

Arizona Home Buying and Escrow Process

Overview

* Arizona's escrow process is similar to other states where an [escrow agent](https://www.amitree.com/articles/36/escrow-agent), [closing agent](https://www.amitree.com/articles/18/closing-agent), or representative from a [title company](https://www.amitree.com/articles/111/title-company) is used to complete the transaction.
* The buyer's funds are held by a neutral third party, as is the purchase contract, until an [escrow agent](https://www.amitree.com/articles/36/escrow-agent) verifies that both parties have performed their roles in the transaction and prepares the new title.
* The escrow company then disburses all funds and the listing agent delivers the keys to the property to the buyer.
* Arizona has its own environmental features that influence which inspections get performed, such as [termite inspections](https://www.amitree.com/articles/108/termite-inspection).

Step by Step

Part 1: Disclosures, inspections, and credits

These are the initial tasks once a buyer is in contract, and are most often done in parallel to Part 2: The mortgage process:

1. An offer is accepted by the seller and a contract is signed. The [escrow process](https://www.amitree.com/articles/37/escrow-process) begins.
2. A deposit, called [earnest money](https://www.amitree.com/articles/32/earnest-money), is deposited with the seller's real estate brokerage, an [escrow agent](https://www.amitree.com/articles/36/escrow-agent), or an attorney depending on the contract (never to the seller directly). Escrow companies are often part of a title company, but work as separate divisions.
3. The buyer reviews and signs off on any [disclosures](https://www.amitree.com/articles/24/disclosures), usually attached in a standard form as an addendum to the purchase contract. These disclosures vary based on property type, but often include things like known flaws with the property, prior improvements or repairs, and potential environmental hazards. A form called a Seller's Property Disclosure Statement ([see a sample form from the Arizona Association of Realtors®](http://www.aaronline.com/wp-content/uploads/2013/01/seller-property-disclosure-statement.pdf)) is provided by the seller either with the contract itself or during the inspection period. Sellers may see this as beneficial to themselves, and believe that buyers will build these pre-disclosed facts into the contract price (and thus sellers may be reluctant to provide any credits for these defects).
4. The buyer elects to perform [inspections](https://www.amitree.com/articles/57/inspection) on the property as agreed upon in the contract. In Arizona, an [inspection period](https://www.amitree.com/articles/63/inspection-period) is defined in the contract as a set number of days during which a buyer must perform any inspections of the property. The types of inspections vary by property type and situation (and locale), but in Arizona, common inspections include an initial inspection by a licensed [home inspector](https://www.amitree.com/articles/54/home-inspector) and additionally a [termite inspection](https://www.amitree.com/articles/108/termite-inspection).
5. Based on the outcome of inspections, buyers may walk away - or elect to ask the seller for repair work, closing [credits](https://www.amitree.com/articles/20/credits), or a reduction in the sale price due to flaws that were uncovered. Sellers have a set period of time (5 days is common) to respond one of three ways: 1) agree to all of the buyer's requests, 2) offer a modified solution back to the buyer, or 3) decline to make any amends. In response, the buyer can continue to negotiate, accept the seller's position, or end the transaction within a set number of days (also 5 days, commonly). If the buyer declines the seller's solution within the time period, they are free to end the transaction and recoup their earnest money. Of course, all communications back and forth between buyer and seller regarding inspections and negotiations around them must be done in writing.

Part 2: The mortgage process

For those borrowing to purchase their home, the mortgage process is usually the the most stressful and opaque part of the transaction. It's best to start as early as possible and be ready to produce lots of documentation. The following is the general process in Arizona:

