

Home Buying Process in Colorado

The Colorado Contract to Buy and Sell Real Estate provides several contingencies for the home buyer. These contingencies are short periods of time to get our financing in order (loan conditions), verify that the property condition is acceptable (inspection objection) and to make sure the title is clear and merchantable (title objection). Once these contingency deadlines pass, the buyers earnest money will become...“at risk”. This is why we work closely with our clients to get through this period with satisfactory results. Although contingencies are an important part of the work we do, they are just a small portion of what we manage during the home buying process. Here is a more comprehensive overview.

1. Pre-Qualification - Pre-qualification is the beginning of the formal loan application process. At this stage we establish how much you can and want to spend on your new home. Additionally, an experienced lender will look at your long and short term financial goals and present you with the appropriate loan programs. Although we love the Internet we don't love it for loans. Lenders will make outrageous claims in order to set the hook but at the end of the day the money all comes from the same place and no one really works for free. Beware of Internet lenders that offer rates and closing costs that seem “too good to be true”!

2. Needs assessment - It is important that we have a clear idea of what your priorities are as they pertain to lifestyle, finances, etc...

3. Area Tours - Once we have a thorough understanding of your priorities, we get in the car and drive through those areas that most likely suit your needs. The idea is to eliminate those areas that just won't work for larger reasons like schools, shopping etc...

4. View Homes - Once we have determined your favorite areas we start to view homes in those areas. We generally preview before we take a buyer. The purpose of previewing is to eliminate those homes that have some kind of resale issue or major problem. By previewing we are able to eliminate the number of homes you will have to look at before you actually get in the car.

5. Locate The Home - When we do find the home you are interested in purchasing, the first thing we need to do is to establish the value, in other words, how much is the property really worth? The tool we use to establish value is called a “**Comparative Market Analysis**”.

The goal of the Market Analysis is to find similar properties that have sold in the last six months and compare those properties (comps) to the home we are considering (subject property). Since no two properties are truly alike, we use a system of debits and credits to determine how much the home is truly worth. This is why it is essential to work with a Realtor that knows the market, it's important that the Realtor have some familiarity with the comparable properties. It is important to note the CMA is not as scientific as a professional appraisal but renders similar results.

6. Prepare Offer - Once we have established value, we determine how much we would like to offer. This decision is based on a combination of actual market value, your perceived value of the property, property condition as it relates to the amount of inspection items we think we might have to ask for.

7. Contingencies – Once we have the property under contract the due diligence period begins. Our goal during this period is to systematically remove all contingencies. These contingencies are short periods of time to get our financing in order (loan conditions), verify that the property condition is acceptable (inspection objection) and to make sure the title is clear and merchantable (title objection).

8. Full Loan Application - Once we have an accepted offer we are officially “Under Contract”, we send a copy of the agreement (contract) to the lender. The lender in turn starts to process the entire loan application. The loan goes into underwriting. Loan Underwriting by definition is “The analysis of risk and the decision whether to make a loan to a potential homebuyer based on credit, employment, assets, and other factors”.

9. Property Inspection - The inspection is our time in the house with a trained professional, time to discover the true condition of the property you are about to buy. This is why the choice of an Inspector is an important one.

Property inspectors are not licensed or regulated but there are organizations that set guidelines, standards and promote general competence in the field -- Organizations like The American Society of Home Inspectors ASHI, National Association of Home Inspectors NAHI, and the National Association of Certified Home Inspectors NAHCI. Additionally, personal referrals and past experiences can help find a skilled inspector. Membership in one of the above organizations should be a minimum requirement.

After the inspection, we put together a notice of unsatisfactory conditions, per the deadline in the contract addressing any repairs or potential problems.

10. Negotiate Inspection Issues - This is a process of putting together a list, if the inspection yields any unsatisfactory conditions. We present this list to the Sellers

agent who in turn reviews it with the Sellers. They have two choices, to agree to all conditions of our requests or to propose an alternative resolution. If they propose an alternative resolution, the buyer has the opportunity to either accept the resolution or walk away from the deal with earnest money intact.

11. Appraisal - The lender will arrange to have the property appraised. This is an upfront charge that the lender will collect at loan application. A professional, licensed appraiser will research the value of your home. If the property does not appraise for the purchase price, three options are available.

- 1. The amount of your mortgage would be smaller, larger down payment.
- 2. The purchase price can be renegotiated.
- 3. The contract may be terminated.
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Note: Step five addresses the Comparative Market Analysis. The primary reason we do the CMA prior to making an offer is in order to avoid having appraisal problems at this point in the transaction.

12. Title Work Reviewed – The seller must be able to provide, via the Title Company, a clear and merchantable title to the purchaser. The title company includes all parties in their research; so as a result, you will receive extensive paperwork throughout the transaction period.

The Title Company provides a current “status” on the title. This is usually where a flag will appear for any potential problems by notifying all parties what liens and/or judgments need to be paid at closing. The Title Company also provides a proposed commitment for your new title policy. This is where your lender will be listed as a lien holder. Title companies must also provide covenants and Home Owners Association documents. We review these documents for any potential problems prior to the title deadlines set forth in the contract.

13. Final Walk-Through – Prior to attending the closing, we walk through the property one more time to make sure any contractual inclusions are still at the property. Additionally, we make sure the property condition is acceptable, prior to the Seller receiving funds.

14. Closing - We review the final figures making sure there are no excessive lender fees or erroneous closing costs. Our goal is to eliminate unpleasant surprises at the closing table.