



NEW HOME 101

Your Guide to Buying and
Building a New Home
by Michele Lerner





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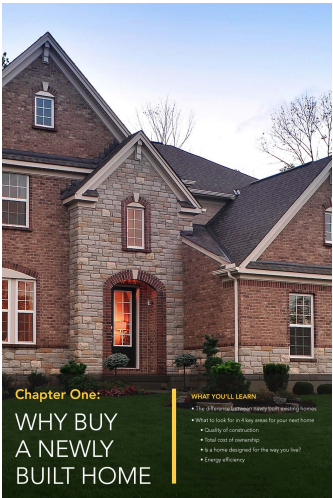
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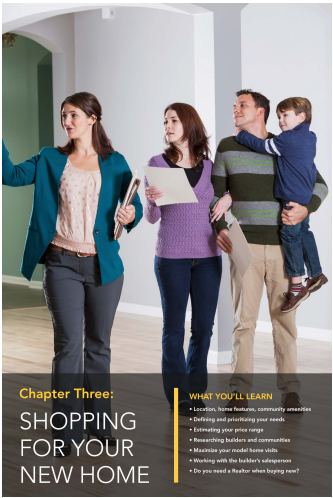
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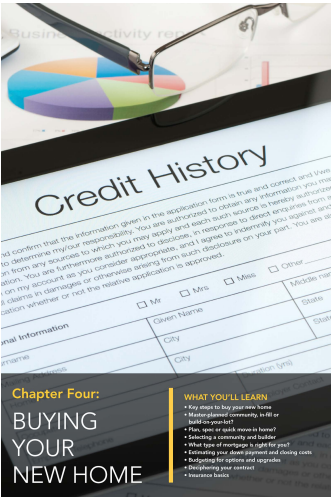
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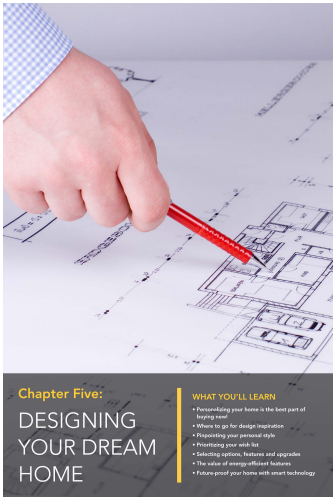
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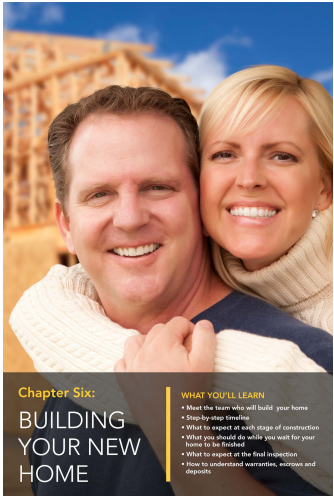
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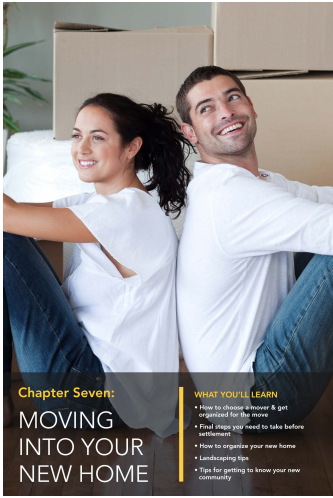
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All of us at NewHomeSource.com – the New Home Authority – hope *New Home 101* makes your new home journey faster, easier and more rewarding. We welcome questions, comments and suggestions at content@newhomesource.com.



PREFACE: Why Write This Book?

By Peter Brumme, VP/General Manager, New Home Source

I knew in early 2013 that we had to write this book. New Home Source had just surveyed recent buyers of new and used homes in more than 30 cities across the nation.

We wanted to learn how shoppers decided whether to buy a new home or a used house and we wanted to understand the many factors involved in their decision. One of the things we learned from the study really hit home: People who buy a newly built home feel happier when they move in than people who buy a resale home. That's because the initial excitement of buying a used home fades quickly. Many buyers of older homes we surveyed shared with us that they felt overwhelmed in by the many things that needed to be fixed, updated or replaced soon after they moved in.



Owners of newly built homes, in contrast, told us that they didn't have to worry about all the projects that needed to be done, what was "missed" in the inspection, or what unwelcome surprises might await them. For new home buyers, the dominant feeling was one of *lasting joy*. That's all it took for our team to double down on our quest to bring more joy to people's lives. It's what we do at New Home Source. We help people along that journey toward the joy of owning a truly new home — what a great mission to be a part of!

Purchasing a new home is one of the most significant events in a person's lifetime, but most people who set out on the journey know very little about the process or what to expect. As a result, buying and building a new home can sometimes seem overwhelming or intimidating. I compare it to the birth of my first child; it was a pretty serious and exciting adventure, yet at times my wife and I felt unprepared or anxious. I wondered what would happen if we did it wrong! Everything turned out great in the end. Today, my wife and I have two beautiful sons. However, it would have been great to reduce some of the anxiety or uncertainty during the process.

The good news for you is that buying a home is definitely not as complicated as bringing a new child into the world. This book was written to help you succeed in this great endeavor so that you, too, can experience the joy so many others have. You'll find lots of tips and insights that make the

home buying process easier, ensuring you get the most out of your investment, and maybe even have a bit more fun in the process. So save the anxiety for other challenges in your life. You can do this – and we're here to help you.

The Feeling of a Newly Built Home

When you talk with buyers of a newly constructed home, it's hard to miss their sense of joy, anticipation, and excitement. They resemble the people that breathe in that new car smell after driving their car off the lot. The only difference is the feeling associated with a newly built home is on a much grander scale and lasts longer. New home owners typically have this to say:

- They love owning a home that they helped to design and personalize, knowing that the decisions they made with their builder resulted in a beautiful home that uniquely reflects their lifestyle and taste;
- The process of designing and building a new home was easier and more rewarding than they had anticipated; and
- Their new home was much more affordable than they expected, particularly when considering the reduction in energy and maintenance costs they enjoy after leaving their "used" home.

Jenny Pauline Mendoza, a first-time buyer with McCaffrey Homes in Clovis, California, says her husband had always dreamed of owning a home – and she enjoyed visiting open houses – but they didn't think they could afford to become homeowners. One Sunday, the couple went to a model home near their church, and fell in love with it. This started them down the path to owning a newly constructed home. "The biggest surprise was how easy it was," says Mendoza.



As easy as the process was for Jenny and Josh Mendoza, buyers new to the home construction process can sometimes be perplexed by what goes into purchasing and building a new home. Some buyers turn to resale homes because they believe newly built homes are out of reach for their budget. In reality, new homes can be less expensive overall, given the often-higher costs to repair, update, and operate an older, less energy-efficient home.

"When we were looking at resale (homes), there was always something we didn't like and we realized that sometimes buying a place and then remodeling it would cost more than just buying a

new place,” says Dr. Jonathan Cohen, a Toll Brothers buyer in Yorba Linda, California. “It’s just so great to have everything new and the way we want it from the beginning.”

Why Read This Book?

Here is a quick test of your new homes knowledge:

- 1 What is a BOYL builder?
- 2 What are the potential drawbacks associated with using a bridge loan to finance a new home?
- 3 What should add more value to my home – a bonus media room or upgraded appliances?
- 4 What is the quickest and easiest way to find a builder in the area I wish to build my home?
- 5 Do I need to hire an inspector for my new home before I take possession of it?

If you didn’t know the answer to these questions, this book can assist you in the following ways:

- You’ll gain the knowledge and confidence to partner most effectively with your builder, enabling you to easily navigate the exciting steps in the design and construction of your new home;
- You’ll learn smart ways to determine how much home you can comfortably afford and how to find the right builder for your needs;
- You’ll gain insights from sales, finance, design and construction professionals and other experts that can help educate you and answer important questions; and
- You’ll save money and time while removing the anxiety associated with the unknown.

Each step of the way, you’ll hear from real buyers who’ve successfully built the home of their dreams. Ultimately, you’ll end up with a home that’s beautiful, well-built, energy-efficient, and designed for you.

Who Should Read this Book?

There are many reasons why people will want to read this book. Here are some examples of people who can benefit from this guide:

- Anyone who wants a fresh start with a new living space that expresses their unique taste and style;

- Homebuyers who want to enjoy open floor plans, larger kitchens and baths, spacious master closets and more storage space throughout their home;
- People seeking significant savings in energy use and cost — and who want a home that’s draft-free with superior climate control and high indoor air quality;
- Home shoppers seeking quality construction with the latest materials, components and technology — such as insulation, heating and cooling — all engineered to work together; and
- Homebuyers seeking the peace of mind that comes with brand-new products and an all-new home that offers a warranty and years of trouble-free service, allowing them to spend their time on their “want-to-do” list, rather than a “must-do” list of projects to maintain or upgrade an out-of-date home.

How is This Book Structured?

We selected Michele Lerner to write this book on our behalf because she has been writing about the real estate industry for more than 20 years. More importantly, she has a natural ability to connect clearly and powerfully with homebuyers.

Michele modeled the book on the new home journey, starting at the beginning with finding a location and a builder and ending with moving in and getting settled. You don’t need to read the entire book to find the information you need. Each chapter tells you up front what key information you’ll learn and summarizes the knowledge you gained at the end, so you can focus on the areas where you need the most help and guidance. You’ll find links to resources, tools, and calculators, as well as inspiring and informative videos and slideshows. There’s also a handy glossary of key terms at the end of the book, as well as a summary and checklist at the end of each chapter.

Whether you’re building a completely customized new home or working with a builder that has created a library of house plans from years of research and homebuyer input, each chapter provides ideas, tips, and questions to ask your builder and team of professionals. While the experience of building a new home can’t be compared to the miracle of having a child, think of this book as your guide to “What to Expect When You’re Expecting a New Home.” Enjoy!



Chapter One:

WHY BUY A NEWLY BUILT HOME

WHAT YOU'LL LEARN

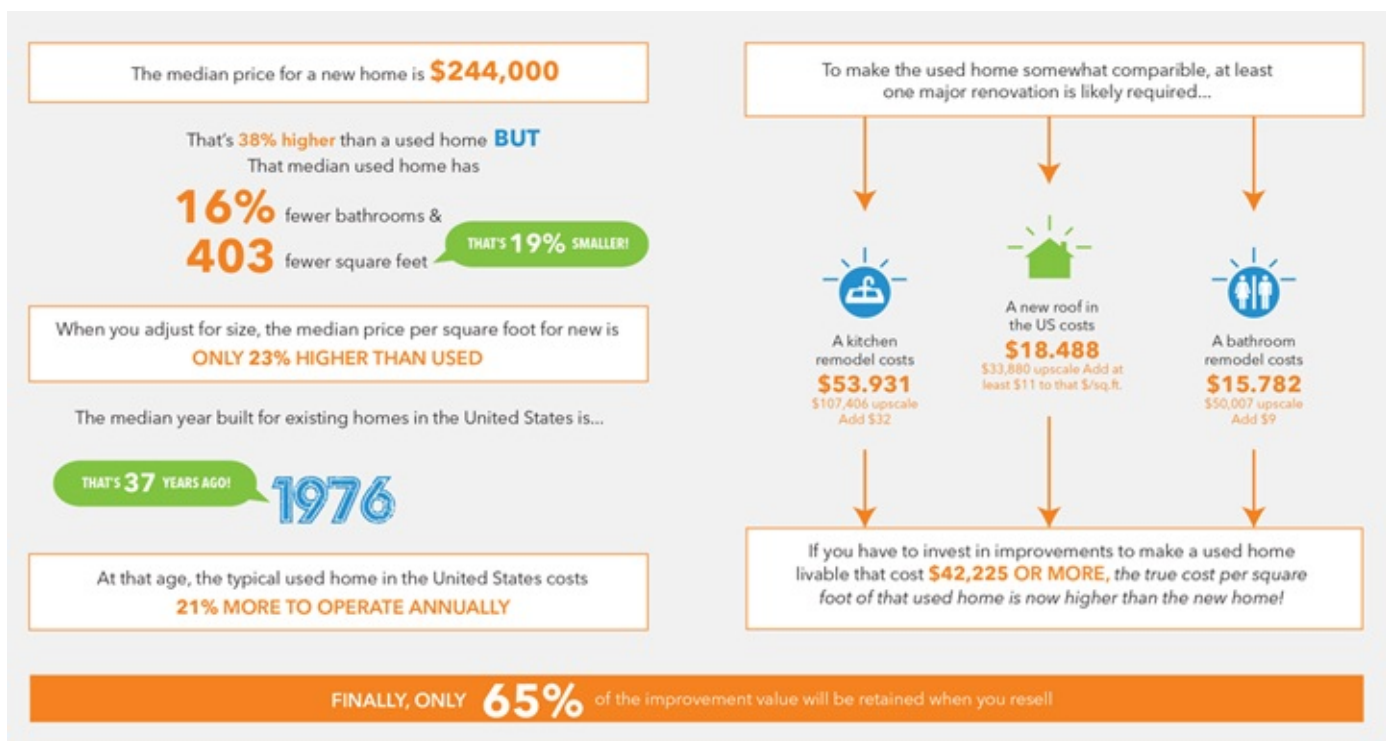
- The difference between newly built existing homes
- What to look for in 4 key areas for your next home
 - Quality of construction
 - Total cost of ownership
 - Is a home designed for the way you live?
 - Energy efficiency

Whether you're a first-time buyer thirsting for knowledge or a resale homeowner eager to learn more about newly built homes, it's best to start with an understanding of the differences between a new construction home (for our purposes, a new home) and a previously-owned or resale home.

It's also important to consider the total cost of ownership. When it comes to a used home, that means the cost to repair and renovate it and also the typically higher cost to heat and cool it.

"Buyers really need to be educated about the savings that come with a new home, the warranties and the customer service that builders provide, all of which can add value compared to an older home. Advancements have been made in windows, insulation, air conditioning systems, water heaters—almost everything in homes is better than it used to be even a few years ago," says Diane Morrison, national vice president of sales and marketing for Ryland Homes in Tampa, Florida.

The chart below, which shows the true cost of a newly built home compared to a used house, is based on research from New Home Source and Metrostudy, a national research firm.



The median price for a new home in 2012 was \$244,000, 38 percent higher than the median price of a used home. But as shown above, the median square feet of an existing home is 19 percent smaller than the median square feet of a new home and has 16 percent fewer bathrooms. The median age of a resale home is thirty-seven years and homes that have been around that long typically cost 21 percent more to operate than a new home. The cost savings from owning an energy-efficient new home with all new systems, appliances, and construction materials that won't require repairs or renovation for years can easily offset any additional purchase price of the home.

Another benefit of buying a new home is that if you decide to move, you'll be selling a home

that meets more recent construction and energy-efficient standards and that offers more modern design elements (such as an open floor plan, higher ceilings, and extensive storage), rather than seeking to sell a home that was dated even before you bought it.

“We wanted a new home because, even though we owned a lovely Southern Colonial-style home, we found ourselves spending a lot of time and money on maintenance every year,” says Judy Thompson, who purchased a home in an active adult community built by Jim Chapman Communities in Johns Creek, Georgia. “It’s great to have everything under warranty, too. Buying a new home is great because you can personalize your property. Even if you think you’ll make changes in an existing home, you often end up not doing it because you don’t want the mess or to spend the money.”

FOUR KEY REASONS TO BUY A NEW HOME

A November 2012 study by New Home Source and Metrostudy shows that more than half of all buyers are shopping new homes – 35 percent of homebuyers consider both new and previously owned homes for their purchase, while 19 percent have a strong preference for a new home. Buyers surveyed cited four compelling reasons to buy a new home: quality construction, low cost of ownership, functionality and energy efficiency. Let’s take a look at each:

Quality construction



Quality of construction is the number one attribute for homebuyers when they’re ready to purchase a home. New homes today are built with state-of-the-art products, techniques, and materials that must meet the latest building codes enacted by states and localities. Regardless of your budget, your new home will typically include important safety features such as smoke detectors, ground-fault circuit breakers that reduce the risk of electrical shock, lead-free paint and even an exit from your basement.

Want more peace of mind? Inspections are conducted at no added cost to new homebuyers at multiple points during the construction process, so you can be confident that the latest building codes for electrical work, plumbing, and energy-efficient features, including insulation, are being

carefully met in your home.

Low cost of ownership

New homes require less maintenance than older homes and are more energy efficient so your utility bills are lower.

In fact, according to the U.S. Department of Energy, a new home today is 30 percent more energy efficient than a home built just five to seven years ago. How would you invest these significant cost savings? A family vacation? The kids' college fund? Retirement savings? Your favorite charity? Or perhaps a mix of the above? The point is that new homes give you those savings and choices.

New homes also offer peace of mind since all products (and the home itself) are typically covered by a warranty. Most builders offer warranties on their homes, often one or two years on systems and materials and ten years for the structure. In sharp contrast, when you buy an older home, you need to factor in the remaining lifecycle of your appliances, water heater, heating and air conditioning system and other costly and vital components.

“A new home will be built with the best products available in today’s market including the best and latest technology,” Ryland Homes’ Diane Morrison says. “People often don’t understand what it takes to maintain a home, so when they’re comparing a new home with a used home they may not realize how much more cash it can take to maintain an older home and to replace systems as they wear out.”

While home costs in your community will vary, you can also use a [national new vs. used home calculator](#) to compare the costs of buying a new home vs. an existing home.

Designed For the Way We Live Today



Homes designed decades ago met the needs of buyers at that time, such as the desire for a formal living room and a separate formal dining room, at a time when homeowners would accept a single, shared bathroom on the upper level for three bedrooms.

Times and tastes change, of course. And today, homebuyers prefer an open floor plan, often

without a formal living room. Even the smallest new home typically has a private owner's bath along with a full bath shared by other bedrooms. And some new homes even offer a private bath for each bedroom.

As new homes have grown larger, they've also become more energy efficient and more comfortable for all. And buying new means you don't need to settle for the style or tastes of others. Buying a new home means that you can choose the floor plan that meets your needs – and you can often customize the layout or features to further personalize the space. New and practical ways to use areas of your home such as the entrance from the garage have gained importance. Today's busy families often want a so-called drop zone space to store backpacks and sports equipment or a charging station for their smart phones, tablets, and laptops. You can design the storage space in your new home so that your possessions are easily accessible, yet out of sight.

“We downsized by about 700 square feet but our new house seems like it has twice as much space because it has an open floor plan and every inch of space is utilized,” says Jenny Pauline Mendoza, a buyer with McCaffrey Homes in Clovis, California. “Plus this place has tons of storage. Our 1950s house didn't have much storage at all.”



Some homebuyers who love to entertain create a catering kitchen or a party prep area outside of the main kitchen with special shelves for platters and punchbowls, extra glasses, and even a beverage cooler or additional refrigerator to accommodate large gatherings. Other buyers have their new home hardwired or designed to accommodate the latest wireless technology for home automation, networking, and security. You can adapt a new home to your needs now and allow for flexibility for the future.

“When people are downsizing, it helps to build a home with lots of windows, high ceilings, and even vaulted ceilings in some cases so they don't feel like they're living in a box,” says Jim Chapman, an active adult community developer in Atlanta, Georgia. “We're willing to do semi-custom work, too—things like adding hooks in the master closet or a tiny niche for a desk with a cable outlet in the master bedroom. It doesn't cost a lot and we end up with very satisfied customers.”

Homes today are designed for flexibility so they can adapt easily to your needs now and in the future. In many regions of the country, first-floor owner's suites are extremely popular and found in nearly every new home. In other regions, buyers are opting for a first-floor bedroom suite with a

private full bath and a walk-in closet along with an upper level owner's suite. The first-floor space can be used as a guest room, for older parents in a multi-generation household, or as a future owner's suite if the homeowners want to age-in-place.


Best of all, if you prefer that traditional floor plan with a formal living room and a formal dining room, you can opt for that, too, but with the benefit of all new materials, a kitchen that's never been cooked in, and sparkling new baths with your choice of finishes.

Energy efficiency

Many new homes include Energy Star-rated appliances that can reduce use of electricity or gas and lower your utility bills. But Energy Star appliances are only the tip of the iceberg when it comes to energy-efficient features in new homes. Houses today are constructed from the beginning with features such as energy-efficient windows and more insulation. New furnaces, air conditioning systems, and heat pumps are far more efficient than heating and air conditioning systems from the past.

Did You Know?

According to the U.S. Department of Energy, a new home today is 30 percent more energy efficient than a home built just five to seven years ago.



Homebuyers can use the HERS (The Home Energy Rating System) Index to learn more about the energy efficiency of their new home. According to the [website](#) for RESNET (Residential Energy Services Network), a HERS performance score is generated by an assessment by a certified Home Energy Rater. A lower HERS number indicates a more energy efficient home. RESNET says that the U.S. Department of Energy has determined that a typical resale home scores 130 on the HERS Index, while a standard new home receives a rating of 100. A home with a HERS Index Score of 70 is 30% more energy efficient than a standard new home and a home with a HERS Index Score of 130 is 30% less energy efficient than a standard new home.

While many features in new homes that increase energy efficiency are invisible to buyers, custom features such as solar panels, tankless water heaters, and geothermal heating systems can often be added to further reduce energy consumption.

“The utility bills on our old house, which was built in the 1950s, were about \$300 or \$400 per month,” Mendoza says. “Now our bills are about \$60 per month, which is an amazing savings. Not only is the house built with much better energy efficiency, in general, but we opted for solar panels, too.”

Now that you know some of the most compelling reasons why so many homebuyers prefer new homes, let’s take a look at the types of builders and the homes they build, so you can better select the right builder and building process for your new home.

WHAT YOU LEARNED: WHY BUY A NEWLY BUILT HOME

Newly built vs. existing homes – what's the difference

- Quality Construction – new building techniques add to a new home's functionality and reduce expense
- Low cost of ownership – new means less maintenance and lower utility bills
- Functionality – personalize and customize to your needs
- Energy-efficient – lower bills and better for the environment

RESOURCES: CHAPTER ONE

Learn more in the [New Home Guide](#) Section of [New HomeSource.com](#)

[Top 10 Reasons Home Buyers Prefer New Homes vs. Used](#)

[Open Floor plans Reflect the Way We Live Today](#)

[Today's New Homes: Engineered to Perform](#)

Visit the [Start Fresh. Buy New. Microsite](#)

[MSN.com](#) – [Nine Reasons to Choose a New Home Over a Resale](#)

U.S. Department of Energy – [Building America Program](#)

U.S. Energy Information Administration – [Newer Homes Are Large, Consume Less Energy](#)



Chapter Two:

THE BASICS OF NEWLY BUILT HOMES

WHAT YOU'LL LEARN

- Custom and production builders: Which is right for you?
- How many design choices do you want to make?
- Types of new homes and communities
- Building on your own land
- What's different about custom homebuilding

A key advantage of new homes is that you get to choose features and finishing touches before your home is built, selecting your favorite colors, styles and materials in many important product categories.

What types of choices do buyers of new homes focus on most? A 2013 survey by the National Association of Home Builders 2013 on “What Homebuyers Really Want” revealed the top two areas important to most homebuyers today: energy efficiency and storage. According to the survey, 94 percent of buyers want Energy Star-rated appliances and 91 percent want an Energy Star rating for the whole home – primarily for savings on utility bills, although the benefit to the environment was important, as well.



While a buyer of an existing home can replace appliances with more energy-efficient models, achieving an Energy Star-certified rating on a resale home as a whole is difficult and expensive. In contrast, new homes are designed and built from the onset to save energy, with energy efficient windows and heating and air conditioning systems, more insulation, and better designed and built roofs and walls. New homes typically offer better air filtration systems that increase indoor air quality and many builders use low VOC (volatile organic compounds) building materials that emit fewer fumes that can be harmful to the environment, people and pets. That’s especially important considerations for people with allergies or asthma. Technological improvements make a difference in both energy efficiency and air quality, and buyers of newly built homes also benefit from the simple fact that they’re living in a home that has never been occupied. No dogs or cats have been inside, no one has lit a fire in the fireplace, and no one has smoked indoors.

Open floor plans, energy efficiency, indoor air quality, and personalizing your home are some of the key reasons to buy new. The next question? Which type of builder is right for your new home. Let’s take a look.

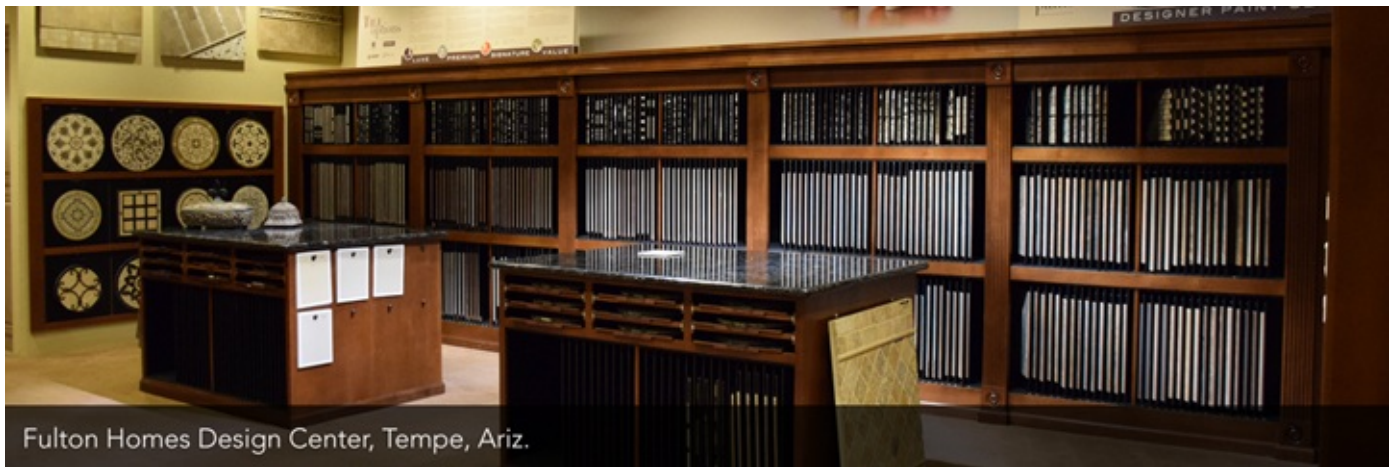
Custom or Production—Which Builder Is Right for You?

Residential builders are generally divided into two broad categories, production builders and custom builders, but even within each category, there’s a range of how much you can personalize your home. While many buyers assume that a production home is less expensive, you can build

homes across a wide range of prices with either type of builder. So what's the difference?

A production builder typically builds multiple homes at the same time, based on a library of floor plans. Their buyers personalize their home by selecting favorite choices from several options offered by the builder.

Custom builders may also offer a library of floor plans but can also build an entirely unique home based on a one-of-a-kind home design created by an architect in conjunction with the buyer. Custom builders typically build fewer homes per year than production builders do and many build individual homes for sale on individual lots all around town, land which they or the homebuyer can acquire. Many production builders build in larger, master-planned new home communities. But even here, there are exceptions. For example, some large master-planned communities will reserve an area or neighborhood for custom homes. In many such communities, buyers typically choose from a list of preferred custom builders and abide by some general standards set by the community for the exterior design of their home.



Fulton Homes Design Center, Tempe, Ariz.

“When you’re looking at a home from a national builder, you’ll be choosing from a menu of floor plans and options,” says Paul Erhardt, senior vice president for homebuilding and development for WCI Communities. “If you want more customization, then you may want to work with a custom builder. With a production builder, though, you’re likely to find a lower cost and a quicker delivery than with a custom builder.”



Power Tip



Both custom and production builders can create a great home for you. Your decision on which type of builder is best for you will be based, in part, on whether you want to highly personalize your new home using a builder's floorplan – or whether you prefer to design your home from scratch or want to make many more design choices.

While many custom builders construct only a handful of homes each year, production builders range in size from smaller local or regional builders to large national builders. D.R. Horton, the largest production builder in 2013, according to Professional Builder magazine, built nearly 20,000 homes in 2012, while small local production builders sometimes build as few as 30 homes per year.

Even though custom homes are not automatically costlier than production homes, production builders do have the advantage of purchasing building materials in bulk and having full-time employees they can count on to keep up a steady pace of building. Larger production builders often construct many homes within a master-planned community, which means they can also save money on the cost of the land, since they buy land in volume, as well.

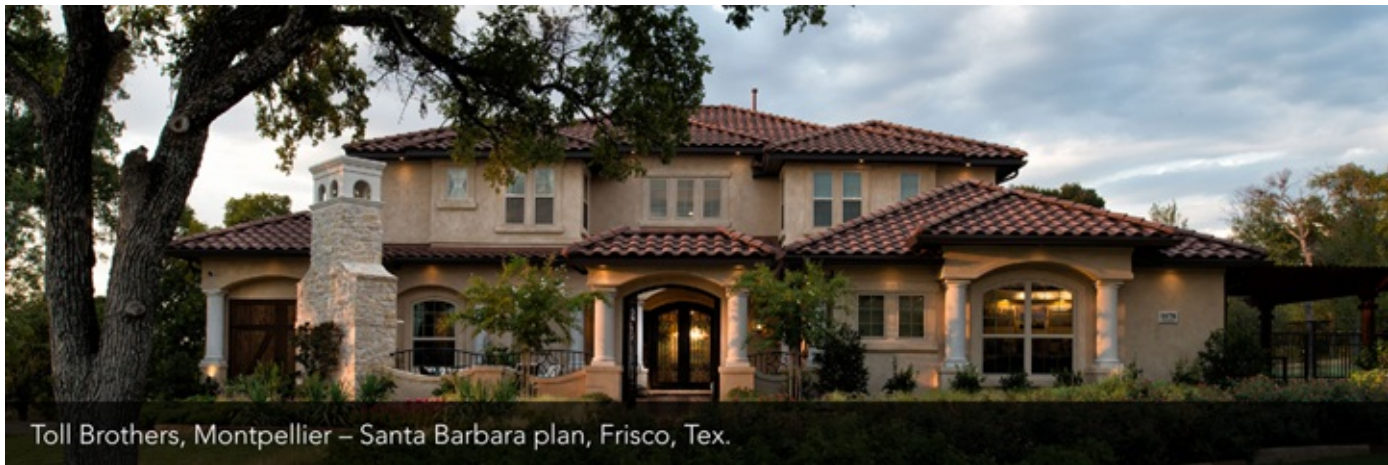
Some companies offer a hybrid business model with both custom and production home services.

“We used to be a custom builder, but now we’re building production homes in fourteen communities,” says Dale C. Adams, Jr., new home sales manager of JLS Design and Construction. “On the other hand, we also have an in-house architect and can do complete customization. We can even build something from a sketch on a napkin as a starting point. Our competitors are both total custom builders and production builders who offer only a few options for personalization.”

Like custom builders, there are many types of production builders. Most offer the ability to select your favorite colors and styles in key product categories. Many production builders also offer a series of upgrades (think good-better-best) in categories such as appliances, cabinets, countertops and flooring. Other builders seek to simplify the process, as Lennar does with their “[Everything's Included](#)” approach to upgrades.

A smart question for a buyer seeking to find the right builder is to ask yourself how much time and energy you want to put into selecting details of your home. The good news is that there is a

builder – and a level of design choice – that’s right for every buyer.



“If you want a completely custom home, the upside is that you have infinite choices,” says Kira Sterling, chief marketing officer at Toll Brothers. “And, at the same time, if you want a completely custom home, the downside is that you have infinite choices. The Toll approach is semi-custom, where you get a lot of choices but not an infinite number. Semi-custom is a happy compromise: in return for some limitations in choice, you’re getting a streamlined experience and a better price.”

Design and location

When you’re considering whether to work with a production builder or a custom builder for your new home, think about two important factors: 1) how much input you want to have in the design of your home and 2) where you want to live.

Production builders vary in their level of customization, so you’ll need to research builders in your area to find out which ones allow you to modify everything including moving walls around and which ones stick to a menu of options for floors, appliances, counters, cabinets, and lighting. We spoke with several production builders to gather some examples of where they fall on the customization spectrum.

“We do market research to develop our list of options, especially for the exterior,” says Angel Boales, a sales associate with Meritage Homes in Roanoke, Texas. “Production builders have moved away from a lot of customization because of the concern about being able to sell the home to another buyer if the deal falls through. We can build a \$300,000 to \$400,000 home and then buyers can add \$15,000 to \$20,000 in options, but it can be tough to sell it to another buyer if there’s a lot of personalization that doesn’t appeal to other buyers.”

Across the spectrum of choices, there’s also a range in the number of floor plans and configurations such as optional rooms that builders offer.

Dennis Webb, vice president of operations for Fulton Homes in Tempe, Arizona, says that Fulton offers twenty to thirty floor plans with different configurations, such as a powder room or full bath on the main level in different locations, so buyers can usually find what they want without having to modify a plan.

McCaffrey Homes, a Fresno, California builder, offers four distinct floor plans in each of its two

communities. Each floor plan can be built in one of three architectural styles.

“Our floor plans are already approved with the local jurisdiction, so we can’t do structural changes, but we have thousands of selections and options for our buyers and hundreds of finishes they can choose,” says Karen McCaffrey, vice president of McCaffrey Homes. “For buyers, this simplifies the process and their decision making. We have a trained staff that can help them make the decisions they do need to make.”

Even custom builders often start with a portfolio of floor plans and then allow buyers to modify those plans. Other custom builders work with an in-house architect or with an architect chosen by the buyer.

“We have a portfolio of two hundred floor plans created by the best architects around the country,” says Paul Schumacher, founder of Schumacher Homes, a company that provides build-on-your-lot services to buyers. “Very few people or even architects have the expertise to design a house from a sketch on a napkin. We use our floor plans as a starting point and then buyers can change anything inside or out.”



You also have the option to buy floor plans from a website such as [SouthernLiving.com](https://www.southernliving.com) as a starting point and then go to a custom builder who will make changes to the plans to meet your needs. Online-only services such as [Floorplans.com](https://www.floorplans.com) or Southern Living allow you to purchase a home design and then built it yourself or take it to a custom builder. Even with a favorite plan in hand, however, nearly every buyer makes changes to the floor plan when they’re building a custom home, says Schumacher.



To help you with the financial decisions, in chapters three and four, you'll find more information about making sure you can comfortably afford your new home and how to finance it.

Infill lot or master-planned community

Where you want to build your home will have as big an impact on your choice of whether to work with a production or custom builder as your desire for designing your own home. Large national and regional builders typically build most of their homes in communities with at least a dozen homes and sometimes hundreds of homes. Smaller builders may use a smaller, unused parcel of land in an already-developed neighborhood on which to build one or a handful of homes. This is called “infill” development. In some cases, never-developed land may be used; in others, an older home has been torn down to make room for a new home. An infill lot or several infill lots also can be created when a homeowner with extensive property decides to subdivide the land and sell some to a builder. Other infill developments can have as much as twenty acres and accommodate dozens of houses.

Master planned communities come in a range of sizes, some with houses built by a single builder and others with several builders constructing houses in different neighborhoods within the community, often grouped by price range. Some planned communities may consist solely of single-family homes, while others include town homes, condominiums, one-level attached villas, and several sizes of single-family homes within one development.

In addition to varied product type, master planned communities have different land configurations. Some communities offer one-half to one-acre lots, while others, particularly in areas with high land costs, are designed with “zero-lot” lines that maximize the number of homes that can be built on the land. Some buyers prefer a larger lot, while others love the low-maintenance aspect of having a smaller outdoor space to landscape and sustain. Residents of high-rise condominiums trade outdoor space for a lifestyle close to urban amenities, though some high-rises do offer outdoor access in common areas such as a pool or deck.

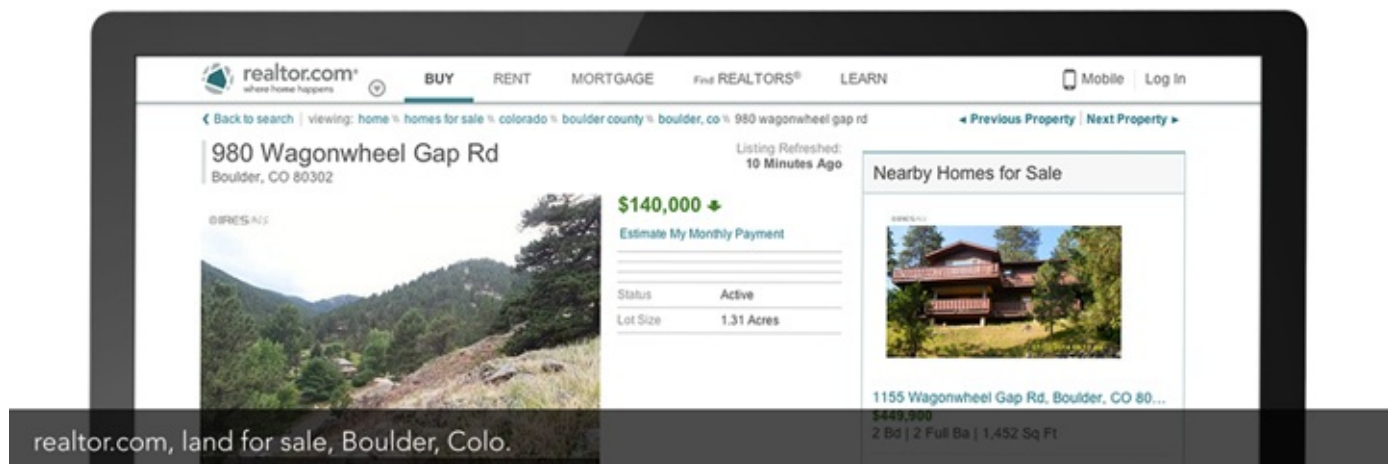
One advantage to a master-planned community is that the developer will typically design the land plan to include amenities such as open green space, walking trails, or recreational amenities such as a clubhouse, swimming pool, and fitness center. Depending upon the community's size, you may find public schools within the neighborhood or even a town center or retail site. Most planned communities require residents to belong to a homeowners' association (HOA) which assesses dues and sets out community rules all residents must follow. HOAs are typically managed by a committee of homeowners, and their goal is to protect and increase the property values of all owners. You'll find a deeper discussion of HOAs in Chapter Three.

Building on private land

You can also choose to build your new home on private land, whether it's land you already own or that you intend to purchase. Not all builders will build on your land, but some specialize in working with clients who have purchased or inherited land or who prefer to find their own lot rather than buy within a new home community. Many custom builders can help buyers find land or recommend a Realtor to help. In most cases you'll need to decide if you want to work with a custom builder or a builder who specializes in "build on your own lot" homes, often referred to by an acronym as a BOYL home.

