

GETTING STARTED

Introduction

Building a home is an emotional and stressful experience. Understanding the process and working with the builder in a team effort will minimize the stress. The following information will give you a general understanding of the process and help you in determining the size house you can build.

Financing

Most people do not pay cash for a home and will require financing. Your credit rating, income and cash will determine how much you can borrow.

Credit:

Your credit rating is based on your debt and how timely you have made payments on that debt. Lenders use a rating system that creates a number called a FICO score. Your FICO score determines if you are an A, or B credit risk. An A credit rating will allow you to borrow at the lowest interest rate. With a B rating, most lenders will still provide financing but it will usually be at a higher interest rate.

Income:

In qualifying for a loan, all continuing sources of income that you receive during the year are classified as your annual income. A lender uses your annual income to determine how much money you can borrow. This determination is made by allocating a percentage of your gross income to cover your mortgage (PITI) and another percentage to cover other debt like credit cards and car payments. Historically, this percentage has been 28 percent for mortgage debt and 8 percent for other debt. With a good credit rating, lenders will go as high as 45 percent in combined debt.

Cash:

This is the money that you will need for the down payment, settlement and interest on the construction loan.

Mortgage

With excellent credit and an appraisal exceeding the building contract price, there are lenders who will loan the entire amount of the contract. This financing is the exception and you should have enough cash to cover 5 percent of the lot and house price, plus settlement costs and construction loan interest. If you already own your lot, your equity in the lot is the same as cash and you may not have to put up any money.

Because federally insured lenders are not allowed to have more than an 80 percent exposure, financing more than 80 percent will require you to have Private Mortgage Insurance, (PMI). The PMI payments continue until the mortgage is paid below 80 percent or the appraised value increases to put your mortgage balance below 80 percent. PMI payments protect the lender and do not reduce your mortgage balance. You may be able to avoid the PMI requirement by having a first mortgage for 80 percent and a second mortgage for the balance of the loan. In many cases, the second mortgage payment will be no more than the PMI payment

How Much To Borrow?

You need to determine the monthly payment that meets your comfort level. Before making this decision, consider the following:

1. Building a home may be the best financial investment you will ever make. No other investment will provide you with a place to live, and when sold, allow you keep up to \$500,000 in untaxed profit.
2. Before deciding on your monthly payment, you should consider your tax refund from interest and real estate taxes. By changing your W4 tax deductions, the refund you would get at the end of the year will be added to your take home pay. This additional income can then be applied to your monthly mortgage payment.

IE: The monthly principal and interest payment on a \$300,000 mortgage for 30 years at 7% interest would be **\$1,996**. The monthly refund in a 20% tax bracket would be \$348. This reduces the net payment to **\$1,648**.

3. Unless you intend to sell in 5 years or less, you should take out a 30 year fixed rate loan. A shorter term loan locks you into a larger monthly payment. You can reduce the repayment time of a 30 year loan by making additional payments each month against the principal. By doing this, you can start out making small additional principal payments and increase them as your financial situation improves.

IE: Required monthly Principal and Interest Payment on \$300,000 at 7% interest: **15 years = \$2,696**

30 years = \$1,996

4. With a fixed rate loan, as your income increases, your mortgage payment becomes a smaller percentage of your take home pay. The more house you can buy today, the greater the potential return in the future.

Mortgage Interest Refund

In order to calculate your refund, you need to determine your tax bracket. To do this, take your latest 1040 and divide line 43 into line 63 to arrive at a percentage. This percentage is your tax bracket. Multiply your annual property taxes and mortgage interest by this percentage to find your annual refund. Dividing the annual refund by 12 will give you the monthly offset to your mortgage payment.

