

## **How Much Home Can You Afford?**

Home ownership is one of the wisest decisions a person can make. It is also the largest financial purchase that most people make in a lifetime. If you were to believe everything you saw in the newspaper or heard on the evening news, you might think home ownership is a lost cause. Fortunately for most the reality is quite different. Mortgage standards have tighten for some borrowers but for most the conditions for obtaining a loan have remained the same.

The conventional, conforming mortgage market is functioning well and this is where most home owners want to be. The major difference today is that the mortgage lender will be scrutinizing the mortgage application more carefully in order to ensure that the borrower is capable of re-paying the loan. One thing that has not changed is that mortgages are available to consumers with a good credit rating. Lower interest rates make a more affordable product which is an incentive for individuals with a good credit score.

One of the first steps to consider in building your own home is to meet with a qualified lender or mortgage broker to determine how much of a loan you will qualify for first for the purchase of the land, the construction loan and finally the take out loan which is when your home is completed and you will have your permanent financing. You will first want to request an informal review of your financial position to determine how much money you can borrow. Pre-qualifying can help you to establish your budget, identify problems with your credit such as an error on your credit report and allow you to compare loan programs. Pre-approval requires a formal application and partial processing of your loan application.

The amount you can borrow is based on factors such as your assets, how much you owe on consumer debt like credit cards and car loans, your income and stability of your employment. If you fail to qualify for the amount you would like your lender or mortgage broker may be able to advise you of options that you can do that would enable you to qualify for a larger loan.

A land purchase loan helps you to buy the land before there is an actual structure on it. These loans are generally a little more costly and more difficult to obtain than a conventional loan as a lot is more difficult for a lender to re-sell in the event of foreclosure. Your mortgage broker can advise you whether comparable properties will support the value of the land and the percentage of down payment the lender requires.

In the case of a construction loan, the lender is going to want to know what the proposed construction is going to be and then they will want to verify that the owner and/or contractor is building per the agreed upon plans. The lender will require an appraisal of the home and finishes that you are proposing compared to homes in a similar neighborhood recently built of comparable size and quality of materials. In addition to the normal requirements such as a credit report, loan application and verification of employment, you will be asked to provide some additional documentation. First you will be asked for a preliminary set of plans that the appraiser can use to compare your home to other comparable properties. Along with this a construction cost breakdown will be required. This is a detailed list of the materials and cost of labor for the construction of your home.

Once you as the borrower, the home you are proposing to build and the value of your land satisfy the lenders requirements, there is frequently a few more documents that the lender will require prior to actually funding your loan. Many lenders require a licensed contractor be hired but in working with a qualified mortgage broker who specialized in construction lending it there are lenders that will work either with an owner/builder or with an owner using a project manager. The other requirement prior to funding is the plans being permitted. And then the fun begins!