"There is no 'typical' when it comes to custom homes," says Jim Rill, owner of Rill Architects in Bethesda, Maryland. "Some custom homebuyers have a lot already and some are looking for land; some need to finance the job and some are paying all cash. Most of my clients are looking for land and want to know about the custom home process and budget before they buy land."

If you're starting your search by looking for land, a national website such as [realtor.com](https://www.realtor.com) can help. When you search for a home, select the Advanced Search function and then use the Property Type menu of [realtor.com](https://www.realtor.com) to select the option: "Land."



If the home you envision is in a remote location, perhaps high atop a ridge or surrounded by dense woods and many acres of undeveloped land, a few words of advice: Before you buy that rustic and beautiful land, work with a builder to determine if the site is already buildable – and, if not, what the feasibility and cost will be to extend electricity, water and natural gas. Many remote and pristine regions are buildable, if you're willing to dig a well for water, install a septic tank, and utilize a propane tank in areas that can't be reached with natural gas lines. If you're considering this option, this [article](#) from the New Home Guide section of New Home Source can help.

If you have buildable land already, start your search online to find builders who work in your area and build homes similar to the style you want to create. Working with a build-on-your-own (BOYL) lot plan can be less complicated than a custom home, but some buyers want a completely custom home that's 100 percent what the owner wants and can afford, says Rill.

"Build-on-your-own-lot builders are similar to custom home builders, but they have plans that they've built before which can save time," he added. "They're not designed for an individual, but they're designed for the local market based on research into what buyers want. While the buyers can customize these plans, the house is being built without the ongoing assistance of an architect. The architects hired by these builders design the plans and then go on to other projects."

Most custom homebuyers are as interested in the interior design elements of their home as they are in the architecture. Building a custom home offers you the opportunity of choosing every element from something as tiny as the hinges on your doors to larger features such as your kitchen cabinets. While a production builder will offer several styles of cabinets, a custom builder may be willing to use any cabinet you desire or may have a skilled cabinetmaker who can design and build them from scratch.

Custom builders offer a range of design services; some have an in-house interior designer and a design center, while others leave it up to the buyers to decide if they want to work with their own privately hired interior designer or make all their design choices independently.

Selecting a Custom Builder? Here's What to Consider

If you've decided that a custom builder is the best fit for you, once you have a pool of custom builder candidates, it's time to tour one or more homes built by each one.

Did You Know?

Visiting builder model homes is a great way to see the latest home design trends and the options and upgrades available in your area in your price range. And it's fun!



OPEN

"Most builders have a model or at least a partially constructed home that they're building for a current customer," says Paul Schumacher of Schumacher Homes. "Frankly, if a builder tells you they don't have anything for you to see but floor plans, then they're not really a legitimate builder."

You need to see the finished product in person.”

Of course, every builder says they build a quality product, but you need to see a home and inspect it to really know whether a builder does quality work, says Schumacher. A builder should show you one or more homes that represent their standards so you can hold them accountable to build a home that meets those standards for you, he says.

“That’s why we show you the finished product and a partially finished home so you can see what’s being done inside the walls,” says Schumacher.

“Get a complete list of included features that shows you everything the builder will do, such as all the sticks and bricks, the brand names, and materials that will be used in the kitchens and baths,” he continued. “You need to know if a builder is doing poured walls or block walls in the basement, putting twenty-five- or thirty-year shingles on the roof, and things like that in every category. Then, you can compare one builder to another to see which ones are doing quality work.”



Choosing a builder is not just about looking at the builder’s work. You also need to interview your builder candidates to determine who you can best establish a working relationship with over the next year.

“As part of the interview process, you should have two or three builders come out to your land with you and talk about what you want to build, how to position it on the land, where the utilities, garage, and driveway could go,” Schumacher says. “This is an extremely important meeting because at the end of it the buyers should feel peace of mind that they understand what can be built on their land. You can see what kind of expertise a builder has when he’s discussing with you the issues that need to be addressed.”

If you prefer to have a unique home designed for you, you can start with either a builder or an architect.

“Some people say it’s better to hire a builder first and then an architect, but I think it’s more logical to hire an architect first to do the planning and to be more in control of some of your costs,” Jim Rill says. “You need to have some imagery and an idea of what you want in terms of size and style before you can begin to estimate what your home might cost. You have to understand

that something a production builder can do for \$100 per square foot can cost more than double from a custom builder because production builders can do it for less because they're building a hundred of those houses."

Buying a custom home is different from financing a production home.

"Although some custom homebuyers pay cash, if you want to finance it you'll need a construction loan," says Rill. "Get a bank involved as early as possible, especially during the study period when you're looking at a piece of land. I introduce prospective clients to several lenders with experience doing construction loans."

More detail about financing a custom home can be found in chapter five.

"If you want to build a custom home, make sure you do your research before you spend any money," he added. "Interview builders and architects and give yourself time to back out until you truly understand what it will take to build the home you want. Get competitive bids from several builders. Architects can use 3D depictions to walk you through the home design, so be sure you're satisfied with the design before construction begins. Change orders after construction starts can be expensive and cause delays."

Whether you choose a completely custom design, start with an existing floor plan and modify it, or decide on a floor plan that you can personalize, the end result will be the same: a new, never-lived-in home that reflects your individuality and the way you and your family want to live.

Now that you understand the basics of newly built homes and the difference between types of builders, let's get started shopping for your new home.

WHAT YOU LEARNED: THE BASICS OF NEWLY BUILT HOMES

- ✓ Personalization or customization – how to decide which is right for you?
- ✓ Production, semi-custom, and custom builders—differences and similarities
- ✓ Infill lot, private land, or planned community—which is right for you?
- ✓ Where to start if you want to build on your own lot.

RESOURCES

[New Home vs. Resale: Which is Right for You?](#)

[Is a Custom or Production Home Builder Right for You?](#)

[What Home Buyers Want in a New Home](#)

[What Kind of Homebuyer are You?](#)

[National Association of Home Builders \(NAHB\) Info for Consumers](#)

[National Association of Home Builders – Homeownership](#)

[First-Time Homebuyer's Guide](#)

[U.S. Department of Housing and Urban Development – Buying a Home](#)

[Kiplinger – Buying and Selling a Home](#)



Chapter Three:

SHOPPING FOR YOUR NEW HOME

WHAT YOU'LL LEARN

- Location, home features, community amenities
- Defining and prioritizing your needs
- Estimating your price range
- Researching builders and communities
- Maximize your model home visits
- Working with the builder's salesperson
- Do you need a Realtor when buying new?

When you're ready to start your new home shopping spree, you may have visions of glittering granite counters, a sunroom with French doors that open onto a terrace or a pristine master bath with heated flooring to warm your toes every morning.

This wide array of choices, while definitely appealing, can bring with it a little bit of uncertainty. Don't worry, we'll hold your hand as you go through the process of selecting an area of town where you want to live, a community with the amenities you want, a builder you can trust, and a home you can love.

Getting Started: Key Factors to Consider Include Location, Type of Home, Price Range, Lot Size, Commute Time, Schools and Nearby Retail and Restaurants

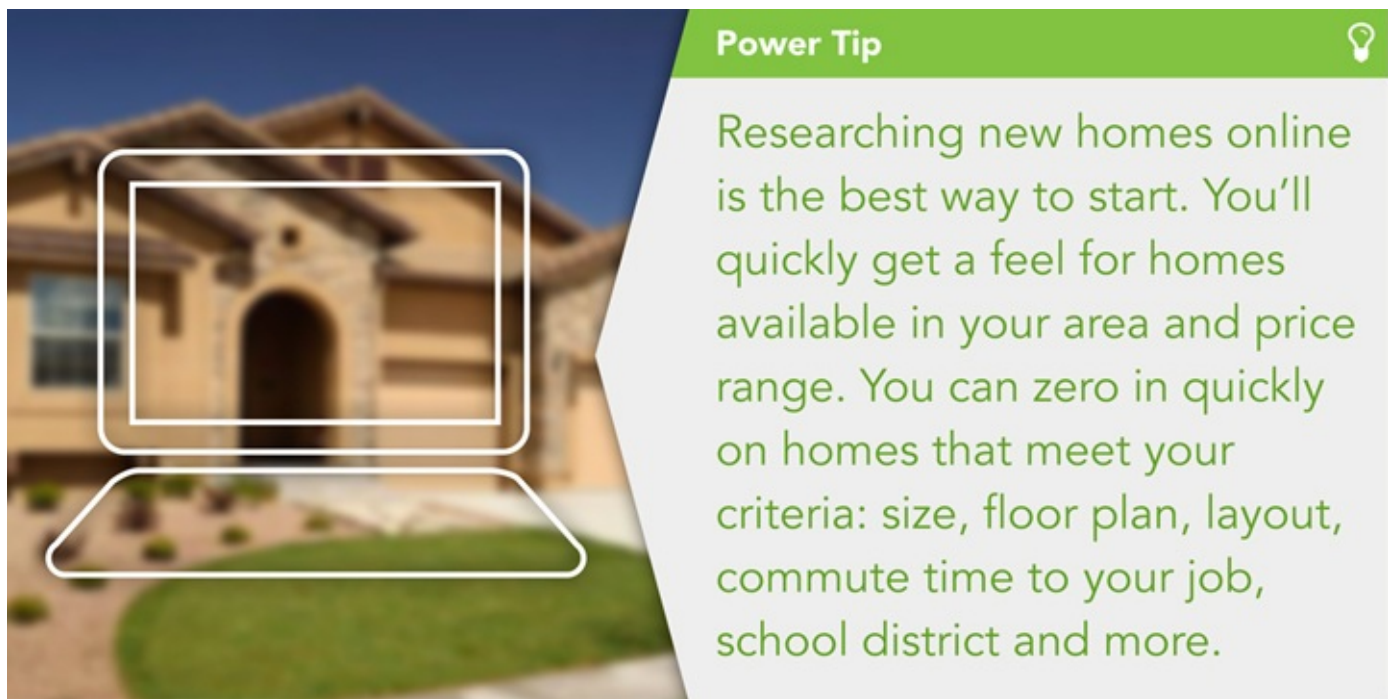
Whether you already own a home or are buying your first home, a good place to start establishing your priorities is to think about where you want to live. Real estate experts have long touted the importance of location in maintaining your home's value. While a location in a good school district or one near convenient transportation options or in a community with desirable amenities can definitely be an asset, you also need to think about where you and your family want to settle.



New homes can be found in master planned communities, in suburban areas with town centers, in cities, and on infill lots where just one or two new homes are being built to replace an older home or an empty lot. You can find one-level villas, three and four-story townhomes, mid-rise and high-rise condominiums, and single-family homes in every size, depending on the community.

The choice of your home's location is often driven by where you work, your options for commuting, or by the school you want your children to attend. If you're retired or plan to retire soon, you may want to live near family or friends or choose an active adult community where you can make new friends who are enjoying the same stage of life. Of course, if you already own land where you plan to build a home, your location preference is already established. But, once you have a general idea of where you want to live, you can start researching your new home options in

that area. It's easy—just pull out your preferred electronic device with an Internet connection.



“Go online to look for builders who are currently building homes in areas near your work or in the school district you want for your kids,” suggests Dennis Webb, vice president of operations for Fulton Homes in Tempe, Arizona. “You can usually find a lot of information on builders’ websites about the types of homes they’re building and the price range.”

Jenny Pauline Mendoza, a buyer with McCaffrey Homes, says she and her husband found their new home before they really planned to purchase at all. The couple visited an open house near their church and a few months later became homeowners.

“We ended up falling in love with this one model,” she says. “Neither of us could get it out of our heads. We could just picture our family in that house, but we didn’t think we could afford it. The salesperson helped us figure it out and now we’ve been in it five months. We can still hardly believe we’re here.”

Like the Mendozas, some buyers are less concerned about the location and are focused more on the type of the home they want to buy. For example, if your priority is to own a home with an acre or more of land for privacy, then you may need to widen your search to areas farther from city centers. Similarly, if your budget won’t accommodate a larger home in the neighborhood where you want to live, you’ll need to decide whether you’re willing to choose a smaller home or a smaller lot to stay in a desirable area or move to a different community to get the home features you want.

These types of choices may seem simple, but it’s important to think through what matters most to you and to discuss your options with your family.

Another important subject to consider is community amenities. Many large master-planned communities offer a seemingly endless array of options for fun, fitness and family time within the new home community itself. Some leading communities even offer water parks that can rival top

attractions. It's not unusual to find a large community clubhouse with meeting space, well-equipped fitness centers and even media rooms and coffee bars.

When researching such master-planned communities, make a note of activities and sports most important to you. Look for facilities within the community (or nearby) to support them. Many communities offer tennis courts, soccer fields, hiking trails, greenbelt and protected wilderness areas. Others offer town centers or retail space a short walk or drive from your home. If you or someone in your family spends a lot of time on a sport such as golf, swimming, tennis, or ice hockey, you may want to live near facilities to enjoy these activities. As you begin to look at new home communities, you'll also want to find out where the nearest stores are for basics such as grocery shopping and banking, along with proximity to restaurants, day care centers, libraries, medical offices, and movie theatres. If you prefer to enjoy unspoiled nature, check out how much green space can be found nearby and how easy it is to access hiking or biking trails.

As you're looking at new master planned communities, keep in mind that some amenities, such as a pool or playground, may not have been built yet. Many developers wait until a certain number of homes have been completed or a number of residents have moved in before completing planned clubhouses, swimming pools, or retail centers. Be sure to check out the plans for a community and ask when amenities will be ready to enjoy.

What Do You Want in a New Home?



While educating yourself about your local market, builders, and new home communities in your area are important steps in your new home journey, the place to start is to determine what you really want in a home.


Purchasing a home is the largest financial decision that many people make. Investing time to define the must-have features (as well as the would-be-nice and can-live-without features) of your dream home is important. Also think about your long-term goals and financial plans. Financial advisors recommend owning a home for at least five to seven years before you sell it. That time allows for the market value of your home to appreciate, which can help you re-coup your real estate and moving costs. Decide if you're ready to make the commitment to a home and a community for at least that long.

Of course, when you're buying a home that you've personalized to match the way you want to

live, you may never want to move. If you think the home you build will be your “forever home,” it’s wise to consider how you and your family will change over time. For example, if you have children, plan for their changing needs as they grow, leave home and perhaps return. You may want to plan for flexible space on the first floor for aging parents who may one day live with you.

An area to give particular thought to is the location of the master bedroom. Many parents of infants and young children prefer to have an infant’s bedroom near their own bedroom. That may change in the teenage years, when all parties may prefer privacy and separation. And you may prefer a first floor master bedroom for yourself as you age.

Thinking about the features that you and any family members need – now and in the future – will help you clarify what’s most important to you in your next home.



Power Tip 

Buying a home with a partner or spouse? Each of you should separately make a list of “must-have” and “nice-to-have” features in your new home. Then compare notes and develop a final, joint list of options you both want.

If you’re a single person buying a home, jot down a wish list of everything you can think of that you want in your new home. Start with the basics such as the number of bedrooms and bathrooms and move on to other living spaces and amenities, inside and outside.

If you are buying a home with a spouse or partner, each of you should develop your list separately and then compare them. You’ll likely find that your lists don’t match exactly. In that case, divide your wish-list into must-have features versus features that are open for compromise. You don’t need to get into details at this point (such as paint color or window treatments) but it will help enormously later if you can confirm whether you both want features such as two or three full baths, hardwood or tile flooring, and a screened porch or a deck.



As you begin to look at homes and create your wish list, pay attention to the other homes in a neighborhood and even regional floor plan preferences. While this may not matter much to you right now, someday you may want to sell your property. If most homes in your community have a study, a three-car garage or a media room and yours doesn't, your home could be harder to sell in the future.

"When we bought our new home, one of the features that sold us on the house was the upper level loft," says Tracy S. "We don't need extra bedrooms, so it was nice to have an open loft instead of a fourth bedroom. The appraiser says our house wasn't worth as much as a four-bedroom, but we didn't really care since this is the floor plan that we love and that suits our needs."

It's a wise idea to discuss local preferences with the builder's sales professional or a Realtor if you choose to work with one. You can still design your home the way you want, but it's better to know ahead of time the impact on the future resale value of your home based on specific design choices you make. The same holds true when comparing neighborhoods with and without community amenities such as clubhouses, pools, hiking trails and sports fields. Decide which of these amenities are most important to you and which you can do without, and factor that into your home search as well.

"Realtors know the pluses and minuses of neighborhood amenities and home features and can point out items that will help the resale value of your home," says Raylene Lewis, a Realtor with Century 21 Beal in College Station, Texas. "This is especially helpful for out-of-town buyers who may not know something like the fact that buyers in this area want a first-floor master suite when that may not be as popular where they're from."

Dale C. Adams, Jr., new home sales manager of JLS Design and Construction in Maryland, helps prospective buyers clarify their priorities by asking this series of questions:

- How long have you been looking for a new home?
- When do you want to move?
- Do you own or rent now?
- What do you like about where you live now?
- What do you dislike about where you live now?

- What are you looking for in a home?

You can get a head start on your home search by asking yourself these questions.

“I also ask people if they have an idea of how much they want to spend for their home,” Adams says. “Sometimes they’ll say \$250,000, but when I ask them if they have a monthly payment in mind they’ll say \$2,000. A lot of new buyers don’t realize that they might be able to buy a \$330,000 home for that amount.”

Figure Out How Much You Can Spend

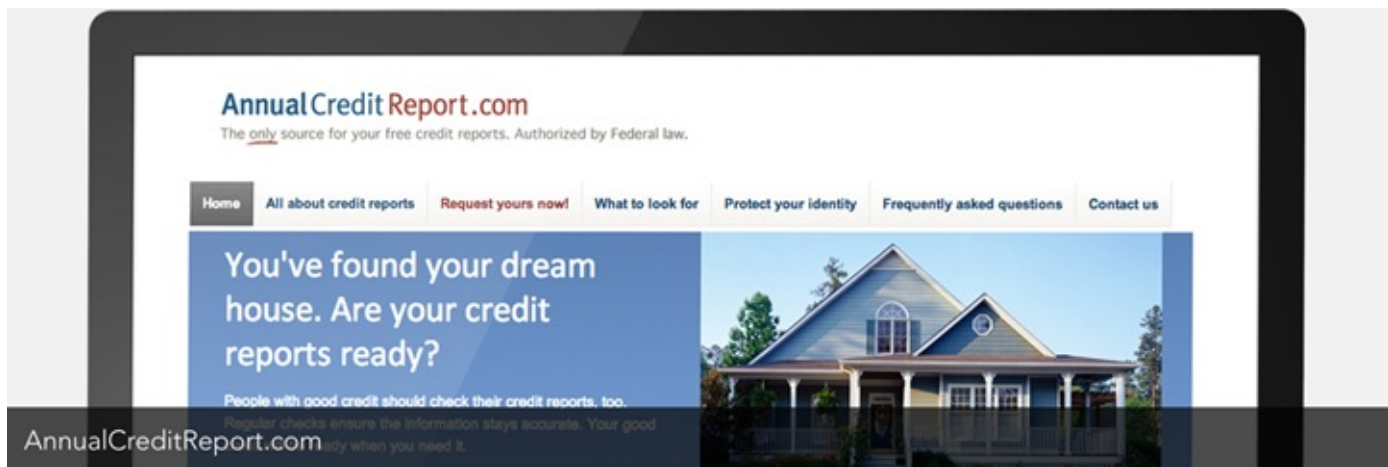
While you’ll need a loan preapproval from a lender when it’s time to seriously shop for a home, you should develop your own budget and an idea of what you can spend on a home before you begin looking at homes. Some buyers opt to look at new home communities first so they can get an idea of what’s available at different prices, but the danger of doing that is the potential to fall in love with a community or a home design that’s far out of your financial reach. So, what steps should you take to determine how much you can spend on buying a new home?



Power Tip

Get your credit report for free from all three major credit bureaus at AnnualCreditReport.com. Up to 20% of credit reports contain an error. Find and fix any mistakes early in your new home search.

Start your financial planning at the same time as you compile your wish list by requesting your free credit report from www.annualcreditreport.com. You should get your credit report from all three credit bureaus (Experian, Equifax, and TransUnion) at the same time and check for errors. For a small fee you can also see your credit score. A 2013 Federal Trade Commission report found that 20 percent of all credit reports contain mistakes. Correcting an error can take months and impact your ability to qualify for a mortgage loan, so taking this step first can save you time and frustration later in the process of buying a new home.



Second, identify your source of cash for your new home. Many move-up buyers sell their current home to generate down payment funds. You can get a general idea of how much equity you'll have to use for your next home purchase by estimating your current home value on recent local sales, estimating that you'll need to pay 6 percent to 10 percent of the sales price for closing costs and commissions and then subtracting your current mortgage balance.

For example, if the estimated value of your current home is \$400,000, you'll pay a maximum of about \$40,000 in commissions and closing costs for a remainder of \$360,000. If your mortgage payoff is \$200,000 you'll have \$160,000 to use towards your new home, moving costs and for cash reserves.

In addition to, or in lieu of selling your prior home, you may have savings and investments you plan to use for a down payment. Many first-time buyers also rely on gifts from parents or grandparents. Steven Cohen, vice president of First Place Bank in Rockville, Maryland, says prospective buyers should make sure they clearly understand how much money a relative intends to give them for a home.

"I've worked with people who assumed their parents were giving them \$20,000 when the parents intended to give them \$2,500", he says.

Next, estimate what your monthly payments would be for particular loan amounts. Most builders and lenders have online calculators that you can use to plug in different numbers. The rule of thumb used to be that you could spend 2.5 times your salary on a home purchase. The reality today is that mortgage lending standards are much more complex and depend on your income, assets, credit profile, and other debt. The majority of loan programs require borrowers to have a maximum debt-to-income ratio of 43 percent, so one way to estimate the maximum you can borrow is to calculate your own ratio based on your monthly gross income and the minimum payments on all recurring debt. Many financial planners recommend a maximum housing payment of 28 percent to 30 percent of your gross income.



A lender will preapprove you for a mortgage based on your documented debt-to-income ratio and credit, but it's extremely important for you to decide for yourself your comfort level with a particular monthly payment. A mortgage lender won't know about some of the expenses that you have, such as maintaining a high level of contributions to a college savings fund or a retirement account or even some discretionary spending on things that matter to you, such as playing golf every weekend or taking frequent ski vacations. If you don't already have a detailed monthly budget, you should at least sketch out a general budget so you can see how a new mortgage payment will fit into your financial plans.

The emphasis here is on a monthly payment because while buyers often search for a home in a particular price range (such as \$250,000 to \$275,000), spending as much as \$10,000 above your maximum price may not have as much impact as you think. For example, a \$275,000, thirty-year fixed rate loan at an interest rate of 5 percent will have a monthly principal and interest payment of \$1,468. A loan for \$285,000 with the same terms will have a monthly principal and interest payment of \$1,521, just \$53 more per month and only \$1.70 more per day.

"A lender can tell you how much you qualify for, but they can also work with you to match a loan amount to the monthly payment you want to make," says Mike Kelly, senior vice president for Prospect Mortgage, one of the nation's largest independent mortgage lenders.

Did You Know?

Your monthly housing payment may also include pro-rated property taxes, homeowners insurance and possibly homeowners' association dues. Paying equal monthly amounts can help prevent a last-minute scramble to come up with cash for your annual property tax.



You can use the estimated principal and interest in a mortgage calculator to generate an idea of how much you can borrow at different mortgage rates and loan terms and with various sizes of down payments.

If you make a down payment of less than 20 percent, you'll need to pay mortgage insurance, so you should factor that into your monthly payment. Many mortgage calculators offer the option of showing your payment with an estimated mortgage insurance payment.

Visit Builders Virtually and in Person

Now that you have an idea of how much you want to spend on your new home, you can begin to look more carefully for builders that will be a good fit for your needs.

Depending on where you're looking, it could be overwhelming to just randomly search for new homes. A great place to start is on [NewHomeSource.com](https://www.newhomsources.com), which has the largest selection of new homes, builders and new home communities in the country. Millions of people each year use this site in their new home search.

With your wish list in hand, you can filter your search results first by a general location and then by price range, the number of bedrooms and baths, and other features. You can also filter your choices by school district and even search for community amenities that meet your needs.

Once you've narrowed down your choices to several builders and communities, it's time to get out and start visiting them. Touring different communities and beautiful model homes is one of the best parts of shopping for a new home. Try to envision yourself living in each home you visit: Is it love at first sight? Can you imagine coming home each day to this house? What excites you about it? About the community itself? While visiting homes can be fun, you also need to be methodical about your home search.



When people start visiting new homes, they often look at a lot of homes and can forget which home had specific features they liked. The solution? Take notes and quick photos (even on your smart phone) to help you quickly and easily match up your favorite homes and features later.



Most sales offices will provide you with a brochure about the community with floor plans, a price list, and a list of standard features. Many shoppers jot their personal notes there. Remember to take some notes about each community, as well as each home. When you see a feature in a model home you absolutely love, make a note of that, too. You may find it can be included in the final home you select.

Don't want to keep your notes on a series of model home hand-outs? That's fine, too. Some shoppers prefer to make notes in their smart phone or in a house-hunting notebook. Another power shopping tip: photograph the front of a model home and include the sign with the builder and model name. Do this for each home you visit and you'll then know that all photos come from that model home until you see the next new home with a builder and model home sign in your phone or camera. Whatever system you use, the key is to link photos and notes to help you recall

what you liked about your favorite new homes and communities.

Next, as you drive or walk around a community, ask current residents how they feel about their home and the builder. Brian Koss, executive vice president of Mortgage Network in Danvers, Massachusetts, suggests driving around a neighborhood at different times of day and on both weekdays and weekends.

“You’ll see what the community is like to live in and you can find people to talk to about the homes and the neighborhood,” he says. “You should never be shy about that, because you can get a lot of good information from people who have bought a home from a builder about what they think of the quality and what their experience was like.”



If you’re looking at a brand new community where no one has moved in yet, you can drive around other communities in the area built by the same builder, suggests Kira Sterling, chief marketing officer at Toll Brothers.

“It’s good to look at the homes and see how they look after a few years, and you can also ask homeowners about their experience with the builder,” she says.

Sterling adds that it’s extremely important to know as much as you can about a builder.

“You need to look into the financial stability of the company so you’re comfortable that amenities will go into the community as planned and that the homes will be finished as promised,” Sterling says. “Look at the track record of the builder before you sign a contract.”

In addition to getting feedback from homeowners on-site, you can read online reviews and comments about builders for additional perspectives. Be aware, though, of the size of the builder. A large national builder could have multiple complaints simply because of the volume of homes they build, while a smaller one might have only a handful. Check carefully to see how the complaints have been resolved by the builder.

Another important resource should be the on-site sales consultants at each community. They will know more than anyone about the homes and the community.



Many new homebuyers form strong friendships with their builder during their home's design and construction.

“The new home process takes at least six months and during that time you’re forming a relationship with the people who are building your home, which is very different from buying a resale,” JLS Design and Construction’s Dale Adams says. “Getting to know the sales professionals on site can be a huge benefit to buyers. Ninety percent of people can get what they want within their budget with a new home, but they usually can benefit from a knowledgeable salesperson who can help them match the floor plan, the options, and the lot.”

One of the most important pieces of information to keep in mind when you’re looking at different homes and builders is the list of standard features.

Erin Hungerford, a Realtor with Long & Foster Real Estate in Richmond, Virginia, says: “Make sure you understand what’s included in one home or community versus another, because that can make a huge difference in the final price of your home. You could find that a home with a higher base price is actually a better value for you if it has the features you’re looking for already included.”

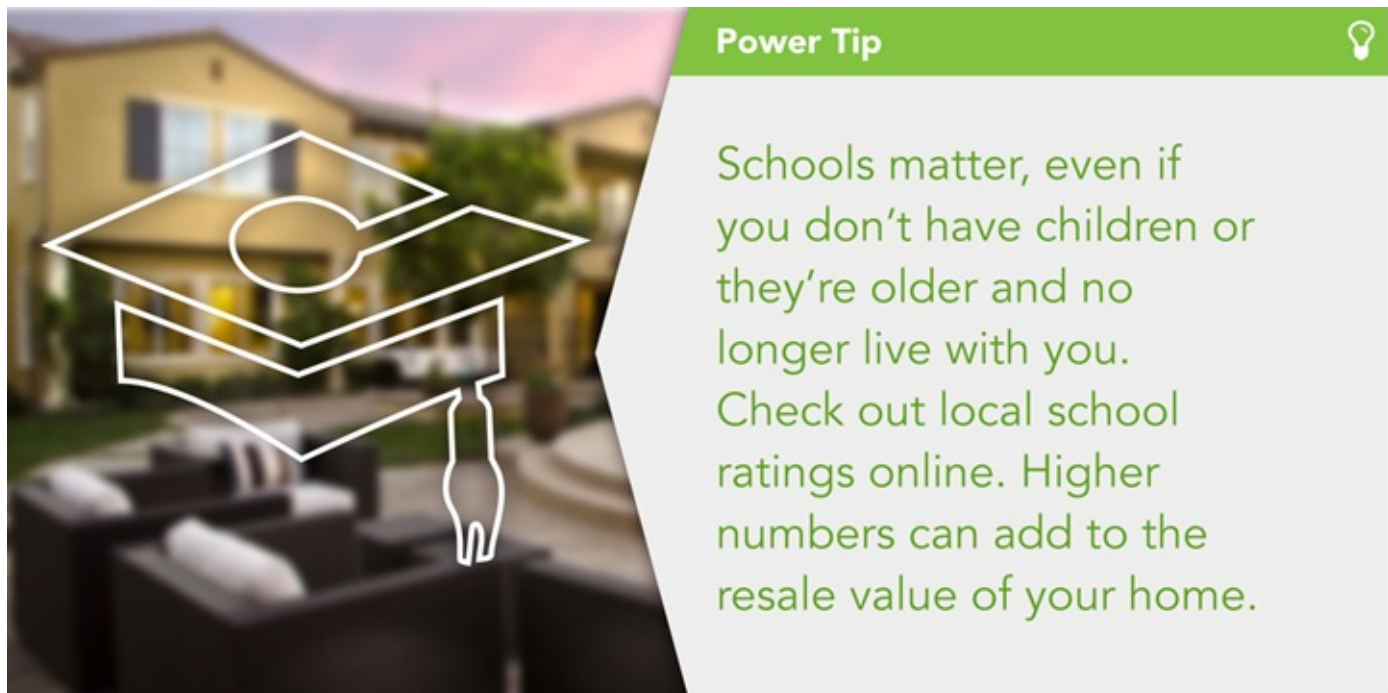
You also should check out each community’s on-site amenities, whether they’re in place or planned, as well as those nearby. Ask to view the clubhouse (or the plans for one), as well as other facilities and outdoor spaces, such as a fitness center, swimming pool, tennis courts, sports fields, hiking trails, and green spaces so you can see what will be available to you and how the finished development will look. You should also ask the on-site sales people about future development plans for nearby areas, since you don’t want to buy a home assuming you’ll have a woodland view forever only to have that view disappear in a few years into a shopping center or a row of houses.

Be sure to check out your current and future transportation options, as well. While your job location could change in the future, it's wise to try out your current commute during rush hour from an area where you think you might want to live. If you rely on public transportation or would like to have it available, find out what's in place now and if there are plans for new bus or rail routes. Transportation options are typically high on the list of priorities for many buyers, so choosing a place with good access for commuters can help your home hold onto its value and make it more attractive if you ever decide to sell.

Back to the Computer for More Research

Two important factors you should consider when choosing where to live are crime and schools. Not only do you want to feel safe in your home and neighborhood and confident about the education your kids will receive, but these two factors can greatly affect home values. Even if you don't have kids, you should be aware of the reputation of the school district where you intend to buy a home since someday you may sell your home to buyers with children in school.

A 2013 report by Redfin, a real estate company, found that, on average, Americans pay \$50 per square foot more for homes served by a top-ranked school than for homes served by an average-ranked school. You can learn about schools in your community by going to your local government website. You can also use websites such as [GreatSchools.com](https://www.greatschools.com) to research the educational options in an area and view ratings according to test scores and parent reviews.



Safety matters, too. To investigate the incidence of crime in an area, you can contact the local police department or visit [CrimeReports.com](https://www.crimereports.com), which offers a map you can use to drill down to an address to find out crimes reported in the area. When you visit a community, you can also ask residents how comfortable they feel with their safety.

Narrow Your Priorities

Now you have a taste of what's available in your general price range and where you might want

to live. You've also established the general outline of what kind of home you want. Let's work on narrowing your priorities further.

Earlier in this chapter, we talked about your budget and how to determine how much you could afford to spend. Now it's time to match your finances with your fantasies. Hopefully you've been able to identify some options for new homes within your price range. Remember that you need to budget for optional features you'll want to add to your home and that you also need to keep some cash in the bank for an emergency fund.

At this point you should be developing an idea of which homes are within your reach financially. And, assuming you don't have unlimited funds, you'll need to decide which communities and builders offer the most of everything you're looking for in a home and location. If you're having trouble narrowing your priorities, this could be the right time to consult a Realtor.

Bring in the professionals

While it's great to do a lot of your own research online and in person to get a sense of what's available where you want to live, at some point you'll want to turn to professional experts to help you move forward on your plans. The professional expertise you need depends on your own level of experience and confidence as a buyer of a newly built home.

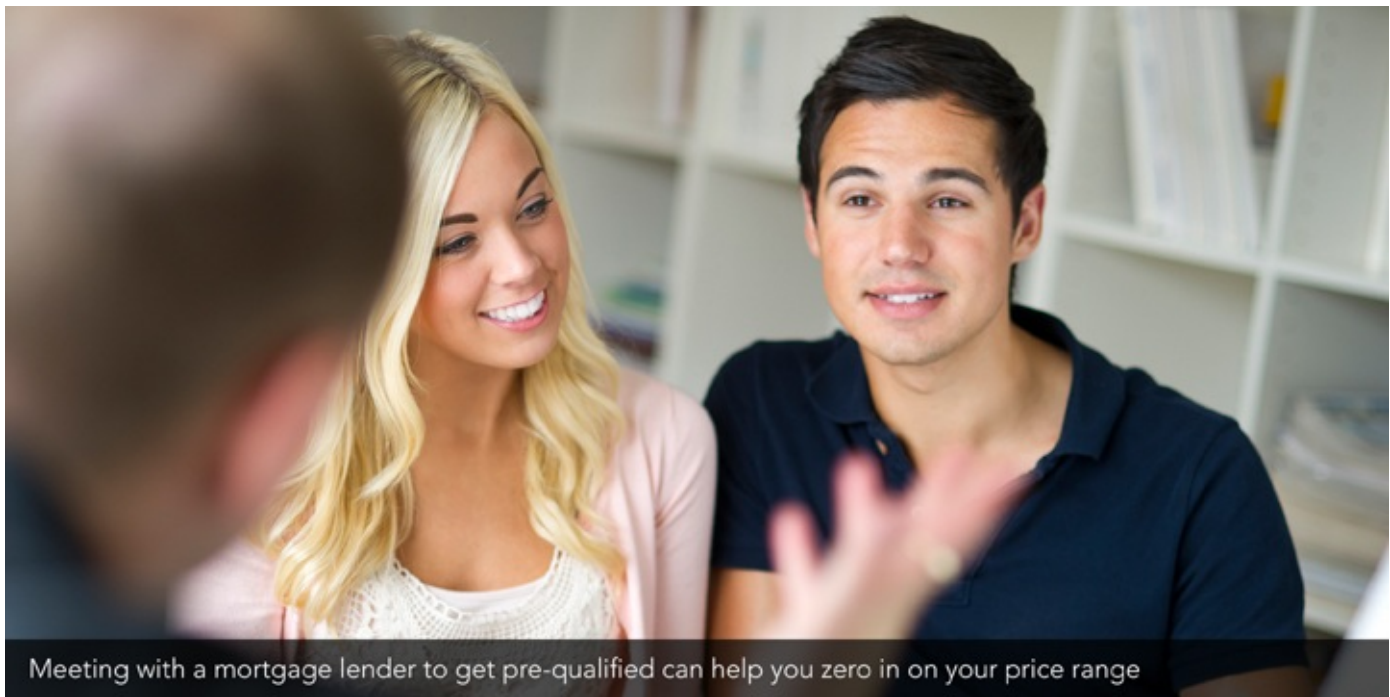
For example, if you plan to pay cash, you don't need to consult a lender.

If you have a clearly defined idea of your dream home and already know the work of several builders in your area, you won't necessarily need to hire a Realtor.

However, if you need to finance your purchase or want outside expertise to guide you in your decisions, then you may want to interview several lenders and Realtors to make an informed choice for your support team.

Schedule a Lender Consultation

You should already have a general idea of your comfort level with your housing budget, but now it's time to get serious about arranging financing for your new home. If you're a first-time buyer, you should expect to spend an hour or more with a lender learning about loan programs and discussing your finances. If you already own a home and are buying your first newly built home, you may already have your financial plan in place and a loan program identified.



Meeting with a mortgage lender to get pre-qualified can help you zero in on your price range

Your financing options are different depending on whether you're working with a production builder or a custom home builder. Financing a newly built production home is in many ways similar to financing the purchase of an existing home except that you may need to wait until your home is closer to completion to lock-in your loan and interest rates. If you're buying a quick delivery home that you'll purchase and move into within 30 to 60 days, your financing process will be the same as if you were purchasing a resale property.

Most large and midsize builders have either an in-house or affiliated lender or a list of preferred lenders that buyers can work with to arrange financing. As a buyer, you have the choice of working with the builder's lender or arranging a loan with a different lender. In many cases, your builder will offer incentives such as closing cost assistance or provide one or more free options if you opt to use the preferred lender and settlement company.

Whether or not you use a builder's preferred lender, it's important to use a lender who's experienced with the home building process, says Phyllis Casillas, a sales manager for On Q Financial, Inc. in Tempe, Arizona.

"The major difference between financing a newly built home and a resale is that when you're buying a new home, you have to wait to secure your interest rate," Casillas says. "When you're buying a resale, you usually can lock in your rate as soon as you have a contract."

