

14 Step Checklist for Building Your House

1. Pre-qualify with lending institution for projected loan amount

RESPONSIBILITY: OWNER

Prequalifying is the first step in the process and sets the limits for your budget. To have a good experience, you should be very realistic in your goals, budget and your abilities. You will outgrow your new home too soon if you set your goals too conservatively. If you overreach your financial abilities, you will always be stretched too thin and not have a pleasant experience. Probably the best suggestion is that the house you acquire can be no more than three or four times the sum of your combined annual income. Steer clear of basing your choice simply on the mortgage rate; it shouldn't be the only decision factor.

To determine your maximum mortgage amount, lenders use guidelines called debt-to-income ratios. This is simply the percentage of your income (before taxes) that is used to pay your debts. There are two calculations, a "front" ratio and a "back" ratio.

The front ratio is the percentage of your income (before taxes) that is used to pay your **housing costs**, including principal, interest, taxes, insurance, mortgage insurance (when applicable) and homeowners association fees (when applicable). The back ratio is the same thing only it also includes your **consumer debt**. Consumer debt includes car payments, credit card debt, installment loans, and similar related expenses. Auto or life insurance is not considered a debt.

A common guideline for debt-to-income ratios is 33/38. Your total housing costs can not total more than thirty-three percent of your income. Then add your total **consumer debt** to the housing costs; this should total no more than thirty-eight percent of your income.

The guidelines are somewhat flexible. If you make the minimum down payment or have marginal credit, the guidelines are more rigid, for example--29/38. If you make a larger down payment or have excellent credit, the guidelines are less rigid-- 33/41.

Example: If you make \$5000 a month, with 33/41 qualifying ratio guidelines, your maximum monthly housing costs should be around \$1650. Including your consumer debt, your monthly housing and credit expenditures should be around \$1900 as a maximum.

2. Select the Lot

RESPONSIBILITY: OWNER

Lot selection is pivotal. You need to consider not only your housing needs, but your life style as well. Pools, gym sets, tree houses and gardens take up space. How much landscaping can you maintain? Do you have, or want, children or pets. Cost is another factor.

Once you have an idea of how much you can afford, you need to decide how much of the total cost the lot should be. The ever rising cost of land makes this hard to nail down, but to maintain marketability the lot should comprise no more than thirty-percent of the overall cost. Obviously the lower the percentage the better. However, once below twenty-percent, adjacent properties may not aggressively appreciate in value and diminish the overall investment of your project. Think about it. If they are selling land too cheap, you have to wonder if there is a pig farm nearby.

Some of the areas you might want to avoid would be property in or near a flood zone, or with an extreme slope for cost reasons.

3. Evaluate the lot

RESPONSIBILITY: OWNER / BUILDING PROFESSIONAL

Once you select the lot and negotiate a price, you need to execute a contract to purchase it. In the contract, as a condition of purchase, you agree on a certain number of days or weeks, or as long as months, to determine the overall feasibility of the intended project. Some are as short as two weeks, but we recommend ninety days. This gives you the proper amount of time to evaluate the property, select or design a plan and bid it out. Do not get in a hurry! This is probably the largest single personal investment you will make in your life. During this time, often referred to as the period of due diligence, you need to do the following:

- a) Hire an engineer to certify what flood plane you are in. Most areas use 3 different types: A (100 year flood), B (500 year flood) or X (not in a flood plane). Not being in flood zone is preferred.
- b) You need to have a soil test performed. This information determines the design of the foundation. The more stable the soil, the less complicated the foundation, so the less it will cost.

- c) Perform steps in this checklist through #9 to ensure overall affordability and soundness of investment.
- d) Finalize the loan and set a date for closing. One of the loan requirements is that you have a title policy. This ensures the lending company that the property has no encumbrances and has a clear title. You should be given the choice of which company provides this policy.
- e) Have the project appraised. All lending institutions require this.

4. Select / design a house plan

RESPONSABILITY: OWNER / DESIGN PROFESSIONAL

Selecting or designing a house plan is covered step by step in our e-book:

FOUR STEPS TO SELECTING A HOUSE PLAN

5. Create site plan

RESPONSABILITY: DESIGN PROFESSIONAL

Now that you have your property and a plan that suits the lot, you will need to create a scaled drawing of the house on the lot. This ensures that the building actually fits on the lot in a manner that suits your needs and doesn't violate any of the county or neighborhood requirements. This drawing should indicate:

- a) distance of the house from each property line;
- b) location and shape of the driveway;
- c) any utilities or easements;
- d) accessory use features such as outbuildings, pools, decks, etc...; and
- e) location of any existing or proposed wells and onsite sewer systems

Some jurisdictions may require more information on the site plan such as lot and block number, a north arrow or protected tree locations. Your design professional will guide you in this area.

6. Make decisions on finishes, veneers, fixtures, hardware and appliances

RESPONSIBILITY: OWNER

This is a very important part of the process. How you handle this will determine how well the rest of the process goes. Most builders and lending institutions prefer a separate written description of materials or a specifications outline. We recommend deciding everything from the color, style and manufacturer of the door knobs to the color of paint in each room.

