

Building and Land Budget.

Included in these costs are three vital expenses that most folks rarely consider. These are the impact fees, the new improved property taxes, and the new insurance costs.

Most folks only look at the original cost of the land in calculating cost. Sometimes they consider the surrounding property's taxes or maybe even consider the possible insurance rates. However, when the new assessed taxes are levied and the new insurance premium is established, normally 12-months later, it now becomes a panic. A little planning and some research at the local property appraiser's and your insurance carrier's offices will save you a lot of grief later on.

However, first things first, before a person should even start looking at house plans, a budget should be established, based on the following guidelines for a family's net monthly spendable income. The net spendable income for these purposes is defined as gross monthly income less taxes, donations, and investment savings. (The easy way, of course, is to go to your loan company, and ask them to pre-qualify you for a loan amount. Ask them where you should keep your monthly payments, and how much cash it will require to do a construction loan, the long term mortgage loan, and down payment. To increase your comfort level, it would still be helpful to work through the following information).

35%		Housing: principal, interest, taxes, insurance, MIP, utilities, telephone, & maintenance (Figure an average of about 1/2 of one per cent per year of the total home's value for maintenance cost.)
15%		Groceries: food, paper goods, and household goods
15%		Car: payments or savings for new car, insurance, gas, and maintenance
5%	*	Life and Health insurance
5%	**	Other Debts: credit card, installment loans, etc.
7%		Entertainment: restaurants, vacation, movies, etc.
5%		Clothing
5%		Contingency savings: insurance deductible, appliance repair or replacement, etc.
3%		Medical & Dental
5%	**	Miscellaneous: dry cleaners, personal items, presents, private schooling, childcare, alimony, subscriptions, books, diapers, etc.

* (If your employer does not provide health insurance, then this percentage may need to be increased and the other categories adjusted.)

** (Obviously, all the items listed in this category are more than 5%, but not every family has all those costs. However, if your miscellaneous category exceeds 5% of the net spendable income then other categories will have to be reduced.)

If there are no "Other Debts", a family can go up to as high as 40% for housing or use the extra 5% in another category, depending on its needs. There is a greater appreciation for the Builder and the home, and less tension among family members when a reasonable budget is established.

After determining 35% or 40% of the net spendable income, follow these steps to determine the building budget. Calculate the cost of fire and contents insurance, taxes, utilities, telephone, and maintenance on the current home, and subtract that amount from the 35% or 40% figure. The balance will equal approximately a comfortable monthly house payment, assuming the rest of the budget is in balance. This figure will enable you or your Builder to estimate the size of the loan based on current interest rates. This loan amount plus the down payment amount will be the building budget. If your down payment is coming from the equity in your current home, there are several things to consider. Do you want to own two homes at the same time? Can you or do you even want to qualify for a loan on the new home while the old home is on the market? Are you willing to eliminate your risk by waiting until your old house sells, and then move into a rental until the new house can be built?

To figure the down payment, take the amount of cash on hand that is set aside to use for the new home (this amount may include a reasonable estimate of the equity or "net out" of your current home) and subtract the closing costs, construction money costs, and anything else that cash may be needed for, such as: drapes/blinds, landscaping, etc. Have a loan company estimate your closing costs and construction money costs. If the Builder knows the amount of the monthly payment and the down payment, he can design the home to fall within the budget. Adjusting the amenities of the home, such as fine-tuning the allowances, type of plumbing fixtures, roofing materials, insulation, etc. It is good for the Builder to know your real budget, so he can design it properly. It is usually more expensive to add things later than to do it in the initial agreement. A Building Budget Form is provided herein for your convenience.

BUILDING BUDGET FORM

Monthly Principal and Interest Amount

1. Monthly amount available for housing.... _____
2. Taxes, insurance, utilities, telephone, maintenance, MIP..... - _____
3. Monthly principal and interest payment (P & I).. = _____

Mortgage Loan Calculations

4. P&I (principal & interest from line 3) divided by the appropriate interest rate factor from table A = mortgage loan amount.... _____

For example: If your principal and interest from line 3 is approximately \$2,000.00 per month, and the going interest rate is 8.0%, then divide \$2,000 by .0073376 and you get a loan amount of \$272,568.69. If however, the going interest rate is 8.5% then divide \$2,000 by .0076891 and you get a lower loan amount of \$260,108.47.

Table A: (loan factors in table A assume a 30 year amortization schedule with equal monthly payments)

6.00% - .0059955	7.00% - .0066530	8.00% - .0073376	9.00% - .0080462
10.00% - .0087757	11.00% - .0095232		
6.25% - .0061572	7.25% - .0068218	8.25% - .0075127	9.25% - .0082268
10.25% - .0089610	11.25% - .0097126		
6.50% - .0063207	7.50% - .0069921	8.50% - .0076891	9.50% - .0084085
10.50% - .0091474	11.50% - .0099029		
6.75% - .0064860	7.75% - .0071641	8.75% - .0078670	9.75% - .0085915
10.75% - .0093348	11.75% - .0100940		

Down Payment Amount Calculations

Formula: Down payment amount = cash on hand + net out from old home - closing costs of new home -cost of construction loan - cash needed for items not included in building contract such as: drapes, landscaping, new furniture, etc.

- 5. Cash on hand available for building. _____
- 6. Net out from old home (get this figure from your Realtor) + _____
- 7. Closing costs of new home (get this figure from mortgage co.)..... - _____
- 8. Cost of construction loan (approximately 8% -10% for 4 months + 1 point)..... - _____
- 9. Cash needed for items not included in building contract: (drapes/blinds, pool) - _____
- 10. Cost of plans..... - _____
- 11. Other..... - _____
- 12. Down payment amount = _____

Building and Land Budget

Formula: Mortgage Loan Amount (line 4) + Down payment Amount (line 12) =
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Mortgage Loan Amount from line 4. _____

Down payment Amount from line 12 + _____

Building & Land Budget = _____