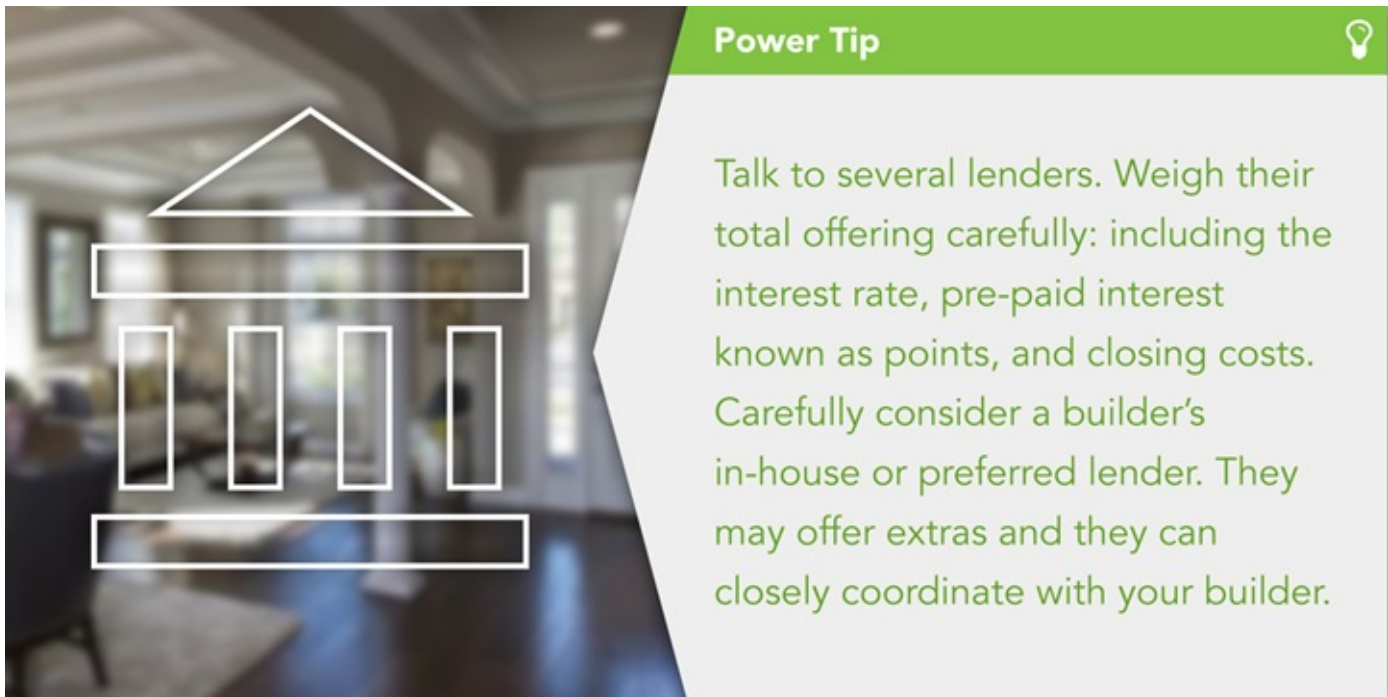


An experienced new home lender can give you advice about when you should lock in your rate and help you find the right loan to meet your needs.

“You have a window of unknown on rates, so don’t wait to be surprised,” she suggests. “For instance, if rates are 4.5 percent vs. 5.5 percent, ask the lender what the difference in payment would be and whether you qualify at the higher rate.”

Production builders have recommended lenders or in-house lenders because they want to make sure that the buyer’s financing is secure and in place when the home is finished. During the construction process, the financial outlay, and therefore all of the risk, is taken on by the builder (other than your deposit), so it’s natural for a builder to be particularly concerned that you’re able to purchase the home. If your financing were to fall through, the builder would be forced to put a home on the market that has been designed to your specifications. It can be difficult to sell a home that’s been completed in a new development since most buyers in new communities are excited to be able to personalize their own home.

“It’s smart to work with a lender who’s recommended by your builder because these lenders are familiar with the community and will help make sure you get to the closing,” says Caryl Dierksen, a homebuyer in an Epcon Community in Woodstock, Illinois. “I know some people who used a different lender and had a lot more trouble, especially because they were working with an out-of-town lender, not a local one.”



Working with the builder's recommended lender could be beneficial to you in several ways. Not only does this give you the advantage of access to builder incentives, but the application process could be faster and simpler since the lender wants to satisfy the builder as well as provide you with financing. You also know for certain that you're working with a lender who's experienced with new home financing and comes recommended by your builder. The lender then becomes part of the team of people working to get your new home built and financed to meet your needs.

However, you should also shop around to make sure that the rates and fees you're quoted and the loan programs that are available to you are similar to those available from other lenders. Compare the interest rates and the cost of the loan from the builder's lender (or recommended lender) with those from one or two outside lenders. If the interest rate you're offered by the builder's lender is higher, you need to weigh the financial benefits offered by the builder (such as closing costs or upgrades to your home) against the additional interest payments you would make over the life of the loan. In most cases, the preferred or affiliated lenders recommended to you by your builder will offer competitive financing, but it's wise to spend a little time shopping around to be certain.



Talk to several lenders, including your builder's in-house or preferred lender, to get a complete picture of the mortgage options that are available to you for your home.

You may be able to choose a preferred or affiliated lender from a builder who's developing a community where you think you might want to buy a home for your initial lender consultation, says Craig Olson, vice president of mortgage operations for PenFed Credit Union in Omaha, Nebraska.

If your builder doesn't have an in-house lender or you simply want to shop around before committing to a lender, plan to interview two or three lenders. It's important to find a lender you can trust. After all, you're providing access to your deepest financial secrets, so you need to be comfortable sharing your money habits and willing to develop a relationship with your lender. The best way to find a lender is to ask for recommendations from your builder, a real estate agent, and from your friends or colleagues who have recently bought a home. You can also start with your bank or credit union to consult with a lender or contact a community bank.

When you interview lenders, ask questions to get a feel for how well the lender communicates with you and shares information. Here are some important questions to ask. A more comprehensive list is included at the end of this chapter.

- Do you have experience financing new construction homes?
- Do you work in a particular price range or with buyers at all levels? (A lender who's more interested in establishing a relationship than simply earning a commission will work with buyers in a variety of price ranges.)
- Can you explain loan options to me for conventional financing, FHA (Federal Housing Administration) loans, USDA (U.S. Department of Agriculture) loans, and VA (U.S. Department of Veterans Affairs) loans?
- When would it be best to lock in an interest rate on a loan when I'm waiting for my home to be built?
- Can you help me figure out how much cash I'll need for a down payment and closing costs?

- Do you have advice about how to come up with the cash for a down payment?
- Can you explain private mortgage insurance (PMI) and why I might need to pay it?
- Are there any special loan programs offered by your company or by local government authorities that could help me buy a home?

Many buyers of newly built homes opt to work with a lender recommended by their builder, not only because some incentives are tied to the use of a preferred lender, but also because the lender will work closely with both the buyer and the builder for a streamlined experience.

If you have doubts about whether you can qualify for a loan, it makes sense to talk to a lender about your individual circumstances. An in-house lender must follow guidelines to qualify you for a loan just as any other lender does.

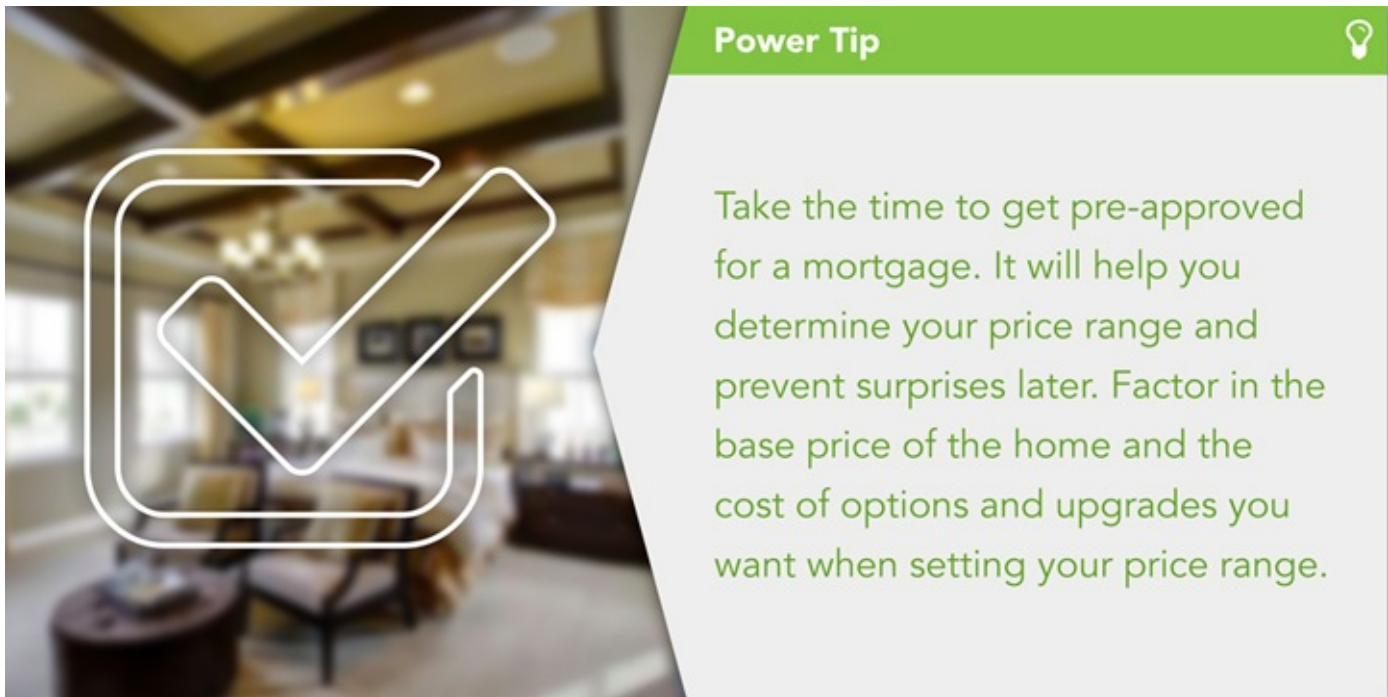
“My husband and I have always paid cash for everything so we actually don’t have that great a credit score because there isn’t much of a report,” says Jenny Pauline Mendoza, a buyer in Clovis, California. “McCaffrey Homes’ lender helped us get a loan and helped us figure out how we could save enough while the house was being built so that we could make a down payment of about \$11,000. Now we’re able to continue to save because we learned how to skim on things and to look hard at our needs and wants. Our mortgage payments are actually \$100 less than our rent was on our previous home. We were wasting so much money.”

Mortgage Loan Qualifications

The essential elements of qualifying for a loan, including a review of your credit history, job history, income and assets, are the same regardless of whether you’re applying for a mortgage to build a home from a production builder or to buy an existing home. When you’re shopping for a home, regardless of whether you’re looking for a new home or a resale, it’s best to consult a lender and get prequalified or even preapproved for a loan. A prequalification for a mortgage is based on your verbal statements about your income, assets, debts and credit score, although many lenders will also do a quick credit check as well. A preapproval requires you to provide documentation to a lender.

“You should go through the loan application process and get preapproved for a loan,” PenFed Credit Union’s Craig Olson says, “but you’re not obligated at all to actually finance your home with that particular lender. A preapproval letter is a promise to provide financing based on an applicant’s documented information, but it’s contingent on the borrower actually finding and making an offer on a property. You can switch to a different lender when you’re ready to buy, although you’ll have to provide complete documentation to that new lender.”

When you’re shopping for a resale home, sellers typically refuse to accept an offer from a buyer who lacks mortgage preapproval. The strength of your loan preapproval is particularly important if you’re competing against other buyers for a property. If you’re buying a new home, a mortgage approval should function as a check-up to make sure your finances are in order and as a way to establish your price range.



Take the time to get pre-approved for a mortgage. It will help you determine your price range and prevent surprises later. Factor in the base price of the home and the cost of options and upgrades you want when setting your price range.

“A mortgage preapproval determines how much you can spend not only on the home itself but also on the optional features you want,” says Mike Kelly, senior vice president for Prospect Mortgage. “Your lender will determine the maximum amount you can borrow and then you’ll discuss your available assets for the down payment and closing costs to determine your total sales price. For instance, if you qualify for a \$300,000 loan and you have \$30,000 in cash for the down payment then you can only spend up to \$330,000 on the base price and all the options. It’s smart to do this before you look at options so you don’t sign a contract for \$350,000 including options and then have to reset your expectations for what you can afford to add to your home.”

Mortgage lenders will evaluate your income, your assets, your debt-to-income ratio, your credit score and profile, and your job history. You’ll need to provide documentation in the form of tax returns, bank statements, W2 forms, your employer’s name and address, and recent paystubs. It will save you time if you gather these items before you meet with a lender.



“Every lender is different, but most require a credit score of 640 or perhaps 620 if you have compensating factors such as a good job history or a lot of cash reserves and are applying for a government-insured loan such as an FHA, VA, or USDA Rural Housing Development mortgage,” On Q Financial’s Phyllis Casillas says. “You’ll need a credit score of at least 740 to qualify for the lowest interest rates on a conventional loan.”

A lender will also look at your debt-to-income ratio, which compares your gross monthly income to your entire housing payment (principal, interest, property taxes, homeowners insurance, and any HOA fee) and the minimum monthly payment on all other debt, such as your car payment, student loans, and credit card debt. The maximum debt-to-income ratio lenders will allow is 43 percent. For example, if you make \$120,000 a year, your gross income would be \$10,000 per month, so your housing payment plus the minimum payment on all other debt such as your car, credit cards and student loans, would have to be \$4,300 or less, Cohen says.

Many factors go into a loan approval, such as your job history and your cash reserves, which is why it’s so important to talk directly to a lender as early as possible in the home shopping process about your individual circumstances. Even if you have a foreclosure or bankruptcy in your past, you may still qualify for a new mortgage depending on how long ago it happened and why. Lenders are well aware of the difficulties many families experienced during the recession. If you can document that you had good credit prior to a job loss or reduction in hours and your credit has since recovered, you’re in a better position than someone who has consistently mismanaged money with an overload of credit card debt. A lender can work with you to reestablish your credit or give you advice so that you’ll be able to qualify for a mortgage as soon as possible.

Once you’re comfortable with the financial side of your new home purchase you can get back into looking for the builder, community and home that suits your budget and your needs.

Should You Use a Realtor for a Newly Built Home?

According to research by Builders Digital Experience in 2013, 84 percent of new home shoppers planned to use a Realtor to help them through the buying process, whether they intended to buy a new or existing home.



A builder's on-site salesperson is an invaluable resource to homebuyers, expert in that builder's floor plans, lots, options, upgrades and more. Some buyers, especially those also considering resale homes, opt to also work with a Realtor. Both can offer valuable guidance.

Many buyers of newly built homes have all of their needs met by the builder's on-site sales professional. Other buyers may wish to also work with a buyer's agent. If you are considering both newly built and resale homes, you will likely need a Realtor to get past the lockbox to tour a resale home. The sales associates in a new home community can help you learn about floor plans, lots, elevations, options and upgrades. They are typically very knowledgeable about the builder's community and the home buying process overall.

If you opt to hire a buyer's agent, the agent's commission will be paid by the seller—in this case, your builder. However, your Realtor must register with the builder as your agent in the appropriate way established by the builder to earn the commission. Builders often have an online or in-person registration process for Realtors and their clients; some require the Realtor to be present the first time the buyer visits a model home or sales office. It's best to work with a Realtor with experience in the new home building process—one who knows local builders and can advise you during each step of the building experience.

Tracy S., a homebuyer who purchased a home from K. Hovnanian Homes in Virginia, and worked with Dale Repshas with Long & Foster Real Estate in Reston, Virginia, says her best advice for other buyers is to have a Realtor to work on your behalf.

"Have someone who knows what they're doing and can give you good, professional advice from the beginning," she says.

On the other hand, Dawn Easter, a buyer in Phoenix, Arizona, who purchased a home from Fulton Homes, says she has no regrets about not hiring a buyer's agent.

"We didn't use a Realtor, but there was no problem with that. We trusted the sales associate on

site,” she says.

If you decide you’d like to work with a buyer’s agent, ask for recommendations from other new homebuyers in your area, including friends and relatives who have recently purchased a new home and buyers in communities where you think you may want to live. You can also search online for Realtors in your area who specialize in selling new homes or who’ve completed certifications or taken classes in new construction. Most Realtors with this type of expertise will advertise that information on their websites. If you know a Realtor you trust but who lacks experience with new homes, ask him or her for a recommendation of someone who has sold new homes in your area. Interview two or three agents before you choose one to make sure you find someone with significant expertise.

A list of questions you can ask prospective Realtors is included at the end of this chapter. You and your agent will be spending a lot of time together, so it’s important to find someone you like and trust. A Realtor can also provide tips on builders that construct quality homes and who continue to provide excellent customer service even after the home has been completed.

Partnership Between a Builder’s On-Site Sales Agent and a Buyers’ Agent

The most successful and simplest new home purchase transactions occur when everyone on the team works well together. Your builder’s interests and yours are not adversarial. Of course, you want to get the best possible home at the lowest possible price. Your builder will typically adhere to a published base price that is based on the cost of land and materials and that is available to all buyers. You both have vested interest in creating that “best possible” home together. And since builders want to earn an excellent reputation and to keep building in the area, constructing quality homes and providing great customer service are their best path to do so.

Did You Know?

On-site sales consultants offer you deep knowledge about the new home process including available lots, which floor plans can be built on a given lot, costs for floor plans and options, options for energy efficiency, financing, the states of construction, warranties and more.



“Trained sales associates already know what options are available on different models and the approximate price, such as adding a first-floor master suite,” Toll Brothers’ Kira Sterling says. “If you develop a relationship with the sales people, you can learn a lot from them and get their input

so that you have a great experience buying a home.”



If you use a buyer’s real estate agent, you should expect them to cooperate fully with the builder’s sales associate to help you identify the floor plan, lot and options that fit your budget and desires. Together, they can coordinate the transaction so it’s less stressful for you. If you have a home to sell, your buyer’s agent can either represent you in the sale or help you find a listing agent, so the home sale can be coordinated with the building of your new home.


How to Choose the Right Builder

There’s a builder for every budget—from affordable homes to luxury mansions. You have likely narrowed down your choice of builder based on your budget and your priorities in terms of a neighborhood or a particular home style. Before you settle on one particular builder, you should do a little more research to get a sense of the builder’s reputation and quality, if you haven’t already.

Erin Hungerford, a Realtor with Long & Foster Real Estate in Richmond, Virginia, says Realtors can help you recognize the level of quality in different homes and can share their expertise and knowledge about particular builders. Realtors who sell new homes discuss various builders among themselves and talk about their clients’ experiences with different builders, so they can be a great source of information.



You can also ask the builder for references. Even though those references are likely to be satisfied customers, you can get a sense of what those homeowners particularly appreciate about their builder to see if that matches what you want in a builder. And, when you visit a particular community, ask if the builder provides a written warranty. If residents haven't moved into a community where you want to live, you can always go to completed communities by the same builder to ask homeowners there about their experience.



Power Tip

Use the list of questions at the end of this chapter to ask when selecting a builder. Talk to a builder's current homeowners. Walk model homes. Assess the builder's approach to design and attention to detail. Check a builder's references.

Karen McCaffrey with McCaffrey Homes says that to determine whether a builder is offering a quality product, "you should look at the list of included features to see what materials are being used for counters, vanities, and flooring. Check to see if the roof has a thirty-year warranty and look at the exterior materials being used."

Dale Adams of JLS Design and Construction recommended not only looking at the model home, but also asking to visit similar houses that are still under construction to see what they look like without optional features.

By this time you've likely identified a couple of builders that you think could suit your needs.

Let's take a look at how to pare down that list to the ideal builder for your needs.

As you learned earlier, home builders are typically identified as either custom builders or production builders, but most builders fall somewhere in between pure custom builders who work with an in-house architect or your architect to create a unique home and production builders who offer varied options. Along the spectrum, you'll find builders who offer complete customization of their own floor plans, including moving walls and redesigning spaces, and other builders who offer an "A," "B," or "C" choice of finishes but won't let you make structural changes to their plans.

You may have already decided that you want to build a custom home on your own land, but if you're not sure if you want a production home or a custom home, there are several issues to consider.

Your timeline. If you need to move into your new home by a particular date, then a production home may be the better choice. In addition, for buyers who especially wish to move more quickly, look for so-called spec homes or quick move-in homes. Spec homes are typically built on speculation (hence the name) rather than to the design of a specific homebuyer. Many builders equip spec homes with their most popular options, so while you may not be able to select your favorite color or type of countertop, for example, you can move in much more quickly and know that your home reflects popular design choices that should pay off some day if you sell the home.

Did You Know?

There's a new home right for you, no matter how quickly you want to move. Many builders have partially or fully completed new homes ready for quick move-in. Not in a hurry? You can build from scratch and select your lot, floor plan, elevation and the exact options and upgrades that you want.



Some builders may also offer quick move-in homes that may be partially constructed when you purchase them, but still allow you some range of choices in colors and options, depending upon the degree of construction at the time of purchase. And some homes that were initially ordered by a specific buyer may end up back on the market. In this case, your choices may be whether or not you like design choices the would-be buyer selected.



Helping design a home for your family's unique needs and tastes is one of the key reasons why so many buyers prefer newly built homes.

Many buyers are attracted to new homes because they love the thrill of designing and building “my home, my way.” When you do so, most builders have a good idea of how long it will take to finish each home, since they typically have a well-honed system for the permit process and inspections and a pipeline for supplies. In addition, most production builders have crews of construction workers (many times regular subcontractors) that they can rely on to complete projects. Custom builders, simply because they typically build fewer homes each year, generally have a smaller staff of employees but may also have a strong team of core sub-contractors. Of course, by their nature, custom homes vary widely, so the time it takes to build one depends heavily on the size of the residence, the intricacy of the design, the availability of materials, and whether the land is ready for building or requires extensive prep work.

“Building a custom home can take as long as six months to design and to obtain permits, followed by another year to build,” says Jim Rill, owner of Rill Architects.

A production home, depending on the size and complexity of the design and the weather, takes roughly five to seven months to build, says Karen McCaffrey, vice president of McCaffrey Homes in Fresno, California. She says that sometimes it’s possible to build a small home in four months during the summer when there’s less likelihood of extended weather problems.

Your budget. Custom homes can vary according to the limits of your imagination, zoning laws, and budget, but they’re not necessarily more expensive than production homes. After all, you can build a small, one-level rambler on a budget and it qualifies as a custom home if it’s built according to your own plan. However, most custom homes will be costlier to build than a similar production home simply because production builders have the advantage of economies of scale when it comes to the cost of labor and materials.

Your desire for personalization. The decision about whether to build a custom home or work with a production builder depends heavily on how much you want to put your own stamp on your

home. Custom homes are usually chosen by buyers who have a strong sense of what they're seeking in a home, according to McCaffrey. On the other hand, many production builders offer semi-custom homes that allow you to make a variety of changes to the floor plan and features to build the home of your dreams.

Don't Forget about Resale Potential

When you're shopping for a home, a builder, and a community, you're probably focused pretty tightly on what will meet your needs now and in the future. However, many people own a home for five to seven years and then sell it and move to another. While your decisions about where and what to buy shouldn't be dictated solely by resale potential, you should keep in mind that you're making a major investment.

Some simple online research or a Realtor can help you understand historical real estate values in a particular area and the key factors that can influence home values, including the school district, transportation, nearby retail and infrastructure and future development. In addition to looking at neighborhood values, keep in mind the context of the rest of the community. Real estate experts often say it is best not to own the most expensive house in the neighborhood because it can be harder to sell than one that better fits in with other homes in the area.

"A Realtor can give you professional advice so that you don't overbuy on options in comparison with the rest of the neighborhood," Century 21 Beal, Inc.'s Raylene Lewis says.

Home Owner Associations:

Another important consideration, particularly in the context of long-term home values, is whether you want to live in a community with a Home Owner's Association or HOA.

While many new homes are built in communities that have an HOA, that's not always the case. If you're building a custom home on an individual lot – or one house in a small cluster of new homes – you're not necessarily going to be part of an HOA.

Ask people about HOAs and you'll get a variety of responses. This difference of opinion comes in part from personality differences. Some people just prefer to do what they wish with their property without having to follow community rules. Other owners value having rules and processes that they perceive as helping protect the property value of all owners. Varied experiences with HOAs also occur because rules and levels of enforcement differ from one HOA to another, as do amenities and fees.



Rules for a Home Owner's Association are often determined by a group of home owners and neighbors who volunteer their time and who typically factor in input from other owners in their decisions. Want a say in your HOA? Get involved!

“If you haven’t lived in an HOA before, then make sure you read the rules before you sign the contract,” says Caryl Dierksen, a buyer with Epcon Communities in Woodstock, Illinois. “My attorney handed me the chapter on rules and told me not to buy in a community unless you can live with their rules. Maybe you don’t have quite as much ability for personal expression on the outside of your home, but the tradeoff is that you live in a community that’s nicely maintained.”



Power Tip

Ask if there’s a Home Owners Association and learn their rules. Some buyers prefer to do what they wish with their property without regard to community rules. Other homeowners value guidelines and processes that help protect the property value of all owners.

In general, homeowners who live in an HOA must abide by the association’s regulations and pay a monthly, quarterly, or annual fee that pays for management and maintenance of the community. Typically, a Home Owner’s Association is led by a group of homeowners, sometimes elected by their peers or in other cases by your fellow neighbors who volunteer.

Areas that can fall under the oversight of an HOA

Community appearance. Homes within an HOA must often meet standards set by the association. Failure to comply can incur a fine, so you're less likely to see unkempt lawns, peeling paint, or a garishly painted house. Some HOAs have a design review board that must approve changes to your home's exterior or that establishes a color palette for exterior paint and trim. Many have rules about how many cars or what type of vehicle can be parked on your property, such as banning commercial or recreational vehicles.

"HOAs offer great protection for your investment in a new home and keep a community looking good," Realtor Erin Hungerford says.

Maintenance. Depending on the HOA, things like trash and snow removal and sometimes lawn care are often handled by the association, leaving less work for the homeowner. Common areas are also typically maintained by the association.

Recreational amenities. While not all HOAs have swimming pools and tennis courts, many offer a range of amenities such as a community center or walking trails or sports courts and fields reserved for residents.

Resolving disputes. If you have a problem with your neighbor's dog barking, loud parties, or a dispute over a tree, you can ask the association management to handle the issue rather than getting directly into a spat with the homeowner next door.

What to know about your HOA

Rules. When you're buying a new home that's part of an HOA, it's essential to read the regulations for homeowners to make sure there aren't any rules you have difficulty complying with. For example, some HOAs require homeowners to gain approval for changes to the outside of their property from a review board; others ban home-based businesses and some HOAs forbid pickup trucks or boats to be parked overnight in the community. The rules offer the benefit of maintaining home values and the community's appearance but can sometimes be frustrating to homeowners, as well.

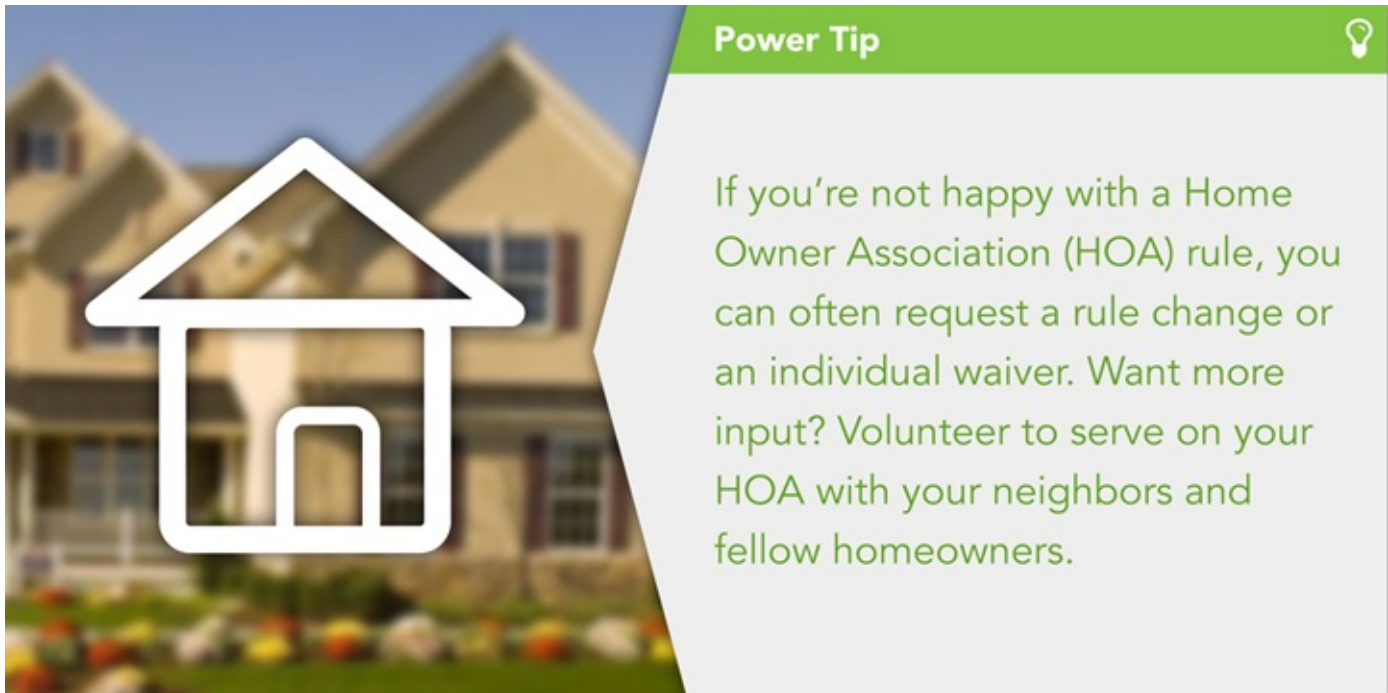
Fees. Typically, HOA fees must be paid even if you don't take advantage of the amenities being paid for by the HOA. When you visit a master-planned community with an HOA, ask how much the fees are, when they are to be paid (yearly, quarterly, monthly), and what they include. You may find that using your community fitness center can save you the need to pay another health club or that your trash bill is included in the HOA fee. HOA fees will be included in your debt-to-income ratio, so make sure they're affordable as part of your budget.

"Do a deep dive on the HOA or condo fee to make sure you know what's covered," says Nanette Overly, vice president of sales and marketing for Epcon Communities, an active adult community developer. "Do a cost breakdown and look at the history of HOA fees in a community or the history of those fees in other communities by the same builder. Some communities have low fees to start but then they double or triple within a few years because they don't have enough cash reserves. A builder or an association management firm can give you this information. It's especially important for retirees who are living on limited income to have a good idea of any fees that could potentially

change over time.”

Have a question on your HOA? Get Involved!

HOA regulations are typically determined by a committee of homeowners in the neighborhood or a board of directors composed of residents. Decisions are typically implemented by a management company or a group of community volunteers. Want to have a voice in the decisions being made? You can get involved with the HOA by attending meetings, speaking up, volunteering or running for the board. It’s also a great way to get to know your new neighbors and to help set the standards for your community.



Power Tip

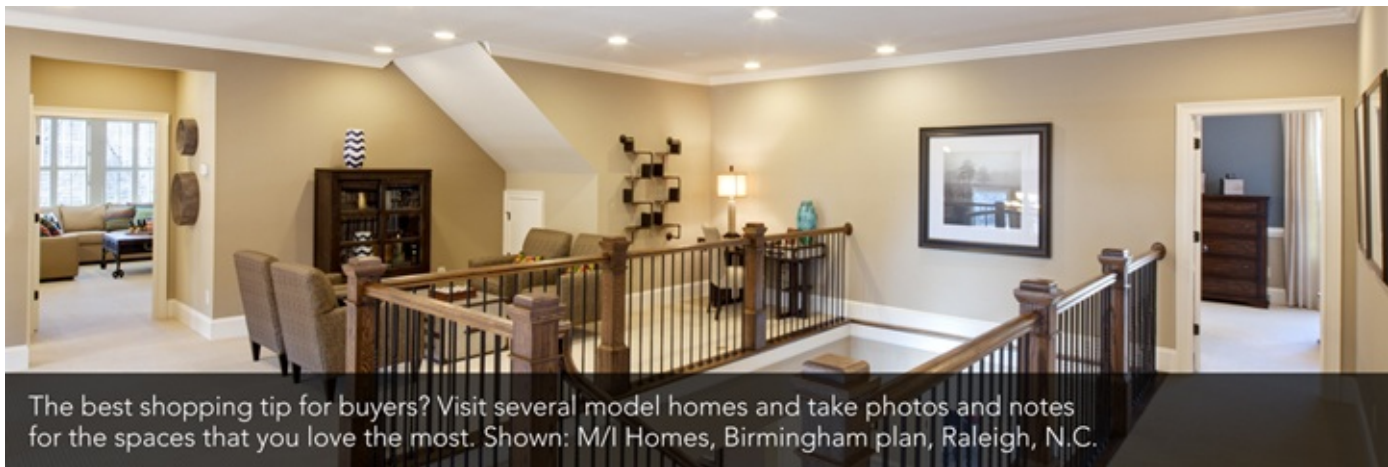
If you’re not happy with a Home Owner Association (HOA) rule, you can often request a rule change or an individual waiver. Want more input? Volunteer to serve on your HOA with your neighbors and fellow homeowners.

“Some people don’t want to live in an HOA because they don’t see the benefit of the fees and they realize that the fees have to be included in their budget, which could limit their buying power,” JLS Design and Construction’s Dale Adams says. “Others want to be able to do whatever they want with their property without any community rules. But we do have covenants even in communities without an HOA to preserve home values, such as a minimum square foot requirement and requirements for exterior materials.”

At the end of this chapter, you’ll find checklists and resources to help you get organized and stay organized while you look for a new home. In the next chapter, we’ll cover what to do after you’ve narrowed your choice to a few builders and are ready to move forward on your home purchase.

Shopping Tips for your Home Search

If you’ve looked at more than one or two model homes you may be having a hard time keeping track of what you saw and where you saw it. Staying organized is crucial during your initial home shopping phase because most of the information you’re gathering and the ideas you’re generating will be important when you begin to finalize your decision.



The best shopping tip for buyers? Visit several model homes and take photos and notes for the spaces that you love the most. Shown: M/I Homes, Birmingham plan, Raleigh, N.C.

Tip No. 1: Create Builder Files

You can find basic information about each community, builder, and floor plan on both the builder's website and in printed form at the sales center. Create a file with links to your favorite builders' sites and gather brochures in one place in your home. If you've visited four or five models in one day it can be hard to keep the features straight in your mind, so it makes sense to create a system to stay organized. Of course, you'll likely go back to the models you like best more than once, but you'll save time if you know which ones you prefer

Tip No. 2: Take Notes (and Photos)

Whether you love the old-fashioned method of a pen and notepad or prefer a smart phone or tablet, jot down notes and take photos when you visit model homes. Including notes on specific features such as "house with turquoise sofa in living room—loved the French doors to the terrace" can trigger your memory later when you need to sort through what you've seen. The floor plans in each brochure can be a great place to make notes or use as a ranking system for which models you prefer. If you're more of a visual learner, take your own photos of model homes that can function as note-taking.

As you begin to narrow your choice, you can delete some communities, models, or builders from your electronic or paper files; however, you might want to keep these items in a separate place for a while in case you want to check on something before you finalize your decisions.

Tip No. 3: Use Apps for Home Searches

Technology has made home shopping even easier. When you're out looking at homes or would like to see homes in a neighborhood that appeals to you, reach for your smart phone or tablet and use an app to find communities to visit. These are great tools and each month seems to offer new and exciting apps for home buyers.

For example, New Home Source has an app as well as a mobile site at m.newhomesource.com that offers simple, intuitive functions on any smart phone. You can filter your search for new homes by location, price, and the number of bedrooms, and create a list of favorite communities or builders.

In addition, [realtor.com](https://www.realtor.com) offers apps for the iPhone, iPad, and Android. You can draw a circle with your fingertip around a part of town on the app's map and create a custom search that crosses the borders of zip codes and towns.

Today, you can find apps that allow you to search by school district and individual schools and by price range. Others allow you to sign up for alerts on price changes for saved listings and make notes directly on listings. As in any other part of the online world, new apps for real estate are introduced frequently. Asking builders or Realtors or searching for the latest apps is a fun and exciting way to stay current.

WHAT YOU LEARNED: SHOPPING FOR YOUR NEW HOME

- ✓ Start with deciding what's important—location/price/home features/community amenities/neighborhood amenities
- ✓ Define your needs and priorities
- ✓ Develop a budget
- ✓ Check your credit report
- ✓ Get prequalified for a mortgage
- ✓ Shop online for builders/communities
- ✓ Visit model homes and sales centers - check out the homes/community amenities/neighborhood amenities
- ✓ Research schools, crime reports, transportation options, future development plans
- ✓ Cross reference your priorities with your budget
- ✓ Interview Realtors
- ✓ Research builders
- ✓ Decide your preference about living within an HOA

Questions for Your Lender

- How much experience do you have with new home financing?
- Can you help me evaluate my credit and make improvements if necessary?
- Can you explain the difference between a loan prequalification, a preapproval and a final mortgage approval?
- Are there any special financing programs from the builder or from a state or local homebuyer program that I could take advantage of?
- Can you give me advice on which loan terms and products would work best for my financial needs?
- Can you explain loan options to me for conventional financing, FHA (Federal Housing Administration) loans, USDA (U.S. Department of Agriculture) loans, and VA (U.S. Department of Veterans Affairs) loans?
- Can you provide a comparison of my monthly payment with different loan programs and interest rates?
- What will happen if interest rates go up between the time I sign the purchase agreement and the home is finished?
- Can you advise me about when to lock in a mortgage rate and how much it will cost?
- Can you give me an estimate of how much cash I'll need for a down payment and closing costs?

- If I have less than 20 percent for a down payment, what are my options for paying mortgage insurance?
- How long will it take for me to get a final loan approval if I already have a preapproval?

Questions for Your Realtor

- How many new home sales transactions have you been involved with?
- Are you a member of the National Association of Realtors? Membership means that the Realtor must abide by the Realtors' Code of Ethics.
- Can you tell me about which companies are building new homes in an area where I want to live that will fit into my budget?
- Can you walk me through the process of buying a newly built home and explain what I need to know and what I need to do at each stage?
- Can you help me establish a budget for the house and optional features that will be both affordable and appropriate for the neighborhood?
- Can you help me evaluate the quality of construction in the homes we visit?
- Are you willing to work closely with the builders' sales consultants to help me get the house I want?
- Will you be able to help me make decisions about which options to choose?
- Can you provide me with references from other clients who have bought a new home with your assistance?
- Can you tell me about any special programs for homebuyers in the area?
- Do you know about plans for development in the area where I'm looking for a home?

RESOURCES

[How to Shop Wisely for a New Home – Part One](#)

[How to Shop Wisely for a New Home – Part Two](#)

[15 Questions to Ask When Selecting a Home Builder](#)

[Ten Steps to Select the Right Builder for Your Needs](#)

[When's a Smart Time to Buy a New Home?](#)

[Join the Parade: Your Parade of Homes](#)

[Basic Homebuying Tips](#)

[CNN Money – Top 10 Tips for Buying a Home](#)

[City & Local Market Info](#)

[Local Crime Data](#)

[Local School Info](#)

[City & Local Market Info](#)



Credit History

and confirm that the information given in the application form is true and correct and I/we agree to determine my/our responsibility. You are authorized to obtain any information you may need from any sources to which you may apply and each such source is hereby authorized to use the information on my account as you consider appropriate, in response to direct enquiries from a lender or other source, and I agree to indemnify you against and hold you harmless from all claims in damages or otherwise arising from such disclosure on your part. You are authorized to disclose whether or not the relative application is approved.