For a copy of an owner's selection sheet see our e-book:

OWNER'S SPECIFICATION AND SELECTION SHEET

7. Define allowance pricing

RESPONSIBILITY: OWNER

An allowance is a price used for budgetary establishment. It is used when a selection is needed from the owner outside the control of the contractor; therefore a budgetary price is affixed to that selection. If the actual cost of that selection is less than the budget allows, there is a credit due the owner. If the actual cost of the selection is more than the budget allows, there is a debit to the owner. For example, you should set a budget for the appliances. It would be best if you actually picked out the make and model, but at this time usually just deciding on how much money you will spend is adequate until you decide to actually go through with the project. You may decide that G.E. Profile series appliances are what you want or something comparable. So you allow a certain amount that you will spend on appliances. The swing in price between G.E. and Sub Zero or Wolf could be \$20,000. There are between ten and twenty budget considerations that have allowances in a standard construction project. Be as realistic as you can as this is one area that can make up a considerable percentage of the contract price.

For more information on this see our e-book:

HOW TO SAVE MONEY ON YOUR NEW HOUSE!

8. Select building professionals to bid on project

RESPONSIBILITY: OWNER

Choose your builder carefully. I recommend not only talking to a few past customers, but talking to a few subcontractors, material suppliers and bankers who have dealt with the builder before. Never go with just one bid. You may have a friend in the business, but get at least two bids, maybe three. Select a builder that has the management style you are most comfortable with. There are three basic styles to consider.

- a) **Fixed cost contract.** This style allows that the total cost of the project have a fixed price. The advantage of this for the owner is that they have the security of a cap on the cost. Any changes, additions or deletions would require an addendum to the contract or more commonly referred to as a change order.
- b) **Cost plus contract.** This style allows that the owner pay actual cost for the project plus pay the contractor a mark up percentage for compensation. This is usually done when there are too many variables or unknown conditions to accurately affix a price. Every change, addition or deletion requires an addendum to the contract and the contractor's fee is adjusted accordingly.
- c) **Fixed fee.** This style pays the contractor a fixed fee for his or her services and the customer pays the actual costs of construction with no further mark up.

9. Compare bids

RESPONSIBILITY: OWNER

One of the problems in obtaining bids is that they are not easy to compare because builders do not use a standardized bid sheet. In a new construction single family home, the list of budgetary items range from 50 to 100 items. In other words, there are between 50 and 100 different items that have to be accounted for. By using a standard bidding form, you can list all of the items and assign each one a number from each bidder. Then you can compare them and make sure everyone is on the same page and that no one has left off anything. I recommend working with builders who will show you their bid sheet so that you can adequately compare what it is they are providing against the other builders.

To obtain a standard bid sheet see our e-form:

STANDARD BID SHEET

10. Award bid

RESPONSIBILITY: OWNER

Once you make your decision on the building professional, you will negotiate and enter into a contract with them. As a courtesy, you should immediately contact all parties bidding on the project and inform them of your decision.

11. Sign contract and related documents

RESPONSIBILITY: OWNER / BUILDING PROFESSIONAL

In addition to a standard construction contract, you should review and sign a warranty, discuss and review how addendums or changes in the contract will be handled, as well as any other disclosures required by your builder.

For a copy of a contract and other documents see our e-form:

[*CONSTRUCTION CONTRACT*](#)

12. Obtain engineering

RESPONSIBILITY: BUILDING PROFESSIONAL

In Florida, as well as some other states, there are certain engineering requirements. You will need the following:

- a) **Flood Letter.** This is an engineered stamped certification stating the location of the house and or property and its relevance to the flood plane. Special insurance and structural considerations will be required if you are in a flood plane.
- b) **Wind Load Analysis.** This is a document prepared by an engineer that specifies the structural elements required to be incorporated into the building that will enable the completed project to withstand the pressures of high wind.
- c) **Engineered Foundation.** Most jurisdictions do not require an engineer to produce the working drawings of the house. However, if the house is in a flood plane or has pipe clay, muck or other soil conditions that are outside normal parameters, the foundation plan must be designed and sealed by an engineer.
- d) **Energy Load Calculations.** This is a form that is calculated by either an engineer or a licensed mechanical or air conditioning contractor that calculates the efficiency rating of the entire house. It takes into

consideration the orientation of the house, the size and rating of the openings, the type and amount of insulation and the type and rating of the air conditioning system.

- e) **Obtain a Boundary Survey.** This is required by most lending institutions. Contact a professional land surveyor and tell them you need a boundary survey. You will need to supply them with the parcel identification number. They will then locate and mark each corner of the lot.

13. Apply for permits

RESPONSIBILITY: BUILDING PROFESSIONAL

Each part of the country handles permitting differently. Some are more rigid than others. Most people view the permitting and inspection process as a loathsome burden, but, in reality, these are measures put into place to insure that you get a safe product and in turn protects your investment. In most jurisdictions you will need to provide two copies of the following:

- a) Complete set of plans;
- b) Flood letter;
- c) Wind load;
- d) Soil Test;
- e) Manufacturer's product approval sheet. Your contractor will provide this;
- f) Septic tank permit or sewer concurrency letter;
- g) Energy calculation forms;
- h) Approved site plan;
- i) Roof truss or roof rafter layout;
- j) List of subcontractors with license numbers; and
- k) Completed and signed permit application.

Allow two to four weeks for this process. You will also need to pay your tap fees. These are fees your local utility suppliers charge for connecting you to their system. Most areas charge for water, sewer, electricity and gas. You normally would not deal with cable TV or telephone until you are ready to move in.

14. Close construction loan

RESPONSIBILITY: OWNER

Now that you have determined that the project is within your budget and is feasible, you can proceed by closing the construction loan. At the closing, you will sign all of the mortgage papers and a Notice of Commencement. The NOC is a document that must be recorded in the clerk's office of your local court house. This document provides proof that the actual owner of the property has commissioned the work to begin. A certified copy of this must be posted on the permit board of the jobsite at all times. You will be unable to obtain inspections until this is done. Once you have been issued the permits, you are ready to commence construction.