

**Golf Savings Bank**

*Everything you'd never expect from a mortgage lender.*

# **YOUR CUSTOM HOMEBUYER GUIDE**

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Buying Built-To-Order Living Space  
With a Firm Financial Foundation

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## Is Building Right for You?

You've visited new housing developments and shopped for existing homes offered for resale, but nothing quite meets your needs. So you're warming to the notion of acquiring a building lot, developing plans, and hiring a contractor to build a home to meet your unique specifications.

Custom building your own home can be very rewarding. After all, who is better qualified to assess your living needs and patterns and integrate them into every detail? Who could outmatch you in creating just the right kitchen, coming up with the right room designs, and filling your home with all the features you need?

While the benefits are enticing, building a custom home can be a complex, time-consuming project. Before you commit your time, money and energy, it's best to be prepared. This guide is designed to provide you with the information you need each step along the way.

## What Does It Take To Build a Home?

You don't have to be an architect or a contractor to custom build your home, but having or developing the abilities listed here can make the process easier. Consider whether you can:

- **Visualize the outcome** – Designing a home from scratch is a creative endeavor. You'll need a vivid imagination to visualize what every aspect of the house will look and feel like when it comes together. Lacking a strong vision of the end product can dramatically affect your budget and decisions you make along the way. Once construction has started, it will cost extra to make changes that weren't in your original plans, such as modifying an entryway to get just the right look.
- **Manage the process** – Building a home requires good management skills. It involves orchestrating a wealth of details, including developing and adhering to a budget and schedule for the project, organizing the paperwork, obtaining permits, and scheduling inspections.
- **Invest the time** – Expect to devote many hours to planning, shopping, monitoring construction, talking with contractors, and managing the many details. And that's in addition to fulfilling your daily responsibilities at home and at work. It's certainly not a casual effort.
- **Obtain the financing** – Building a home typically involves purchasing a building lot, financing the construction, and potentially financing the building lot purchase. This means organizing your personal financial records for the financing application and undergoing a credit check, as well as budgeting for the additional monthly costs, a down payment, closing costs, and any associated out-of-pocket expenses.
- **Weather the course** – Expect the unexpected. Maybe a contractor's schedule suddenly changes, unpredictable weather delays construction, a supplier's order is late, or problems develop on the building site. You can't possibly foresee all the things that may occur, but you'll need to quickly develop a "Plan B" to deal with these unpredictable events so your progress is not derailed.

## Dreaming, Designing and Planning

Developing your vision for your new home will likely happen in stages — first a dream, then a design, and finally a plan — each one more detailed than the next. Use these tips to organize your thoughts during each of the development stages:

### Dreaming

The sky's the limit as you brainstorm and imagine exactly what you'd like your new home to be like.

- **Define your dreams** - Use our *New Home Wish List* on page 11 to detail each desired feature and aspect of your home. Discussing the list with an architect will help you to communicate your ideas.
- **Visit open homes** – Tour homes for appealing layouts, designs and materials. Bring a camera to take pictures of anything you'd like to include in your plan.
- **Browse magazines and books** – There are plenty of periodicals and books on home design that can give you ideas and expose you to the latest trends in today's homes. Find pictures that show features or designs that you like.
- **Find examples** - Collect samples of paint, fabric or flooring materials that appeal to you.
- **Use technology** – Many new home Web sites include virtual tours and pictures that can provide you with additional ideas.

## Designing

As the various elements are joined together and fine-tuned, your ideas must now be translated into a realistic plan or blueprint that a builder can follow.