Adjusted Payment Tax Refund Chart

30 Years @7%

Mortgage	P & I Payment	Tax Bracket	Annual Refund	Monthly Refund	Adjusted Payment
200,000	\$1,330	15%	\$2,090	\$174	\$1,156
200,000	\$1,330	20%	\$2,787	\$232	\$1,098
200,000	\$1,330	25%	\$3,480	\$290	\$1,040
200,000	\$1,330	30%	\$4,180	\$348	\$ 982
225,000	\$1,497	15%	\$2,352	\$196	\$1,301
225,000	\$1,497	20%	\$3,136	\$261	\$1,236
225,000	\$1,497	25%	\$3,919	\$327	\$1,170
225,000	\$1,497	30%	\$4,703	\$392	\$1,105
250,000	\$1,663	15%	\$2,612	\$218	\$1,445
250,000	\$1,663	20%	\$3,484	\$290	\$1,373
250,000	\$1,663	25%	\$4,355	\$363	\$1,300
250,000	\$1,663	30%	\$5,226	\$435	\$1,228
275,000	\$1,830	15%	\$2,874	\$240	\$1,590
275,000	\$1,830	20%	\$3,832	\$319	\$1,511
275,000	\$1,830	25%	\$4,790	\$399	\$1,431
275,000	\$1,830	30%	\$5,748	\$479	\$1,351
300,000	\$1,996	15%	\$3,136	\$261	\$1,735
300,000	\$1,996	20%	\$4,181	\$348	\$1,648
300,000	\$1,996	25%	\$5,226	\$435	\$1,561
300,000	\$1,996	30%	\$6,271	\$523	\$1,473
325,000	\$2,162	15%	\$3,397	\$283	\$1,879
325,000	\$2,162	20%	\$4,529	\$377	\$1,785
325,000	\$2,162	25%	\$5,661	\$472	\$1,690
325,000	\$2,162	30%	\$6,794	\$566	\$1,596
350,000	\$2,329	15%	\$3,658	\$305	\$2,024
350,000	\$2,329	20%	\$4,877	\$406	\$1,923
350,000	\$2,329	25%	\$6,097	\$508	\$1,821
350,000	\$2,329	30%	\$7,316	\$610	\$1,719
375,000	\$2,495	15%	\$3,919	\$327	\$2,168
375,000	\$2,495	20%	\$5,226	\$435	\$2,060
375,000	\$2,495	25%	\$6,532	\$544	\$1,951
375,000	\$2,495	30%	\$7,839	\$653	\$1,842
400,000	\$2,661	15%	\$4,181	\$348	\$2,313
400,000	\$2,661	20%	\$5,574	\$465	\$2,196
400,000	\$2,661	25%	\$6,968	\$581	\$2,080
400,000	\$2,661	30%	\$8,361	\$697	\$1,964
425,000	\$2,827	15%	\$4,442	\$370	\$2,457
425,000	\$2,827	20%	\$5,923	\$494	\$2,333
425,000	\$2,827	25%	\$7,403	\$617	\$2,210
425,000	\$2,827	30%	\$8,884	\$740	\$2,087
450,000	\$2,994	15%	\$4,703	\$392	\$2,602
450,000	\$2,994	20%	\$6,271	\$523	\$2,471
450,000	\$2,994	25%	\$7,839	\$653	\$2,341
450,000	\$2,994	30%	\$9,407	\$784	\$2,210
475,000	\$3,160	15%	\$4,965	\$414	\$2,746
475,000	\$3,160	20%	\$6,619	\$552	\$2,608
475,000	\$3,160	25%	\$8,274	\$689	\$2,471
475,000	\$3,160	30%	\$9,929	\$827	\$2,333

Selecting Your Home

Before meeting with a builder, go through the following steps to determine the size house you can build.

1. Select the adjusted mortgage payment that meets your comfort level and the mortgage it supports.
2. Multiply the mortgage amount by \$4.15 per thousand for taxes and add \$600.00 for insurance.
3. Divide this sum by 12 and subtract it from your previously selected P& I mortgage payment.
4. Find the mortgage supported by this reduced monthly payment.
5. Add any additional cash you plan to put down to the mortgage.
6. Subtract from this combined total, the A thru F costs that apply.

A. Settlement	\$	5,000
B. Septic & Well	\$	8,000
C. Clearing	\$	10,000
D. Construction loan interest	\$	6,000
E. Building lot	\$ 100,000 *	The price will vary from \$85,000 to \$125,000
F. Other Misc. Costs	\$	3,000

Modular Home

7. Divide the balance by \$115. This is an average square foot price with a two car garage.
(The square foot price generally runs from \$105 to \$125)

Custom Home

7. Divide the balance by \$135. This is an average square foot price with a two car garage.
(The square foot price generally runs from \$125 to \$145)
8. Select your house plan from designs that are within this calculated square footage.

RCS Building Procedure

Lot & House:

1. After selecting the size house, let us know the area you want to live in and your budget objective.
2. We will find building lots in communities that match your house size and budget objective.
3. After locating available lots, we will show you the lots and discuss your house requirements.
4. We will find a plan that meets your requirements or work with you to modify a plan of your choosing.
5. The concept plan will be priced and a preliminary building proposal given.
6. If the proposal price is acceptable, a deposit of \$1,000 will be taken to draw the plan.
7. After making modifications and changes to the plan, a final contract proposal will be given.
8. If the proposal is accepted, a building contract will be signed with a deposit of \$5,000.
9. The lot and house contracts will be put together and sent to the lender.
10. Loan settlement will occur within 45 days and construction will start.
11. Construction will be completed within 5 months after construction loan settlement.