Personal Information

Surname

Mailing Address

☐ Mr

☐ Mrs

☐ Miss

☐ Other _____

Given Name

City

City

Middle name

State

State

Duration (yrs)

Employer Contact

Chapter Four:

BUYING YOUR NEW HOME

WHAT YOU'LL LEARN

- Key steps to buy your new home
- Master-planned community, in-fill or build-on-your-lot?
- Plan, spec or quick move-in home?
- Selecting a community and builder
- What type of mortgage is right for you?
- Estimating your down payment and closing costs
- Budgeting for options and upgrades
- Deciphering your contract
- Insurance basics

At this stage, you should have settled the question of custom or production. You've done plenty of research and identified several builders in your preferred area whose homes you like and that fit your budget. You've toured the communities and model homes of those builders, and you've taken steps to get your finances in order. Now, it's time to make some big decisions.

The steps you take to buy and build your new home vary from one builder to the next, but, according to Dennis Webb, vice president of operations for Fulton Homes in Tempe, Arizona, the process generally goes like this:

- Pick a community.
- Pick a builder (if there's more than one in the community).
- Pick a floor plan that best meets your needs.
- Pick a home site.
- Sign a purchase agreement or contract.
- Finalize all structural options within ten days.
- Finalize all other choices within thirty days.

Don't forget that you are making multiple purchase decisions: Which new home community is the best fit for you, based on the amenities you plan to use? Which builder offers the best home for your needs? And which floor plan and lot are right for you. Sound hard? It doesn't have to be, especially when you work through these decisions in a logical order.

"We sell the community first and then the house," says Paul Erhardt, senior vice president of homebuilding and development for WCI Communities in Bonita Springs, Florida. "Think about the area you want to live in and the lifestyle you want. Are you retired or working? Do you want to be around young families? What kind of amenities are you looking for—a golf course, fitness center, craft rooms, a swimming pool, tennis courts? All of those amenities come with some ongoing costs in terms of association dues, so you need to sort out which community is right for the way you live and whether the cost makes sense."

After you've identified the community you like, then you can look at the floor plan and the house.

"It's a better decision to make a compromise on a floor plan than on a community," Erhardt says. "You'll be less satisfied overall if the community doesn't match your lifestyle or work with your commute or if you're paying for things you don't actually use."

Location Options for New Homes

If you already own land, you've settled the question of where to locate your new home. You can turn to Chapter One to learn more about building on your own lot. For most buyers, the main choice is between a master-planned community, an urban condominium development, or an infill

development where one or a handful of new homes can be built in the midst of an established neighborhood. You can jump back to Chapter One for more info on these choices, as well.

Within a master-planned community, you'll find a wide range of neighborhood styles, such as a development with multiple sizes and styles of homes or one with similarly sized homes and lots. If you're buying your first home, you may want to consider the benefit of moving into a development with a range of homes at different price points, so that if you eventually decide to move up into a larger or more costly home, you won't have to leave the neighborhood. You can start with a townhome or villa and perhaps move into a single-family home in the future. Larger master planned communities often offer several distinct neighborhoods, across many price ranges. This type of community can work well as your needs change. Perhaps you're a move-up buyer who wants a larger home now while raising your family, but you may want to downsize as an empty nester. A community that offers a broad range of housing types and options can allow you to change houses but not neighborhoods, keeping you close to friends and family.

Did You Know?

From an urban high-rise condo, to a townhome with little or no exterior maintenance, or a single-family home with a spacious yard on a leafy street, there's a new home option that's right for you.



A condominium community can work well for young professionals who aren't interested in gardening or home improvement projects or for older homeowners who prefer to put home maintenance behind them and spend their free time on other interests. Condominium ownership means that you own the inside of your home, while the condo association owns the exterior and common areas of the building and the land on which it is built. Condo documents will clearly state what you're responsible for and what the association handles. While many people assume a condo is a mid-rise or high-rise building with apartments in urban areas, there are actually many communities with condo ownership that have townhome-style condos or attached villas.

Active Adult Buyers Will Find Lots of Homes and Communities for Their Needs

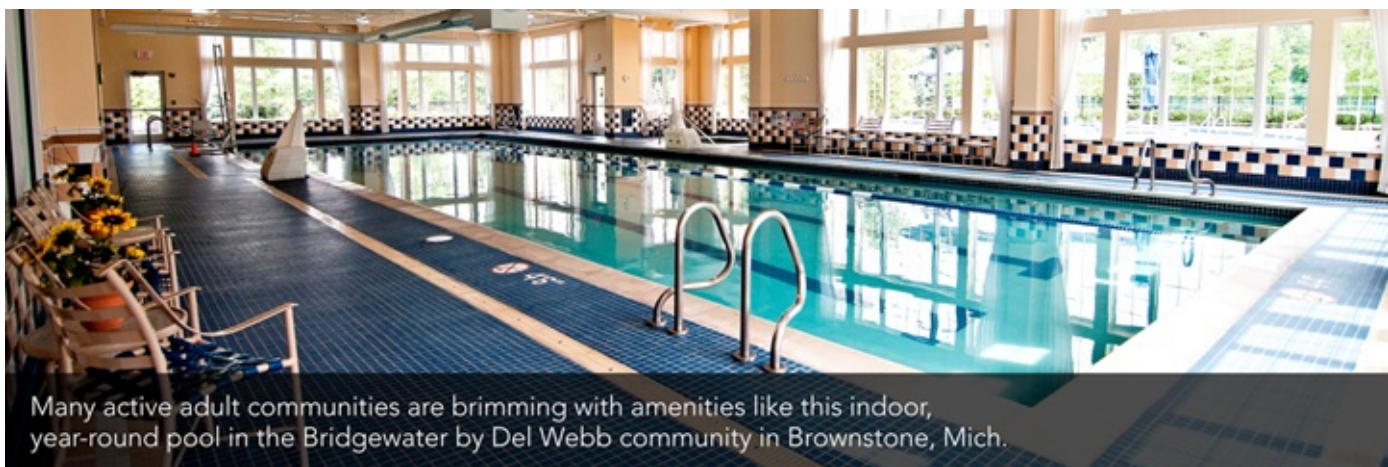
If you're nearing age 55 or are older, you may want to consider whether a multi-age or a more specialized, active adult community meets your needs. In an active adult community, homeowners typically must be 55 or older.

“The first step for older buyers is to decide if they just like the lifestyle and activities of an active adult community or if they want to be with people of a similar age and demographic,” says Nanette Overly, vice president of sales and marketing for Epcon Communities in Dublin, Ohio. “They need to do a little soul-searching and think about whether they like seeing young families with children or prefer to not worry about little kids being around. If you’re neutral about this, you may want to look at both age-restricted communities and regular planned communities.”

Ernie Thompson, a buyer with Jim Chapman Communities in Johns Creek, Georgia, says he and his wife Judy opted for an active adult community because of the lifestyle more than the home itself.

“My wife and I wanted to buy in an active adult community because we’re both retired and enjoy being with other retired people who are interested in getting together and participating in activities,” he says. “We like the fact that we’re in a gated community, with all the amenities such as the pool and clubhouse and garden plots in place. Also, we’re less than a mile to a hospital, a grocery store, a hardware store, and about fifteen restaurants.”

Active adult buyers are apt to take longer to make a decision about their home because they expect this will be the last place they move, says Betsy Sheppard, founder of Atlanta-based Gilbert & Sheppard marketing consultants, which works with active adult communities.



Many active adult communities are brimming with amenities like this indoor, year-round pool in the Bridgewater by Del Webb community in Brownstone, Mich.

“Younger active adult buyers, ages 55 to 65, are more focused on community amenities, while older buyers, especially in their 70s, want to make sure they have access to medical facilities and can manage any chronic health conditions,” she says. “Younger active adult buyers love college towns because they may want to take a class or teach or they’re looking for volunteer opportunities. Lifestyle issues are huge for active adult buyers, much more important than the home itself, especially if they’re moving to a new city or even a different part of the city where they currently live, because they’re looking to form new relationships. Things like a community center, walking trails, gardening clubs, and dog parks are a great way to meet new people. Find a location that supports your interests.”



Power Tip



Active adult communities typically offer many community amenities, some level of exterior/yard maintenance and floor plans that are one-story or that offer a first-floor owner's suite.

“Make a list of what you like to do around your house, what you’d like to get away from doing, and some give-or-take issues,” Overly says. “Some communities do absolutely everything, so you’ll never have to shovel a sidewalk again, while others provide some but not all exterior maintenance and you’d still need to do your own front walk.”

Jim Chapman, president of Jim Chapman Communities in Atlanta, says active adult buyers need to make sure the home they buy has features that will meet their needs as they age.

“I’m shocked at the number of active adult communities that have things like a wider door into the master bedroom and bath but not into the closet or homes that have multiple steps at all the entrances,” he says.

Chapman recommends that active adult buyers look for the following features:

- At least one zero-step entrance into the home. Chapman says his company does this from the garage with a one-half-inch or lower threshold.
- Maneuverability in the main level bath so that someone in a wheelchair would be able to move around within the space.
- Wider width doors throughout the home.

“You don’t have to go crazy and put in grab bars, but it helps to put special prep work in the master shower or tub so you can add grab bars later,” Chapman adds. “We always put in a bench or seat in the master shower and a handheld showerhead to make it easier for people to use.”

The home designs and lifestyle in active adult communities are geared to people who are empty nesters, about to retire, or already retired, but are a far cry from the retirement communities of the past.



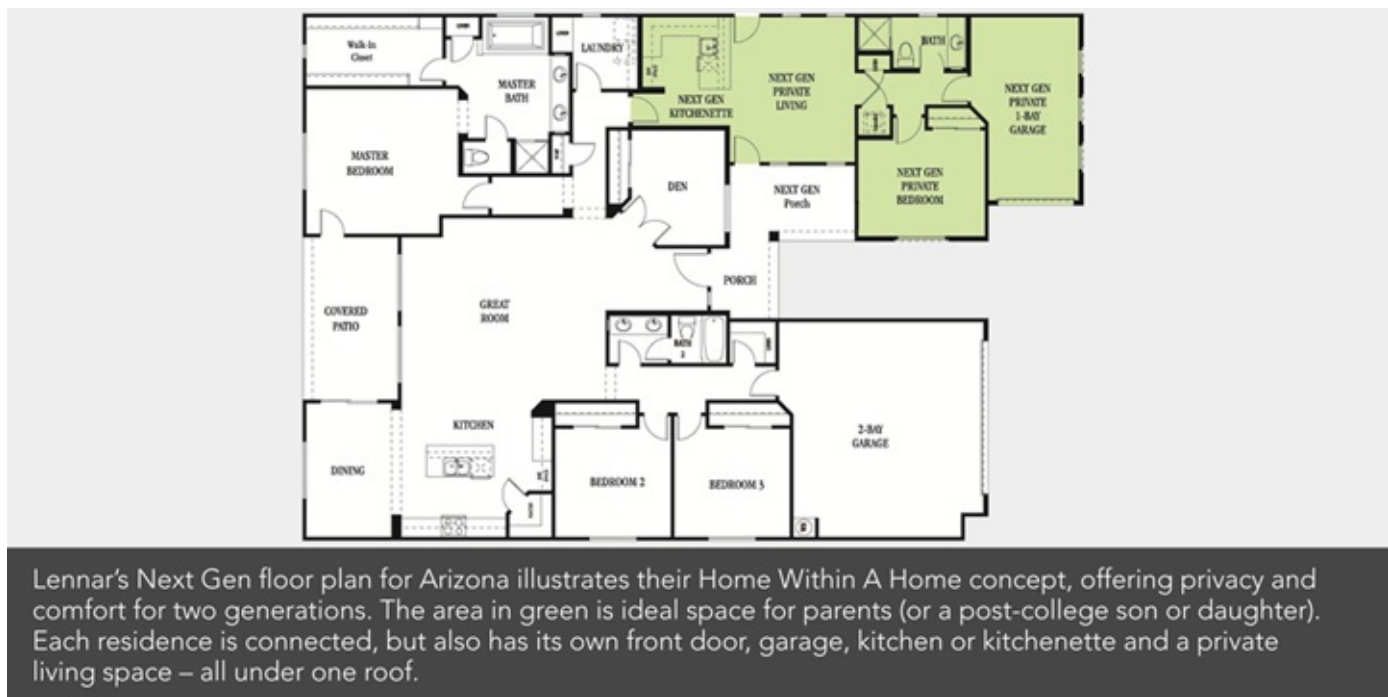
“Today’s active adult buyers are far different from the Eisenhower generation of buyers who were around when we started this company,” says Phil Fankhauser, chief executive officer of Epcon Communities, which builds in many states. “Both generations wanted to live in a home without steps and without needing a lawn mower, but earlier generations were simpler. They were fine with all beige carpet and a choice between harvest gold or avocado appliances. Baby boomers want a unique home. Comparing a home of today to one from a decade ago is like comparing a Ferrari to a Model T.”

While master planned communities, whether they’re age-restricted or multigenerational, typically have numerous homes and amenities, some new homebuyers prefer to move into an established community so they can have the benefits of a newly built home along with their preferred location. If you want to build on an infill site, sometimes an existing house needs to be torn down first. In other cases, builders can find a large enough infill site to accommodate a cluster of townhomes or several new houses, in which case the process of building the home will be similar to building in a larger master-planned community. In some locations, the new home might be required to meet certain design standards of the community or match the local zoning restrictions about the height of houses and where houses can be sited on a lot.

Another great option for active adults (or even for a post-college student living with parents) is to create a comfortable and private home within a home, which allows two generations of family to live under a single roof. A leader in designing such homes is Lennar. Their Next Gen Home is an innovative and much-needed housing solution for this purpose.

“After seeing a rising need for this type of living situation,” says Jeff Roos, Western Regional President of Lennar, “we decided to design a floor plan that can accommodate different living arrangements while still providing great use of space, square footage and privacy. We have literally created a Home Within a Home to allow for dual living situations without sacrificing comfort.”

Roos adds, “This is not a casita or a granny flat. It is a fully functional private suite. It comes complete with laundry, separate entrance, kitchenette, living room, bedroom, and bathroom, some Next Gen designs even have garages and outdoor living areas. We believe this is the greatest advance in new home design since the advent of indoor plumbing.”



Shopping Tips for Choosing a Community and a Builder

Most buyers readily admit that their favorite part of their new home search was visiting inspiring model homes and communities. There's no better way to start to narrow down your list to specific new homes, communities and builders.

As you shop, rely on the expertise of the builder's on-site sales consultants, a Realtor if you've chosen to work with one, and on information you gather in conversation with builders. To assist you, at the end of this chapter you'll find a list of suggested questions to ask a builder. In addition, experienced new homebuyers suggest talking to local residents.

"If you're a new buyer, the best thing you can do is talk to people who've been through the process of buying a new home," says Jeff Yeakel, a buyer in Brookhaven at Johns Creek, an active adult community in Johns Creek, Georgia. "You should give yourself at least ninety days to six months to look around at new developments to get ideas of what's available and to ask questions of the sales people and the residents."

A Realtor with experience with local builders can share information about which builders have a reputation for quality work and good customer service, but you can also do research on your own.

"Before you decide on a particular builder, check the company out on Facebook and look online for reviews," says Dawn Easter, a buyer in Ironwood Crossings, a Fulton Homes community in Phoenix, Arizona. "Look at communities they've built to see how people keep their homes up. Drive around and talk to neighbors where you might want to live, or if you're looking at a community where no has moved in, look at another community built by that builder and ask for feedback."



Brookhaven at Johns Creek resident Ernie Thompson suggests asking people if they're happy with their community and their home and whether there's anything they wish they could change.

"While the sales people are great and can tell you about things like what the association dues cover, you can get a better sense of how friendly people are and whether neighbors get together for activities by asking the people who live there," says Caryl Dierksen, a homebuyer in an Epcon Communities active adult community in Woodstock, Illinois.

Tim Rini, vice president of Epcon Communities Franchising, recommends checking out builders on Angie's List and the Better Business Bureau website.

"You can also ask residents if they're happy with the service they've received and the craftsmanship of the homes and if they would recommend this builder," he says.

Ask people in the community how mistakes are handled, suggests Epcon Communities CEO Phil Fankhauser.

"We're human, we all make mistakes, but what separates a good builder from other builders is that if we make a mistake, we show up right away to fix it," he says.

One of your best resources when buying a newly built home is the sales consultant. A sales consultant can also explain the cost and availability of new homes in each community, which floor plans can fit on each lot and the types of options available with each floor plan. Your sales consultant can also help you determine if you might benefit from buying a home that's already partially or wholly complete.

Did You Know?

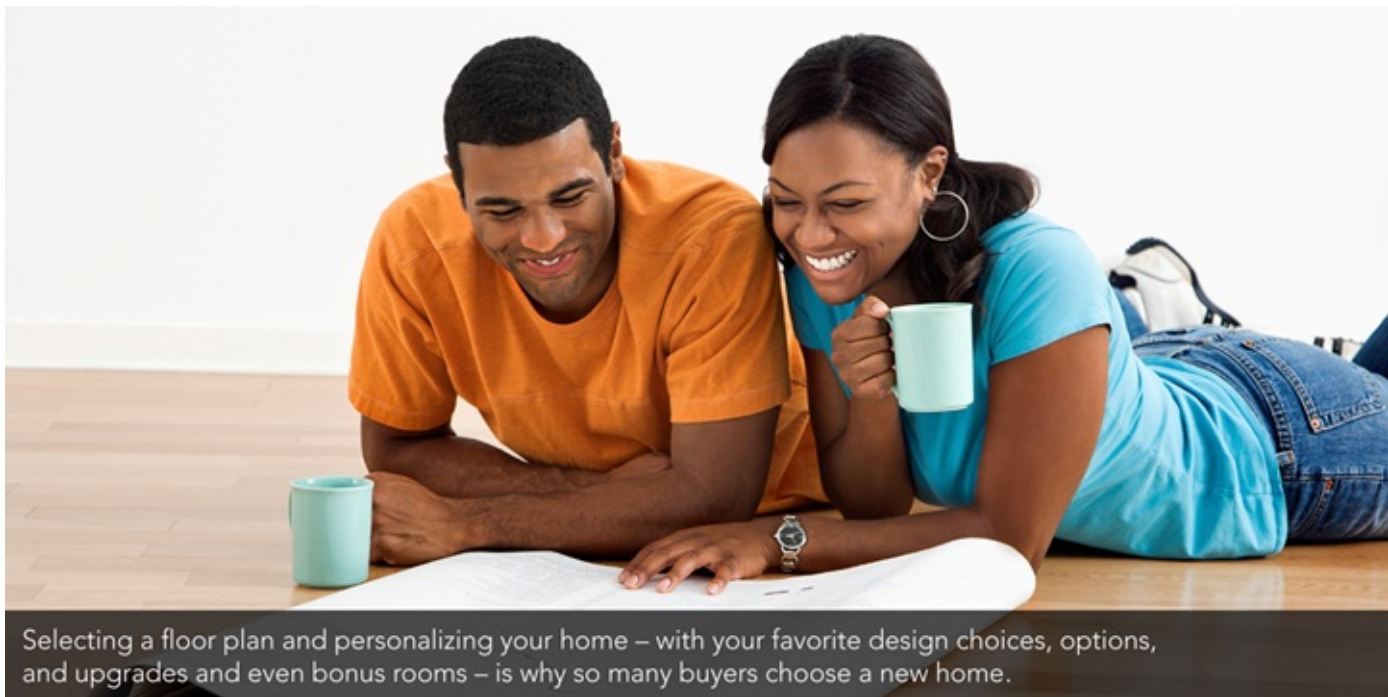
There's a new home for every timeline. Not in a hurry? Select your favorite floor plan, lot and options and your new home will be built just for you. Want to get settled quickly? Look for a fully complete spec home or a quick-move-in home that's ready when you are.



If you've decided to work with a production builder rather than hire an architect, you still have several choices for purchasing a newly built home. Builders offer new homes to meet most every desired timetable. Depending upon your desired move-in date – and how quickly you want to occupy a new home – many builders offer homes that you can build from scratch, partially completed homes and even fully completed spec homes. Here's what to know about each.

Buildable plans

Buildable plans are floor plans offered by the builder on a lot of your choosing. Keep in mind that not every floor plan can be built on every lot and that not every option you like will be available for every floor plan. Some builders offer a dozen or more homes per community while others offer only one or two.



The level of floor plan customization varies among production builders. You can find builders like KB Home that allow you to “build to order,” while others offer personalization through finishes and fixtures but no structural changes. Building from a floor plan on an empty lot can take four to six months or longer. Most builders will start construction thirty to forty-five days after you sign a contract depending on how long it takes to obtain the necessary permits and inspections of the site.

Spec homes

Some builders opt to complete one to two or more homes, typically building the most popular floor plan with the options chosen most often by their buyers. “We build about one-third of our homes as spec homes in order to compete with the resale market,” Fulton Homes’ Dennis Webb says. “Buyers, especially if they’re relocating, can benefit from owning a newly built, energy-efficient home without the wait associated with construction.”

Quick move-ins

Some builders choose to partially build a home and then offer it to buyers who can then personalize it. Webb says many of Fulton Homes’ spec homes are 30 to 60 days away from completion, which gives buyers the opportunity to pick a few optional features and finishes.

Sometimes a quick move-in home is available because a sale falls through and the builder has to put the home back on the market.

“I always loved the idea of living in a new home that no one else had ever lived in,” says Caryl Dierksen, a homebuyer with Epcon Communities in Woodstock, Illinois. “I liked the idea of picking out all the options, but I ended up buying a home that had already been completed because I got such a great deal on it. The buyers’ financing had fallen apart and the builder had to put it back on the market for a reduced price. But I loved all of their choices, so I’m very happy.”

Buying an already finished home also made it easier for Dierksen to move.

“Some people I know sold their home faster than they thought, so they had to move twice because their home wasn’t ready yet,” she says.

Model homes

Most builders upgrade their model homes to showcase optional features. These homes have been professionally designed and decorated and often include extra landscaping. Builders typically wait to sell the model home until a community is sold out or nearly complete, but sometimes they’ll sell it to a buyer who’s willing to lease it back to the builder and wait to move until the builder is finished showing the model. The Thompsons did just that at Brookhaven at Johns Creek.

“We loved the model home so much that we asked if we could buy it and lease it back to the builder,” Ernie Thompson says. “At the same time, we realized that the model is 4,000 square feet and someday we may want to downsize. We bought two more condos within the community because we didn’t want to lose out on them because homes were selling so fast. We lived in one until the model was ready for us. We’re using both condos for rental income now.”

Clearly, the Thompsons are savvy buyers with a great grasp of their finances. The model home they purchased at Brookhaven at Johns Creek is their third newly built home and one of dozens of homes they’ve owned so far.

When you’ve identified the builder and community where you want to live, it’s time to move beyond your preapproval for a loan and your estimated budget established in Chapter Two and start the process of solidifying your financing.

Understanding Your Financing Options

The type of loan you choose depends on your personal finances. Unless you’re a veteran or active service member and can take advantage of VA loans, which don’t require a down payment or mortgage insurance, you’re probably looking at a conventional or FHA loan. If you have good credit and at least 5 percent for a down payment, a conventional loan is usually a better option because your private mortgage insurance payments automatically stop once your loan-to-value reaches 78 percent, says Phyllis Casillas, a sales manager for On Q Financial in Tempe, Arizona.

“FHA loans have higher mortgage insurance premiums and you’ll have to pay it for the whole loan unless you make a bigger down payment,” she says. “However, FHA loans are a great option if you had a short sale or foreclosure in the past or other credit problems because they’re more lenient than conventional loans.”

Also keep in mind that loan programs change frequently, so when you’re ready to get serious about buying a home, you should always consult a lender. By now, you should have a preapproval in place and have a lender in mind. If not, refer to Chapter Three to review the steps you need to take to find a lender and get preapproved for a loan.



Remember that a preapproval from a lender doesn't obligate you to work with that lender. Of course, it's easier in terms of paperwork to get your loan from a lender who's already qualified you and understands your financial needs, but you can still choose to finance your house with any lender, regardless of whether you've decided to buy a home in a community with a preferred lender program or an in-house lender.

For the most up-to-date information and specific loan programs offered by a local community bank or credit union, you should consult your lender.

Major Types of Loans

In general, borrowers choose from the following loan programs, depending in part by their eligibility for some programs:

FHA loans. FHA (Federal Housing Administration) loans are not actually approved by the FHA. Instead, lenders are authorized to offer FHA-insured loans. FHA insurance protects lenders in the case of a default by the borrower, so a lender is more likely to be a little more lenient with the credit score guidelines for loan applicants. As of 2014, FHA loans require a down payment of 3.5 percent, hence they appeal to many first-time buyers. The loans are available to all borrowers who qualify without any income limits. However, loans are limited according to the price of homes in your area, often to \$417,000. FHA loans require both upfront and annual mortgage insurance, which adds to the cost of your monthly housing payment. (More information can be found at FHA.gov)

VA loans. VA (U.S. Department of Veterans Affairs) loans are only available to veterans, current members of the military, and their spouses. Eligible borrowers can buy a home without a down payment and without paying mortgage insurance. (More information can be found at benefits.va.gov/homeloans/.)

USDA Rural Housing Development Loans. These government-guaranteed loans are available to borrowers with up to 115 percent of the local median income who can demonstrate that they can afford to repay the loan. These loans are also limited to homes within designated rural areas. USDA (U.S. Department of Agriculture) loans don't require a down payment or mortgage insurance. More information on these loans can be found at the USDA's [website](#).

Conventional financing. Conventional loans meet the standards of Fannie Mae and Freddie Mac, which are government-sponsored agencies that buy mortgages and establish guidelines for lenders, in terms of credit qualifications and your debt-to-income ratio. Most conventional loans require a down payment of 10 percent to 20 percent, but some are available with a down payment of just 5 percent. If you make a down payment of less than 20 percent, you'll have to pay private mortgage insurance (PMI), but PMI will automatically be eliminated when your loan-to-value reaches 78 percent. Conventional financing has loan limits that are adjusted annually. Loans under the limit are called conforming loans.

Jumbo loans. If you're borrowing an amount above the limit for conventional financing, you'll need a jumbo loan. These loans typically require a larger down payment of at least 20 percent to 25 percent and have stricter credit standards because of the higher level of risk associated with a larger loan.

Reverse mortgage for purchase. An FHA-insured reverse mortgage can be used to purchase a home if you're over age 62. You can make a down payment of 40 percent or 50 percent and take out a reverse mortgage for the rest of the home value. You won't make any payments on the reverse mortgage because the loan will be repaid with your home equity after you leave the property. You own the home as long as you pay the property taxes, homeowners insurance, and HOA fees.

In addition to choosing the type of loan that meets your needs, you have multiple options for mortgage terms.

Fixed-rate loans. A fixed-rate mortgage will have the same interest rate and the same principal and interest payment for the life of your loan. However, your payment may change if your property taxes and insurance premiums adjust over time.

Adjustable rate mortgages (ARMs). Most ARMs today are hybrid loans with a period of one, five, seven, or ten years at a fixed-rate followed by a period of adjusting interest rates. You can save money on your interest payments in the initial period, since these loans generally have a lower interest rate than fixed-rate loans. You should be sure you understand how much the loan can adjust in the future and whether you can afford those payments if interest rates reach the maximum allowed by your loan. In fact, your lender will have to qualify you based on the highest possible interest rate for that loan to make sure you can repay the loan.

Loan terms. You can also choose the term for your loan. While first-time buyers typically prefer a thirty-year loan to keep their mortgage payments as low as possible, you can pay less interest over the life of the loan and own your home free and clear faster with a shorter loan term such as twenty, fifteen, or ten years. Shorter loan terms usually have a lower interest rate than thirty-year loans, but the payments will be higher because of the compressed timeframe for repayment.

Private mortgage insurance (PMI). If you opt to make a down payment of less than 20 percent, you'll have to pay PMI. Lenders offer several ways of paying PMI, including a monthly premium, an upfront premium at the closing, or paying a slightly higher interest rate while your lender pays the monthly premiums. PMI payments will be automatically eliminated when your loan-to-value reaches 78 percent, but if you pay down your principal early or your home increases in value, you can request an appraisal to prove that you have at least 20 percent equity in the property.

Keep in mind that your equity is the difference between your home value and your mortgage balance. If you purchase your home for \$200,000 and make a down payment of \$20,000 (10 percent), you'll need to pay mortgage insurance until your balance reaches \$148,200 (78 percent of your original loan balance of \$190,000).

Discount points. If you want to lower the payments on your loan and reduce the interest rate, you can pay points when you close on the purchase of your home. A discount point is equal to 1 percent of the loan amount, or \$2,000 on a \$200,000 loan. If you're short on cash, you're better off getting a loan with zero discount points, but if you have extra cash and plan to stay in your home for the long-term, you may be able to reduce the total amount of interest you pay over the life of your mortgage by pre-paying one or two discount points at closing when you purchase your home.

New Home Financing Options

While the mortgage options above apply to all home purchases, some financial options apply only to new construction homes.

Builder financing. Most medium and large builders have their own mortgage subsidiary or an affiliation with a mortgage company. In most cases, you'll benefit from financing your home purchase with this lender for several reasons, such as receiving incentives from the builder like closing cost assistance or included feature options. The process can be streamlined because the lender has an incentive to perform as smooth a transaction as possible for the builder. Be sure to compare fees, interest rates, and available loan products with at least one other lender to make sure you're getting a fair deal. Even if the fees are slightly higher, the additional financial aid in the form of builder incentives could mean it's smarter to accept the builder's financing.

Construction financing. If you're building a home with a custom builder or working as your own general contractor, you'll need to arrange special construction financing. Look for a lender that offers construction loans, as not all lenders provide this specialized financing. Brian Koss, executive vice president of Mortgage Network in Danvers, Massachusetts, outlined two basic methods to finance a custom home: 1) a convertible loan; 2) a construction loan.

"Not all lenders offer this, but one way to finance a custom home is to arrange a one-time closing, with the first loan an interest-only loan for six to twelve months that can be converted to a twenty-nine-year fixed-rate loan when the house is complete," Koss says. "Typically, there'll be another appraisal before the loan can be converted and the lender will charge a conversion fee."



If you plan to continue to own your current home while your new home is built, you could be a candidate for a construction loan or a bridge loan. Ask your mortgage lender.

The more common method is for buyers to take out a construction loan, which usually requires just interest only payments for a year. When the home is complete, the buyers need to refinance that loan into an end loan that's used to pay off the construction loan and to finance the home purchase. You'll have to pay closing costs twice with this method, but a lot of lenders find it too risky to do a one-time closing, Koss says.

Construction loans are portfolio loans; there's no secondary market for them. The bank must approve not only you for the loan, but also your general contractor—your lender will do a full background check on the contractor because that's where the biggest risk is for the lender. Once the loan is approved, the lender will break down the construction process in phases, and you'll need an appraiser or inspector to look at the project at each phase before more funds are released to the builder.

Custom homes typically require a down payment of 20 percent to 25 percent upon purchase of the land. The down payment amount is based on both the land and construction costs. For example, if you buy a \$100,000 piece of land and you estimate that construction costs will come to \$200,000, you'll need to make a down payment of \$60,000 when you buy the land.

“Part of the financing of a custom home needs to include not only the purchase of the land itself, but also site work to get it ready for building, the permitting process, architectural plans, and all the fees you have to pay, which vary from one jurisdiction to another,” says Jim Rill, owner of Rill Architects in Bethesda, Maryland.

Bridge loans. If you have a home to sell and you're waiting to put it on the market until your new home is almost complete, you may run into a situation in which you don't have the cash on hand for your down payment at the right moment. In that case, your builder's lender or your local community bank or credit union may be willing to approve a bridge loan—one that's meant to bridge the transition from one home into the next. You'd need sufficient equity in your home to borrow against and you'd need to have the income to temporarily handle the payments on your

current home loan, your bridge loan, and your new home loan. In some cases, the lender will refinance your first mortgage and take out the equity for your down payment; in others, the bridge loan will function like a home equity loan. Bridge loans typically have a higher mortgage rate, but provided your home sells quickly, you're not likely to make more than one or two payments on the loan. The bridge loan and any other mortgage on your home will be paid in full when your home sells. In the meantime, you're able to access your equity to provide the down payment on your next home.

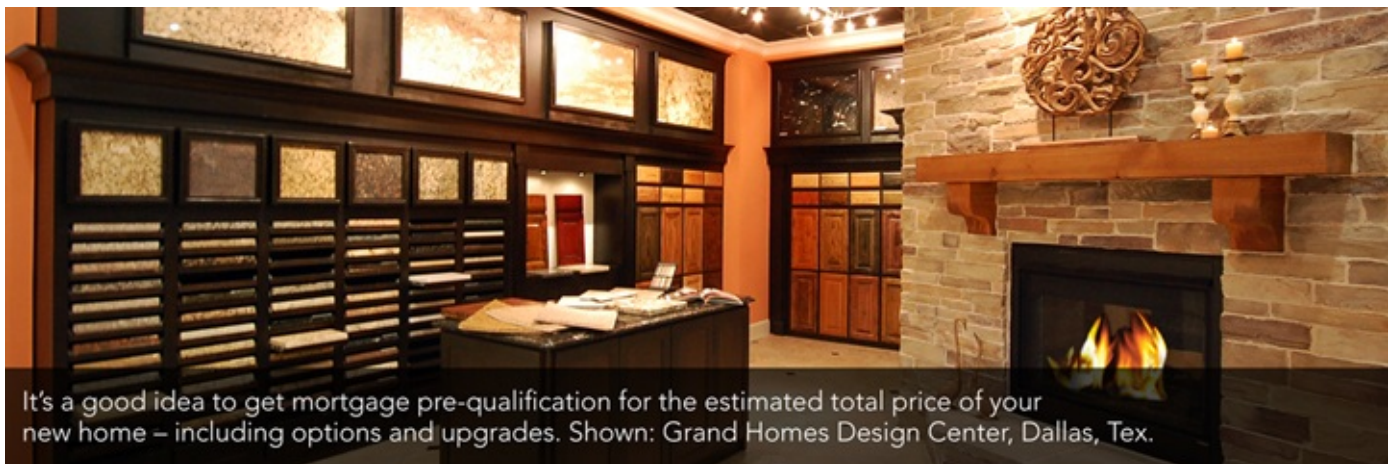
Budgeting for Options

When you buy an existing home, you're paying the agreed-upon price and financing that purchase with a combination of a down payment and a loan—unless you plan to pay cash.

When you buy a newly built home, your purchase price includes both the base price and any optional features you choose. Typically, you'll sign a purchase agreement for the house and arrange preliminary financing, and then choose your options. Your final loan amount won't be determined until you've finished making all changes to your home.

According to an article in *The Wall Street Journal* by Dawn Wotapka, an estimated 10% to 30% of a home's base price is spent on upgrades. As a home buyer, there are two important things to consider when selecting an option or upgrade: For most buyers, the primary driver is their personal needs and taste, but it's also wise to consider which upgrades retain the most value when you sell your home someday.

We'll dive into the fun of choosing options in Chapter Five; first you should consider your budget for options when applying for a mortgage loan. When you work with a lender who's experienced in new construction financing, you'll find they have methods to help you estimate how much you can spend on options.



It's a good idea to get mortgage pre-qualification for the estimated total price of your new home – including options and upgrades. Shown: Grand Homes Design Center, Dallas, Tex.

“We normally prequalify buyers for an amount above the base price, anywhere from \$5,000 to \$20,000 or more depending on the price range, and then the buyers figure out how much of that they want to use for options,” On Q Financial’s Phyllis Casillas says. “We finalize the loan amount after they visit the [builder’s] design center and choose their options.”

When you're applying for a loan, your lender will qualify you for a maximum loan amount, but

you need to decide for yourself the largest amount you should borrow, based on the maximum monthly payment you think you can *comfortably* afford. Once you've deducted the price of the house (minus your down payment) from the amount you would like to borrow, you'll have a good idea how much will be available to finance optional features.

“Buyers need to consult with the lender to find out how much they can qualify to borrow, and then determine how much they want to spend on options,” says Diane Morrison, national vice president of sales and marketing for Ryland Homes in Tampa, Florida. “Buyers need to understand their budget before they choose their options. Also, they need to be aware that if they ‘over-option’ and the home doesn’t appraise for the full amount, they’ll have to make up the difference out of their own pocket.”

How Much Cash Will You Need?

As you move through the buying and building process, you should be prepared with accessible cash for a variety of needs. First, you'll need cash for an earnest money deposit to hold a lot and to show the builder that you're a serious buyer. Later, the earnest money counts as part of your down payment.



Your mortgage professional can help you determine how much cash you'll need to buy your home – including earnest money, down payment and closing costs.

When the home is complete, you'll need money for the remainder of your down payment (the amount of your home's total price that you pay up front and do not include in your mortgage). You may also need funds for additional fees and closing costs. You don't want to forget to budget for moving costs. Once you've paid this, you also need cash reserves available for an emergency. Some lenders require cash reserves to approve you for a loan. Most financial planners recommend keeping three to six months of expenses in the bank as your emergency fund.

Earnest money deposit. “Your deposit may be bigger than the earnest money deposit you make on an existing home, but it can be anything you and the builder agree on,” On Q Financial's Phyllis Casillas says. “Your deposit is then credited to your down payment or closing costs as settlement.”

Down payment. The size of your down payment depends on your loan terms and how much cash you have available to invest in your home. FHA loans in 2014 require a minimum down payment of 3.5 percent and conventional loans require a minimum of 5 percent to 10 percent, but these minimum amounts could change. Many financial planners recommend making a down payment of 20 percent because this eliminates the need for mortgage insurance, reduces your interest rate, and makes your monthly mortgage payments more affordable.

Closing costs. These can include an appraisal fee, survey, title insurance, and document fees charged by the lender. Often, your first year's home insurance premium is paid at closing, which protects both you and the lender. Depending on your local market conditions, your builder may offer to pay all or some of your closing costs. Often, this incentive is tied to working with your builder's affiliated or preferred lender. Other builders, such as Beazer Homes, offer incentives without requiring you to finance your home with a particular lender.

"Our incentives vary by division, such as kicking in closing costs, but none of them require the use of a particular lender," says Kathi James, chief marketing officer for Beazer Homes. "Some of our recommended lenders offer incentives to buyers on their own. We had an in-house lender and then an exclusive financing agreement with Bank of America for our loans, but we decided that from the customer's perspective it's better to encourage them to shop with vetted, good lenders that we recommend."

