

## Step 1: Finance Planning

Before building your new home it is encouraged that you get your finances in order. An important, if not the most important, step in your homebuilding process is learning the amount of funds available at your disposal. The construction loan process can seem daunting but understanding this process will ease the homebuilding process.

The construction loan may be different at each financial institution but overall homebuilders should seek a Construction-to-Permanent loan option. This is designed for future homeowners to finance the construction of their home and then roll the loan into a mortgage, this should allow the homeowner to only pay closing costs once.

1. **Pre-qualification.** Many future homeowners will begin with the pre-qualification process. This will help you determine if you qualify for a loan before you buy land. Make sure to have a good idea of what you would like to accomplish with your loan before going in front of a loan officer.
2. **Experienced Lender.** Shop around and compare the experience of your lending options. Ensure your lender is experienced, especially when considering modular construction. The modular construction process may require more expenditures up front rather than doled out over a long period of time.
3. **Know Industry Terms.** It's important to go in understanding certain terms that could confuse you.
  - a. Acquisition Cost: The cost of the land plus the cost to build
  - b. Mechanic's/Materialman's Lien: A claim that may be filed by any entity that has performed work or provided materials for your home.
  - c. Title Bring Down/Date Down/Update: Interim title search to determine that no claims have been filed against your property
  - d. Builders Risk Insurance: Insurance that may cover damage to your structure from fire, weather, or other catastrophes
  - e. Tear Down: Term to describe the demolishing of an existing house on a lot in order to build another house in its place
  - f. Lot Equity: The difference between what you owe on your land and the current market value of your land.
  - g. Draw Schedule: The approved schedule from the lender for the disbursement of the loan. The modular construction schedule will differ from traditional construction.

Kristopher Megna with Dreamline Modular Homes advised that two areas everyone should focus on is understanding the construction loan process and appraisal of the home.

“Sometimes clients really focus on the bells and whistles in a home that can drive the price of the home past the appraisal value,” Kris said.

This can really hinder your ability to borrow because the house won't compare out in the area. For instance, that rare piece of granite that is \$8,000 in a kitchen versus \$4,000 has no monetary value in the appraiser's eyes. Granite is granite. Same goes with oak hardwood versus a piece of exotic wood that might be much more expensive.

Homeowners should start to focus on these aspects EARLY in the process. Many get tripped up when they go for an appraisal on their property.

“Many clients think just because they were approved for a certain amount they can spend that much, but that is sadly not the case,” Kris said.

If you have an idea of what your budget is ahead of time based upon appraised value it will make the construction loan process much smoother. There is nothing worse than a letdown at the final hour because the house didn't appraise out.

A wise man once said there are very few times in history a code change meant the cost of the house will be less. What it costs to build in 2016 isn't what it cost to build in 2012. But by getting your finances in order and working closely with your builder, you can be well on your way to your dream home.