- **Find a floor plan** – You don't have to pay an architect to design a home from scratch. There are many sample floor plans and designs online, on CD-ROM, as well as in books and magazines. You might find a plan that works well with your ideas with some slight modifications.
- **Research local building codes** – Check with the local building inspector to find out about zoning laws that might restrict your design. In some areas, for example, homes cannot exceed a certain height, must have a sloped driveway, or include a preset distance between the house and the road.
- **Think about utilities** – Do you want to connect to local water and sewer facilities, or will you install a well and a septic tank? Will your home be wired for Internet connectivity, cable or satellite TV?
- **Commit to conserving energy** – While you're planning heating and cooling, think about designing your home to provide savings on heating and air conditioning bills while helping the environment. The government-backed Energy Star program contains ideas, guidelines, and links to local resources and builders that can help you conserve energy without sacrificing comfort or features. Visit <http://www.energystar.gov>.
- **Work with an architect** – Even if you purchase a standard building plan, you'll need an architect to modify it to comply with local building codes. A licensed architect can also make any modifications you want, suggest ways to economize, and supervise the construction effort. If you're acquainted with any local builders, ask them who they work with. You can also get references from the American Institute of Architects or the American Institute of Building Design.
- **Consider resale values** – It sounds strange to discuss selling before your home is even built, but someday you'll want to recover the money you've invested. So be sure that you don't over design for an area. The largest home in the neighborhood might be more difficult to sell.

## Planning

During this phase, it's time to deal with realities of budgets and timeframes for building your dream home.

- **Building a budget** – Once you have plans, you can begin estimating the cost of building and completing your home. As you begin getting bids from suppliers and contractors, use the *Cost Estimate Worksheet* on page 12 to record these estimates, as well other anticipated expenses. Because costs may vary with the season, and from other factors, allow some flexibility in your budget.
- **Establishing a schedule** – How long will it take to build your home? That depends on the design you've selected, the availability of your contractors, weather conditions in your area, and many other factors. Industry averages differ, but most say not to expect to be living in your new home for anywhere from six months to a year. To establish timeframes for your home, talk with your architect and builder and get estimates from each of your subcontractors. You might be able to shorten the time frames by having some work, such as electrical and plumbing, done at the same time. But realize that delays are inevitable during the construction process.
- **Getting organized** – Before long, you'll be awash in paperwork. You'll need somewhere to file the permits, building plans, surveys, financing records, inspection schedules, and payment schedules. If you want the work to progress smoothly, be sure that you're paying your contractors and suppliers on time. Consider investing in some filing and office supplies, as well as some bookkeeping software. You might also consider a separate checking account.



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### Things to Consider

- Consider visiting estate and demolition sales to purchase used or salvaged materials for your home. Not only will you save money, but certain items can lend additional character. Think about how great a vintage door might look in your entryway.
- Install landscaping after you move in. Think about planting trees and shrubs yourself to save money.
- When shopping for a building lot, be aware of the "tree trade off." A lot that has trees can save you money in landscaping, as well as shading the house during the summer. In contrast, a lot that's been completely cleared of trees may be cheaper to build on.

## **Shopping For Land**

Your new home's location is a key component of its future value. Before you commit to buying a home in an unfamiliar town or neighborhood, gather as much information as you can.

- Evaluate the area by gathering some basic information about the quality of the local schools, the crime rate, and accessibility to major highways.
- Investigate future development plans for highways or shopping centers that might affect the area. Talk to the local town government to find out about zoning or future development. If the town has a master plan, ask to see it.
- Consult online and traditional sources. A growing number of Web sites offer information on neighborhoods and areas.
- Visit the local city hall to obtain information on property values in the area.
- Plan a first-hand look at schools and local businesses, and even talk to potential neighbors.
- Test your commute and learn about traffic patterns. If you're going to use public transportation, jump on a bus or subway for a trial run.

## **Work With a Real Estate Agent**

Many of the questions that you might have about a new area, a community, or a building lot can be answered quickly by a local real estate agent. The right agent can help you narrow your search, offer information on property values, and save you valuable time.

There may be dozens of real estate firms and hundreds of agents in an area, so do some research prior to selecting one. Get references from friends, relatives and co-workers, and check out real estate Web sites. You might also identify agents who work in your area by driving through adjacent neighborhoods and noting the names on "For Sale" signs.

Look for an experienced professional who is easy to talk to and whom you feel you can trust. A real estate agent should be able to tell you about:

- Resale potential of houses in an area, number of new buyers moving in from other areas, and the frequency of multiple offers on homes.
- Community characteristics, prices of homes, property tax rates, school locations, services and any unusual building code regulations.

