you'll qualify.

When you receive your credit report, be sure to review it for errors and omissions. If you find something wrong, dispute it. This will start the process of removing the error from your record and may also improve your credit score.

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5. The Difference Between Pre-qualification and Pre-approval

The process of getting pre-qualified involves providing some personal and financial information to your mortgage lender, such as income and asset info, as well as information for pulling credit. Your mortgage lender will review this information and let you know how much you'll be able to spend on a home at that time. Getting pre-approved for a mortgage is more in-depth than getting pre-qualified. During the pre-approval process, you will be asked for documentation which support the information you've verbally provided as part of your pre-qualification. Documentation typically includes W-2s, pay stubs, and bank statements; and may include federal tax returns. Getting pre-approved also allows you to move much faster when you find that perfect home. In today's competitive market, a pre-approval lets the seller know your offer is serious. Not having one can weaken your bid and cause you to lose out to another buyer whose financing is already in order, so make sure you have gone extra mile for pre-approval before you begin to the serious search.

6. Find a Home, Make an Offer

With the help of your real estate agent (hopefully me!), you can begin touring homes in your price range. It's helpful to know what's most important to you and your family before you begin shopping. Your agent can help you discern between wants and needs, and help you zero in on what your perfect fit will be. Sometimes it's not clear until you start actually seeing homes, and that's OK. It will be helpful to take notes on the homes that you visit as it may be possible that you will view a lot of houses, and after a while they may run together. You can even take pictures or videos to help you remember. Besides scrutinizing the home itself, you'll also want to evaluate the neighborhood. In what condition are the other homes? Is there a lot of traffic on the street? Is there adequate parking? How about proximity to shopping?

After viewing homes for a few weeks, chances are you'll know which one or two you're serious about buying. After you find the right home, your real estate agent will help you come up with and negotiate an appropriate offer based on the value of comparable homes in the same neighborhood. Be mindful of your financial circumstances, down payment amount and closing costs when negotiating a price.

7. Open Escrow and Deposit your Earnest Money

Once a deal has been reached between you and the seller, the seller's agent will open escrow and you will deposit their 3% earnest money into the escrow account (which is refundable if you pull out during the agreed-upon contingency periods). Escrow is a neutral third party company whose job it is to oversee a real estate transaction, from initial deposit to final funding, to ensure a smooth process. The escrow holder writes instructions based on the conditions of the purchase agreement and submits timelines for the real estate agent or principals to follow.

No exchange of funds or property will take place until all conditions are met. The escrow holder will order a Title Report, which will reveal the condition of the property title, and it will be provided to you for your review. If you ever have a question about something on the title report, you can always call the Title Officer and it will be explained to you. The Title Company will also provide an insurance policy on the Title, will protect you in the unlikely event that someone else comes along and lays claim to title. Typically the seller pays for the policy, but it's a negotiable item to be sure your agent has specified in the contract to ask for that.Then, once you and the seller reach an agreement on the price, you'll go under contract, also known as opening escrow.

8. Order a Home Inspection

After you've found a home and negotiated a sales price, you need to schedule your home inspection. Your real estate agent will help you navigate this. As a homebuyer, always exercise your right to a home inspection, even on newly-built homes. Home inspections will cost between $200-600, depending on the size and age of the home; and should be performed by a licensed home inspector who will be impartial to the inspection's outcome. Licensed home inspectors are trained to look for defects in a home, which you or your real estate agent, may have missed including faulty electrical wiring, building code violations, roof issues, and other health or safety hazards. A thorough inspection will take anywhere from 2 to 8 hours to complete. A few days after the inspection, the licensed inspector will provide to you a report, which details the home's system and structure.

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Note that many buyers choose to have multiple inspections (common additional inspections are foundation, termite, sewer line, roof, fireplace and moisture/mold). The home inspection is generally the low point of the transaction for both the buyers and the sellers. The inspectors' job is to leave no stone unturned and provide the buyer with a complete list of every little defect that exists, which can be overwhelming for everyone. It will then be your choice whether to ask the seller to remedy the deficiencies found.

9. Negotiate Requests for Repair

There are several ways to handle the request for repairs. Your agent can help you prioritize which items are important issues and which are less so. You can submit a list of the problems, and determine whether you'd like the seller to fix them or if you would like to ask for a credit or price reduction and handle the repairs yourself. If the seller agrees to make repairs, you will have an opportunity to "walk-thru" the home prior to closing to ensure all repairs were made, as agreed. The seller does not ordinarily have to accept your request to make repairs, but you can cancel the contract if he doesn't, so it is best for both buyer and seller to work together to come up with am agreeable solution to get the home sold.

