

# 5

## STEPS TO HOME CONSTRUCTION



When it comes to financing the construction of a new home, GreenStone can provide options. We offer financing for do-it-yourself builds, as well as fully-contracted construction. This guide will walk you through the advantages of each, and the five important steps to building your own home.

# 1 LOCATION

*Dreaming of building a new home? The important first step is finding a suitable location. Below are some factors to consider when choosing a home site:*

- Available amenities: Consider availability and cost to add required utilities such as sewer, gas, septic, well, water, etc.
- Perc test results: If you intend to use a septic system, the soil at the home site must have a suitable absorption rate to properly support a septic system.
- Special assessments: Be aware of charges levied against certain home sites, such as installation of water or sewer lines, street lighting, police or fire protection, or other special services.
- Zoning limitations: Research zoning restrictions on minimum setbacks, limits on size or existence of accessory buildings, home size and usage.
- Noise concerns: Identify any sources of potentially undesirable noise, such as a train track, busy freeway, concert venue, fire department, etc.

---

# 2 PLANNING

*Once you have found the ideal site for your future home, the next step is planning the construction. In addition to choosing your home size, style, and cost, you will also want to consider the advantages and risks of managing the project yourself or planning a fully-contracted build.*

## **Research and seek ideas**

- Participate in home tours
- Attend home shows
- Review design plans – Look at magazines, websites, etc...

## Compare Do-It-Yourself (DIY) and Contracted Project Options

Ask yourself these types of questions when considering a DIY project:

- Am I capable of doing some of the labor myself?*
- Are my friends skilled in a lot of these trades?*
- Do I have the time and energy to coordinate workers and do the scheduling?*
- Will my job allow me to take the time needed to supervise the project?*
- Am I capable of soliciting bids and completing the sworn statements of job costs?*
- Am I detail-oriented and organized?*
- Am I proficient in technology?*

### DIY ADVANTAGES

- Personal satisfaction and pride
- Flexibility to alter design during build
- Earn equity
- Potentially lower costs

### DIY RISKS

- Limited knowledge of building codes and county restrictions
- Incomplete or inaccurate bid requests
- Scheduling challenges / project takes longer
- Lack of builder discounts and resources

## Fully-Contracted Construction

Selecting a builder:

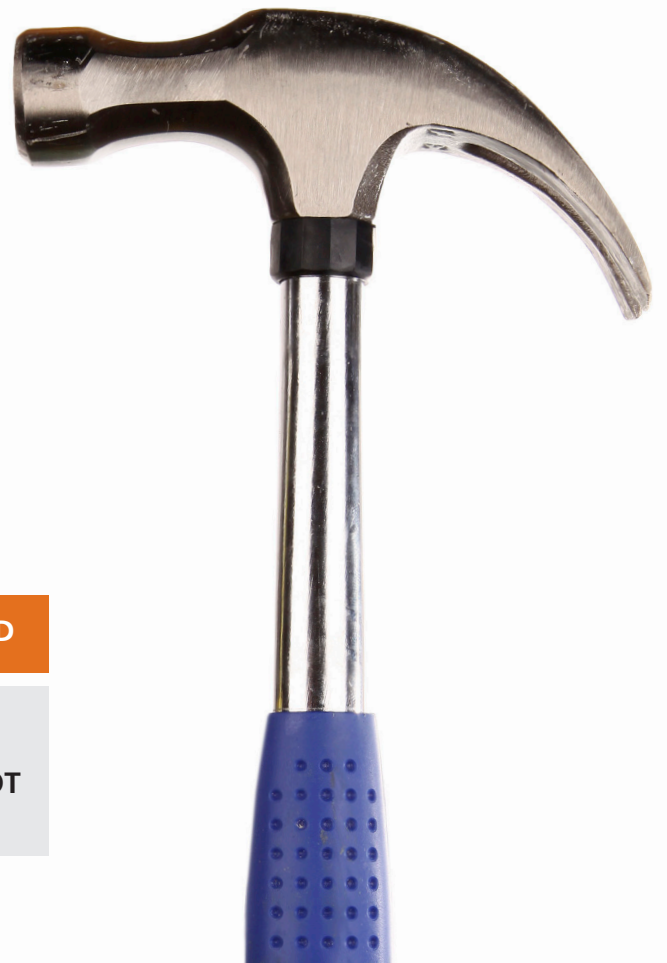
- Ask neighbors, friends, family members, builder associations, and lumber yards for builder recommendations.
- Interview builders – You will want to make sure you and your builder share the same vision.
- Obtain price quotes – Know what is included in the estimates.
- Ask for referrals from the builder and tour homes they have constructed.

## Compare Costs

\*Average cost per square foot:

HOME TYPE	DIY	CONTRACTED
NEW CONSTRUCTION	\$180 PER SQUARE FOOT	\$200 PER SQUARE FOOT

\*May vary based on construction options and location



# 3 FINANCING

*After you have determined whether to hire a contractor or do-it-yourself, the next step is securing financing for your project. GreenStone offers convenient one-time close loans, which means there is only one signing meeting and one set of loan fees. Below are some advantages and conditions of a one-time close loan.*

## One-time Close Construction Loan

- As little as 5 percent down
- Converts into your end mortgage after construction
- Up to 12 month construction period
- Fixed rate options available
- Interest only payments during construction
- Use money as needed for completed work
- Minimum draw requirements of \$5,000
- Maximum of two draws per month
- Builder's Risk Insurance required
- Periodic inspections
- Amount disbursed must be equal to percent of work complete

## What can you afford?

When considering your construction budget, there are some key financial ratios you should consider.