## **Assess the Building Lot**

There are many ways to locate a suitable building lot. You can talk to a real estate agent, browse Web sites and check the local newspapers. You might drive through areas that interest you. Consider approaching people in developed neighborhoods who have over-sized lots, as well as placing "Wanted" ads in local papers.

Once you locate a building lot, be certain that it's suitable for building a residential structure.

- Check with local officials to ensure that the lot is zoned for residential construction and that the style of house you plan to build fits in with the other homes in the area.
- Obtain a soil test to determine the land's load-bearing capacity and uncover any problems (such as under ground rock ledges or a high water table) that could affect the cost of foundation, well and sewer work. This work is done consulting engineers.
- Investigate the availability of local water and sewer utilities. Can you connect to town services? If not, what are the costs of digging a well and installing a septic tank?
- Determine how far the lot is located from the nearest electrical, gas, telephone, and cable TV connections. Also check on the availability of high-speed Internet access via cable TV or DSL.
- Understand any environmental restrictions on building in the area, which might affect your options for the home and landscaping you're planning.

## Financing Your Dream Home

There are a number of ways to finance your custom-built home. Some people buy a suitable building lot and save their money before starting construction. Others want to proceed with financing of both the lot and the construction.

### Purchasing the Building Lot

If you currently own a home, consider your home equity as a financial resource to purchase your property. Using your home equity can be a smart way to obtain funds because the rate is lower than other forms of financing and the interest you pay may be tax-deductible.

Some home equity options to consider are:

- **Home equity loans and lines of credit** can give you a single lump sum for one-time purchases, whereas a home equity line of credit establishes an account that you can draw from as needed for ongoing expenses up to the specified maximum. Both options offer lower interest rates than typical consumer credit, as well as potential tax advantages.
- **Cash-out refinancing** involves obtaining a new mortgage for an amount greater than your current mortgage balance and taking the difference in cash. The difference is deducted from your equity.
- **Bridge loans** can be a solution for those who want to obtain financing before they have sold, or closed on, their current home. Bridge loans typically allow up to six months to sell the current property, with interest due at the end of this period. The bridge loan can make sales contingencies unnecessary by permitting buyers to use the equity in their current home for a down payment and closing costs.

### About the Financing Process

Before you begin an application, be aware that:

- You can finance a building lot in addition to obtaining a construction loan.
- We require that customers hire a qualified general contractor to supervise the construction of their new home.

### Applying

Your Golf Savings Bank Loan Officer can answer any questions you have about the financing process and can assist you with completing a loan application. There are generally six areas of information on the application:

1. **Personal data:** Full names, addresses, and Social Security numbers of all borrowers.
2. **Income:** The amount and source(s) of income for all borrowers.
3. **Assets:** Information on all assets you'll be using to qualify for the loan, such as checking and savings accounts, stocks and bonds, retirement plans, and other real estate owned.
4. **Debt and obligations:** Information on all outstanding debt and other financial obligations.
5. **Credit references:** Information concerning loans or debt that have been paid, plus any other references to good credit use.
6. **Property information:** Specifics on the property you wish to buy, if you've chosen one.

### Obtaining Inspections

Once your loan is approved, we will contact you to discuss any approval conditions. As construction progresses, you will schedule required inspections and verify that the necessary permits are obtained.

Construction must begin within 30 days of closing, cannot stop for longer than 30 days, and must be completed within the negotiated timeframe. As work progresses and is completed, inspections are conducted before the necessary funds are disbursed.

## Closing

Prior to closing, your home mortgage consultant may ask you to provide certain insurance and real-estate-related documents. When you are ready to schedule your closing date, all involved parties will be contacted to arrange for the closing to take place at a convenient time and location. The closing procedure and associated fees vary depending on where you purchase. Prior to your close date, you will be notified of the amount you need in order to close, as well as any additional documents.

At your closing, ownership of the property is transferred to you. A closing agent (an attorney of your choice or a title agency representative, depending on what is customary in your area) coordinates and distributes all the paperwork and funds, according to the terms agreed upon by you and the seller.