10. Submit Loan to Your Lender

As soon as escrow is opened, you alert your lender and submit the loan for approval. When you submit a loan to your lender, it's known as "going into underwriting". The term "underwriting" refers to the process that leads to a final loan approval or denial. Once an underwriter has reviewed all of a mortgage applicant's information and documentation, a decision will be made on the loan's status. There are a few possible outcomes at this point.

The majority of loan applications are "approved with conditions." This means that the loan is approved — so long as the borrower provides additional, clarifying information. Conditions typically fall into three categories: explanation and correction of anomalies, verifications and attestations, and supplementary documentation. Explanation and Correction of Anomalies refers to inconsistencies in a credit reports; and may include official explanations of out-of-the-ordinary pay stubs, tax statements, and wages. Verifications and Attestations include verifying a borrower's income, employment, housing history, and gift funds, when applicable.

Lastly, supplementary documentation requests may include clarification on credit profile items, profit-and-loss statements from a business, and tax-related document.

11. Order an Appraisal

When the loan is submitted, an appraisal will be ordered by your lender. An appraisal is an opinion of value from a licensed real estate appraiser who visits the home and inspects its size, condition, function, and quality. First, an appraiser comes out to the property and inspects the home. Next, the appraiser researches similar homes in the area and compares recent sales to determine a fair market value.

The appraiser then gives a final appraisal report, which includes a final "opinion of value." A real estate appraisal helps to establish a home's market value – the expected price it would fetch if offered in an open, competitive real estate market. Appraisals can help buyers ensure that they don't overpay for a home. By law, mortgage companies cannot complete their own appraisals so many hire an appraisal management company (AMC) to handle the work which, in turn, gives the work to a licensed professional appraiser. The appraisal must be performed by a third party who has no interest in the outcome of the appraisal.

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12. Contingency Periods

Until all contingencies have been lifted, you can exit the transaction without losing your earnest money. The timelines for all contingencies are established in the purchase agreement. In transactions that are financed, there are three contingencies:

1. Inspection Contingency: During this period, you get an opportunity to review your seller's disclosure packet and conduct real estate inspections. On or before the contingency removal date, you are supposed to either submit a contingency removal form, indicating an intent to proceed with the home purchase (in most instances this is tied to the request for repairs) or submit escrow cancellation instructions if you have decided you no longer wish to move forward with the sale.
2. Appraisal Contingency: If the home does not appraise for the agreed upon price, you may back out of the transaction.
3. Loan Contingency: If you have been cooperating with the lender in a timely way, but still are not granted the loan in

13. Shop for Homeowners Insurance

Once your home inspection is complete and your loan is underwriting, it's time to get started with your homeowners insurance policy. Known officially as "hazard insurance", homeowners insurance is a requirement of your loan approval. Lenders want to be sure that your home can rebuilt to its same specifications in the event of catastrophe, and won't approve your home loan until such a policy is in place.

You shop for your hazard insurance, knowing that quoted premiums will vary by insurer based on the age of the home, its construction type, its proximity to services such as police and fire departments, and your deductible amount. You'll be asked to show proof that your policy is in effect as of your closing date. Many insurance policies are pre-written, and made effective upon payment of the first year's premium, which typically occurs at closing — not before.

14. Receive Your Approval from Your Lender

After a file has been fully underwritten and all of the conditions are satisfactorily met, a final underwriting approval will be issued. This is known as a "Clear to Close".

Clear to Close means that the documentation you provided to your lender have met their approval, and that no additional paperwork is required. When you're Clear to Close, your lender is ready to fund your loan and will begin communicating with the closing agent to prepare your documentation for closing.

15. Sign the Title and Escrow Documents

In advance, all of the necessary paperwork for signature will have been delivered by your lender, and your final Settlement Statement — called the HUD-1 — will mirror the preliminary settlement statement which was sent to you in advance. If you are obtaining a loan, all loan paperwork will be signed in front of a notary, and once the funds have arrived from your lender and you have wired your remaining down payment funds, you will be ready to close escrow.

16. Close Escrow

During closing, ownership of a property is transferred from the seller to the buyer. The real estate closing is also referred to as settlement. The two terms are interchangeable, though "closing" is the more common usage. During this step, all funds are distributed by the escrow company, and the new deed is registered in the buyer's name.