- What is the most you would be comfortable with as your monthly payment?
- If applicable, do you have the cash reserves to make two house payments?

## Calculating PITI and TMO

Two important ratios lenders use to determine whether a loan amount will be approved are Principal, Interest, Taxes and Insurance (PITI), and Total Monthly Obligations (TMO). The maximum PITI ratio for most lenders is 28 percent, and the maximum TMO ratio lenders will consider is 45 percent. Below is a sample calculation of these two ratios.

- Loan of \$350,000, at an interest rate of 7.25 percent fixed over 30 years
- \$12,000 monthly gross income

Principal & Interest	\$2,388/mo	PITI	\$2,988/mo
Estimated Taxes	\$500/mo	Car	\$600/mo
Estimated Insurance	\$100/mo	Truck	\$700/mo
<b>PITI</b>	<b>\$2,988/mo</b>	Boat	\$150/mo
		Credit Cards	\$175/mo
		<b>TMO</b>	<b>\$4,613/mo</b>
<b>PITI = 25%</b>		<b>TMO = 38%</b>	

The State of Michigan offers an online tool to estimate taxes on your future property:

<https://treas-secure.state.mi.us/ptestimator/ptestimator.asp>

To estimate your future taxes in Wisconsin, visit your county's website to check for available resources.

## Lending Eligibility

---

**Minimum Credit Score:** 680

**Maximum Loan to Value:** 95%

**Maximum Acres:** Unlimited

**Eligible Purposes:** Fully-contracted and do-it-yourself

**Terms:** Monthly interest only payments

- Fixed rate upfront; 10-30 year terms
  - Variable rate option also available
- 

## Applying for a Loan

### Personal Information–

- Signed, completed application available at [mygreenstoneaccess.com/apply](http://mygreenstoneaccess.com/apply)
- Authorization to release information form
- Valid identification with photo
- Income verification:
  - Pay stubs for the last 30 days
  - W-2s or IRS Tax Returns for the last two years
  - Self-employment or commission-based jobs require additional documentation
- Verification of assets:
  - Statements must have a bank name, your name and an account number
  - Two months checking and savings account statements (all pages required)
  - Current statements for investments and retirement accounts

### Property Information–

- Blueprints
- Bids
- Specifications
- Previous title insurance
- Survey
- Previous tax bill
- Legal description of property or survey
- Name, address and phone number of seller or land contract holder
- Copy of purchase agreement or land contract to be paid off
- Copy of current homeowner's insurance policy required by closing, if applicable



# 4 APPRAISAL

*An appraisal is required prior to loan closing to ensure the completed home is worth the value of the loan. GreenStone will perform an appraisal to estimate the future value of the home once the project blueprints and building specs are finalized, and occasionally when construction is complete if deemed necessary.*

## **Items Needed for Appraisal**

- Final Blueprints
- Dwelling Specifications – Provides the appraiser with intricate details of the home construction
- Sworn Statement – An itemized list of all individuals and companies who will provide improvements, materials, or labor for the construction project. This includes bids from subcontractors and suppliers for all labor and specific materials that go into construction of the home. This document must be notarized.
- Construction Agreement (if applicable)
- Property Information – Legal description, survey, and/or deed



# 5

## CLOSING/DRAW PROCESS

*Closing is the final step in the process before building starts. There are a few documents and steps you will need to ensure your closing goes as smoothly as possible.*

### Closing

After a review of the appraisal and title work, a “clear to close” will be issued and a closing date will be scheduled. GreenStone will need evidence of Builder’s Risk Insurance prior to closing. This is required to protect you against theft, fire, or vandalism of materials on your property.

### The Draw Process

#### Contracted–

- Contractor submits notarized sworn statement for draw request to title company and notifies GreenStone
- Title company or GreenStone confirms customer is happy with the work completed
- Title company approves the draw request and issues endorsement
- GreenStone issues check
- Contractor secures lien waiver(s) prior to next draw

#### Do-It-Yourself–

- You submit notarized sworn statement for draw request to the title company, and notify GreenStone
- Title company approves the draw request and issues endorsement
- GreenStone issues check(s)
- You secure lien waiver(s) prior to next draw

---

### Construction Glossary

<b>Construction Lien:</b>	A right to an interest in real property which results from a contracted improvement to that property.
<b>Dwelling Specification Sheet:</b>	A document that describes, in detail, what materials are being used for construction of the new home.
<b>Lien Waiver:</b>	A waiver of lien gives notice that the signer is giving up his right to file a lien, either in full or in part, against the property. The waiver is given by a contractor, subcontractor, supplier, or laborer when payment is made, or as in the case of conditional waivers, when there is a promise to make payment.
<b>Notice of Commencement:</b>	This notice announces that the work is about to begin on a home building or remodeling project. It is signed by the owner or a designee whose name and address must be in the notice.
<b>Sworn Statement:</b>	An itemized list of all individuals and companies who will provide improvements, materials, or labor for the construction project. This includes bids from subcontractors and suppliers for all labor and specific materials that go into construction of the home. This document must be notarized.