## Completed Construction

While state and municipal regulations govern what happens when construction is finished, generally you can modify your current mortgage amount, refinance it, or transition it to another home-financing product that might better meet your needs. One of our closing agents will contact you to arrange for the paperwork to be completed.

## Building a Team

Identifying a reputable general contractor and choosing the team of professionals that will build your home are extremely important considerations.

### Assessing the General Contractor

The reputation of the general contractor, or builder, who will be in charge of the construction of your new home is important, so don't leave anything to chance. Use the following checklist during your builder-selection process.

#### 1. Compile a list of potential builders:

- Get recommendations from friends, relatives, and local real estate agents.
- Find out who your architect has worked well with in the past.
- Contact the local builders' association to request a list of area builders.
- Browse the real estate section of your local newspaper for information on the types and average prices of homes that local builders are constructing.

#### 2. Obtain basic information about each company you interview. Ask:

- How long has the company been in business?
- Is the builder comfortable building the style of house you like?
- What percentage of their business comes from referrals?
- What energy-efficient features will be included in the home?
- What is covered in the home warranty? Can you get a copy so that you can understand the details?
- What service can be expected after the sale? Are any service calls included?
- Which local licenses does the builder have and what licenses are needed in the locality? What certification inspections are required according to the local building laws?
- What happens if there is an accident on the job? Who is responsible? What type of insurance does the builder have and is it enough to cover the project and any injuries that may happen to the crew?
- If the builder belongs to a local builder's association, would they submit to the association's arbitration policy (if one exists) in case of a dispute?

#### 3. Check references

- Contact the local Better Business Bureau® and trade organizations and ask if there is a history of complaints.
- Determine whether the company is financially stable. Obtain a copy of their credit report.
- Talk to references the builder provides, as well as to other people who have homes built by the same builder.
  - ✓ Ask about any problems they've encountered.
  - ✓ Inquire about the builder's responsiveness.
  - ✓ Determine how satisfied they are with their new home.
  - ✓ Question their willingness to purchase another home from this builder.

#### 4. Inspect the work

- Ask to see other homes the builder has completed and visit a current construction site.
- Drive by some of the builder's recently built homes to check for visual appeal.
- Examine the homes for the overall quality of the construction. Look at everything, including paint, trim, and flooring.

#### 5. Trust your instincts

- Look for a builder who can communicate with you effectively. This is critical to the project and to ensuring your dream home becomes a reality.
- Be clear about your goals and desires for your home and find out how the builder will make it happen.
- Ask lots of questions. Interacting and establishing a working relationship with the builder is critical. You need to be comfortable with every aspect of the project and understand exactly what will be done and when.

#### 6. Negotiate the contract

- Have your attorney develop or evaluate the contract (which may be provided by the builder) to describe how the project will proceed.
- Include all the details of the construction including:
  - ✓The materials, options, and payment schedule.
  - ✓The builder's responsibilities including exactly what will be done, an estimated timeline and cost.
  - ✓The materials you will obtain.
  - ✓Who will be responsible for obtaining permits, or preparing and maintaining the construction site.
  - ✓How disputes will be resolved.

### Selecting Other Contractors

In addition to the general contractor, you'll select other contractors, including carpenters, plumbers and electricians. Here's a quick look at some of the services you may need:

- **Environmental engineers** consult on environmental impact issues, including water supply engineering, air pollution control and wastewater treatment.
- **Structural engineers** develop structurally sound solutions that fit with an architect's design and ensure that structures can withstand stresses from earthquakes, wind, ice and snow.
- **HVAC professionals** install the home's heating, ventilation and air conditioning systems, including the furnace, heat pumps, ductwork, and the associated wiring.
- **Interior designers** specialize in offering advice on creating a suitable home interior by using colors, furnishings, floor coverings, drapes, patterns, and textures. They do not physically alter the home's structure.
- **Landscapers** can help you create an attractive and functional yard. They specialize in planning and implementing landscapes that incorporates decks, patios, ponds, shrubs, flowers, trees, and other materials, as needed. They can also flatten hills and build retaining walls.
- **Kitchen or bath specialists** design enhancements for your kitchen or bathroom. A Certified Kitchen Designer (CKD) or Certified Bath Designer (CBD) are experts in their area and can make suggestions, such as which fixtures and cabinetry can make the most of your space. Because of their specialization, they are typically very knowledgeable regarding new techniques or design styles. If the proposed work involves structural changes, CKDs and CBDs can work with your architect, or directly with the contractor, to make sure you end up with a quality result.