You can get an estimate of how much cash you'll need to close your loan when you begin talking with the sales consultant and a lender. If you lack cash, some loan programs allow you to use gift funds from a family member. FHA loans allow your entire down payment to come from a gift as long as the gift is documented. Conventional loan programs require you to make at least 5 percent of your down payment from your own funds.

Although financial planners say you should avoid this, if possible, you can sometimes borrow from your retirement fund to make a down payment on a home. Consult your employer regarding your 401(k) or your investment advisor to make sure you follow the rules about borrowing from a fund and repaying yourself so that you avoid a tax penalty for early withdrawal.

Another option is to look into state and local home buying programs that offer down payment assistance. Most of these programs require you to take a homebuyer education class and are limited to first-time buyers or those who meet other requirements such as income limits. Some employers offer down payment assistance to their employees. Resources at the end of this section will help you find programs in your area.

When to Lock in Your Mortgage Rate

When you buy an existing home, it's common to lock in your mortgage rate almost as soon as you have a contract because you expect to close your loan within thirty to sixty days. When you're building a new home, you'll need to wait to lock in your mortgage rate until you get closer to the settlement date, which takes place after your home is complete and ready for occupancy.

"The major difference between financing a newly built home and a resale is that when you're buying a new home you have to wait to secure your interest rate," On Q Financial's Phyllis Casillas

says. “A normal interest rate lock is sixty days or less, but you can lock in a rate for 90, 120, or even 180 days. A longer loan lock will typically be a little higher in price, such as three-eighths to one-fifth of one percent higher interest rate than a shorter loan lock. Many lenders offer a free ‘float-down’ that allows borrowers to take advantage if mortgage rates drop after they have locked in their rate. Depending on the length of the lock, a lender may ask for a commitment fee of one-half to 1 percent of the loan amount up front, which can be refundable if you don’t close on the loan or will be credited to your down payment at settlement.”



Borrowers should carefully choose a lender that offers long lock-ins, says Mike Kelly, senior vice president at Prospect Mortgage in Hartford, Conn., because if they don’t lock in their rate it’s possible that they could no longer qualify for a loan once the home is built or that the payments could be higher than the borrowers are comfortable paying.

“We offer a rate lock up for the period that the home is being built, up to nine months,” says Kelly. “We also offer the option of a one-time float-down if rates drop during the rate lock period. We charge a one point fee for this long-term lock and the flexibility of a float-down, but they get that fee back as part of their deposit at settlement. It works like an insurance policy.”

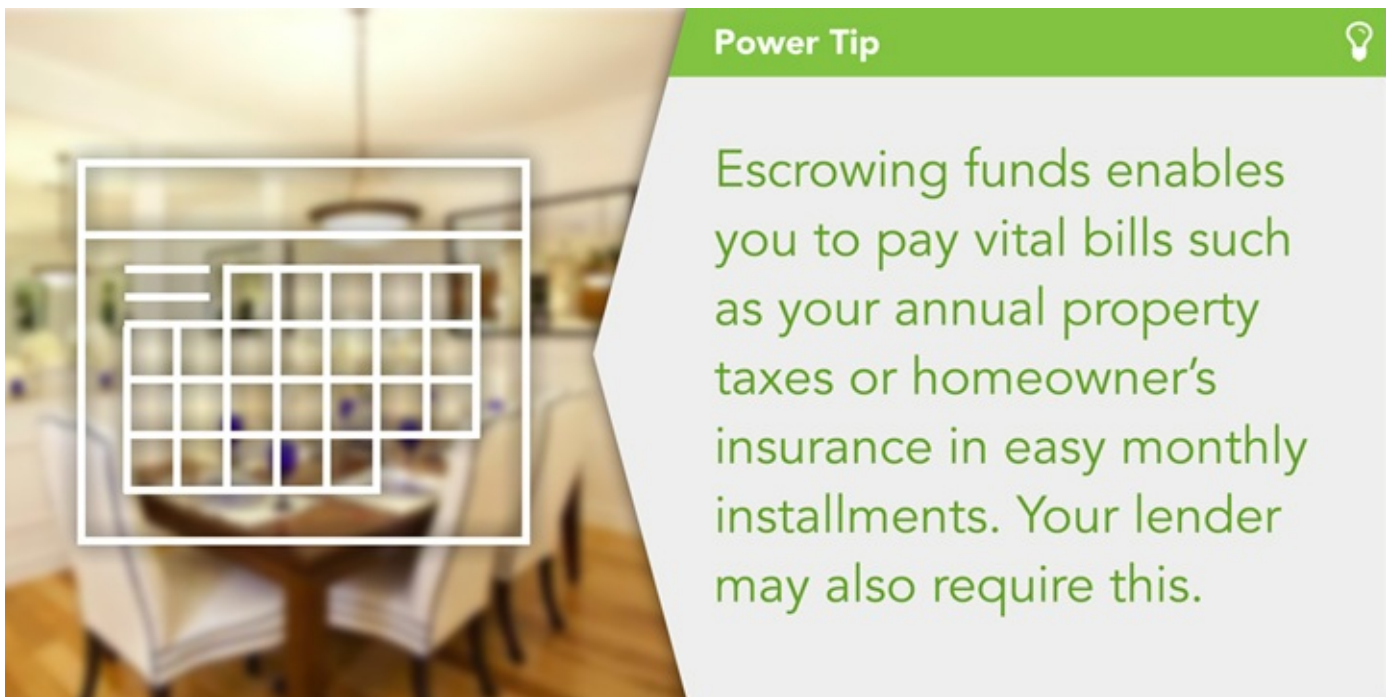
One of the benefits of working with a lender experienced with financing newly built homes is that the lender will understand the timeline of the construction process and have a relationship with the builder so that you have a better gauge of when to lock-in your mortgage rate. If you lock-in your rate too early and the lock expires before you go to closing, you could end up paying a higher mortgage rate when your home is complete.

“You have a window of unknown on rates, so don’t wait to be surprised, especially if you’re tight on qualifying for the loan in terms of your debt-to-income ratio,” Casillas says. “For instance, if rates are 4.5 percent versus 5.5 percent, ask the lender what the difference in payment would be and whether you qualify at the higher rate, just in case rates would change that much while your home is under construction.”

Casillas recommends that buyers wait at least until ground has been broken on their home before locking in a loan, since by then all the permits will have gone through, a process that sometimes delays construction.

Establishing an Escrow Account

If you're already a homeowner, you're probably used to the process of having part of your monthly mortgage payments sent to an escrow account. Most lenders require homeowners to pay for their property taxes and homeowners insurance by making payments year-round rather than when the bills are due. You'll pay one-twelfth of the annual premium for your insurance and one-twelfth of your annual tax bill with each mortgage payment. These payments will be held in an escrow account and paid by the lender when the bills are due.



Power Tip

Escrowing funds enables you to pay vital bills such as your annual property taxes or homeowner's insurance in easy monthly installments. Your lender may also require this.

Many lenders require an escrow account – rather than allowing you to pay these bills on your own quarterly, semi-annually, or annually. The reason is that if you were to default on those payments, the lender would be impacted as much as you. If you don't pay your taxes, the local government places a lien on your property; the lien would then be paid before your mortgage if your home was sold. If your home had to be sold for less than the total tax bill plus the mortgage balance, the lender would not be paid in full. And if your homeowners insurance lapsed and your home was damaged or destroyed, you might not have the funds to rebuild your residence, which serves as collateral for your loan.

Legally, your lender can require you to have a cushion of extra funds in your escrow account equal to one-sixth of the amount paid out of the account. The amount held in escrow can change from year to year as your insurance premiums and tax bill adjust. Your lender must provide you with escrow statements annually listing your bills and their payment. Sometimes you'll have an escrow surplus that your lender will apply to the next year's payments or will send to you as reimbursement for the overage. If you have a shortfall, you'll likely have to pay more into the escrow account for the next year or you can pay the shortfall in full immediately.

While you may prefer to pay your taxes and insurance on your own, in most cases, you'll have to follow your lender's rules about establishing an escrow account.

Getting to the Details—Choosing Your Lot and Floor Plan

Once your financing is secure, it's time to get serious about identifying the right lot and the right floor plan to meet your needs. In choosing your lot and floor plan, you need to be certain they fit together. For example, if there are specific structural options you're looking for, such as a three-car garage or a deck, be sure they can be accommodated on the lot you have in mind.

While the final decisions on your lot, floor plan, and optional features are yours, you'll have plenty of help along the way from sales consultants and your Realtor, if you choose to work with one.

Why Sales Consultants Should Be Your New Best Friends

"A sales associate can help buyers decide which lot will work best for them," says Angel Boales, a sales associate with Meritage Homes in Roanoke, Texas. "Sometimes buyers want a corner lot or they want to look at green space. Then they can pick the structural options that work with the floor plan they've chosen. Not every floor plan fits on every lot, so a sales associate can help buyers figure that out. We're like a matchmaker to set up the buyer with the right floor plan and the right site."

Deciding which lot to build on depends not only on the floor plan you choose, but also the location in terms of community amenities, whether planned or in place. The sales consultant can discuss the pros and cons of living close to a community swimming pool or playground and can identify where a shopping center or school will be built in the future. You should also look into where development is anticipated, both inside and outside the community. You don't want to buy a lot and build a home assuming you'll enjoy a woodland view forever, only to find in a few years that a bowling alley will be built behind your home or that a long-scheduled highway improvement plan means a major road will be diverted through the previously unspoiled woods.

You may also want to inquire about plans for building other homes in the community to see how long construction will affect you.

"If you're moving into a community that's being built, it's pretty obvious that you'll have to live with some construction noise and mess for a little while," says Caryl Dierksen, a buyer with Epcon Communities development in Woodstock, Illinois. "It can be inconvenient, but if you think it's going to bother you too much, then you should look for a lot in an area that's almost complete instead of the newest section or maybe even consider living in a finished community rather than one that's still being developed."

In most communities, the lot you choose will affect your final home price. Larger lots or lots that offer premium views, or back to a golf course, lake or a greenbelt are especially desirable and thus differ in price. The same size lot with a view can command a higher price (a so-called lot premium) compared to the same sized lot with a lesser view.

"We recognize that demand is stronger for particular lots, so lot premiums can range from zero

to as much as 25 percent of the home price, or \$100,000 for a golf course or lake view in a community where the homes are selling for \$400,000,” WCI Communities’ Paul Erhardt says. “We also sell condos and there can be premiums there for being on a higher floor. In one development, the prices go up by 50 percent between the second and third floor, because once you get to the third floor you can see the Gulf of Mexico.”

Fulton Homes’ Dennis Webb recommends looking at the site map for the community either online or in the sales brochure to see the location of available lots.

“Have the sales associate walk the lot with you to show you where it is and so you can get a feel for the views from the lot and what’s nearby,” he says. “Buyers can choose where they want their house to be placed on the lot, for example with more room on the side or in the back, as long as this is within city zoning setbacks.”

Did You Know?

Different floor plans require different lot sizes. Many builders refer to a series of floor plans as 50’s, 60’s or 70’s. That doesn’t refer to a decade, like the 1970’s. Instead, it refers to the maximum width of a home that can be built on a given lot.



The placement of your home can be affected by the shape and size of your lot and restrictions within the community, too. The builder’s sales consultant and construction professionals should be able to answer all of your questions.

“Even though we didn’t have any experience buying a home, our builder and the salespeople there never made us feel dumb,” says Jenny Pauline Mendoza, a buyer with McCaffrey Homes in Clovis, California. “One of the company owners, Karen McCaffrey, would come into the office sometimes when we were there and she got as excited as we did about the home being built. They made us feel even more excited and that we were valued.”

The sales consultants can also help you identify the floor plan that will work for your needs. The number of floor plans you can choose from often depends on the size of the builder.

“Ryland Homes generally offers a minimum of three floor plans for buyers at every community and the designs are specific to the local market,” says Diane Morrison, Ryland’s national vice president of sales and marketing. “Even though we’re in twenty markets, we’re not a top-down

business. We recognize that housing is localized so we have our local people select home designs that fit with their local market. The number of floor plans depends on the size of the community, so if we have fifty lots, we'll have more floor plans and elevations than in a smaller development."

You'll find that most builders have trained staff in their sales office – and often in their design center – who can help you make important choices within the context of your budget and your desires.

As you think about your new home, an invaluable tool is a floor plan, which most builders provide. These come in printed versions and are typically also available online. They range from simple, two-dimensional black-and-white images, to colorful versions that can show the home unfurnished – or, in many cases, with sample furniture placed for scale.

Many home shoppers find that they can pick up a floor plan and relate to it immediately. For others, it may take a bit of time to get fully comfortable interpreting a floor plan and using it to envision the finished home. If you're in the latter camp, check out this article on New Home Source with great advice on [how to read a floor plan](#).

Let's take a look at a floor plan – in this case, for a home built by Lennar:



As important as it is to envision your new home by walking furnished models and studying floor plans, many experts say it's equally important to make sure you've defined *why* you want to move, since that can help you better zero in on *what type* of home is right for you. In many cases, this includes listing the features your current home has that you love, aspects of it you hope to shed, and features not in your present home that you'd like in your new residence.

"You should understand why you want to move and talk to the sales consultant about it," says Kathi James, chief marketing officer for Beazer Homes in Atlanta, Georgia. "If you hate that you don't have enough closet space, then we can show a floor plan that has a lot of storage. Or if your son has taken up piano but you don't have space for it, we can show you an open floor plan with a

great room.”

What’s Included in Your Home’s Base Price?

An important part of buying a new home is understanding what features are included in the base price of your home and what features are optional. Some communities separate the land price and the home price completely, so the price you’re looking at for a home doesn’t include the lot at all. And, as mentioned above, you may have to pay an additional premium for particular lots.

Keep in mind that what you see in the model home includes options. Most builders put upgrades in the model home, so that buyers can see what upgrades are offered. Be careful to separate upgrades from the standard features to know what you’re buying. The sales staff can help you identify which features and finishes are included and which are optional.

Typically, you’ll be given a list of optional features available in the community and a list of standard features when you visit a new home community sales office. These two items are among the most important pieces of paper you need during your home search because they form a basis of comparing different builders and communities. Which features are standard and which are optional could impact the final cost of your home.

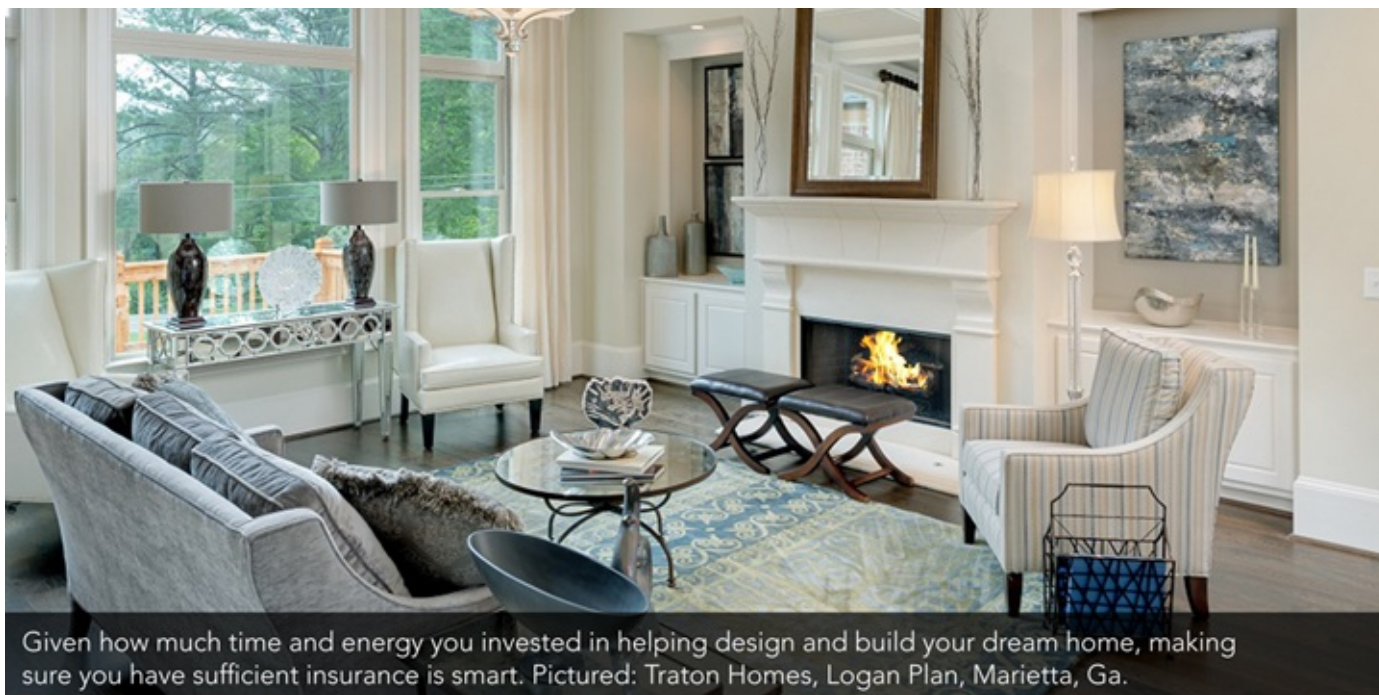
“Buyers need to be extremely careful to compare the standard features in one home or community versus another because it can cost them—or save them—thousands of dollars,” says Erin Hungerford, a Realtor with Long & Foster Real Estate in Richmond, Virginia.

Understanding Your Insurance Needs Now and Later

One part of planning for your new home—choosing insurance—while crucial, is not nearly as exciting as picking your lot, your floor plan, and your options. You may even be tempted to skip over this chapter, especially if you already own a home. However, there’s a reason we’re including this information on insurance here rather than later in the book: You need to know what kinds of insurance you should obtain and get an estimate of how much it will cost. That way, you can include this calculation in your financial plans for sustainable homeownership.

Homeowners insurance

The primary purpose of homeowners insurance is to protect your house in case something happens to it and you need to rebuild an equivalent house.



Given how much time and energy you invested in helping design and build your dream home, making sure you have sufficient insurance is smart. Pictured: Traton Homes, Logan Plan, Marietta, Ga.

“Talk to an insurance agent to get an estimate of how much insurance you need,” says Joseph Montanaro, a certified financial planner with USAA Enterprise Affairs in San Antonio, Texas. “An agent will give you a questionnaire and walk you through the process to estimate what it will cost to replace the property. Your dwelling coverage is not necessarily the same as the fair market value because your coverage should be based on the cost to rebuild it. Make sure you ask for replacement coverage because the last thing on earth you want is to be underinsured.”

Montanaro says that it’s especially important to estimate your insurance costs if you’re on a tight budget. You’ll need to know a little bit about the house you intend to buy, such as the size, the general location, and materials to get a ballpark idea of your insurance premiums.

“You should shop around for an insurance company and get a few quotes, but make sure you’re getting apples to apples comparisons for the same coverage,” he adds. “Besides price, a big component of your comparison should be that the company will be there when you need them. You can get referrals from friends about positive experiences and look up their financial ratings on [AMBest.com](https://www.AMBest.com).”

Deductibles

One way to reduce your premiums is to increase the amount of your deductible. While many homeowners opt for a \$500 or \$1,000 deductible, you may have to meet particular state insurance commission rules or follow your insurance company’s policies on the size of your deductible. In any case, you must make sure you have adequate resources to pay that deductible if you have to make a claim.

“Deductibles vary depending on your choice and also on the state laws and your location,” Montanaro says. “If you live in an area with a high risk of hurricanes or hail damage, you may have to carry a deductible of 1 percent or 2 percent of your total home value.”

Personal property insurance

“Part of your homeowners insurance will cover your personal possessions,” Montanaro says. “Most policies come with coverage on personal property of 40 percent to 50 percent of the rebuilding coverage. For example, if you’re insuring your rebuilding cost at \$200,000, you’d have \$100,000 in coverage on your personal property.”

He advises looking at the details of the coverage in certain categories such as electronics or jewelry because that coverage is sometimes limited. When you have costly items such as a \$6,000 ring, you need to get extra coverage.

“Your personal property could be subject to the standard deductible on a policy, such as \$500 or \$1,000, so you need to make sure that you’re insuring your valuables with a special endorsement that’s not subject to the deductible,” he says.

If you’re renting a house while your home is under construction, you should have renter’s insurance in place to protect your personal property even if you’re in temporary housing during the transition from one home to the next.

Liability coverage

Your homeowner’s insurance policy will include liability coverage in case someone gets hurt while on your property. Montanaro says that you can adjust the size of this coverage to adequately protect your assets and income.

“That may not be top of mind when you’re buying a new home, but you need to make sure it’s adequate,” he says. “You can add to your liability coverage relatively inexpensively with an umbrella policy that’s layered over your home and auto insurance policies to cover you up to \$1 million or \$2 million, which you may need to protect your home and your retirement or other investments.”

Montanaro recommends reviewing all of your insurance policies when you’re buying a new home.

“Getting a new home is a watershed event, so it’s a good time to look at your life insurance policy to make sure your mortgage would be paid for if something happened to you,” he says.

Flood insurance

Your homeowners insurance doesn’t cover flood damage, but even if you’re not in a flood zone, you may want to purchase flood insurance, Montanaro advises.

“The [FloodSmart.gov](https://www.floodsmart.gov) website is a great resource to help you understand why you need it and how much it costs, but you buy flood insurance like any other policy through your insurance agent,” he says. “You’ll need to have it in place thirty days prior to a storm, so don’t try to wait until a hurricane is predicted to get it.”

The flood insurance provided by the Federal Emergency Management Agency (FEMA) is limited, so if you’re building an expensive property, you may need to go to a specialized insurance

company for additional protection.

Insurance needs during construction

Your builder should cover all insurance needs while a production home is being built, Montanaro says. “The house doesn’t belong to you yet and you’re not liable for anything on that property until after the closing.”

If you’re building a custom home, an insurance broker can arrange an appropriate policy while your home is under construction, says Jim Rill of Rill Architects, adding that that’s probably the easiest part of the custom home building process.

“If you’re building a custom home, you need to make sure your builder has builder’s risk insurance to cover anything that goes wrong that’s caused by the builder,” he says. “You need homeowners insurance, too, in case a tree falls or lightning strikes while your home is under construction or building materials get stolen.”

Now that you’ve chosen a floor plan, your financing options, and your insurance needs, you’re ready to dig into the final stages of purchasing your new home.

Pricing and Negotiations

When you buy an existing home, it’s common to make an offer to the homeowners, receive a counteroffer, and then negotiate on the price and terms and conditions of the transaction before coming to an agreement. Good news! Buying a newly built home is much simpler than that. While this doesn’t mean that negotiations never take place, the process is more straightforward when you’re buying a new property.

Before we talk about negotiations, it’s important to understand how newly built homes are priced. Existing homes are typically put on the market at a listing price based on a comparative market analysis by a Realtor who looks at recent sales in the community of similar homes. The listing price for a resale home can also be influenced by how quickly a private owner wants (or needs) to sell the home and the level of motivation of the sellers. Builders also look at local current market values, but they also have other factors that go into pricing their homes.

“New homes are priced based on what the competition is selling for, which includes local resales and new homes,” WCI Communities’ Paul Erhardt says. “That gives you a range of similar homes that we use as a baseline and then adjust up or down based on the square feet of a particular model.”

Rather than relying solely on their estimation of the value of a home, new home builders can base their prices on the cost of the land, the cost of construction materials, labor costs, and marketing costs, and then add on a profit margin so that they can stay in business and build their next community.

“Prices evolve over time because as we start selling we see that people like one floor plan over another, so supply and demand kicks in to raise the price of that floor plan,” Erhardt says. “We also need a balance between selling a home for as much as possible and maintaining the pace of sales.

Sometimes we raise prices or increase incentives to increase or slow the pace of sales so they match the construction schedule and the business plan.”

Builders need to make sure they haven’t sold too many homes too quickly because their customers might face construction delays if the builder can’t find enough qualified workers to keep up with the demand for homes. In a robust housing market, some builders may stop selling homes for a few weeks or months and keep customers on a waiting list until more homes can be built. In a slower market, you’ll find builders offering more incentives to keep their inventory moving.

In addition to maintaining the pace of sales, builders need to be cognizant of protecting the investments of their initial buyers as well as keeping appraisals in mind as they price their homes. This is why builders are far more likely to negotiate with potential buyers on optional features or paying closing costs rather than the base price of their homes.

“Builders want to keep the base price firm because the eventual sales price is recorded and will be looked at by appraisers,” Erhardt says. “Buyers will find the best deals on new homes when a builder wants to close out a community and sell the final few. On the other hand, they’ll also often get a good deal at the beginning because the first few buyers are pioneers who’re taking a risk about what the community will look like when it’s finished and are putting up with construction in the meantime.”

Even though most builders hold firm on the base price of their homes, you should stay focused on the total cost of your newly built home and what you’re getting for that price.

“Buyers can negotiate on things like closing costs and other fees, such as asking the builder to pay HOA fees for a year or two or to pay points to buy down the interest rate,” Erhardt says. “Builders may also be willing to offer free upgrades or options. It all depends on the market. When homes are selling well, builders are much less likely to negotiate at all. If they need to sell some homes quickly, you may be able to negotiate a little more.”

Steven Cohen, author of *The Practical Negotiator: How to Argue Your Point, Plead Your Case, and Prevail in Any Situation* and president of The Negotiation Skills Co., says it’s important for buyers to understand what’s included in the base price and what’s not before they start attempting to negotiate.

“Remember that sometimes you need quality more than you need to save a little money, especially when you’re buying a home you plan to live in for years,” he says. “Make sure you understand the quality you’re getting for your money when you’re negotiating and be willing to pay more if you need to in order to get the house the way you want it.”

If the builder has unsold inventory, you might be able to negotiate more.

“You can try to negotiate on getting more options or better options in a home, such as negotiating for the builder to spend your option allowance on a better paint quality than on something you don’t care about,” says Susan Hilton, a broker with Century 21 Beal, Inc. in College Station, Texas.

In addition to negotiating with the builder, be sure to ask about special incentives and programs that could help you afford your new home. Some builders offer extra options or low-cost loans for military personnel or first responders or teachers. The builder's sales consultants or your Realtor also can help you find information on state or local homebuyer programs that offer down payment assistance or low interest loans for first-time buyers or buyers who qualify under certain income limitations.

Remember that some incentive programs offered by builders are tied to the use of their preferred lender and title company, so be sure you've done your research and are comfortable with those companies and their products and services before you agree to accept the incentives.

Finalizing the Contract.

Once you're satisfied that your negotiations are complete, it's time to finalize and sign the contract. While contracts and purchase agreements vary from one builder to another and according to state regulations, there are standard parts of the contract that you should be certain to review carefully:

- **Plans and specifications for your home.** Be sure you see the appropriate floor plan and exterior you've chosen.
- **Price.** The base price should be specified on the contract; you can add your options later to the final price.
- **Timeline.** Your builder should provide an estimate of your completion date.
- **Default provision.** This should spell out what happens if you don't fulfill your end of the contract by arranging financing or if the builder doesn't fulfill their end of the contract.
- **Notice provision.** This should tell you how to officially communicate any problems with your builder.
- **Dispute resolution.** This section should explain how any disputes between you and the builder will be handled.

An attorney or Realtor may not be required in every state. However, if you want to feel more comfortable with the process, you may want to ask to see a sample contract before you sign anything and have an attorney and/or your Realtor review your contract before you sign it. Once the contract is signed, you're ready to move onto one of the most enjoyable parts of the entire new home experience: designing your home.

WHAT YOU LEARNED: BUYING YOUR NEW HOME

- ✓ Custom vs. production builder—how to decide which works for you
- ✓ Steps to buying your new home
- ✓ Options on where your new home can be located
- ✓ Information about active adult communities
- ✓ Main types of new homes
- ✓ Understanding your financing options
- ✓ Standard features vs. options
- ✓ Picking the floor plan to match your lot
- ✓ Understanding your insurance needs
- ✓ Pricing and negotiations
- ✓ Contract details

Questions for Potential Builders

- How long have you been in business?
- How many homes have you built?
- Are you licensed and insured?
- What type of warranty do you offer?
- What types of homes do you build—price range/style?
- How much personalization do you allow? Can I make structural changes to your plans?
- How many floor plans do you offer in each community? Can you build something from my own floor plans?
- Do you have a separate design center?
- Can you describe the energy efficient features of your homes?
- Can I visit model homes?
- Can I visit other homes that you've completed or ones being built?
- Can you provide me with references from prior buyers?
- What are the standard features in your homes? What options or upgrades are available?
- Do you offer any incentives to buyers?
- How and when is the final price for my home determined?
- How long do you think it will take to build my home?
- Is there a homeowners' association for this community? What are the rules and regulations? Dues? Is there an architectural review board?
- How often can I see my home while it's being built?
- Who's in charge of the construction process? Who can I contact with questions or

concerns?

- What's your process for inspections and the final walk-through?

Questions for Other Homeowners

- Would you recommend this builder?
- Are you happy with the service you've received from the builder?
- Are you happy with the craftsmanship of your home?
- What kind of interaction did you have with the site supervisor?
- How knowledgeable is the builder?
- How knowledgeable are the salespeople?
- What do you wish you knew before you moved in?
- Do people participate in community activities? What kind?
- If you're looking at an active adult community, ask people about their experience downsizing and how they handled it.
- Does your home meet your expectations?
- Is the homeowners' association active and in good financial health?
- How much are your property taxes?
- How much are your utility bills?

RESOURCES

[How Much Home Can You Really Afford?](#)

[How to Finance Your New Home](#)

[The Mortgage Process: A Step-by-Step Look and Checklist](#)

[Home Shopping? Get Preapproved First](#)

[Home Insurance 101](#)

[Are You Covered?](#)

[Check Your Credit](#)

[Down Payment Assistance](#)

[Mortgage Advice](#)

[State Housing Finance Agency Directory](#)

[Insurance Company Ratings](#)

[Flood Insurance Information](#)

[U.S. Department of Housing & Urban Development](#)

[U.S. Department of Veterans Affairs – Home Loans](#)

[USDA Rural Development – Home Loans](#)

[Fannie Mae](#)

[Freddie Mac](#)

[National Association of Mortgage Brokers](#)

[Mortgage Bankers Association](#)



Chapter Five:

DESIGNING YOUR DREAM HOME

WHAT YOU'LL LEARN

- Personalizing your home is the best part of buying new!
- Where to go for design inspiration
- Pinpointing your personal style
- Prioritizing your wish list
- Selecting options, features and upgrades
- The value of energy-efficient features
- Future-proof your home with smart technology

Now that you have the “business” part of your transaction done and have signed a contract for your new home, you’re ready for what most homebuyers think is the best part about buying a newly built home: choosing optional features. Whether you have a detailed vision of every feature and finish you want, a broad idea of your color scheme or a fixation on one particular item such as having a wine cooler in your kitchen, the design phase of building a new home ranks as one of the most pleasurable activities in the process.

Of course, if you’ve opted to build a custom home, the sky—and your budget—is the limit to what design features and finishes you can include. Of course, you’ll also have to consider the land you own and the zoning and permit regulations in your area. For more about the details of the custom home process you can go back to Chapter One.

If you’ve chosen a production builder, the amount of customization you can have depends on three factors:

1) The production stage of the home you’ve chosen. If you’re building from a set of floor plans you have a lot more leeway for custom choices compared to buying a home that’s partially finished. Depending on how far along the builder is in the construction process, you could be limited to non-structural options or even to just the final paint colors.

2) The lot you’ve chosen. Depending on your lot’s size and placement, you may not be able to add certain structural features, such as a three-car garage, instead of the standard two-car garage. The sales consultants at your new home community can help you determine which lot will meet your requirements, so be sure you consider potential structural changes when you choose your lot.

3) The level of personalization offered by your builder. Production builders offer personalization across a wide spectrum, ranging from nearly custom to varied menus of choices.

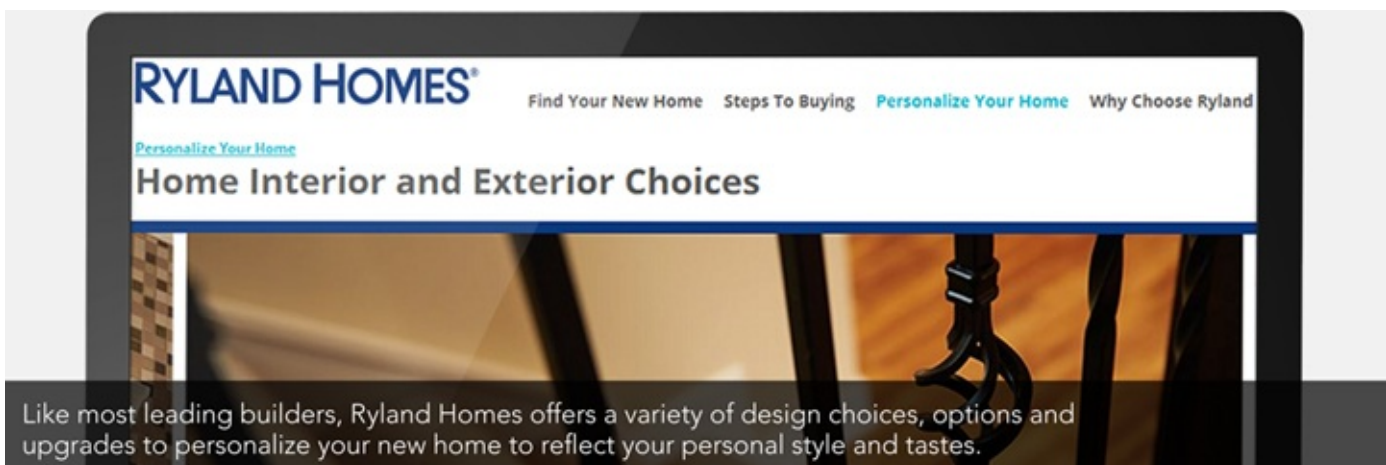
While options vary by builder, buyers that work with production builders can typically select their favorite colors and design style (such as traditional or contemporary) in many key products used in the home. For example, you can likely select styles and colors and/or “good-better-best” options in product categories like these:

- Flooring
- Countertops in your bathrooms and kitchen
- Cabinets in your bathrooms and kitchen
- Interior and exterior doors
- Lighting fixtures
- Plumbing fixtures
- Hardware
- Appliances

- Heating and air conditioning system
- Paint colors and trim
- Exterior materials, such as brick, stone or siding

That list may seem daunting, but remember you have a support team of sales consultants and design center experts to help you make sure that your choices work well with each other and with the floor plan you've chosen.

"There are two levels of choices to make when buying a new home," says Diane Morrison, national vice president of sales and marketing for Ryland Homes in Tampa, Florida. "When you first sign the contract, you need to make choices about structural options such as moving walls or changing spaces, or adding bonus rooms and extra baths. Later in the process, you can choose all the fixtures and finishes, such as flooring, cabinets, counters, lighting fixtures, and hardware."



Depending on the builder, you may also be able to make structural changes to your chosen floor plan. Some builders, such as Atlanta-based Beazer Homes, allow you to choose among several option packages.

"We offer what we call 'Choice Plans' on all our new homes that allow buyers to choose an 'A' or 'B' set of structural options at no additional cost," says Kathi James, chief marketing officer for Beazer Homes. "We developed these packages based on what most buyers were choosing, especially in the primary areas of spending on optional features—the kitchen, owner's bath, and second bath."

For example, buyers with Beazer Homes who like to entertain can choose an entertainer kitchen with a big center island, lots of extra seating, and serving areas. Those who love to cook can choose a gourmet kitchen with more prep surfaces, a bigger pantry, and double ovens. Buyers can still choose their own cabinet finishes and granite counter colors.

"Buyers seem to like this because it simplifies the process and it doesn't cost anything extra, either," James says. You can learn more about Beazer Homes' Choice Plans in this [article at New Home Source](#).

Some builders may not have as much flexibility when it comes to allowing you to make structural changes to your property. For example, McCaffrey Homes has already arranged for

permits for the homes in its new communities, so buyers must choose from three architectural styles for each floor plan and then personalize their homes with thousands of interior options. Other builders, such as Epcon, Schumacher Homes, and Fulton Homes, among others, allow a limited amount of structural changes to be made.

Dennis Webb, vice president of operations for Fulton Homes in Arizona, says his company has twenty or thirty floor plans available so buyers can typically find a configuration that meets their needs without making structural changes.

“Ask if you’ll be able to move walls or add something,” says Caryl Dierksen, an Epcon Communities buyer. “Sometimes you can’t put a sunroom off the living room, but the builder may be able to add one off your bedroom. It doesn’t hurt to ask.”



Stone accents are an increasingly popular design choice in new home interiors. Shown: Residence 7545 Plan by Century Communities in Lone Tree, Colo.

Tom Silk, senior vice president of marketing and communications for KB Home, a builder active in many states, says KB Home offers a wide range of choices at every step of the process including structural options.

“A lot of our buyers take advantage of the opportunity to extend a porch or convert a loft into a bedroom,” Silk says. “We also offer thousands of choices in the Home Studio, many of which don’t cost the customer anything extra. We constantly do research at KB Home to determine what customers want. When we find that 75 percent of our buyers choose a particular option, such as nine-foot ceilings, we make it a standard feature in all our homes.”

In most new home communities, you can typically choose your design style such as traditional, contemporary or traditional; colors, and “good, better, or best” levels of quality in most product categories.

Some builders, like Lennar, with their popular [“Everything’s Included”](#) approach, package some of their most popular choices together, with the goal of simplifying the new home purchase process. As Lennar states, “We have done the research up-front to determine which features are most desirable – and simply included them. Our national purchasing power enables us to provide all these great features at the best possible value. (But) Everything’s Included doesn’t mean ‘one size fits all.’ Each community across the country has its own personality with its own comprehensive set of Everything’s Included features.”

What Decisions Do You Make and When Do You Make Them?

Based on all of your shopping online and in model homes and communities, there will come a time when you've found the new home you want. What's next? Typically, you choose a floor plan and lot before signing the purchase agreement or contract for your new home. Next, you choose any structural options, and then you have some time to decide on your interior features and finishes. Some builders, however, may alter that typical timeline for various reasons.

Angel Boales, a sales associate with Meritage Homes in Roanoke, Texas, says their buyers have to pick structural options from the beginning so that the contract can be written and the builder can go to the city for permits based on the square footage and design of the home.

"After the purchase agreement is signed with the structural options, then within fourteen days buyers need to go to the design center for two two-hour appointments," she says. "We like to schedule these appointments with a day in between so you can look at your choices and your budget before you make a final commitment."

Dale C. Adams, Jr., new home sales manager of JLS Design and Construction in Maryland, says that once a buyer is serious about purchasing one of their homes, he schedules two initial consultations.

"At the first visit, we spend a couple of hours choosing a floor plan and making changes to the floor plan and getting a cost estimate," he says. "At the second visit, we go over their new personalized floor plan and look at the new costs."