1. A buyer submits a [loan application](https://www.amitree.com/articles/69/loan-application) to their lender, either directly or through a [mortgage broker](https://www.amitree.com/articles/78/mortgage-broker). [See a sample Uniform Residential Loan Application used in Arizona](https://www.dropbox.com/s/l2k28519iz1miug/loanappinteractive.pdf). Of course, well before this point, a pre-qualification or pre-approval with a lender should have been acquired.
2. The lender sends a "[Good Faith Estimate](https://www.amitree.com/articles/51/good-faith-estimate-gfe)," or GFE, to the buyer that is a breakdown of estimated closing costs. The final costs are likely to deviate from this estimate. [See a sample GFE at hud.gov](http://www.hud.gov/offices/hsg/rmra/res/gfestimate.pdf).
3. The buyer sends a series of [personal financial disclosures](https://www.amitree.com/articles/82/personal-financial-disclosures) to the lender. These vary by situation, but the most commonly requested documents are:  
   * Several months of statements for each bank account a borrower holds (including any investment accounts)
   * Several months of statements for any outstanding loans, lines of credit, or other liabilities. This can also include documentation of rent payments.
   * Up to two years of tax returns, released to the lender via an authorization submitted by the buyer using [IRS form 4506-T.](http://www.irs.gov/uac/About-Form-4506T)
   * Recent pay stubs and contact information for each borrower's employer. The number of pay stubs varies by situation.
   * Any other disclosures that are material to a borrower's financial situation. This includes but is not limited to marriage licenses, divorce settlements, child support, liens, bankruptcies, or judgments. If there's something that affects how much money you have on hand that isn't shown by simply looking at your salary, be prepared to document it.
   * Explanation of any credit inquiries
   * Substantiation of any large deposits or cash gifts that aren't regular income. In some cases, a large cash gift may look similar to a personal loan by a friend or family member, and lenders will require [gift letters](https://www.amitree.com/articles/50/gift-letters) from those that gave you the cash gift, stating that the gift was not a loan. They may also ask for itemized deposit slips. The exact amount that triggers this requirement varies by situation (for instance, a $1,000 cash gift may be material to a single borrower that makes $35,000/yr but may not be material to a borrower that makes $350,000/yr), so it's good practice to ask your lender if you suspect you might have a material cash gift or large deposit - so you aren't surprised by this at the last minute.
   * Repeated and updated documentation of any of the above. Keep in mind: to a lender, anything can happen to a borrower's personal financial situation and credit during the escrow process. Thus, you may be asked more than once for the same type of document so that your lender has the most recent pay stubs, rent receipts, bank statements, or other disclosures that may change over time. Any material changes in these documents -or any element of your personal financial situation- may require the lender to reassess your eligability for the loan for which you've applied.
4. The lender renders an approval decision, and if approved, issues a [loan commitment letter](https://www.amitree.com/articles/70/loan-commitment-letter), stating its willingness to fund the mortgage provided certain conditions are met. These conditions usually include [appraisal](https://www.amitree.com/articles/6/appraisal) (so the lender can confirm that the property you're buying isn't worth far less than you're paying) but will also generally include any material change in your situation -or the property- as initially disclosed to your lender.
5. The [loan contingency](https://www.amitree.com/articles/72/loan-contingency)must be removed by the buyer by a certain number of days before the closing date (or "close of escrow), otherwise known as the [loan contingency date](https://www.amitree.com/articles/73/loan-contingency-date). By this date, a buyer must either get a loan commitment or communicate to the seller that they are unable to do so (and walk away from the deal without losing their earnest money).
6. An [appraisal](https://www.amitree.com/articles/6/appraisal) is ordered by the lender or mortgage broker via a central directory of appraisers (often called an Appraisal Management Company or AMC). Choosing a specific appraiser is not possible, but an agent or a mortgage broker can reject an appraiser and ask for a new one. If the appraisal comes in lower than the purchase price, a lender can decline to approve the borrower unless a change is made to the purchase price or the size of the downpayment. Most contracts will have an [appraisal contingency](https://www.amitree.com/articles/7/appraisal-contingency) clause allowing for cancellation (with no penalty) due to issues with an appraisal coming in too low.
7. The lender typically submits a [request for title commitment](https://www.amitree.com/articles/95/request-for-title-commitment)to a [title company](https://www.amitree.com/articles/111/title-company). The title company then examines the quality of the title and any findings from the [property survey](https://www.amitree.com/articles/89/property-survey)that is provided (if none exists, it will have to be performed). If all is well, a [title commitment](https://www.amitree.com/articles/110/title-commitment)will be prepared that certifies that the title is free and clear and ready for sale. [Title insurance](https://www.amitree.com/articles/112/title-insurance) may also be arranged in this step.
8. [Homeowners' insurance](https://www.amitree.com/articles/56/homeowners-insurance) is purchased (or substantiated, if the property being purchased includes homeowners' insurance as part of association fees or similar arrangements), and [proof of homeowners' insurance](https://www.amitree.com/articles/87/proof-of-homeowners-insurance) is submitted to the lender.
9. [Hazard insurance](https://www.amitree.com/articles/52/hazard-insurance) may be required by the lender to protect the asset from fire and storms. If the property is located on a flood plain, then [flood insurance](https://www.amitree.com/articles/52/hazard-insurance) may be necessary as well.  
   Tip: As this process can be long, arduous, seemingly arbitrary, and is often critical to your homebuying transaction, try to prepare these documents (or at least figure out how to prepare them) in advance. Also, do not make any changes to your employment or credit until your transaction is complete (not just until you get a loan commitment letter). This means not switching employers even if it results in a higher income, as counterintuitive as that may sound. It also means not leasing or financing a car, opening a new credit card account, or anything else that can affect your credit report.

Part 3: The closing itself

The closing process itself can span a couple of days or even a week, and in contrast to [attorney review states](https://www.amitree.com/articles/11/attorney-review-state), the transaction is generally not consummated with all parties sitting at the same table. In Arizona, an [escrow state](https://www.amitree.com/articles/38/escrow-state), closing consists of the following steps:

1. A buyer's lender sends final loan documents to the escrow agent and the final closing date is scheduled.
2. The closing itself convenes at the office of an [escrow agent](https://www.amitree.com/articles/36/escrow-agent), [closing agent](https://www.amitree.com/articles/18/closing-agent), or [title company](https://www.amitree.com/articles/111/title-company). The seller generally signs their closing documents first.
3. The buyer then signs all closing documents, including the [HUD-1](https://www.amitree.com/articles/117/hud-1) [(see a sample HUD-1 here)](http://www.hud.gov/offices/adm/hudclips/forms/files/1.pdf), and the final loan documents.
4. The buyer pays the remaining funds for their downpayment and closing costs to either the escrow agent, closing agent, or representative of the title company (via wire transfer cashier's check). This may also be done a few days in advance to speed along the closing process.
5. The deed gets recorded with the appropriate municipality and the transaction is complete.
6. The buyer receives the keys and, unless indicated differently in the contract, officially takes possession of the property.