When selecting a contractor, contact your city's building code inspector, the Better Business Bureau®, and the municipal builders licensing board to check for any complaints against the contractors in question.

Obtain some of the following information during your contractor interviews:

- Find out how long the company has been in business.
- Ask about their approach to custom-home projects.
- Determine how many similar projects they have completed.
- Ask for a proof of licensing, insurance, and bonding.
- Get credentials for any potential subcontractor the contractor plans to use.
- Obtain references of past customers.
- As appropriate, view samples of past work.

When contacting references provided by contractors, ask to see the work, if possible, and consider asking the following questions:

- Was the contractor easy to communicate with?
- Was the project completed on time?
- Were the terms of the contract fulfilled?
- Were you satisfied with the results?
- Would you use this contractor again?

## **Staying Involved During the Building Process**

While your new home is under construction, you can monitor its progress during the various building phases.

- **Readying the lot** – Depending on how far along the construction has progressed, you may see the lot’s borders identified and staked by a surveyor, and the lot cleared and graded in preparation for building. You’ll want to be sure that the site for your home has the appropriate drainage.
- **Establishing the foundation** – Excavation paves the way for your home’s foundation, which can be made from poured concrete, brick, or concrete blocks. A mason will construct the walls if your house has a basement.
- **Connecting the utilities** – At this stage, your house is connected to local water and sewer, or well and septic facilities. Gas, oil, electric and phone connections are also made.
- **Framing the structure** – Once the foundation is established, the frame of the house is created. Be sure that the rooms are laid out as specified in your plans. During this phase, the electrical wiring and plumbing are “roughed in” and must pass inspection before the walls are installed.
- **Finishing the work** – Your home is nearing completion. The exterior siding and roofing work begins. The dry wall that forms the inside walls is installed, the plumbing and electrical work is completed, floors and molding are installed, and the painting and wallpapering is done. You’ll also see the kitchen cabinets and other amenities installed.

At various stages during construction, local building inspectors will check the construction to ensure that it meets local building codes. This typically occurs for framing, electric and plumbing work, but may apply to other phases, depending on the local codes in the area. Work that doesn’t meet building codes must be corrected before construction can proceed.

Once the construction is completed, you’ll conduct a final walk-through to inspect your new home and make sure it meets your requirements. Make a list of any details that have been overlooked and discuss a schedule for addressing these items with your builder.

## **Handling Problems**

When problems or questions arise, try to work through them with the builder or contractor. Sometimes, delays and problems arise from understandable causes.

Speak with the contractor about any issues that concern you. It is recommended that you describe the situation in writing, as well as to state how you would like the problem to be addressed.

If you are unable to resolve the problem with the contractor directly, consider involving a third party.

- If the builder is a member of a local builder’s association, ask if they provide arbitration.
- Contact your state or local consumer-protection program, which is affiliated with the Office of the Attorney General.
- You can also contact the Better Business Bureau®.
- Consult your attorney for appropriate actions.

## New Home Wish List

Use this page to decide upon the features you want at your next address. There are many points to consider, but it's a worthwhile endeavor.

### 1. Style of home

- Rambler/Ranch Style     Traditional     Two Story     Split Level  
 Contemporary     Modular     Other \_\_\_\_\_

### 2. Exterior type

- Wood Siding     Vinyl Siding     Aluminum Siding     Brick  
 Stucco     Stone     Other \_\_\_\_\_