Your builder will give you a timeline for when you need to finalize your optional choices, often within two weeks after your contract is signed and sometimes even sooner.

Match Your Floor Plan and Your Options

Whether you have your heart set on a specific feature or multiple features, you need to make sure that the lot and floor plan you choose can accommodate your priorities. Don't assume you can do what you want with the interior of your home regardless of the floor plan. For instance, you may have seen an oversized island in a model home kitchen and assume you can expand the island in your new home to be as large as you want. However, your builder may not be able to move walls or increase your square footage enough to make an oversized island work in your space.

Take advantage of the expertise of your builder's sales professional (and, where offered, their design consultants) to confirm whether a floor plan can accommodate the options you want. If not, discuss with the sales consultants if modifications can be made and whether it makes sense to consider other floor plans so that you get what you want. Your sales consultants can also talk to you about popular options and ask you questions about your lifestyle to help you narrow your choices, advised Kira Sterling, chief marketing officer at Toll Brothers, a leading luxury home builder in many markets nationally.

"Take your time so you don't feel like you're just settling for something," says Dierksen, an Epcon Communities homebuyer. "I took two years to look around so I really knew what was available in terms of models and options. You can't always get everything you want on your wish

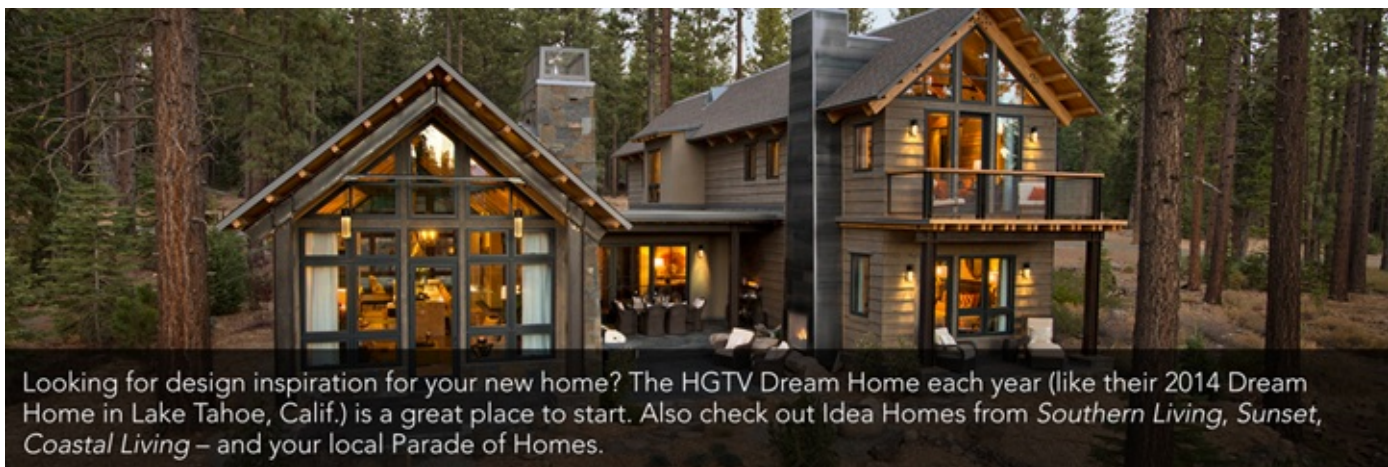
list, especially if you have to stick to your budget, but you'll be happier if you know you've thoroughly looked around to find the best match for you."

In addition to consulting the sales and design center staff, you should visit a model or spec home (or both, if available) for the specific home that you intend to build. Many builders also offer digital floor plans and virtual tours in their offices or on their websites that can help you make the match between your ideas and the available layouts.

"We build two or three models in every community, but we try to build every model within driving distance of each community so that buyers can walk through every one of our models," KB Home's Tom Silk says. "We also have a digital presentation for every model that buyers can look at in the sales office. I think buyers should look at as many models as possible to develop a list of their priorities and preferred features."

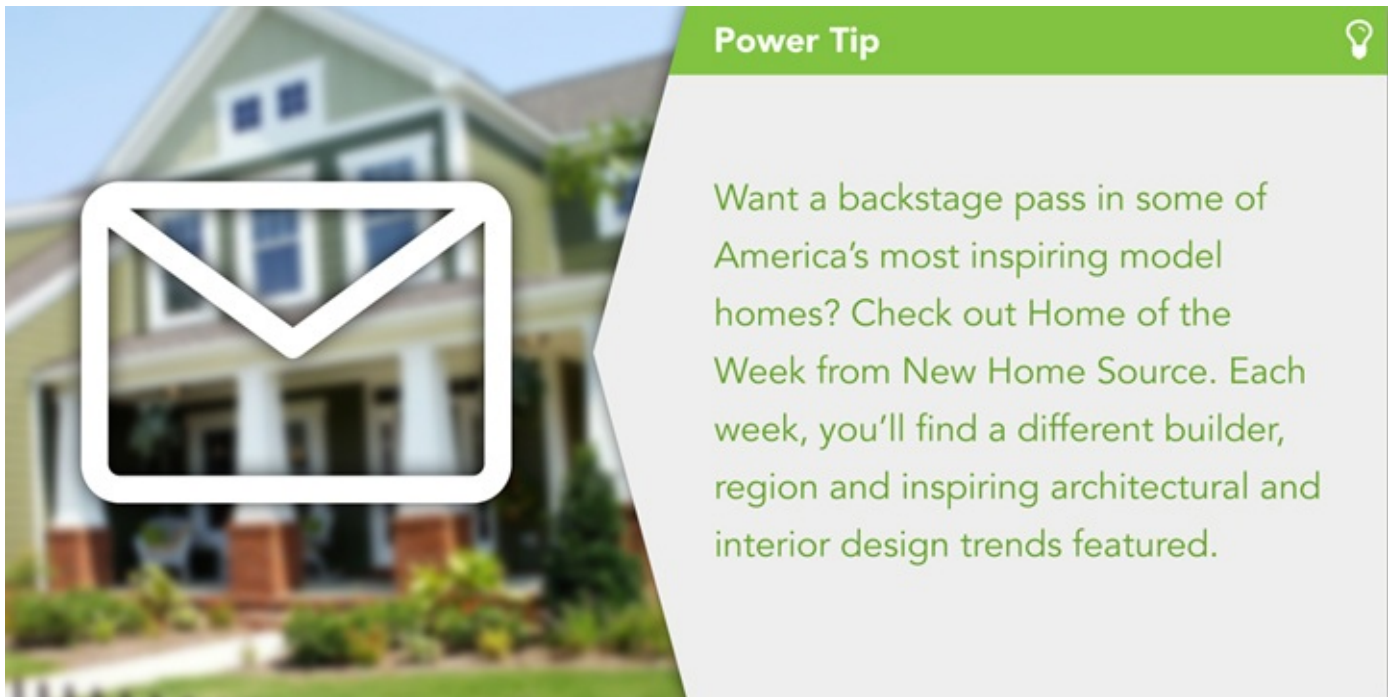
Design Trends

If you are looking for some design inspiration, check out the top interior design magazines (in print and online) as well as design blogs. *House Beautiful*, *Elle Décor*, *Better Homes and Gardens*, *Traditional Home*, Dezeen.com and many others offer inspiring photography of stunning design.



While home design magazines and blogs are always go-to resources, don't forget the catalogs of major retailers. Many top interior designers readily admit that home furnishings catalogs from leading retailers like Restoration Hardware, Crate and Barrel and West Elm are equally powerful sources of design inspiration.

Others with their finger on the pulse of the latest design trends are the model home merchandisers and interior designers, whose work elicits oohs, aahs and "gotta have that!" statements coast to coast.



But new home design is based on more than decorating fads. It's increasingly driven by careful research and the latest tools to understand and deliver what home buyers want today.

"New technology means that the market research builders do is better than ever," says Stephen Melman, director of economic services for the National Association of Home Builders (NAHB) in Washington, D.C. "Our post-recession research shows that value is more important than ever. People want to improve their lifestyle with a new home and live more efficiently. The things people want aren't necessarily sexy; they're necessary. For instance, when we survey buyers, a walk-in closet in the master bedroom is always near the top of the list because a working couple with kids needs an organized closet that helps them get in and out in the morning."

How to Stay Within Your Budget for Options:

If hardwood flooring is on your list of priorities, Fulton Homes' Dennis Webb recommends looking at both a spec home and a model home so you can see the difference between an \$8,000 floor and a \$32,000 floor.

"It can be hard to visualize if you're looking at small samples in a design center, especially for something as large and important as your floor," he says.

Buyers typically start discussing their budget for options in the sales office, says Gwynne Liebl, design center manager for Beazer Homes. Some builders offer a design credit toward options that buyers can choose how to spend.

"I provide a list to the sales associates of what can be done in terms of options for each different model," Liebl says. "When the buyers come into the design center, I ask them for a round number in terms of their budget, and then we can get into discussing what their hot buttons are and what matters most to them. For instance, if they want hardwood floors throughout the first floor, then we may have to do 'level one' options in the kitchen for the cabinets and counters. We

explain the difference between ‘level one’ and ‘level two’ options for things like granite and look at the cost throughout the process. Sometimes it takes a couple of rounds of taking things off the option list and putting things back on to get as much of what they want as possible and stay within their budget.”

Liebl says that it’s best if a couple has a good sense of their budget before they go to the design center, as well as a sense of their priorities. While most builders provide a price list of their optional features, many also have this information available online to help buyers estimate potential costs. Webb says Fulton Homes offers a complete online design center that shows every potential option with its full price and the price broken down to the estimated addition to your monthly payment.

“There are always extras that you can add to your home, but you need to be really careful to know how much you want to spend and how to get the most value out of that budget,” says Dr. Jonathan Cohen, a Toll Brothers buyer in Yorba Linda, California. “We relied a lot on the sales associate at our development to help us make better choices in the context of the floor plan we chose.”

Both the sales consultants and design center staff can work with you to figure out which options make the most sense in the context of your budget.



The Cumberland Plan built by The Burnsteads in Cle Elum, Wash. combines both rustic and modern design sensibilities to create a timeless and inviting home.

“We want their experience with us to be positive and fun, not so much about the financing aspect of the purchase,” Liebl says. “Sometimes I feel like a part-time relationship counselor, when couples come in with different ideas of what they want most. In most cases, the husband is more laid-back and will just say ‘yes dear’ to everything, except when it comes to electrical or automation options. That’s when the husbands pay more attention.”

Angel Boales says that Meritage Homes has software that buyers can use once they’ve signed the contract that helps them create a wish list, take a quiz on their style, and help them make choices.

“The options need to fit in with the buyers’ preapproved loan amount, unless they want to pay cash separately for the options,” she added.

There’s no hard and fast formula about how much to spend on options in comparison to your


home's base price, but most buyers are limited by their loan approval and their comfort level with a maximum mortgage payment. Budgeting for options is discussed in Chapter Four.

“It’s so easy to go over your budget on options, so your first options should always be things you can’t do later,” says Caryl Dierksen, an Epcon Communities buyer. “For instance, it’s hard to add a fireplace later on, but you can always change your flooring or your paint color. Ask a salesperson to help you prioritize, because they know what’s easier to do now and more costly or impossible to add later.”

Dawn Easter, a Fulton Homes buyer in Phoenix, Arizona, took a different approach to budgeting for options.

“We wanted to stay in our price range, but we also know this is going to be the house we stay in forever, so we used some cash from our retirement fund to make some upgrades,” she says. “We made a deposit with the design center, something we had to do if we went above a certain amount. We worked out the numbers ahead of time, even at the level of monthly payments and how they would be impacted by different choices, then decided how much to finance and how much to pay for with cash.”

If you don’t have the cash or don’t want to spend your cash on options, you can work with the design center staff to decide which features to add to your home now and which can wait.



Power Tip

Divide the options and upgrades you’re considering into two groups: Those that are best or least expensively done when the home is first built vs. upgrades that can easily be made after construction is complete.

“If you buy a home at \$299,900 and your budget is \$325,000, then you need to choose your options based on what’s most important to you *and* what’s harder to do later, such as structural elements,” JLS Design and Construction’s Dale Adams says. “Then you look at that list and see what you wait on. For instance, instead of putting ceiling fans in every room, maybe you just put them on the first floor and then add them to the second floor later because that’s easier to do after the home’s built.”

Which Options Add the Most Value to Your Home?

While you may plan to stay in your newly built home “forever,” like Dawn Easter, the reality is that eventually you may want to sell it. Even as you design your new home as close to the way you want it as you can get, you should also keep an eye on future home values. Consider potential resale value throughout the process of buying your new home, from looking at future development plans in or near your chosen neighborhood to deciding on a floor plan and lot. Resale value should also be at least a small part of the equation when it comes to determining how to spend your options budget.

Fortunately, there is solid research available to help you determine which options are the most popular today – and that’s a good indicator of what will pay off at re-sale.

The NAHB 2013 survey “*What Homebuyers Really Want*” showed that 93 percent of new homebuyers want a laundry room, 90 percent want a linen closet in the bathroom, 86 percent want garage storage, and 85 percent want a walk-in kitchen pantry. So, you can see that storage is a strong priority.

“People want shelving and storage in the garage because they’re storing things there besides their cars,” says Stephen Melman, director of economic services for the National Association of Home Builders (NAHB). “The laundry room and mudroom, whether they’re combined or separate, are important spaces to buyers because they want to be able to access things like sports equipment but have it hidden behind closed doors. In the laundry room, people want light and ventilation, a built-in ironing board that really works, and a raised pedestal for the washer and dryer to make it easier to do laundry. Now, laundry equipment and laundry rooms are designed without any crevices so you don’t have to constantly search for lost socks.”

In the past, a glamorous owner’s bedroom suite with a sitting area and a huge bathroom was considered a desirable feature, but Melman says that has changed since the recession and is part of the focus on smart use of space in new homes.

“The master bedroom doesn’t have to be huge, just efficient,” he says. “People have gotten away from the idea that you need a football field, and now, they’re just more concerned with having a well-lit closet with custom shelving.”

A common feature in most new homes is an open floor plan with a great room, reflecting the more casual way families live and entertain today.

“Ten years ago, the whole idea of a countertop as a selling point sounded crazy, but now everyone wants their kitchen to look special, especially when it’s visible from the great room,” Melman says. “In upscale homes, people still sometimes want a separate living room and formal dining room in addition to the great room.”

Other desirable features many buyers choose include hardwood flooring throughout the main level and sometimes on the upper level, too.

“Wood flooring is far more popular than carpeting, and now you have more choices when it comes to the type of wood, the width of the planks, and the available stains to customize your home,” Melman says.

Now's the Time to Add a Bonus Room or Extra Space

If your lot has the space and you can afford it, Beazer Homes' Gwynne Liebl suggests adding square feet to your house with a study and a powder room or full bath that can be flexible for use as a future bedroom and bath. A bonus room above the garage, a finished attic, or a finished lower level can also be valuable flexible space for a variety of needs as your family changes.

Liebl's words are echoed by KB Home's Tom Silk. "Structural options are usually the most valuable," he says. "You can always paint your cabinets, but you can't easily go from eight-foot high to ten-foot high ceilings. Some of the popular choices right now include raising ceilings, expanding rooms with bump-outs, adding a third garage space, covering a patio, and converting a loft to a bedroom. Adding space from the beginning is the most cost-effective way to spend the money you have available for options."

And don't skimp on what's inside the walls, such as extra insulation to save you energy and cost. While you can blow in added insulation in some cases after construction, consider investing during construction when insulation is easiest and least expensive to install.

"The most important options are things that are behind the walls that would be hard to do later, such as extra features for energy efficiency," says Meritage Homes' Angel Boales. "Next in importance are structural options because these add value and can't always be done later."

Keep in mind you'll likely live in your new home for many years. Your family may grow or shrink as children leave the nest. Not every aspect of your home needs to be upgraded at construction. Appliances are easy to change but that bay window is difficult and expensive to add later. Thinking through what to include initially and what you can postpone will also help stretch your options budget and invest it where it counts the most.

"If you can't afford to tile your kitchen and open family room now, it's better to put in vinyl and upgrade all of it later, because you'll never be able to match the tile exactly if you just do one section now," says Raylene Lewis, a Realtor in College Station, Texas.

Where to Get Design Ideas

While some people buy a newly built home simply because they relish the thought of having the latest technology and a residence that no one else has lived in before, many new homebuyers look forward to the process of designing the interior. Just as there are builders along the spectrum from complete personalization to minimal options, there are buyers ranging from those having a keen eye for design and knowing exactly what they want to the last cabinet knob to those who have no idea where to begin. Luckily, there's plenty of help available if you want it.

Interior designers receive training to learn about colors and styles and proportions, but even without a design background there are things you can do to define your own personal style. Look around your current residence and pay careful attention to what you like and dislike about your furnishings, fixtures, and fabrics. The way you dress can also help you decide how to decorate your home: Are you casual or formal? Do you prefer bright colors, pastels, neutrals, or a black-and-white palette? Do your clothes tend to be cutting-edge contemporary or more traditional? Once you start to pay attention to your own current choices, look at the people you care about and

think about their homes to decide what you love and what you can do without when it comes to design choices.

Home design magazines such as *House Beautiful*, *Architectural Digest*, and *Better Homes and Gardens* not only publish monthly magazines, they also publish occasional guides that you can use for inspiration in your own home. These magazines have an online presence as well. Other websites, such as [Houzz.com](https://www.houzz.com), [HGTV.com](https://www.hgtv.com), and [Pinterest](https://www.pinterest.com), offer plenty of additional resources for home designs. A quick online search will bring up dozens of blogs and design sites that you can peruse as much or as little as you like to get ideas. If you've already got the design bug, you've probably got a file folder—online or on paper—of ideas for your new home. If not, it won't take long to generate some ideas of your own.

You should take time to learn what you can about available design options by visiting your builder's website or by touring homes completed by your builder in your chosen community or other nearby communities to see for yourself what different choices look like. Be sure to take notes while you're doing your research.

Dawn Easter, who bought a Fulton Homes property, says she used the builder's the website "a lot" before going to the design center. She also visited spec houses and one under construction to see what various options looked like, so she wouldn't be overwhelmed by the choices. "Doing the homework ahead of time made it a lot easier," she says.

"Most people come in with a plan and have looked at the price of options online or in their contract," Beazer Homes' Gwynne Liebl says. "They've looked at websites and model homes and hopefully the new home counselors have done a good job showing them optional features."

Dr. Jonathan Cohen, who purchased a Toll Brothers home, asked the sales associate at his development to provide a list of every single possible option available on the floor plan he and his wife chose, along with the price of each option.

"It's so important to prioritize everything before you go into the design center," he says. "We opted for full wood doors because we think this adds a lot of value to the house and makes it feel more solid. We also upgraded our flooring so that we don't have to do that later."

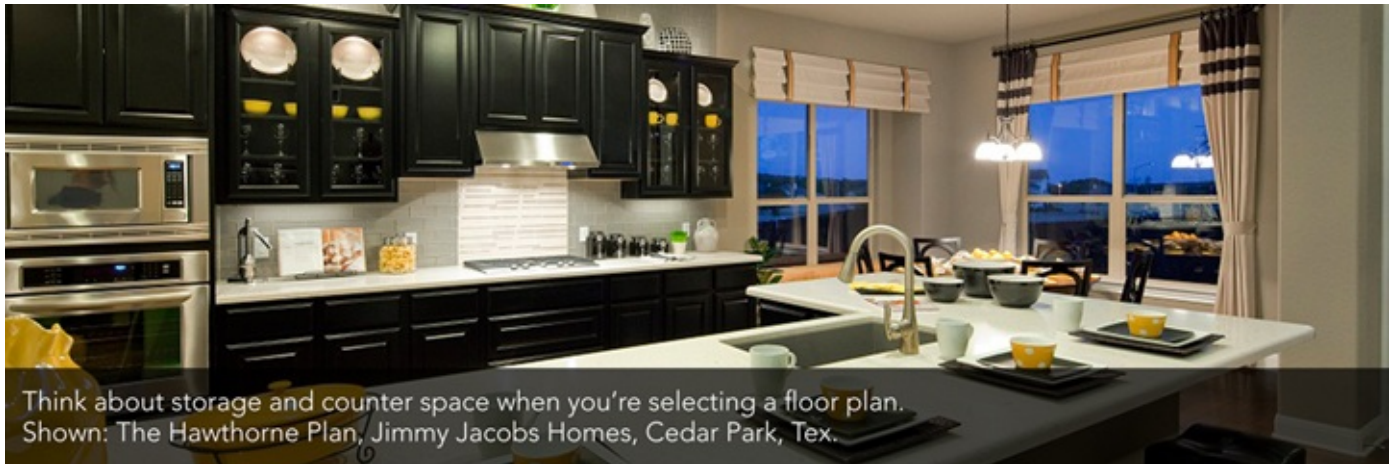
If you're an older buyer moving into an active adult community, you may need to consider future mobility or health care concerns when deciding on options.

"If you're looking in an active adult community, you should look at what the builder offers to accommodate someone with a disability, such as flat thresholds, a walk-in shower, and wider doorways," says Ernie Thompson, a buyer with Jim Chapman Communities in Johns Creek, Georgia. "Even if you don't need it now, you may one day."

Thompson recommends choosing options that make it easier to modify your home in the future for aging in place. Many older buyers who are looking for less maintenance and an easier lifestyle are also moving into a smaller home.

"When you're downsizing, think a lot about storage," says Leslie Finn, another buyer with Jim Chapman Communities, who moved from a large single family home into a smaller villa. "I added

lots of cabinets and a wine cooler to a little alcove off the kitchen so I would have more storage space.”

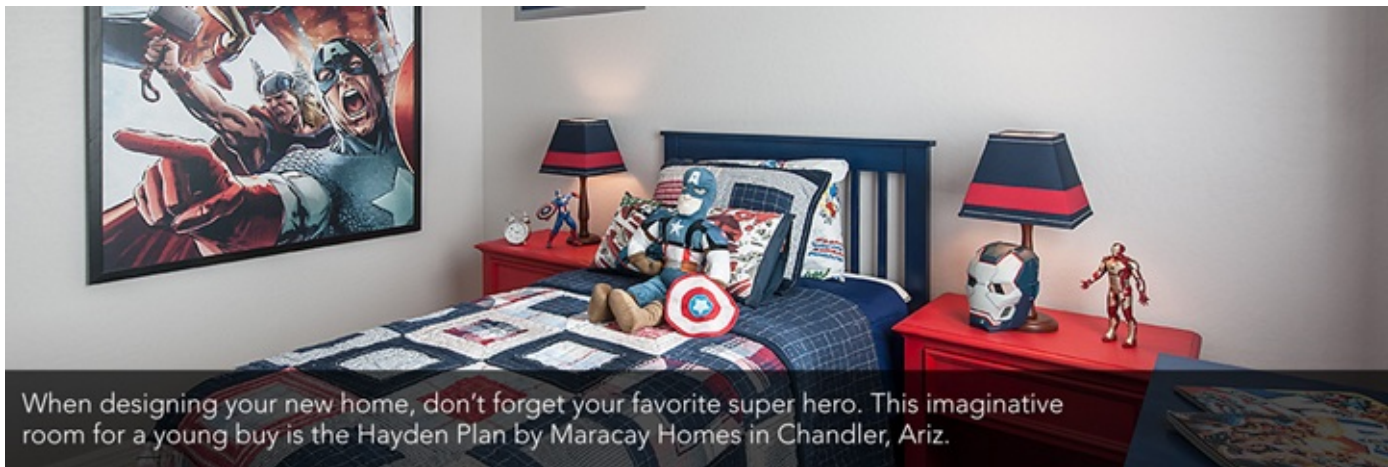


If you’re downsizing to a smaller space or combining two households into one, you may need to add extra storage features where you can, such as a larger mudroom or laundry area or in a lower-level flexible space.

You should also consider which spaces take priority when deciding on upgrades. If you love entertaining casually or enjoy cooking, you should naturally focus on your kitchen. If you have a far-flung network of friends and family and want them to visit for long weekends, you may want to upgrade a guest suite with a walk-in closet and a luxurious bath so they feel pampered and welcome. Think about how you like to spend your leisure time. If you love watching sports or having movie nights with friends and family, then you might want to spend some of your funds on a media room. If you want space for working on your car or woodworking projects, you should focus your attention on the garage. Another space to consider creating is a hobby room where you and your family can pursue art or craft projects or scrapbooking without making a mess in your family room.

When you’re thinking about your design choices, visualize what you like to do in the morning, afternoon, and evening—on weekdays and weekends—and think about where you’d like to do those activities and what would make them more pleasant. Flexible spaces should be part of your plan as well to accommodate your changing family. That scrapbooking space may morph into the kids’ study center when they’re in high school, and then you can reclaim it for a new pursuit when they go off to college.

Speaking of kids, if you have a family or plan to start one, it’s important to try to imagine the space they’ll need as they grow. Storage will be of paramount importance from the moment you need a place for baby toys and equipment to when you must find a place to keep a trombone, a cello, and ice hockey equipment.



When designing your new home, don't forget your favorite super hero. This imaginative room for a young boy is the Hayden Plan by Maracay Homes in Chandler, Ariz.

You'll also want a place for your children to do homework and room for them to play with their friends indoors and outdoors. One custom builder added a charming bonus space above his own garage with a sloped ceiling, two dormer windows, and a full bath. The room was perfect when his daughters were tiny to use as a playroom and library filled with children's books, and then it became the favored slumber party space when they got older. Now, the space functions as a guest room when they bring friends home from college.

By now, you may feel as if there are too many decisions to be made. But there's no need to panic because you have a team of experienced consultants ready to help you identify the choices you need to make and to counsel you in making them.

Taking the Team Approach to Designing Your Home

Hopefully by now you've had a chance to look at your choice of options in a model home or design center or online on your builder's website. Typically you can see some of your choices on your initial visit to a model home and then make an appointment for a lengthier session either at a sales office or design center depending on the size of your builder. Most national and regional builders have design centers while smaller local builders often present option samples in a sales office. Sales consultants often suggest you look at your options at least twice before making a final decision. The amount of time you'll need depends on how well prepared you are and the variety of options available. Remember to check your contract or ask the sales consultants how much time you have before you're obligated to make your choices.

Depending on the builder, you'll work with a licensed interior designer or a design consultant trained to work with new homebuyers. Either way, you're getting someone with expertise to walk you through your choices.



Take advantage of design services from your builder and from home furnishings retailers. Pictured: The Evandale Plan by David Weekley Homes in Panama City, Fla.

“When you’re buying a used home, a Realtor can give you advice on everything from financing to decorating, but we have a dedicated team of interior designers in our Home Studio who are available just to give our customers unlimited design advice,” KB Home’s Tom Silk says. “They can take the time to talk you through your choices and help you decorate the home you want. The designers can show you which three items to choose first to set the tone for your home.”

Beazer Homes also has professional interior designers to consult with buyers.

“My appointments are usually a maximum of three hours, but really after one hour and forty-five minutes everyone starts to get a little burnt out,” Gwynne Liebl says. “To make decisions a little easier, we typically offer four levels of granite and cabinet choices, three levels of hardwood and tile flooring, and two choices of upgraded faucets.”

At Toll Brothers, some people come in with their own interior designer and some are comfortable working with the staff to get guidance on what choices work well together, says Kira Sterling. Buyers get access to the Toll Brothers design website and design center only after they’ve signed a purchase contract for a home.

Appraisal Issues

When making your design choices, you should maintain an awareness of future resale value. If your heart is set on something unusual, go for it—but realize that years from now, it could make your home a bit harder to sell. There’s also the issue of overbuying on options, particularly if you’re financing your home and need an appraisal to match the amount you need to borrow.

“When you’re choosing options for your new home you need to be aware of the appraisal process,” KB Home’s Tom Silk says. “The sales staff can estimate how much you can spend on options based on recent appraisals and nearby homes, then the design consultants can help you figure out how to maximize those dollars.”

Most builders will alert you if you’re spending above the normal price for a community, says Susan Hilton, a broker with Century 21 Beal, Inc.

“Typically, the builder will pay the difference if an appraisal comes in too low and you haven’t overspent on options, but if you did overspend, you may have to pay cash for those items,” Hilton

says. “You should address the issue of what will happen if the appraisal is too low in your contract negotiations.”

Erin Hungerford, a Realtor with Long & Foster Real Estate in Richmond, Virginia, says that most contracts state that the buyer must pay the difference if the house doesn’t appraise for the right amount, although builders are sometimes willing to negotiate to make sure the transaction is complete.

“We all want to avoid overpricing because if for some reason your deal doesn’t go through, the builder would be stuck with something that could be hard to sell,” Beazer Homes’ Gwynne Liebl says.

Kathi James, also with Beazer Homes, says it’s possible to request a second appraisal if there are specific reasons to believe the first appraisal isn’t correct.

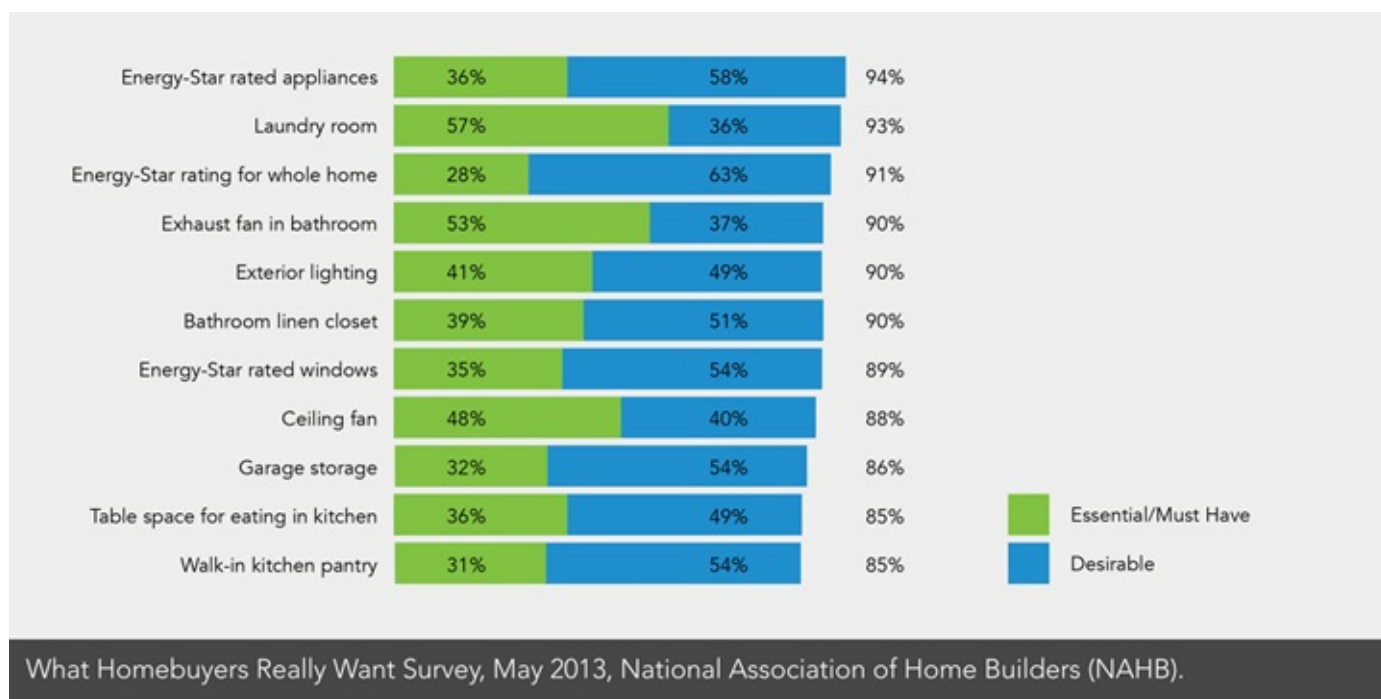
“Most people come in with a budget and understand that it doesn’t make sense to over-invest in optional features,” she says. “If you have a \$100,000 house and put in \$50,000 in options, it might appraise for only \$125,000. In that case, the buyers would have to make up the difference. Sometimes builders request a deposit from the buyers if the buyers are putting in a lot of optional features.”

Understanding Energy-efficient Features

New homes built in the United States today are more energy-efficient than the homes of the past simply because new products and building techniques are available that help homes use less energy. At the same time, new homes must be built to meet the latest standards established by the government as well as buyer demand for energy-efficient features. While certain builders specialize in building “passive houses” that are extremely airtight and are mostly heated by solar power and “zero-energy” homes or design homes with extensive environmentally friendly or “green” features, nearly all residential builders have a package of energy-efficient features that are standard on every home. And, depending on the builder, you may also be able to add optional green features such as solar panels, a tankless water heater, or a more efficient heating and air conditioning system.

“We used to explain all the details and have a specific list of every energy-efficient feature, but the research shows that buyers don’t need to know building science, they just need to know that we’re building our homes to the latest Energy Star standards,” Kathi James of Beazer Homes says. “People mostly want to know if they’re buying an Energy Star home because that’s something they’ve heard of. They just want to know what their utilities will cost. We test every house to show how much they’ll save.”

As a benefit to its buyers, Ryland Homes provides a “House Works” program that details the company’s green construction techniques and the energy efficiency of its homes, says Diane Morrison. The NAHB 2013 survey “What Homebuyers Really Want” showed that 94 percent of new homebuyers want Energy Star appliances, 91 percent want an Energy Star rating for the whole house, and 89 percent want Energy-Star rated windows.



“People want energy-efficient windows and appliances because they know it’s important to keep their utility bills low and because they know they work well,” NAHB’s Stephen Melman says. “Energy efficiency is important as long as people feel they don’t have to pay a lot extra for it. They’re willing to spend a little extra for a tankless water heater, but once you get above \$5,000 to \$10,000, people are less willing to put out extra money. Things like an expensive solar roof are less popular, but energy-efficient heating and air conditioning systems are standard in new homes.”

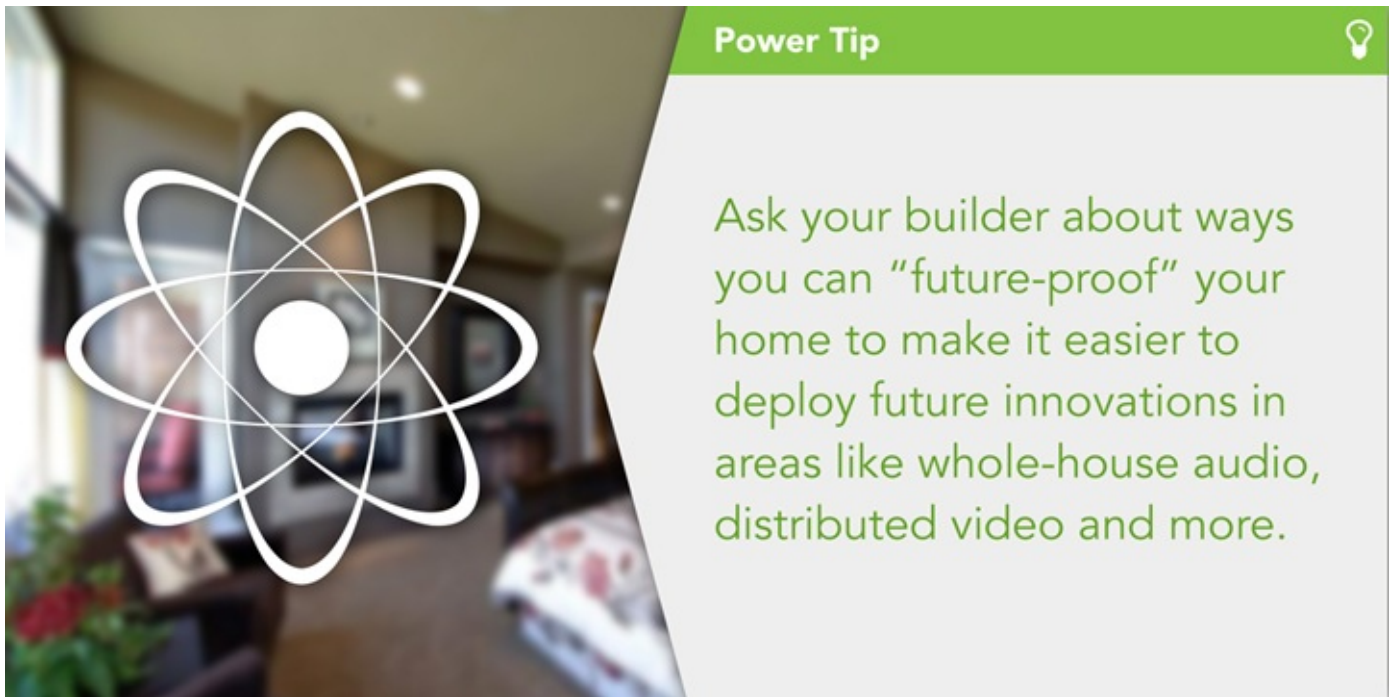
High-Tech and Smart Home Features

While some buyers may be more interested in green features, others are focused on high-tech options for their new home, though the two categories are merging in a number of ways.

“Technology has changed the way homes are built and even the products that are available,” Stephen Melman says. “Manufacturers are developing better building products all the time, things like roof materials that look like a slate roof but require less maintenance. Now, we have synthetic fiber framing that’s less costly, provides insulation, and is more resistant to mold and termites.”

Even if you’re not necessarily a high-tech person, you may want to make sure your home has the pre-wiring necessary for high-speed electronics, entertainment systems, and home automation systems. You may be assuming that with so much going wireless you don’t need special wiring, but the reality is that a lot of systems, such as high-definition video and high-quality speakers, need special wiring, and so do data connections to your electronic devices.

Security systems and thermostats can now be controlled through your smartphone and so can your lights. Manufacturers are introducing refrigerators, dishwashers, and washers and dryers that can also be controlled with a wireless device. Some homeowners are installing digital thermostats that adapt to their preferences and begin to automatically adjust your home’s temperature to maximize energy efficiency.



If you don't want these features now, you might in the future, so discuss your preparation for innovations with your builder. Even small things like putting in electrical outlets with USB ports can make it easier to stay on top of technology. An advantage of building a new home is that you can have updated outlets and you can decide where you'll need them.

“For a while, everyone wanted a home office because a decade ago we assumed that more people would work at home 100 percent of the time,” Melman says. “Now life revolves around our handheld devices, so you don't necessarily need a big office with a desktop computer. Most people split their work time between their home and office. They're doing some work at home but not all of it.”

Updated regulations have changed the way we light our homes, too, so you may need to invest more time working with the design center staff on light fixtures for your home.

“LED lighting with different color and heat indices has changed the way people look at lighting,” Melman says. “This new technology means that there's a lot more focus on designing a lighting system for your home.”

