



HOW MUCH HOUSE CAN YOU AFFORD?

Have a number in mind
before meeting with
a builder or architect

by Tom Stephani

One of the first steps in the home-building process is to investigate and analyze your financial situation and find out how much money you'll have available for the construction and purchase of your custom-built home.

It's generally a smart move to make some preliminary financial arrangements before you begin interviewing builders or architects and before you purchase a site for your new home. Without a budget in mind, you won't be in a good position to make those other important decisions.

Check Out Lenders

Ask several lenders to explain the loan products they offer. Loan programs and qualification requirements are constantly changing, so it's important to find out what options are available to you. Many home buyers are surprised to discover they can qualify for a larger mortgage than they thought they would be able to obtain. Others are disappointed to learn their dream home is financially out of reach, at least for a while.

Before you begin consulting lenders, obtain a copy of your credit report and contest any errors in it. Cleaning up

your report ahead of time will position you in the best possible light to borrow money. Be prepared to explain any negative information in writing.

Ask at least one lender to pre-qualify you for a mortgage. The lender will ask you some questions about your income, your debts, and your credit history, then use that information to give you a reasonably reliable estimate of your borrowing power. Pre-qualification is usually free. It doesn't obligate you to obtain a loan from the lender, nor does it obligate the lender to provide a loan for you. Withholding information from the lender isn't in your best interest because whatever you don't reveal almost always will be uncovered when you submit your formal mortgage application.

Decide What You Can Afford

After the lender gives you an estimate of your borrowing capacity, sit back for a while and assess your own comfort level. There is no reason why you must borrow the maximum amount for which you can qualify. Take a realistic look at how much you are willing to sacrifice in order to afford your new home.



CALCULATE YOUR OPTIONS



Do the math with these easy-to-use calculators found at www.homeplans.com in the section titled "Home Dollars and Sense":

1. What is the value of my home?
2. How much can I afford?
3. Mortgage payment calculator

It is important when building a new home to examine your financial situation and find out what you can really afford. Meeting with several lenders and finding out what you're qualified for will help you get started.

The total amount of cash you'll need at hand to build your new home depends in part on the scope of the project. For a production or tract home, the amount of cash you'll need to get started isn't much more or much less than you'd need to purchase an existing resale home. In fact, a small deposit may be the extent of what's initially required. For a custom or semi-custom home, you'll need a substantial amount of cash prior to obtaining your construction financing.

Builders suggest budgeting at least \$5,000 to \$10,000, depending on the anticipated size of your home. These up-front expenses are part of the total project cost and often can be "reimbursed" to you in your construction loan or considered to be a portion of your down payment.

The building process involves a number of expenses you'll need to incur before your construction financing becomes available. These expenses might include a deposit on purchasing your building site, preparation of the plans and specifications for building your home, site engineering, various government building fees, loan application fees, and a deposit on the builder's services or any preliminary fees payable to the builder.

Most builders require a down payment of at least 20 percent of the total cost for a custom or semi-custom home. Many buyers put down as much as 50 percent of the total. Sources of down payment funds might include equity that has accumulated in your current home, savings, other liquid investments, equity in the site for your new home (if the land has already been purchased), or other investments that will be liquidated prior to the start of construction.

If the equity in your existing home will be the primary source of your down payment on your new home, you will probably want to obtain a realistic estimate of the market value of your home and estimate how long it will take to sell your home.

Know What Your Home Is Worth

Interview several well-qualified real estate agents who are familiar with your neighborhood and ask each to give you a comparative market analysis (CMA) for your home. Selling your current home before construction begins on your new home can be a stress-reducing strategy even though you may have to move twice. Trying to time the sale of your current home to coincide with the completion of your new home will be nearly impossible and highly stressful.

During the design and construction phases of building your new home, you'll be presented with countless opportunities to upgrade every component from the roofing materials to the kitchen cabinets. Having a cash reserve or additional borrowing capacity will enable you to include those upgrades that will make your home truly special for you. If you max out your budget on the basic home, every decision about options and upgrades will be excruciating.

Setting an appropriate budget is one of the most important steps in the home-building process. Approaching budget constraints realistically can help set the stage for a rewarding home-building experience. 🏠