House Only:

1. After selecting the size house, meet with the builder to look at your lot and discuss your house requirements.
2. We will find a plan that meets your requirements or work with you to modify a plan of your choosing.
3. The concept plan will be priced and a preliminary building proposal given.
4. If the proposal price is acceptable, a deposit of \$1,000 will be taken to draw the plan.
5. After making modifications and changes to the plan, a final contract proposal will be given.
6. If the proposal is accepted, a building contract will be signed with a deposit of \$5,000.
7. The house contract and information on your lot will be sent to the lender.
8. Loan settlement will occur within 45 days and construction will start.
9. Construction will be completed within 5 months after construction loan settlement.

Selecting the Builder

Competitive bidding:

To do this, all bidders must have the same information. You must provide all bidders the same plan, allowances and construction specifications. Two different plans, even with the same square footage, allowances, and specifications cannot be competitively priced due to differences in the foundation, framing, interior, ceiling heights, roof system and porches.

Positives: You will be getting competitive bids that will give you the lowest price.

Negatives: Your home is treated as a commercial bid. The competing bidders will base their price only on the information that you provide. Any errors, omissions or mistakes will be your responsibility to correct at your cost.

Single Source:

To do this, you should meet with one builder at a time to discuss your building plans and cost objective. At this meeting the builder should be able to tell you if your cost objective is reasonable. Before selecting the builder, make sure that you both agree on the division of responsibilities.

Your responsibilities should be limited to:

1. Approving the plans and specifications
2. Financing
3. Setting your allowances
4. Making selections

All other functions required to build your home should be the builder's responsibility.

Positives: Your responsibility is defined and limited. The builder, as the professional, is responsible for everything else.

Negatives: You may not be getting the lowest possible price.

Overhead and Profit:

The industry overhead and profit margins for new construction are between 18 and 24 percent. The average is 20 percent. After overhead, taxes and warranty costs, the average net profit will be between 6 and 8 percent.

Building Costs:

Listed below are the costs incurred in building a house. Additional costs not shown here are accounted for in one of these categories.

Modular Home:

House	_____	Electric Service	_____
Freight	_____	Water/Sewer	_____
Set up	_____	Septic/Well	_____
Crane	_____	Drywall	_____
Blueprints	_____	Trim Material	_____
Surveys	_____	Trim Labor	_____
Application Fee	_____	Painting	_____
Building Permit	_____	Cab/Vanities	_____
Toilet	_____	Finish Flooring	_____
Dumpster	_____	Appliances	_____
Lot Clearing	_____	Insulation	_____
Rough Drive	_____	Siding Mtl.	_____
Foundation	_____	Siding Labor	_____
Sill Plates	_____	Gutters	_____
Finishing Labor	_____	Concrete	_____
Finishing Mtl.	_____	Garage Doors	_____
Plumbing	_____	Final Drive	_____
Electric	_____	Grade/Seed	_____
HVAC	_____	Final Cleaning	_____
Fireplace	_____	Decks	_____
Garage	_____	Other Costs	_____
Other Costs	_____	Other Costs	_____

Custom Home:

Application Fee	_____	Fireplace	_____
Building Permit	_____	Windows	_____
Blueprints	_____	Doors	_____
Surveys	_____	Garage Door	_____
Dumpster	_____	Insulation	_____
Toilet	_____	Siding Mtl.	_____
Lot Clearing	_____	Siding Labor	_____
Rough Drive	_____	Gutters	_____
Water Sewer	_____	Drywall	_____
Septic/Well	_____	Flooring	_____
Floor trusses	_____	Trim Material	_____
Electric service	_____	Trim Labor	_____
Foundation	_____	Shelving	_____
Framing Mtl.	_____	Hardware	_____
Roof trusses	_____	Cab/Vanities	_____
Framing Labor	_____	Appliances	_____
Concrete	_____	Painting	_____
Plumbing	_____	Grade/Seed	_____
Electric	_____	Final Drive	_____
Electric Fixtures	_____	Final Clean	_____
HVAC	_____	Decks	_____
Roofing Labor	_____	Other Costs	_____
Roofing Material	_____	Other Costs	_____

Contract Price _____

Contract Price _____