Once you've committed to your chosen options, your builder can get started, and you can sit back and watch the progress on your dream home while you prepare for your settlement and moving day.

WHAT YOU LEARNED: DESIGNING YOUR NEW HOME

- ✓ Understand how much personalization you want to do and how many design choices you want to make
- ✓ Use that as a guide to selecting the right type of builder (custom or production) and the right company to select to build your home
- ✓ Think about your lifestyle now and in the future as you consider home design.
- ✓ Parents with infants might like all bedrooms nears each other. Parents of teens or empty-nesters may want their bedroom on the first floor and separated from the kids' rooms.
- ✓ Match your lot with your floor plan and your preferred options
- ✓ Use home and garden magazines, design blogs, HGTV and catalogs like Restoration Hardware and Crate and Barrel to help you understand design trends and to pinpoint your personal style
- ✓ Prioritize the options and upgrades that matter most. You and your spouse/partner should make separate wish-lists, then compare them
- ✓ Future-proof your home with smart technology
- ✓ Give careful consideration to options/features of your home that can only be done during construction or that are best/least expensively done then
- ✓ Consider which options will add the most value to your home
- ✓ Develop a budget for options
- ✓ Understand the value of energy efficient features

RESOURCES

[Secrets of a Model Home Design Pro](#)

[Future-Proof Your New Home](#)

[Inside Interior Design Centers: Why Shop There and What to Know Before You Go](#)

[What's New in Kitchen and Bath Trends: A Visit to the Kohler Design Center](#)

[Sign up for New Home Source's inspiring Home of the Week eNewsletter](#)

[See the latest new home design trends from the annual Best in American Living Awards \(BALA\) from the National Association of Home Builders \(NAHB\)](#)

[Tour The New American Home – the official show home of NAHB's International Builders' Show](#)

[HGTV](#)

[Better Homes and Gardens](#)

[Dwell](#)

[Elle Décor](#)

[House Beautiful](#)

[Architectural Digest](#)



Chapter Six:

BUILDING YOUR NEW HOME

WHAT YOU'LL LEARN

- Meet the team who will build your home
- Step-by-step timeline
- What to expect at each stage of construction
- What you should do while you wait for your home to be finished
- What to expect at the final inspection
- How to understand warranties, escrows and deposits

Now that you've chosen the design options for your new home, it's time for the professionals to take over and begin making your dream a reality. Whether you work with a production builder or a custom builder, the transformation of the dirt on your lot and the blueprint of your floor plan into a foundation, walls, plumbing and electrical systems, and all of the finishing touches takes a team of professionals.

"While there's no question it's exciting to pick out all the options and personalize your home, it's also exciting for people to see their home built from the ground up," says Karen McCaffrey of McCaffrey Homes in Fresno, California. "We give our buyers what we call an 'open wall' guided tour so they can see their home from the inside before the drywall goes up."

If you're building a custom home, you've probably already been working with an architect and a builder to develop your individualized plan for your home. If you've bought land within a development of custom homes, you may already have met the developer, too, and if you purchased a private lot, you may have been interacting with an engineer to study what it will take to provide utilities, a septic system, and a driveway to your land before the home can be built.

Buyers of production homes typically interact mostly with the new home community's sales staff and design center staff and may not even meet everyone who works on their home. Eventually, you're likely to connect with the site supervisor or construction superintendent who is responsible for the building of your home, but in the meantime you may want to know who else has a role to play in creating your residence.

A "Who's Who" of the Construction Site

Developer. Whether your home is in a large master-planned community with hundreds of homes or a smaller development with a handful of homes, the evolution of the neighborhood from raw land to a residential area started with a developer. The same is true if the community was previously a commercial site or had other homes that were purchased and demolished to make room for new homes. Developers sometimes spend years searching for land, working to comply with zoning issues and preparing the land for development.

Depending on the size of the community, the developer will create plans for amenities. Every community needs to have a land plan for infrastructure such as utilities and sewer and water lines, followed by a plan for roads, sidewalks, street signs, and fire hydrants. The developer also has to decide the type of homes to be built and the size of each lot before getting zoning approval and possibly approval from the local school district if the community will add a significant school-age population to the area.

The developer may also be a home builder, who will then begin designing and building homes in the community; in other cases, the developer may sell the lots to different home builders. A community could also include homes from the developer on several lots, as well as homes built by other builders on the remainder.

Architect. Unless you're building a completely custom home, you're not likely to meet the architect of your home. That doesn't mean, though, that an architect wasn't involved with the design of your home. For example, at Schumacher Homes, buyers will find hundreds of floor plans from a variety of talented architects. Ryland Homes, one of the largest builders in the country, works with local architects in different markets to develop designs that match local tastes.

Builder. The size of your builder's staff depends on the size of the building company. Many smaller or regional builders are family-owned businesses with several generations involved, such as Jim Chapman Communities in Atlanta or McCaffrey Homes in California. Larger builders may have both national and regional offices in addition to their local developments and design centers. If you work with a smaller builder, you may have direct contact with the company's owner, but regardless, you will get to meet several members of the builder's team.

Sales consultant or associate. A builder's sales professionals are educated not only in the specifics of the development where they're working, but also about the process of building a new home. Some may also be licensed Realtors.

Design center consultant. While some design center consultants may be licensed interior designers, all are trained to help buyers make multiple decisions on how their finished home will function and look.

Construction manager. The person in this position could have one of several titles such as site supervisor, site superintendent, project manager or even just "builder." This person won't necessarily do hands-on construction of your home but will be responsible for overseeing the entire project from permitting to inspections and construction. You'll need to rely on the construction manager to show you the house while it's being built and to answer any questions or concerns you have; however, you can also address questions to your sales consultants at any time, too.

Contractors. Your builder will either hire outside contractors or rely on staff contractors to build your home from the foundation (and basement if you have one) through the framing, plumbing and electrical work, drywall installation, interior work, cabinet and counter installation, and beyond. You won't necessarily meet any of these contractors, but if you've carefully chosen a reliable builder, you can also feel confident that your builder has hired the best available contractors.

Inspectors. Your home will be inspected multiple times while it's under construction by your builder's inspectors and county or city inspectors. You can discuss with your construction manager, or site superintendent, whether you can or should attend any of these inspections.

Step-by-Step: How Your Home Gets Built

Regardless of your home's size and complexity, the basic process of building a home is the same. Here we outline the primary steps that your home's construction will take.

Permits. Before a builder can put a shovel in the ground, the city or county government must approve the design and provide permits for everything from the zoning and grading (changing the contour of the land to accommodate your home and driveway) to the septic systems, home

construction, electrical work, and plumbing. Some builders are able to speed the permit process by limiting exterior structural changes to their home designs, but the time it takes to get permits depends on the speed of the government entity that provides them. Ideally, says Angel Boales, a sales associate with Meritage Homes in Roanoke, Texas, the builder is ordering materials and lining up contractors while waiting on the permits.

Site preparation. Before anything can be built, a site needs to be cleared for construction by having trees, rocks, and debris removed and the ground leveled where your home will be built. Some or all of this preparation may already have been done if you're buying a home in a master-planned community.

Foundation poured. The method for pouring your foundation may vary depending on whether your plans call for a basement; either way, footings are dug and concrete is poured into the holes and trenches of your foundation walls. There will be a "curing" period for this concrete when no work will be done on your home, followed by the application of a waterproof membrane and the installation of drains, pipes, and plumbing for your basement or first floor.

Framing. The "shell" or "skeleton" of your home goes up next, including subflooring, the walls, and the roof. Plywood or "oriented strand board", which is engineered wood particle board, is used for the exterior walls and roof, and your windows and exterior doors will be installed at this time as well. Next, a house wrap will be installed to prevent water from infiltrating your home while allowing water vapor to escape.



Known as stick-framing, assembling the structure of your home with lumber and engineered wood is the most popular form of residential construction in the U.S.

Siding and roofing installed. After the framing is complete, your roof and siding choice can be installed. Different exterior materials are popular in various areas, but in this initial construction phase the underpinnings of your eventual façade are installed. Popular roof materials include slate, tile, metal and shingles.

Plumbing, electrical, and HVAC installed. At the same time, other contractors will begin installing ductwork for your heating, ventilation, and air conditioning (HVAC) system, and the

plumbers and electricians will start putting pipes and wires into your interior walls. Big plumbing items such as your tub and shower will be placed in your bathrooms before the interior walls are completed to make them easier to move. After the roof is complete, the electrician will start putting in receptacles and outlets and running wires to the breaker panel.

Insulation installed. The insulation your builder uses depends on the climate where you live, but homes typically have insulation installed in all exterior walls, the attic, and floors that are located above a basement or a crawl space. Insulation is given an “R-value” to indicate how well it protects the inside of your home from heat and cold. Your builder is likely to use blanket insulation as well as loose-fill and blown-in insulation to provide a high level of comfort and energy efficiency in your new home.

Install drywall and exterior finishes. After the electricians and plumbers have done their work inside your walls, drywall can be installed, taped, and covered with a primer coat of paint. Brick, stone, stucco, or siding (vinyl, metal or cement) will be installed on the exterior of your home at this point.

Interior trim and exterior walkways completed. The next step is to install trim throughout your home, including baseboards, moldings, window sills, doors, door casings, and stair railings. Your cabinets, vanities, fireplace mantel, and any decorative trim will be installed at this time, and your walls will be painted or wallpapered per your request. Outside, your driveway will be formed—unless the builder chose to do this at an earlier point—along with your walkways and patio.

Floors, countertops, and exterior work nearly complete. Your hardwood or tile flooring goes in next, along with your bathroom and kitchen counters and other tile work. If you’re having vinyl flooring or carpet installed, that will be done later. Outside, your yard will be prepared for proper drainage and future landscaping.

Mechanical work completed; fixtures installed. Your light fixtures, outlets, switch plates, and HVAC are installed, along with your sinks, faucets, and toilets.

Final touches. The last step is installing carpeting, vinyl flooring, mirrors, and shower doors, followed by a thorough clean-up of any construction debris. Your exterior landscape, including any grass or trees, will be prepped and planted.

Building Timeline

A production home typically takes from five to seven months to complete, while a custom home can take up to a year or more, not counting the design and permitting phase. The length of time it ultimately takes depends on multiple factors including the size and complexity of your design, the availability of labor and materials, whether your site has already been prepared for building, and even the weather. If you choose a particular cabinet that happens to be out of stock or are unlucky enough to have a hurricane, blizzard, or tornado hit the area where your home is under construction, it’s possible that you’ll have to wait a little longer for move-in day.

Your builder can give you a good sense of the progress being made on your home while it’s under construction, but one of the first reasons for a delay could be a slow permitting process.

“Building normally starts within thirty to forty-five days of a contract signing depending on the permit process, the weather, and availability of materials and labor,” says Meritage Homes’ Angel Boales.

Once construction has begun, the timeline depends on what you’ve chosen to have built. If, for example, you’ve chosen a relatively small home, stuck to the originally designed floor plan, and have declined to add extensive custom-made trim or tile work, your home is much likelier to be completed within six months or so compared to a buyer who has opted for a fresco to be painted on one wall, mosaic tiles in each bath, a spa bath with curved glass walls, and hand-carved filigrees on the stair rails.



If you are as eager as most buyers are to move into your new home, you can help keep your builder on track by avoiding change orders. Your builder asked you to make your choices for structural options at the time you signed the contract or within a short time period after that date, and then gave you a second deadline for your interior choices. If you decide when your home is half-built that you want to add a sunroom or redesign your kitchen layout, you may not necessarily be able to make that change. Even if you can, there’s no question that making changes will slow the building process while the builder obtains new permits and brings back the plumber and electrician and other contractors. Cosmetic changes such as picking new cabinets may seem like less of a big deal, but your builder has to order these materials and this could also cause a delay.

Not only can change orders delay construction, but they also can add to the cost of your home. This is why builders spend so much time, energy, and money on developing robust websites and training consultants to help you make a good (and final) decision from the beginning.

Inspections and Visits

Several inspections of your home will be conducted at various stages of construction by city or county inspectors. These are usually done without the buyer being present, says Dennis Webb, vice president of operations for Fulton Homes in Tempe, Arizona, but your builder will be in attendance.

Inspection 1: After the foundation has been poured and cured, an inspection must be done to make sure the work meets the local code of building standards before additional work can be done.

Inspection 2: Once your framing is in place, an inspection must be done before your drywall goes up to make sure that everything inside your walls has been built according to the permits and code.

Inspections 3 and 4: In some jurisdictions, inspections are done simultaneously on your plumbing, electrical, and mechanical systems.

Inspection 5: Before you are allowed to move into your home, your builder must obtain a Certificate of Occupancy based on a final inspection by your city or county government authority.

Ask your builder about which of these inspections you can attend. It's a good idea to follow along so you can see what's being inspected and understand what's behind your walls. Many builders also schedule a walk-through for buyers early in the construction process for this purpose – as well as a final walk-through for buyers shortly before you close on your home.

“Once your framing is up but before the drywall is installed, buyers should do a walk-through with the project manager to go over all of the options again and to check out the wiring to make sure it's what the buyers requested,” Webb says.

You should expect to spend an hour or two at this pre-drywall inspection. You may want to bring along a notebook and some paperwork, such as information about the selections you made including both standard and optional features, along with a diagram if you have one of where you want to install your telephone jacks, cable outlets, and electrical outlets. Your Realtor, if you're using one, should also attend the inspection.

“One of the nice things we were able to do with this house is to do a walk-through when the framing was up but before the drywall was installed to see where the TV outlets and phone jacks would go,” says Ernie Thompson, a buyer in Brookhaven at Johns Creek, an active adult community built by Jim Chapman Communities in Johns Creek, Georgia.

Seeing your home being built is an exciting experience, and it can be hard not to want to be on site every day. But, it's important to adhere to your builder's rules about when you can visit the construction site. Instead, make the most of the times when you are able to check on the progress on your home.

“I've bought several new homes and had a custom home built and my main piece of advice,” says Leslie Finn, a buyer at Brookhaven at Johns Creek, “is watch the progress of the building and make sure even little things like phone jacks are put in the right place.”

When visiting, it's important to respect the time of the workers who are building your home and not to interfere with them. In addition to safety issues, keep in mind that the builder (and not you) owns the home during construction and is responsible for the job site and home until closing. That's why it's best to visit at the specific intervals called for in your agreement. That allows you to satisfy yourself that everything is being done to your contract's specifications.

“Buyers can check the construction schedule online every day in our developments to see what's happening with their home,” Webb says.

Most builders schedule at least a couple of walk-throughs with their buyers including a final walk-through before the closing that we'll talk about later in this chapter. If you want to attend city inspections or have more walk-throughs than the builder suggests, you should discuss this with your builder.

Should You Get a Third-Party Inspection?

If you've purchased an existing home in the past, you probably had a home inspection on the property before you finalized your contract. Most homebuyers opt for a home inspection on a resale home so that they can find out the condition of the home's systems and appliances and to find out if there are any costly repairs to make. While most buyers make their purchase offer for a resale property contingent on the outcome of a home inspection, even buyers who want to make a non-contingent offer on a home sometimes choose an "information only" inspection to learn more about the home they've purchased and how to operate it, as well as to budget for future home repairs.

Now that you're buying a new home, you may be wondering whether you should hire a third-party home inspector for your newly built residence. Clearly you don't need information about the age and condition of your appliances or systems—they're all new. As you learned above, your builder and your local jurisdiction will make multiple inspections to see that your home is being built according to regulations. In fact, a new home will have to meet the latest building codes, which are likely to be at a higher standard than those under which older resale home were built. Regardless, you may still want to have your own inspection done.

"I always recommend that buyers hire a third-party inspector on a new home so that they have an extra person to review the construction and to check to see if any mistakes have been made," says Raylene Lewis, a Realtor in College Station, Texas. "It's good to have another professional opinion to help you decide if you need to ask your builder to make any minor repairs and to make sure no one has forgotten something like insulation in the attic."

The decision to hire a third-party inspector on a new home is entirely personal, but many buyers find that for peace of mind they prefer to have an outside opinion in addition to the inspections handled by the builder's staff and government employees. Depending on your location and the size of your home, a home inspection will cost \$250 to \$400.

If you choose to hire an outside inspector to supplement the other inspections on your home, it's best to schedule that inspection within a few days before your closing so that your home is complete or nearly complete and your builder has time to make any required repairs. Since your builder owns the home until closing and is responsible for safety and security on the construction site, your builder will set an agreed time for the inspection and likely require that a representative of their company accompany the inspector during the appointment. You should definitely plan to attend this inspection, too. Your builder will want to see a copy of the home inspector's report when you receive your copy.

While You're Waiting...

Whether or not you choose to have a third-party home inspection, you do have some

responsibilities during the months your home is being built. While you'll enjoy the excitement of occasional visits to the construction site, you may feel as if you have little to do until closer to your closing once you've made all of your choices for your home's standard and optional features. However, there are several issues you should stay on top of during the construction phase.



While the team of professionals at your builder is completing your home, there are things you can do to prepare for closing and for your move.

Communicate often with your builder and your Realtor. By the time your home is under construction, you should have a thoroughly established relationship with your builder and know who to contact with questions. There's no need for a daily check-in on progress, but you should periodically email or call your sales consultant or project manager to find out the status of the project. Some builders have systems that allow you to check progress on the home through their website. If you've been working with a real estate agent, discuss whether you or your agent should be responsible for following up with the builder.

There are several reasons to stay in touch with your builder, including the need to know when to lock in your mortgage loan as we discussed in Chapter Four. Your builder should alert you if there are any delays caused by the weather or materials and let you know if any of the fixtures or finishing products you chose need to be changed to keep construction on track. It's wise for you to proactively check on this, too, as not all builders have a large staff that can consistently follow up with every buyer. You'll need to have a firm idea of when your home will be complete to arrange for a moving company and to begin packing.

Decide when to sell your home. If you're a first-time buyer you can safely skip on to the next point, but if you own a home now, you'll need to develop a plan for it and moving into the new one. Most people prefer not to move more than once, so you'll need to time your home sale carefully to closely match the settlement on your current home with the settlement on your new residence.

"I made the mistake of selling my home too quickly and I had to live with one of my kids for two months and have everything in storage," Brookhaven at Johns Creek resident Leslie Finn says.

“If you can plan it better, that would be best, but the market took me by surprise and my house sold faster than I expected.”

While your next home is under construction, you should begin preparing your current home for sale and start interviewing listing agents. Once you’ve chosen one, you should determine when to put your home up for sale in consultation with your agent. A lot depends on your local market conditions as well as the prognosis for how soon your home will sell. Sometimes you can negotiate with your buyers to rent back your home for up to sixty days while waiting for your home to be completed.

Maintain—or improve—your credit profile. In addition to communicating with your builder and real estate agent, it’s important that you stay in touch with your lender. Even though you’ve been preapproved for your financing, your lender will need to do a final credit check and re-verify your employment just before you go to settlement on your new home.

“A lot of buyers think that once they have a preapproval, their loan is a slam dunk, but you have to remember that those preapprovals expire,” says Paul Erhardt, senior vice president of homebuilding and development for WCI Communities. “You should stay in close touch with your lender the entire time while your home is being built, but especially about two months before it’s ready because you made need to do some extra paperwork before you can close the loan.”

It’s a little easier for buyers of existing homes to keep their credit profiles intact while waiting to go to closing because the typical time frame from a purchase option on a resale to the closing is thirty to sixty days rather than six months or more as it is for a new home.

“While you’re waiting, keep your status quo or improve your credit,” says Phyllis Casillas, with On Q Financial. “Don’t take on new debt and consult with your lender before making any big decisions or financial changes.”



Power Tip 

Don’t ignore the so-called quiet period. The time after you’d been approved for a mortgage - but before you close on your home - is definitely not the time to take on additional debt, change jobs or otherwise dramatically alter your financial profile.

If you do change jobs, talk to your lender about your situation and make sure that you’ll have

at least two paystubs in hand before the closing on your new home. Don't get a new car or even apply for additional credit before your home is built because this could lower your credit score or increase your debt-to-income ratio beyond the maximum allowable amount. Be careful to pay your bills on time, of course. And don't close any credit accounts; that, too, could harm your credit score.

"You have a longer period of time to get in an even better position financially while waiting for a home to be built," Casillas says. "You should use the time to save more for a bigger down payment or to replenish your cash reserves, pay down any debt, and live frugally so that you'll be able to comfortably afford your new home."

At some point during the construction period, you should consult with your lender on when to lock in your mortgage rate so final preparations can be made for your purchase.

What to Expect During Your Final Walk-through

Your final walk-through and home orientation is one of the most exciting days of the entire experience of building a new home, takes place just before your settlement day. Many builders deliberately schedule this a few days before your closing to have time to fix any minor details. If you hired a third-party inspector and any issues were found with the house, make sure that they have been addressed at your walk-through. You and your construction supervisor or perhaps the sales consultant will go over every inch of your home and identify any flaws that need correcting, such as a screw missing from a switch plate or a piece of trim that accidentally didn't get painted. You'll still be able to ask to have flaws fixed even after you move in, unlike with a resale purchase where you're personally responsible for everything as soon as the closing takes place. The majority of builders want your home to be as close to perfect as possible before you take ownership. For most builders, it's a matter of pride in their product to inspect the quality of their work before handing the keys to the new owners.

Some builders opt to have a pre-walk-through inspection of their own before the final walk-through with their buyers.



“Our homeowner orientation session with the site superintendent takes place after we have someone who’s not been directly involved with building a particular house go through and mark any flaws that need to be corrected with blue painter’s tape,” says Tim Rini, vice president of Epcon Communities Franchising in Dublin, Ohio. “Once those flaws have been fixed, the buyers are brought in and given time to look through the house and given instructions about how to maintain and operate all the systems and appliances in the home.”

Your walk-through should take at least two hours or longer because it’s an opportunity to learn as much as you can about your new home.

Tom Silk says that, during the walk-through, KB Home provides buyers with a detailed description of how their home was built as well as instructions on how to operate all of its systems.

McCaffrey Homes also gives its buyers a new home orientation to show them how everything works and where things are located. “We give them a complete homeowners’ manual that’s completely organized for them and makes everything as easy as possible,” Karen McCaffrey says. “We even have a CD with all of the manufacturers’ warranties in one place, and buyers can register once for all of their warranties through our website.”

What’s Your Warranty Worth?

One of the many advantages of buying a newly built home is that your appliances and systems are covered by a warranty for a particular amount of time. Be sure you register everything that needs to be registered for the warranty to be valid. In addition to manufacturers’ warranties on appliances, your builder will provide a warranty for the company’s work, too.

Buyers of existing homes can purchase a home warranty, but those warranties are far different from the warranties that come with a newly built home. Existing home warranties are usually

purchased for just one year and can be renewable, but they only cover your systems and appliances and not your home's structure. In addition, home warranties on an existing home have service fees and limits.

According to the Federal Trade Commission, new home builders typically provide a warranty for workmanship and materials for most components of the house for one year, including items such as siding, drywall, and paint. Coverage for HVAC, plumbing, and electrical systems generally is extended for two years and coverage for structural defects is provided for ten years.

“According to state regulations, all builders offer an implied warranty on their homes regardless of whether they also offer a written warranty,” says Emily Portocarrero, new home marketing manager for 2-10 Homebuyers Warranty. “The implied warranty means that builders are held responsible for repairing their work for a certain period, such as ten years. Without written documentation, homeowners must go to a legal resolution of a dispute if the builder doesn't live up to the implied warranty.”

Portocarrero recommends that when you're selecting a builder, you should ask if they provide a written warranty, which is a third-party guaranteed warranty backed by insurance.

“Most large national builders will provide a written warranty, but regional or smaller builders don't always do this,” she says. “Never assume a warranty will be provided. It's kind of a crap shoot whether the builder will make all repairs without a warranty. Most do, but you run the risk of a builder who's gone out of business or who won't do the work. In that case, you'd have to take legal action.”

A ten-year structural warranty costs just \$500 for the builder, Portocarrero says.

“Homebuyers have to sign a document that shows they've received the warranty at the time they sign the contract, so they have time to review it before they actually complete the purchase of the home,” she adds.

A written warranty spells out exactly what's covered for one to two years such as systems and appliances that the builder typically will fix.

“For example, if your cabinets are crooked, then the builder will normally fix that, but if for some reason the builder is unwilling or unable to do this, then the warranty will take over,” Portocarrero says. “Most written warranties also provide arbitration services, which can save the buyer and the builder the hassle and cost of legal action.”

Caryl Dierksen, an Epcon Communities buyer in Woodstock, Illinois, advises other buyers to read and understand the terms of their warranties.

“I've been very happy with Epcon, but buyers need to understand that the warranty is only as good as the people who will honor it and fix things for you,” she says.

It's also a good idea to be aware of when various builder warranties expire.

“We had a home inspection just before our warranty ran out just to make sure there weren't any issues we needed to take care of, and the inspector found a small issue that needed fixing,”

says Dawn Easter, a Fulton Homes buyer. “They came right out and fixed it right away.”

Understanding Escrow and Deposits

In addition to reviewing your warranties and keeping an eye on the progress of your home’s construction, you’re likely to have a financial obligation during the period your home is being built. While every builder is likely to have a slightly different way of handling the financial side of buying a home, most require at least one deposit prior to the settlement.

When you buy an existing home, you typically provide an earnest money deposit when you make an offer. That deposit is held in escrow until the closing date, so that if the transaction falls through, you can usually get the money back depending on the circumstances. If you end up buying the house, your earnest money deposit is credited toward your down payment.

When you buy a new home, you usually make an initial deposit for \$1,000 or so to hold a lot, says Brian Koss, executive vice president of Mortgage Network in Danvers, Massachusetts. “After that, you make another deposit of 3 percent to 5 percent of the sales price when you sign the purchase agreement. All of those deposits go toward your down payment,” he says.

According to Koss, some builders may require an additional deposit from buyers who choose numerous options. Some builders require deposits at several points during the construction process.

“You’ll find that a lot of builders do things differently, but basically, most have a graduated plan like ours at Fulton Homes,” Dennis Webb says. “For instance, on a \$300,000 home, we ask for \$1,000 at the initial contract signing, of which \$500 is refundable if the contract is cancelled within ten days. Then we get 1 percent (\$3,000 in this case) when the buyers choose their structural options because that’s when we apply for the permit and establish the footprint of the house. We ask for 1 percent more when they make their choices at the design center and 1 percent again after the framing, which is usually about six weeks before the closing.”

Webb says that Fulton Homes has tried different methods for collecting deposits from buyers and that this system seems to work best to cut down on canceled contracts.

“We like having that last deposit come in because we need a point of contact with the buyers when they can exercise a cancellation clause before we’ve installed all of their choices,” Webb says. “It’s easier to sell a home if new buyers still have the opportunity to make decisions.”

He added that some builders request a deposit of just \$500 to start a home and then another 2 percent to 3 percent of the purchase price somewhere along the way. The deposits are all credited toward the down payment, the rest of which is due at the settlement.

Speaking of the settlement—you’re almost there!

WHAT YOU LEARNED: BUILDING YOUR NEW HOME

- ✓ Get to know your building team
- ✓ Step-by-step: how your home gets built
- ✓ Your home construction timeline
- ✓ Inspections and visits
- ✓ Should you get a third-party inspection?
- ✓ While you're waiting—stay in communication and maintain your credit
- ✓ What to expect during the final walk-through
- ✓ Understanding your warranties
- ✓ Understanding escrow and deposits

RESOURCES

[A Step-by-Step Guide to the Home Building Process](#)

[Who's Who on Your Building Team](#)

[Buying Green Equals Buying Smart](#)

[Many Shades of Green](#)

[Greenwashing: What it is and How to Separate Fact from Fiction](#)

[NAHB Types of Home Construction](#)

[Home Warranty Information](#)

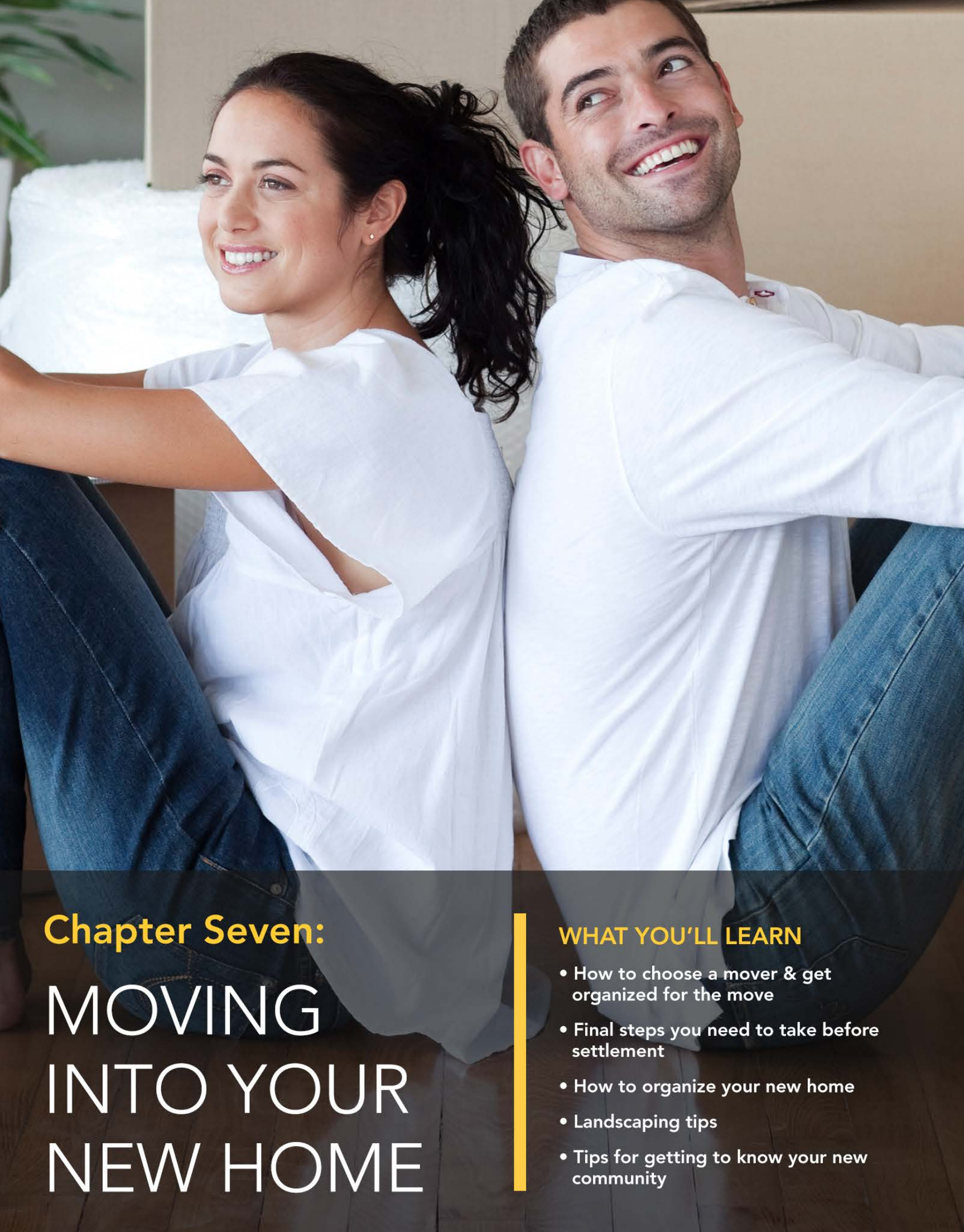
[Energy Star](#)

[NAHB Green Building Information](#)

[Video - NAHB Green Building for Home Owners](#)

[U.S. Green Building Council](#)

[Energy Star Certified New Homes](#)



Chapter Seven:

MOVING INTO YOUR NEW HOME

WHAT YOU'LL LEARN

- How to choose a mover & get organized for the move
- Final steps you need to take before settlement
- How to organize your new home
- Landscaping tips
- Tips for getting to know your new community

The final weeks before moving into your new home will be filled with anticipation and possibly a moment or two of anxiety as you get ready to leave one home and embark on life in your new residence. The more organized you are and the more you understand about what to expect during your move, on your settlement day, and afterwards, the easier the entire experience will be.

Getting Ready to Move

If you've been in close communication with your builder, you should have a good idea about when your home will be ready. Glitches can still occur, though, even at the end of the building phase, such as an ice storm that stops workers from getting to the construction site or some other delay. While you're waiting—most likely on pins and needles with excitement—you should be preparing for your move. Unlike the quiet period of the past six months or so while you were waiting for the contractors to do their work, you should have plenty to do once your home is a few weeks away from completion.

A fun yet practical step you can take is to print out the floor plan for your new home and then mark it up so that you'll know ahead of time where everything will go when you're ready to move. This can help you make decisions about what furniture to keep and to plan what you may need to buy for your new home. At the same time, if you hire movers, this will make their job easier, too, as you can share the floor plan with them on move-in day. You may even want to print several copies that can be posted in your new home while the movers are unloading your belongings.

Line Up a Mover

Even if you don't have an exact date for your move, you can start the process of choosing a professional mover, unless you decide to convince friends and family to help instead. Get recommendations from your real estate agent, friends, and the sales consultant in your new community. You should check each mover's references and make sure the moving company is licensed. At the end of this chapter, you'll find some extra resources for choosing a moving company.

An important part of arranging your move is to understand what kind of protection the moving company provides for lost, damaged, or stolen items. Federal and state regulations impact your coverage if you're moving from one state to another; if you're moving within your state, state regulations are in place for your protection. Interstate movers must offer both full valuation protection and released value coverage. Full valuation protection is more costly, but this coverage requires your mover to repair or replace any lost or damaged goods or give you cash for the cost of the repair or the current market replacement value of your item. Your moving company could limit its liability for some items of special value such as silver or jewelry, so be sure you understand those limits before your move. Moving companies typically provide released value coverage for free, but the movers' liability is no more than sixty cents per pound per article.

You need to carefully look at the protection your mover offers in case something happens to your belongings. Some movers also offer optional liability insurance on top of their released value coverage; you can also purchase insurance from a third-party insurance company. Check with your homeowners insurance on your current home and your new home, as well, to see if your possessions are covered in transit by that policy.

When you have a sense about when your home is likely to be ready, you can go ahead and get estimates from one or two moving companies and set a tentative moving date. Once your builder tells you when the Certificate of Occupancy should be ready, you can lock in a date with the mover.

Movers typically offer to sell you boxes and supplies like bubble wrap and packing tape, but you can usually find these items more cheaply by asking for free boxes at local retailers and picking up packing materials at a discount store. If you prefer, you can pay your moving company to do the packing for you, but usually it's best to do this on your own if you have the time and energy because you're more likely to use your packing time to weed through your possessions and decide what to take, what to sell, and what to donate. You can sell items online on sites like eBay or organize a yard sale.

"Most people moving into an active adult community have too much stuff because they're downsizing," says Caryl Dierksen, a buyer in the Maples at the Sonatas, an Epcon Communities development in Woodstock, Illinois. "Even though people get rid of things before they move, they sometimes find more things to get rid of later, so we often have group garage sales in our community."

It's much better to get rid of what you can before you move rather than pay to have items moved and then donate or sell them later.

Start Packing

You can start packing as early as you want—in fact, the earlier you start, the better off you'll be when you get closer to your move. The smartest way to get started is to do a complete inventory of your home. Not only will this help you identify what you want to move and what you may need to buy for your new home, but you'll also have this information at your fingertips for the movers and for your homeowners insurance.

There are several ways to take inventory, including just making a list with pen and paper. You may want to take photos or videotape your belongings for insurance purposes or you can use one of the many apps available for inventory, such as MyStuff2, Home Inventory, or Delicious Library. Your insurance company may have an app, too.



Power Tip



As you plan your move, think about boxes you'll need first in your new home and mark them accordingly. Similarly, mark items you won't need as storage and unpack them last. The most important items - prescriptions, glasses, our phone, tablet or iPad - should be moved in hand luggage and not loaded on a moving van.

The first items you should tackle are the things that are already packed away: your storage boxes. Go through any boxes you have in a garage, basement, attic, or paid storage unit and see which items you really still want or need. Hopefully, you can eliminate or consolidate a few items. Seasonal things such as holiday decorations or ice skates or pool toys that you're not using can be packed away, too. Decorative items can be packed early, as well, because once you know you're moving, you don't necessarily need to have your rooms looking perfect. One caveat here: if you're selling your home, make sure you consult with your real estate agent or a home staging expert about the best way to pack unnecessary items and still showcase your home.

As you pack, make sure you label boxes according to the room or closet where each box should be placed. You may think you'll remember what items are in different boxes, but by the time you reach your new home and are confronted with dozens of boxes, you'll never be able to know what's in them without opening them.

After you've packed up your stored and out-of-season items, you can begin to pack your books, games, and toys, if you have kids. Keep a few favorites out for the next few weeks. Next, pack up your closets. Your mover will bring you wardrobes for your clothes and will likely take your dressers as they are, but moving is a great time to sort through everyone's clothes and donate or sell items that are not being used. Pack up your shoes, scarves, and other accessories that you won't need and then tackle the linen closet to pack away extra sheets, towels, and blankets.

You should designate one box that will hold the items you'll need on the first day you arrive at your new home. This box should include towels, toilet paper, paper towels, paper plates and plastic utensils, sheets for each bed that will be used, soap, and any other miscellaneous items that you may need as you make the transition from one home to another. Save room for your smartphone chargers and medicines that you take regularly. Keep a laundry bag available for the clothes you wear the day before and the day of your move.

The closer you get to your move, the more you can pack away. You may want to keep a few

basic pots and pans, mugs, silverware, and dishes out for a few weeks along with your coffeemaker, but you can pack up your fondue pot and other specialty items earlier. During the final few days in your home, you may find it easier to switch to paper plates so you can pack your dishes.

In addition, as your move approaches, it is vitally important to keep all the documents related to your home purchase and your financing easily accessible, along with all of the receipts and paperwork related to your move.

Update Your Address—Everywhere

To ensure your mail gets delivered to your new home, you can visit your nearest post office location for a change of address form or go online at [USPS.com](https://usps.com) to update it. You also need to change your address with the local Department of Motor Vehicles, your credit card companies, any other creditors such as a student loan or personal loan, your bank, your voter registration board, and your insurance companies. Your car insurance premiums may change because one factor in the amount charged is the location where you keep your car and another is your commute, which is likely to change when you move. You'll need to notify any publications you receive at home such as a newspaper or magazine, as well as the utility companies when you're leaving your current home and moving into another. Your builder has been using utilities in your home during the final phases of construction, so you'll need to work with the builder to transfer the utilities to your name at the appropriate time.

If you have children, this is a good time to look into child care or to register them for their new school. You may need to get transcripts sent from their current school to a new school, so give yourself time to make these arrangements.