### 3. Lot size

- Small     Medium     Large     Not important

### 4. Foundation Type

- Slab     Crawlspace     Basement     Walkout

### 5. Square feet of living space?

\_\_\_\_\_

### 6. Number of levels

- 1-2     2-3     Other \_\_\_\_\_

### 7. Number of bedrooms?

- 1-2     2-4     Other \_\_\_\_\_

### 8. Number of bathrooms?

- 1-2     2-3     Other \_\_\_\_\_

### 9. Laundry room location?

- Basement     Main level     Bedroom level

### 10. Separate dining room?

- Yes     No

### 11. Fireplace?

- No     Wood burning     Gas     Woodstove

### 12. Exterior features

- Deck     Patio     Front Porch     Screened Porch  
 Sunroom     Fenced Yard

### 13. Garage

- No Garage     1 Car     2 Car     3 Car  
 Attached Garage     Detached Garage  
 Garage with Workstation

### 14. Central air conditioning

- Yes     No     Wall Units Okay     Window Units Okay

### 15. Heating

- Gas     Oil     Electric     Doesn't Matter

### 16. Near public transportation?

- Yes     No

### 17. Specific school district?

- Yes     No     Not Important

If yes, name of school: \_\_\_\_\_

### 18. Distance to place of employment?

\_\_\_\_\_ Miles    \_\_\_\_\_ Hours    \_\_\_\_\_ Not Important

## Cost Estimate Worksheet

<b>Building Lot Price</b>	
<b>Building Plans Purchased</b>	
<b>Architectural Services</b>	
<b>Site Preparation</b>	
Surveys	
Clearing/Grading	
Water/Well	
Sewer/Septic	
<b>Materials</b>	
Lumber	
Roofing	
Windows, doors	
Siding	
Gutters	
Insulation	
Cabinets	
Appliances	
Lighting	
Floor/carpet	
Plumbing fixtures	
Bath/kitchen tile	
Garage door	
<b>Contractor Estimates</b>	
Excavation	
Foundation/masonry	
Framing	
Electrical	
Plumbing	
HVAC	
Drywall	
Carpentry	
Painting	
Siding	
Gutters	
Roofing	
Landscaping	
<b>Associated Expenses</b>	
Building permits	
Legal expenses	
Home inspection	
Mortgage application	
Closing costs	
Property taxes	
Interest payments	
Insurance	
Interim living costs	
<b>Subtotal</b>	
Miscellaneous (5-15%)	
<b>Total</b>	
Down Payment	
<b>Financing Needed</b>	

## Glossary\*

**Adjustable-Rate Mortgage (ARM)** – A mortgage in which the interest rate is adjusted periodically according to a pre-selected index.

**Alternative Financing** – A home financing program that accommodates borrowers with special qualifying factors, including poor credit histories.

**Annual Percentage Rate (APR)** – A yearly percentage rate that expresses the total finance charge on a loan over its entire term. The APR includes the interest rate, fees, points, and mortgage insurance, and is therefore a more complete measure of a loan's cost than the interest rate alone. The loan's interest rate, not its APR, is used to calculate the monthly principal and interest payment.

**Appraisal** – A report made by a qualified person setting forth an opinion or estimate of property value. The term also refers to the process by which this estimate is obtained.

**Appreciation/Depreciation** – Appreciation refers to the increase in a property's value, except for inflation. When a property decreases in value it is called depreciation.

**Assessed Value** – The value that a taxing authority places on real or personal property for the purpose of taxation.

**Automated Underwriting** – A computerized method of reviewing home mortgage applications for loan approval.

**Bridge Loan** – A form of second deed of trust or mortgage that is collateralized by the borrower's present home (which is usually for sale) in a manner that allows the proceeds to be used for closing on a new house before the present home is sold.

**Broker** – An individual employed on a fee or commission basis as a real estate agent to bring buyers and sellers together and assist in negotiating contracts between them for the sale of residential real estate.

**Building Codes** – Regulate the design, construction and materials used to meet standardized guidelines for building safety.

**Building Permits** – Provide official permission to build from the local municipality.

**Buyer's Broker** – Most real estate brokers and agents work only for the sellers. A buyer's broker serves the interest of the buyer and has no relationship with the seller.

**Capital Gains** – Used for tax purposes, this is the capital gain you make when you sell your home. For example if you purchase a property for \$100,000 and sell it some years later for \$150,000 your capital gains is \$50,000. Qualified married couples filing jointly can exclude up to \$500,000 in capital gains from federal tax, and single taxpayers can exclude up to \$250,000. Consult your tax advisor for details.

