

Designs for Living, LLC

Residential Design & Consulting since 1969!
Serving the needs of northeast Florida since 1978!

The Case for Design-Build of Your New Home(or Renovation) **Or** **Why You Can't Build the Way You Used To and Not Expect to Lose Money**

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Everyone loves the thought of having a new home or doing a renovation. Why not? Interest rates are at historic generational lows. Construction costs are somewhat down. Banks are finally starting to loan money to those that qualify. But.....there is a new problem that can harm your families desire to get into that new dream home and if you are not very, very careful will cost you tens of thousands, if not more in REAL dollars. The rest of this document will show you how to get your dream home in a timely manner without wasting your time while maintaining your sanity and preserving your capital.

First, let's talk about qualifying for the loan. Banks today look for customers with credit scores over 700, folks that can fully document their income, have stable long term employment, and at least 15%-30% down based on what you are buying and what type of market you are in which we will discuss later. You would think "that sounds just like me so let's get started". Wait, not so fast. You need to have a few other things such as a lot selected you want to build on, plans, specifications, allowance schedule, scope of work, and the most important thing of all a signed, executed contract with a builder. Not just any old builder but one that is financially solvent and approved by the lender. An executed contract means that you have signed the agreement and in most cases paid the builder at least a 10% deposit of your hard earned money. So at this point you are feeling good and ready to get started. However, to your surprise.....there are several more hurdles you have to leap before you can even break ground!

Second, back in the good old days, just six or seven years ago, all you had to do is fog a mirror, take your money and go purchase a lot to build on, have someone design your dream home, put it out to bid with several builders, select the guy you want to build with, sign a contract, give him consideration of 10% of the contract amount, go find a bank and submit the package which includes the contract, specifications, scope of work, allowance schedule, working drawings fully engineered for permitting, pay for an appraisal from a federally approved, certified appraiser, wait for it to come back with the proper LTV (loan to value ratio), sign all of the bank documents, and you are off to starting that dream home of a lifetime to raise your family in. WAIT.....that was the good old days and now we have been in the bad old days for a very long time and frankly it will probably not change for a generation if ever again to the way that it used to be. That is why you must be prudent in your decisions.

Now that all of the formalities are out of the way, what is the biggest danger facing you and your families desire to build a new home. THE FEDERALLY APPROVED PROPERTY APPRAISER! It is not that the appraiser is a bad person but that he now has the federal government to answer too and the threat of prison time for any shenanigans. You will remember the mention of LTV which is the "Loan to Value" ratio. This controls everything that you are trying to do. The appraiser is the only one authorized

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by the federal government to determine what something is worth. Why is that important? The higher the appraised value, the less money you have to come up with to build your home. If the value comes in lower than your contract then you have to come up with the difference in order for the bank to legally lend you the money. If you are like most folks you have probably stretched to some degree to get the 10% to make the deal happen with the builder. Bankers are FORBIDDEN by federal law to interact with the appraisers on your behalf. Only the Builder or you can have any conversations with the appraiser to discuss anything in regards to the value. If you are making a purchase in a “declining market area” you have even bigger challenges ahead as far as the amount of money that you will be required by the feds to come up with.

But “I have used all of my money for the down payment!” There are no more funds available. Just when you thought everything was going your way you find out that your 20% down is not enough due to the appraiser determining that you are building in a “declining market area” and now the bank is saying that you now have to put 30% down, not 20%. Scary isn't it? The appraiser just made your dream a nightmare! This is a very common problem today trying to build your home all across America and especially in northeast Florida. Everything today is about value. There are several banks that will finance land for 20% LTV. That means that if you were buying a \$100,000.00 lot they would want \$20,000.00 down if the appraisal came in at the purchase price. One bank in this area will actually let you put down as little as 15% down based on the LTV on a home purchase but will require “Mortgage Insurance” also known as MI. This is also one other entity that can even turn you down although the bank has approved you. Again, this is the feds getting involved in the process. If the MI folks will not approve the deal the bank is not either, unless you come up with more money.

Let's say that you think that you are going to get lucky and do it the old fashioned way mentioned in the third paragraph. You go out and buy your property for \$100,000.00 putting down your 20% and the bank finances the land purchase because it appraised for the asking price. You then follow all the steps in paragraph two, investing your money along the way for plans, 10% deposit to the builder for a home that cost \$115.00/s.f. and your \$350-\$500 fee to the bank for the appraisal. The appraiser comes back and can justify that the land is now only worth \$70,000.00 and the home \$80/s.f. Your world has just been turned upside down and your dreams shattered. What happened to your \$20,000.00 you used to purchase the lot? GONE! What happened to your 10% to the builder to build your dream home? Well, if he has integrity he will keep a minimal amount for his efforts up to that point, probably \$5,000.00, and give you almost a full refund, or if his contract is like most he will keep all of your money unless you can come up with the shortfall. The shortfall is now that the lot is worth less than you owe on it and the home appraised for \$100,000.00 less than you can purchase it for. WOW! What do you do now? You have no choice! Come up with more money or the deal is off. The bank has no choice under federal law!

What is the solution and a better way to make your dreams a reality? How can you minimize your potential for financial loss and disappointment in this current housing environment which we find ourselves in? What can you do to virtually guarantee your preservation of capital, your sanity, and keep from wasting the one thing that cannot be recovered which is your time? Everything we have mentioned

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so far and the solutions we offer are literally based on one of our recent customer's experience. By working in a design-build environment you will experience the following seven benefits:

1. Keep time frames to a minimum to start construction.
2. Preserve your hard earned capital, especially in a "declining market."
3. Minimize the potential for higher long term interest rates.
4. Make your purchasing dollars work harder for you not only now but later.
5. A team concept of the banker, qualified builder, appraiser, realtor, and purchaser.
6. Achieve the home of your dreams in a reasonable and responsible manner.
7. Disappointments and setbacks to your family will be greatly minimized.

How do I get started and keep my risk to an absolute minimum? By deciding on a Builder on the front end you will be able to work with a team of professionals thoroughly familiar with the Design-Build process to find the property you want, design a home or renovation that is in harmony with your budget and the property values in the area that you wish to build. We will be working as a team to bring a valid, executed contract with all supporting documentation to the bank that will appraise and all parties will find acceptable, including the federal government. This will be done in a very expeditious manner so as to minimize the potential for higher interest rates down the road and the erosion of your capital. Once you have studied how we can help you to achieve your dream home we are confident that you will become another one of our many satisfied customers who refer us without hesitation to their friends, relatives and neighbors. By the way, these same concepts also work in the remodeling, additions, and renovation arenas. We look forward to being of service and contact us with any questions that we can address for you.

Sincerely,

Chip ☺

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