If you're moving within your current area you won't necessarily need to change doctors and dentists, but if you're moving farther away, you should obtain copies of your medical records, dental records, and, if you have pets, vet records. You may want to look up health care providers that take your insurance and see if they are accepting new patients or have a lengthy wait time to get an initial appointment. If you need a pet sitter or a dog walker, you can research those companies ahead of time, too. It's better to have those professionals lined up before you need them.

Depending on the distance of your move and where you do your banking, you may also want to open a new account at a financial institution with a branch in your new community. Even though most people do the majority of their banking online, sometimes you need to have a physical branch to visit.

Check on Insurance

In Chapter Four, we discussed homeowners insurance in detail. Now that your settlement date is approaching, it's time to reconnect with the insurance company you chose to make sure your coverage is in place on your closing day and that the insurance company will provide you with proof of coverage to bring with you to the settlement.

While you're thinking about protecting your home with insurance, you should also consider whether you want a security system on your new home. Many new homes come equipped with a security system that you'll need to activate in order to have protection; if your home doesn't have a security system, it might be a good idea to look into the option of setting one up so it's in place when you move.

Get in Touch with Your Lender

In addition to feeling secure in your new home and community, you need to be secure and confident about your finances. As we talked about in Chapter Six, you can use the period while your home is being built to prepare financially for homeownership for the first time or for the transition from one home to another.

When your builder tells you that your home is almost complete, you should contact your lender so that the final loan papers can be drawn up. If you're working with your builder's preferred lender and title company, the builder will likely be in touch with them to schedule your settlement. If you're choosing your own title company to handle the closing, you'll need to coordinate the date with your lender and the builder's representatives.

Be ready to respond quickly to your lender and to the title company representatives and attorneys if they contact you with requests for information or additional paperwork. Your lender will recheck your credit and verify your employment just before the closing. If you've made any unusual deposits over the past few months, essentially anything other than your paycheck, you'll need to provide your lender with a paper trail to prove the origin of the money.

If you're selling a home before you move into your newly built home, you'll need to coordinate the settlements on each house so that the funds from the sale of your current home are in place and available before the settlement on your new home. Your real estate agent, lender, and settlement company can help you with this process.

Legal Aspects of Homeownership

While you prepare physically and financially for your move, don't forget that homeownership requires multiple legally binding documents that you'll be signing at the settlement table. We'll delve into those documents in a moment, but before you arrive at settlement day, it's important to discuss how you'll own your home, known as "holding title."

Some legal aspects and terms of homeownership vary by state law, but in general, if you are single and are buying a home, just your name will appear on the loan and on the title. Married couples typically opt to own property jointly so that the home automatically reverts to one of them if something happens to the other. This is called "joint tenants with right of survivorship" or "tenants by entirety." Unmarried partners and relatives such as a brother and sister buying a home together or a parent and child typically choose this method of holding title as long as they want the home to be inherited by the other owner or owners if they die.

Holding title is a little more complicated if you're buying with friends because you may want your stake in the home to go to a family member rather than to your co-owners if something

happens to you. Friends often opt to own a home as “tenants in common,” which means that the property is passed on by a will rather than automatically reverting to the other owners. If you’re buying a home with friends, it’s important to work with an experienced real estate attorney to avoid any legal battles in the future.

If you’re an older, single homebuyer with adult children, you may want to consult a real estate attorney or an attorney experienced with estate planning to see whether it makes sense for you to jointly own your home with your offspring or to establish your heirs through your will.

What to Expect on Settlement Day


By the time you’re close to closing on your home, you should have made the decision about whether to use the title company preferred by your builder or a title company of your choosing to handle the closing. Your builder typically would prefer that you use a settlement company that they’ve worked with in the past because they know that this company understands the timeline of building a new home and can coordinate the settlement more easily than a company with less experience with new construction.

“The process of buying and closing on a newly built home is a little different from an existing home, primarily because you’re usually working from a contract provided by the builder,” says Todd Ewing of Federal Title & Escrow in Washington, D.C. “It’s a good idea to have a Realtor or a real estate attorney review the contract just to make sure your interests are represented. If you’re offered a credit toward closing costs for the use of the preferred lender and title company, it’s not necessarily a bad idea to use the company, but you should make sure you’re comfortable that the contract protects you.”

In addition to having your sales contract reviewed by an attorney, Ewing suggests paying a seasoned attorney to review the title search and title survey before your closing, and then actually having the settlement with the builder’s preferred company. Settlement day for a newly built home typically takes place at the new home community’s sales office, Ewing says.

Your lender, your builder, and your real estate agent should present materials including a sample HUD-1 Settlement Statement to you before the settlement so you know what to expect; the title company could also provide paperwork before the closing day so you’re better prepared. You can ask to see sample documents and request your real estate agent or a title company representative to point out the areas that require close scrutiny.

OMB Approval No. 2502-0265



A. Settlement Statement (HUD-1)

B. Type of Loan

| | | | |
|---------------------------------|--|--|------------------------------------|
| 1. <input type="checkbox"/> FHA | 2. <input type="checkbox"/> RHS | 3. <input type="checkbox"/> Conv. Unins. | 6. File Number: |
| 4. <input type="checkbox"/> VA | 5. <input type="checkbox"/> Conv. Ins. | 7. Loan Number: | 8. Mortgage Insurance Case Number: |

C. Note: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.

| | | |
|--------------------------------|------------------------------|------------------------------|
| D. Name & Address of Borrower: | E. Name & Address of Seller: | F. Name & Address of Lender: |
| G. Property Location: | H. Settlement Agent: | I. Settlement Date: |
| | Place of Settlement: | |

The Settlement Statement you'll likely see when you close on the purchase of your new home. Also known as a HUD-1 form, it was developed by U.S. Department of Housing and Urban Development.

Your lender should have provided you with a Good Faith Estimate when you applied for the loan on your new home. The Good Faith Estimate includes information about the terms of your loan such as the interest rate and monthly payments, as well as an estimate of the closing costs you must pay. While some builders offer to pay closing costs as an incentive for buyers, in many cases you'll need to pay closing costs yourself. These costs include legal fees, title searches, title insurance, taxes, recording fees, and document preparation fees. Your lender should go over the closing process with you when you apply for a loan, so be sure to ask questions at that time if you don't understand something.

The Good Faith Estimate looks similar to the form you'll see at your settlement, known as the HUD-1 form. You're entitled to see that form twenty-four hours before your settlement so that you have time to read it and compare the listed fees to the Good Faith Estimate you received from your lender. If you have any concerns about this form you can contact your lender and your Realtor with questions.

At your settlement, you and every buyer whose name is on the title will need to bring photo identification. You must provide your proof of homeowners insurance or have arranged to have this delivered to the title company ahead of time. In addition, you'll need to have either arranged for a wire transfer or bring certified funds for your down payment. Despite the fact that many people pay their bills and handle other banking online, when you purchase a home, you still need to bring a personal check for any amount you may owe up to \$1,000 that's not covered by your previously arranged certified funds or transfer. You won't be able to use a debit card or credit card for this transaction.

The funds you'll need at the closing include your down payment, any closing costs not provided by your builder, and "prepaid" items including prorated property taxes, homeowner's insurance premiums, and home owners' association dues for the amount of time that you'll own the house before your regular mortgage payments begin.

You'll be signing numerous documents at the settlement, but you should pay careful attention to the following:

- **HUD-1 Settlement Statement.** This document includes all of your charges and credits on the left side of the page and all of the seller's (your builder) charges and credits on the right side of the page.
- **Truth-in-Lending Statement.** This document provides you with an estimate of the annual cost of your mortgage over the full term, including an amortization page that shows exactly how much you'll pay in principal and interest during every month of your loan term, and an annual percentage rate (APR) that factors in all of the costs of your loan. Information should be provided here as well about late fees.
- **Promissory Note.** This note should include your loan amount, your loan term, and your interest rate. Signing this paper obligates you to repay the loan.
- **Deed of Trust.** This is the document that pledges your home to be used as collateral for your mortgage and allows your lender to foreclose on your home and sell it if you default on the loan.

An important aspect of the settlement is that your new home will be covered by title insurance. While most people never need to use the protection offered by title insurance, you should understand its function.

Understand Your Title Insurance

"There's a misconception that a title search and title insurance don't matter as much on a new home, but the reality is that new homes are often built on recently subdivided land with new easements and are built with lots of subcontractors, so in some ways a new home could be even riskier from a title insurance perspective," Federal Title & Escrow's Todd Ewing says. "Title insurance covers everything to do with the title such as making sure that there isn't some long-ago mortgage on the land that was paid off but not properly released."

Two types of title insurance are available on homes. The first type, known simply as title insurance, protects your lender up to the value of your loan. So, if you've made a down payment of 20 percent on a \$300,000 purchase, the title insurance policy protects your lender's investment up to \$240,000. The title company will defend your ownership of the home and protect your lender against any financial loss caused by a "title defect."

Before a title company provides title insurance, it will do a survey on the property to make sure that there aren't disputes over who owns the land or any liens against the property. Sometimes title defects happen when a will hasn't been properly probated or from simple human error when a deed for the land was improperly recorded at the county courthouse.

In addition to the title insurance your lender requires, you can also purchase owner's title insurance or enhanced owner's title insurance that directly protects you up to the value of the policy.

"I recommend that new homebuyers purchase enhanced owner's title insurance because it

covers any possible mechanic's lien stemming from an unpaid bill, issues with improper permits, or even mistakes in the subdivision that aren't covered under a standard title insurance policy," Ewing says.

Taxes and Homeownership

In addition to the legalities of holding title to your new home, as a homeowner your tax situation will change—usually for the better. While you'll be paying property taxes as part of your monthly mortgage payment, you'll reap the benefits of tax deductions on your state and federal income tax returns.

"When your builder pulls the permit to begin construction on your home, the county will establish your property tax assessment based on the size and location of your home and the type of property," says Anis Blemur, a registered tax professional in Miami, Florida. "Property taxes are paid ahead of time rather than retroactively, so if you move into your new home in June, you'll need to pay property taxes for the remainder of the year."

As we discussed in Chapter Four, most lenders require you to set up an escrow account for your property taxes. You'll pay a portion of your taxes into that escrow account each month and then your mortgage lender will pay the property tax bills when they arrive.

The more exciting part of taxes and homeownership is the ability to increase your income tax deductions.

"The first time you file income taxes after you become a homeowner, you should fill out Schedule A on your federal income taxes to itemize your deductions," Blemur says. "You can deduct your property taxes, your mortgage interest for the year, and, if you paid points on your loan when you bought it, you can deduct those, too."

If you made a down payment of less than 20 percent on your home and took out a conventional loan or if you're financing your purchase with an FHA loan, you may be able to deduct your mortgage insurance payments depending on your income. This tax deduction has been phased in and out of federal law, so be sure to check with the IRS about current rules. You'll find tax-related resources at the end of this chapter.

"In some counties and cities there are tax credits available to first-time homebuyers," Blemur says. "You should ask your lender or a tax expert, or check with the local government website, to see if you qualify for any special credits."

It's vital to keep your HUD-1 and other settlement papers in a safe yet accessible place because you'll need these documents when you file your tax return and you'll need them in the future if you decide to sell your home. While you're establishing a recordkeeping place for these documents, you should also create a file for the manufacturers' warranties and instruction booklets for your new home. If you eventually make repairs or renovations on your home or even if you're just doing routine maintenance such as an annual chimney inspection, keep these documents for future reference.

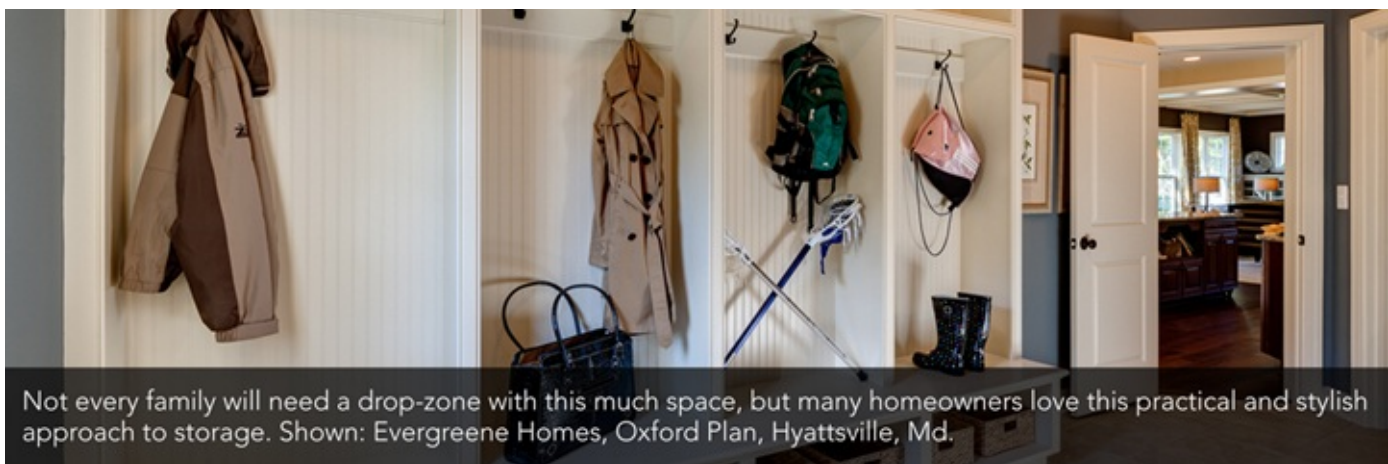
Organizing Your New Home

Finding a place for your paperwork and your new house keys should be easy in your new home since many newly built homes have been carefully designed with built-in storage, planning desks, and thoughtfully located places to charge your smartphone, tablet, and laptop.

“Homes have evolved in a similar way to cell phones,” says Tom Silk of KB Home. “A smart home is like the most recent smartphone and a used home is like an old flip phone. Even in small ways we add in the latest tech innovations. In every KB home, we put USB outlets in every room.”



One of the best innovations in recent years in new home design is the “family foyer” or family entrance. This space is often located off the garage or it may have a separate side or back door entrance, but the functionality of this space reflects the way families live. You can usually design this space exactly as you want, with benches to sit on while you and your kids pull off your snow boots or muddy athletic shoes; a cubby where each family member can hang a coat and a backpack or briefcase, and perhaps a tall closet to handle a lacrosse stick, a hockey stick, or even skis. The availability of this space in an area away from where you entertain guests makes it far easier to keep your entire home neat and organized whether you have toddlers or teens.



Not every family will need a drop-zone with this much space, but many homeowners love this practical and stylish approach to storage. Shown: Evergreene Homes, Oxford Plan, Hyattsville, Md.

You can choose to include a planning desk or charging station in the family foyer or in the kitchen, wherever you find it convenient. Depending on the size of your home, you may want a small hobby room or office located off the foyer that you can use to keep crafts organized when you have a young family and then to function as a homework station when the kids get older, and later, to become a reading nook or art studio for your empty nest phase.

Newly built homes often have an oversized pantry, too, either in the family foyer, off the garage, or in the kitchen, where you can store multipacks of paper towels and other bulk items. If you plan on entertaining frequently, this closet or other built-in shelving in your kitchen or dining area can be designed to hold your party platters and extra glassware.

Unpacking your belongings in a home where everything has its place can be far more enjoyable than struggling to fit too many possessions into a place with too few closets. Downsizing homeowners find that a newly built home has more efficiently designed storage space even if it's smaller than their previous home.

“Moving into an active adult community was a great transition in terms of giving up snow removal and yard work, but it was also a psychological transition to less space,” says Jan Johnson, a buyer in an Epcon Communities development in Columbus, Ohio. “We don’t have a basement anymore so we have to be a bit more Spartan than we were, but otherwise it feels as if it’s almost the same size as our previous home.”

Smart design isn’t limited to the first floor. A walk-in closet in the owner’s bedroom is a high priority for most buyers today, so even a relatively small single-family home, condominium, or townhome has one. Larger homes have walk-in closets in every bedroom. But it’s not just the size of the closets; it’s the way they’re designed that makes a difference. Homeowners and buyers of existing homes sometimes spend thousands of dollars retrofitting closets with organizers to increase their efficiency, but many newly built homes already have built-in organizers. You’ll find closet systems that include hanging rods at various heights, adjustable shelves, or drawers that reduce your need to fill your bedroom with dressers. Well-organized closet space in the secondary bedrooms makes it easier for your children and guests to keep their spaces clutter-free, too.

Organize Your New Life

While you’re settling into the pleasure of an organized home, you should also take the time to find your way in your new community. Prior to moving into your new home, you can start gathering essential information to have available, such as emergency phone numbers for the police, fire station, and utility companies, plus the address of the nearest hospital.

You may want to locate the nearest grocery store and create a list for your initial shopping trip before you move since you’ll have so much to do during those first few days in your new home. Whether you move into a community with a retail center or into a condominium in an urban area with a variety of shops and restaurants at your doorstep, you may want to gather information about local delivery restaurants and nearby options for dining. Other places you might want to locate before or soon after you move include a fitness center, a place of worship, and a home improvement store for incidentals that you might need as you settle into homeownership.

If your new home is located within a homeowners' association, you should receive information about recycling and trash pick-up days. Many communities have a website or newsletter with information about activities and clubs, but if yours doesn't, you may want to ask your new neighbors about soccer leagues or book clubs or a gardening club.

Landscaping Tips

Speaking of gardening, your newly built home probably came with a landscaping package. If you purchased a condominium, the common areas in your community will be landscaped and maintained by the builder and then by the condo association, but you could still have a private patio where you can have a garden.

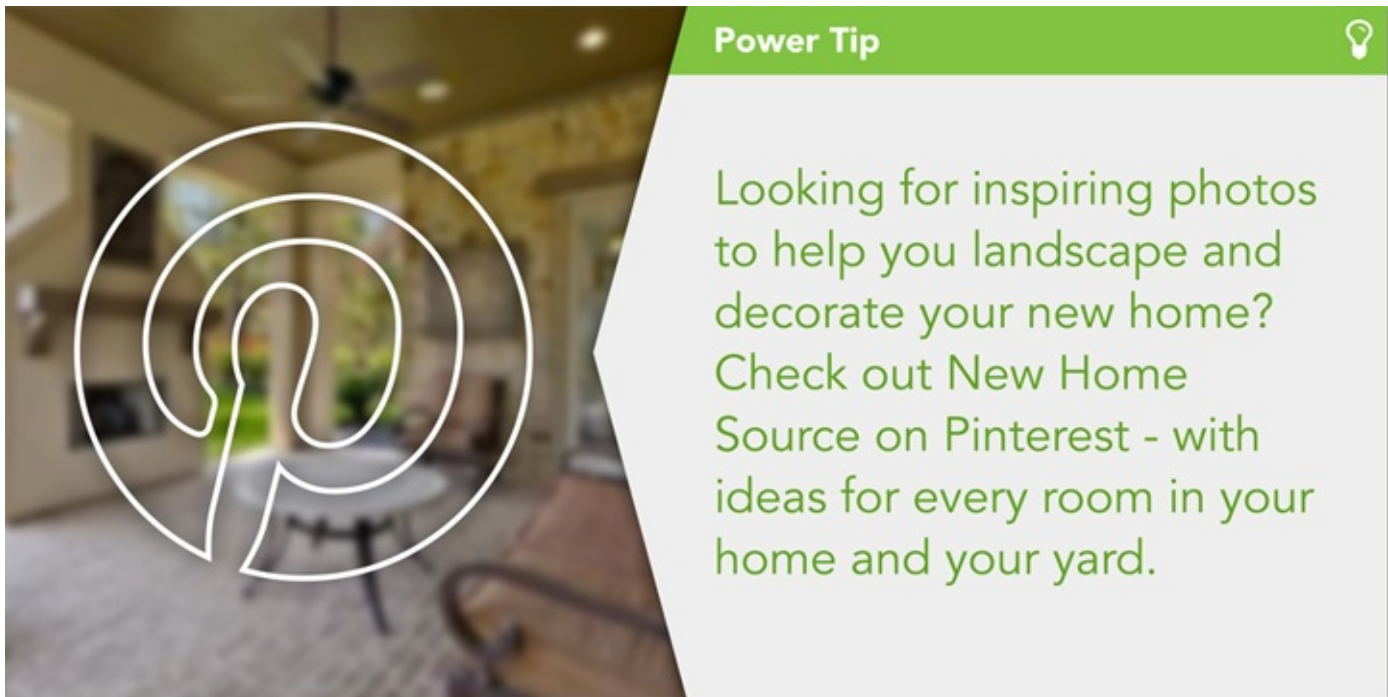
Single-family homeowners may have a tiny plot of land of their own or acres to landscape, but most newly built homes include basic landscaping such as a seeded or sodded lawn and some shrubs or a tree or two. If you designed a custom home, your architect probably worked with a landscape designer to create a unified plan for the structure and its surroundings. In either case, you have an opportunity with your new home to develop a plan to add to your landscaping over time so that your property looks lovely today and in the future.



Many builders provide some initial landscaping with your new home. In addition, you may want to add a fence, a patio or additional landscaping. Shown: Plan Three by Brookfield Residential SoCal in Calsbad, Calif.

A local nursery can be a great resource for landscape planning. Some offer free advice or charge only a small fee when you purchase plants and trees. An important consideration if you plan to add trees to your grounds is to investigate their rate of growth and eventual anticipated size so that you don't end up with an overpowering tree that blocks valuable natural light.

Just as you did before you chose options for your home, you should take your time choosing plants for your property. Even if you decide to work with a designer, you should think about the types of plants you like. You can find photos online or drive around your community to take photos of garden designs or individual plants that appeal to you. Think about your level of interest in gardening, too, because if you don't have the time or desire to maintain your grounds, you'll either need to hire someone or choose a low-maintenance landscaping plan. Landscapers recommend using native plants because they're more likely to thrive in your particular climate and therefore will be easier to care for as well as look more natural.



Landscape planning isn't just about plants, though. You'll also want to consider how much space you want for entertaining and relaxing outdoors. You may already have a patio or deck in place or plan to add one later, so think about that space and how you want to use it before you plant expensive trees or shrubs. Outdoor fireplaces, fire pits, and kitchens are popular additions to today's backyards, so you may want to focus on those features before you start planting. Water features, which range from a tiny trickling fountain to a stone waterfall, are also popular, so even if you don't put one in right away, you might want to think about where one could go in the future.

Light, both natural and electrical, is an important element to your enjoyment of your outdoor space. If you appreciate the full sun flooding into your home and onto your deck, avoid planting trees that will eventually shade the space. However, for those who live in warm weather climates such as Florida or Arizona, planting sun-filtering or shade trees may be preferable. To use your outdoor space in the evenings or for entertaining, you should consider creating a lighting plan that offers enough light for safety and socializing without being so bright that the light disturbs your neighbors or blocks out the night sky.

While many features in the interior of your home will remain the same for years to come, your landscaping will evolve over time. One of the many pleasures of homeownership is the ability to try out new flowers or plant a few vegetables to enjoy or share with your friends and family.

Enjoy Your New Home!

Whether you're daydreaming about your first tomato crop or looking forward to your housewarming party, you should pat yourself on the back. You did it! You bought a new home.

"When your new home is finished, all you have to do is turn the key and walk through the door—everything is done the way you want it," KB Home's Tom Silk says. "You're not waiting to find the carpet guy to replace the ugly carpeting or waiting for your new fridge to be delivered."

While you may be surrounded by boxes on move-in day, take a moment to congratulate yourself on a job well done: You're moving into a home where no one else has ever lived. You'll be the first to soak in the tub, the first to roast a chicken in the oven, and the first to light a fire in the fireplace. Your design choices have already personalized your home to reflect the way you want to live, and now you're about to embark on the pleasure of organizing your space and adding those important touches that will make it even more your own.



WHAT YOU LEARNED: MOVING IN & ENJOYING YOUR NEW HOME

- ✓ Research and select a mover
- ✓ Begin to sort your belongings
- ✓ Start to pack
- ✓ Change your address
- ✓ Get organized with schools, child care, medical professionals
- ✓ Confirm your homeowners insurance
- ✓ Check in with your lender
- ✓ Decide how you want to hold title
- ✓ Prepare for settlement day
- ✓ Understand your title insurance
- ✓ Prepare for your new tax situation
- ✓ Organize your new home
- ✓ Get to know your new community
- ✓ Make a landscaping plan
- ✓ Enjoy your new home

RESOURCES

[10 Tips for Settling Into Your New Home](#)

[Making the Move: Packing Tips, Part One](#)

[Making the Move: Packing Tips, Part Two](#)

[Questions to Ask Before You Choose an Interstate Moving Company](#)

[Help Your Lawn Get Off the Ground](#)

[What to Know Before Installing a New Fence](#)

[Sample settlement documents](#)

[American Moving and Storage Association \(AMSA\) search engine for licensed movers](#)

[American Moving & Storage Association](#)

[Department of Transportation \(DOT\) Protect Your Move website](#)

[American Land Title Association Home Closing 101](#)

[Understanding the Closing Process](#)

[American Society of Landscape Architects](#)

Tax Resources

The Internal Revenue Service website, [IRS.gov](https://www.irs.gov), provides publications with information on homeownership and your taxes.

Publication 530: Tax Information for First-time Homeowners

Publication 936: Home Mortgage Interest Deduction Information

To find a tax expert or for help with preparing your taxes, find a specialist certified by the IRS at the National Association of Enrolled Agents, [NAEA.org](https://naea.org)

Glossary of Terms

Adjustable-rate mortgage (ARM): A mortgage loan with an interest rate that periodically changes in response to the market or to Treasury bill rates.

Allowance: A sum of money set aside in the contract for items that have not been selected and named in the contract, such as a sum of money for electrical fixtures or for subflooring.

Amortize: Paying off the mortgage debt through regular installment payments of both principal and interest over a set period of time, making equal or nearly equal payments until the loan is paid.

Annual percentage rate (APR): The yearly interest rate paid on a loan. Federal law requires that this rate be disclosed as part of the truth-in-lending documents.

Appraisal: An estimate of the value of the property by a professional appraiser.

Binder: A receipt for the deposit provided by the buyer to purchase the home according to the terms of the contract.

Blueprint: The drawings of the floor plan that are used for designing and building the home, getting a price estimate and for requesting permits.

Build on your own lot: A new home built on land already owned or newly purchased by the buyers.

Builder warranty: Many builders offer a one-year warranty on materials and a ten-year warranty on structural issues. New homebuyers will also have warranties provided by manufacturers such as a 20- or 30-year roof warranty or appliance warranties.

Builder's risk insurance: Insurance coverage that protects the builder during construction. Extended coverage may be added in the contract for the customer's protections.

Building codes: Rules established by a local or state jurisdiction that cover how a house can be built or modified. Newly built homes must meet the most recent codes but existing homes are not required to be brought up-to-date before they are sold.

Building insurance: Insurance that covers the building itself during construction.

Buy-down mortgage: A mortgage loan for which the buyers, the sellers, a third party, or even the lender pays an initial lump sum to lower the interest rate for a set period of time (usually one to five years) to reduce the initial monthly payments.

Certificate of Occupancy: Also referred to as a "CO," this certificate is issued after all inspections have been made by the local jurisdiction. Until the CO is issued, no one can move into a new home.

Change order: A written document that modifies the original plans for the home's features, floor plan, or finishes. Change orders can add to the price of the home and the length of time it takes to build it.

Closing: Also called the "settlement," when all papers are signed and the ownership of the property transfers from one owner to the next.

Commission: The fee paid to the buyer's agent from the proceeds of the sale of the home.

Comparable sales (comps): Sales prices of similar properties used to estimate the market value of the property by appraisers.

Conditions, covenants, and restrictions (CC and R's): The standards that define how a property may be used and the protections made by the developer or a homeowners' association that must be followed by all residents in the master-planned community.

Conforming loan: A mortgage for an amount that is lower than the limits established for loans eligible for purchase on the secondary loan market by Fannie Mae or Freddie Mac.

Construction loan: A mortgage used to buy land and build a custom home.

Contingency: A part of the contract which states that the contract will be null and void and the deposit returned if the stated conditions are not met; for example, many contracts for existing homes are contingent on a satisfactory home inspection and on the buyer obtaining financing based on the appraisal. Most contracts for newly built homes are non-contingent.

Contractor: A licensed company that provides building services. A newly built home will often have a general contractor to supervise the project along with specialty and subcontractors who handle specific elements of the home-building process, such as electrical work.

Conventional mortgage: A mortgage offered by a lender that is likely to be purchased on the secondary loan market by Fannie Mae or Freddie Mac. The U.S. Congress establishes limits for these loans annually.

Credit score: A number assigned by each of the three credit reporting agencies that reflects the credit history of the consumer and changes according to the current financial situation of the consumer; also known as a "FICO" score, a trademark of the Fair Isaac Corporation.

Custom: A home built entirely to the buyers' specifications rather than according to a builder's floor plan.

Deed: The legal document that is used to convey ownership to the titleholders

Deposit: A sum of money due when the purchase contract is signed for a newly built home. The amount of the deposit varies from one builder to another and can range from a few hundred dollars to thousands of dollars depending on the home price and whether the buyer is working with a production or a custom builder.

Down payment: A cash portion of the payment for a property which is due at the settlement; many conventional loans require a down payment of 5 percent, 10 percent, or 20 percent, while FHA loans require 3.5 percent; some VA loans are available with zero down payment.

Draw: The amount of money available to a contractor at different established periods of the building process. Custom home builders typically arrange access to a draw on the construction loan taken out by the buyer.

Equity: The amount of the property owned after all liabilities are subtracted from the market value of the property.

Escrow: An account held by the lender that includes homeowner payments for taxes and homeowners' insurance until those bills are due.

Extras: Work the buyer requests the contractor to do that is not in the contract but will be billed separately and can increase the price of the home.

Fannie Mae: Government-sponsored organization that buys mortgages from lenders to make loans more available and affordable.

Federal Housing Administration (FHA): Government agency that provides lenders insurance on low down payment loans so borrowers have easier access to homeownership.

Fixed-rate mortgage: A mortgage loan in which the interest rate remains the same for the entire length of the loan. Fixed-rate loans are generally available for 30, 20, 15, or 10 years, though some lenders will offer loans for unusual terms to meet borrower needs.

Foreclosure: The legal process that occurs when the borrowers have become delinquent on their loan and the lender repossesses the property and sells it. The proceeds of the sale are then applied to the mortgage debt.

Freddie Mac: Government-sponsored organization that buys mortgages from lenders to make loans more available and affordable.

Good faith estimate: An estimate of the entire cost of buying a home, including the down payment, interest payments, and closing costs associated with a loan; to be provided by the lender within three days of a loan application. The estimate is divided into sections according to which fees can change at the settlement table and which cannot.

Hazard insurance: Insurance that protects homeowners and lenders against financial loss from fire or other damages (see *homeowners insurance*).

HERS Index: HERS stands for Home Energy Rating Standard. The index was developed by the Residential Energy Services Network (RESNET) and is used by many builders to indicate their level of energy efficiency. The lower the score, the higher a home's energy efficiency. A new home scoring 70, for example, is 30 percent more energy-efficient than RESNET's designated standard for a newly built home.

Home equity line of credit: Homeowners can borrow money against the equity in their home to pay for things such as home improvements, college tuition, or personal expenses; the amount available will vary according to the appraised value of the home versus the outstanding mortgage debt. A line of credit can be used incrementally and repaid over time.

Home equity loan: Also known as a second mortgage, a home equity loan allows immediate access to your home equity that then must be repaid with a fixed-rate loan, typically with a 10- or 15-year term.

Home warranty program: A program that provides insurance for repairing appliances and systems in the home for a limited time; often paid for by sellers to give buyers extra protection during their first year of ownership on existing homes.

Homeowners' association: An association to which homeowners are required to belong if they own a home within the boundaries of the association; members must pay dues and follow the rules of the association.

Homeowners insurance: Insurance that protects homeowners and lenders against financial

loss from fire or other damages (see *hazard insurance*).

Implied warranty: According to state regulations, all builders offer an implied warranty on their homes regardless of whether they also offer a written warranty. The implied warranty means that builders are held responsible for repairing their work for a certain period, such as ten years. Without written documentation, homeowners must obtain a legal resolution of a dispute if the builder doesn't live up to the implied warranty.

Infill lot: A small piece of land within an already developed community typically used to build just one home or a small group of homes; in some cases an infill lot is created by the demolition of an existing home or other structure on the lot.

Jumbo loan: Any mortgage loan above the conforming loan limits set by the U.S. Congress for Fannie Mae and Freddie Mac; these loans often carry a higher interest rate and will require a higher down payment and higher credit score than smaller loans.

Lien: A legal obligation attached to a property that uses that property as collateral for a debt. The lien must be paid before a home can be sold unless the buyer is willing to pay the lien in order to buy the house. An unpaid subcontractor could ask a court to impose a lien on a newly built home to receive payment.

Loan origination fee: A fee charged by the lender for administering and processing the loan; also sometimes called a "point," equal to 1 percent of the loan amount.

Loan-to-value: The amount of the mortgage loan in comparison to the value of the home; the difference between the two numbers represents the amount of equity the owner has in the home or the amount of down payment a buyer is paying.

Manufacturer's specifications: Written installation and/or maintenance instructions provided by a manufacturer of a product that may need to be followed to maintain the product warranty.

Mortgagee: The lender who provides mortgage financing.

Mortgage insurance: Insurance that protects the lender against loss if the borrower defaults on the loan. FHA loans require both upfront and annual mortgage insurance; conventional loans require private mortgage insurance for borrowers with less than 20 percent in home equity.

Payment schedule: A schedule agreed upon before the start of construction of a custom home, typically starting with a deposit and tied to the progress being made on the home.

Penalty clause: A clause in a contract that provides for a reduction in payment to a contractor or subcontractor if deadlines are missed or the project isn't completed according to specification.

Performance bond: Funds (typically 10 percent of the total price) that a contractor must deposit with a government agency as an insurance policy to guarantee the contractors' proper and timely completion of a project.

Permit: A required authorization from a government authority to build a house or proceed with particular phases of the building process.

Plot plan: A plan provided by a surveyor that shows the location of the home on the lot and also includes easements, property lines, required setbacks, and legal descriptions.

Points: A fee charged by the lender equal to 1 percent of the loan amount; points can be paid at closing to lower the interest rate on a loan.

Preapproval: A qualification for a mortgage by a lender based on proof of the buyer's income, assets, and credit score that states the maximum loan that the buyer can qualify for; final loan approval also requires an appraisal on the property to demonstrate that the value of the property is more than the loan amount.

Prepayment penalty: A payment required on some loans if the loan is paid in full before the end of the loan term by making extra payments, refinancing, or selling the property. Few loans today include this penalty, but borrowers should check to be certain this feature is not part of their loan.

Prequalification: An estimate of the amount of money a person can borrow based on his or her stated income, assets, and creditworthiness without complete verification.

Principal: The balance of a loan without interest.

Production builder: A builder who designs and builds multiple homes from a set of floor plans; buyers can modify these homes to varying degrees.

Property survey: A survey to determine the boundaries of a person's land.

Punch list: A list created by the general contractor, project manager, or homebuyers of items that need to be fixed by the contractor, such as missing trim in one area or a section that needs another coat of paint.

R value: A number identifying the level of insulation. The higher the number, the better the insulation works. The appropriate R value for a new home varies according to the climate where the home is located and the place in the home where insulation is being installed.

Ratified contract: A contract that has been signed and accepted by both the buyers and the sellers and their agents.

Real Estate Settlement Procedures Act (RESPA): A consumer-protection act administered by the U.S. Department of Housing and Urban Development (HUD) that establishes rules for informing consumers about closing costs, settlement fees, and mortgage loans.

Recording fees: Fees paid to the county or state for recording property ownership in land records.

Redline or redlined prints: A set of plans showing changes to be made on the original blueprint, typically identified with red pen or pencil.

Retention: Money withheld from a builder or contractor until completion of the project.

Rural development loans: Low interest-rate loans with 100 percent financing that are administered by the U.S. Department of Agriculture (USDA) (www.rurdev.usda.gov) and are restricted to properties in designated rural areas. Income limits may apply.

Sales contract: A contract between a buyer and a seller that should explain what the

purchase price includes, an estimated settlement and move-in date, what happens if the buyer cannot get financing when the sale is ready to close, what happens if the builder cannot meet the settlement date or any other contractual obligation, and what happens if the home appraises for less than the agreed-upon price.

Semi-custom: A home built by a production builder that buyers can extensively modify to their preferences including making structural changes.

Settlement: The process during which buyers and a representative of the builder sign legally binding paperwork and loan documents that transfer the ownership of the property; also known as a “closing.” A builder may offer incentives to buyers such as closing cost assistance when buyers opt to use the builder’s preferred settlement company.

Settlement/closing fees: Fees charged by the settlement company for the processing of papers, examination of the title, and review of loan documents.

Spec home: A “speculative” home that a builder builds without a purchase contract and hopes to sell at a profit. Some spec homes are complete; others can still be personalized with the buyers’ choices for finishes and fixtures.

Stamp tax: In some states and counties, this is the name for the tax charged when property is transferred from one owner to another (also known as a transfer tax).

Title: The document that proves ownership of property.

Title insurance: Insurance that protects the lender against title defects, usually required by lenders. Homebuyers can also buy their own title insurance to protect themselves in case of a future problem with their title.

Transfer tax: A tax, also known as a stamp tax, charged by the state or county government when property is transferred. The tax is part of the closing costs paid at settlement.

Truth-in-lending: A statement required by the federal government to be presented to borrowers at the settlement that discloses an estimate of the annual cost of the mortgage and the total cost of the loan over the loan’s full term.

Valuation: Another term for an appraisal of the property value that is required by the buyers’ lender. The valuation fee is paid by the buyers.

Veterans Administration (VA): A federal government agency which, among other benefits, guarantees mortgage loans for veterans, members of the military, and their families with lower interest rates and a low or zero down payment.

Walk-through (or walk-thru): A final inspection of the home by the buyers and their agent to check for any last-minute problems that must be addressed. This walk-through takes place shortly before settlement.

Written warranty: A policy provided by the builder for a certain period (often two years on appliances and systems and ten years on the structure) that provides for the repair of any covered item at the expense of the policy rather than the homeowner.

ABOUT THE AUTHOR:

Michele Lerner



Michele Lerner is an award-winning freelance writer, editor and author who has been writing about real estate, personal finance and business topics for more than two decades.

She writes for regional, national and international publications in print and online for a variety of audiences including consumers, real estate investors, business owners and real estate professionals.

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Michele started her career in journalism at a local newspaper in Reston, Va., where she garnered attention for her series of articles about architects and interior designers and their homes. Over time, she expanded her subject matter into every aspect of real estate including finance. Her first book, [HOMEBUYING: Tough Times, First Time, Any Time](#), published by Capitol Books, received excellent reviews and has been used by mortgage lenders and Realtors to educate their clients about the homebuying process.

Her consumer-focused work has informed readers for decades on how to save money, plan for the future and make smart decisions when buying a new home.

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