**Closing** – The time when the notes and other documents required for a real estate transaction are signed and the disbursement of funds takes place that are necessary to finalize the sale or loan transaction.

**Closing Agent** – Usually an attorney or title agency representative who oversees the closing and witnesses the signing of the closing documents.

**Closing Costs** – The costs paid by the mortgage borrower (and sometimes the seller) in addition to the purchase price of the property. These include the origination fee, discount points, appraisal, credit report, title insurance, attorney's fees, survey, and pre-paid items such as tax and insurance escrow payments.

**Commission** – Compensation for negotiating a real estate or loan transaction, often expressed as a percentage of the selling price or loan amount.

**Commitment Letter** – A formal offer by a lender stating the terms under which it agrees to loan money to a homebuyer.

\*Terms within the Glossary apply to the primary mortgage loan and may not be accurate for home equity or second mortgage programs.

**Comparable Market Analysis (CMA)** – A written analysis of houses having similar characteristics currently being offered for sale as well as comparable houses sold in the past six months. This enables you to determine if you are paying market value for a home, and to identify whether market prices are rising or falling.

**Contingency** – A condition that must be met before a contract is legally binding.

**Conventional Loan** – A mortgage not obtained under a government insured program (such as FHA or VA).

**Credit Report** – A report detailing an individual's credit history.

**Debt-To-Income Ratio** – A formula lenders use to determine the loan amount for which you may qualify. Also known as the "back-end ratio." Guidelines may vary, depending on the loan program.

**Default** – A The failure to perform an obligation as agreed in a contract.

**Down Payment** – Money paid to make up the difference between the purchase price and the mortgage amount.

**Drywall** – Sheetrock used to complete the inside walls of a house.

**Environmental Engineer** – Consult on environmental impact issues, including water supply engineering, air pollution control and wastewater treatment.

**Equity** – The ownership interest; i.e. portion of a property's value over and above the liens against it.

**Escrow** – An item of value, money or documents, deposited with a third party, to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate. In some parts of the country, escrows of taxes and insurance premiums are called impounds or reserves.

**Fixed-Rate Mortgage** – A mortgage in which the interest rate and payments remain the same for the life of the loan.

**FICO Score** – A numerical rating developed and maintained by Fair Isaac and Company that indicates a borrower's creditworthiness based on a number of criteria.

**Float The Rate** – This term is used when a mortgage applicant chooses not to secure a rate lock, but instead allows the note rate pricing to fluctuate until the applicant decides to lock in, usually no later than five days prior to closing.

**Foreclosure** – A legal procedure in which a lender commences a legal action to take possession of mortgaged property where the borrower is in default of the mortgage obligations and the property is sold in an effort to pay the outstanding debt. When the homeowners default on a mortgage and the lender decides they are not capable of making payments, the lender may legally take possession of the property and sell it to recoup on the indebtedness.

**Framing** – Building the skeleton of the house by erecting the walls, floors, ceiling and roof structures.

**Front-End Ratio** – Also known as the housing expense-to-income ratio, it compares your proposed monthly house payment (PITI) to your total household gross monthly income.

**Funding Fee** – The amount charged on VA mortgages to cover administrative costs.

**General Contractor** – Supervises the building process by managing the construction effort performed by the various contractors.

**Good Faith Estimate** – A document which tells borrowers the approximate costs they will pay at or before settlement, based on common practice in the locality. Under requirements of the Real Estate Settlement Procedures Act (RESPA), the mortgage banker or mortgage broker, if any, must deliver or mail the GFE to the applicant.

**Government Loan** – A mortgage insured by a government agency, such as FHA, VA, Farmers Home Administration or a state bond program. The loans are generally made by private lenders, such as Golf Savings Bank home mortgage.

**Home Mortgage Consultant** – The Golf Savings Bank mortgage representative a homebuyer initially consults about a mortgage loan. Sometimes called a loan officer, account executive or sales representative.

**Home Warranty** – a kind of insurance that covers the cost of repairs to specific items in the home for a specified period of time.

**Homeowners Insurance (also called Hazard Insurance)** – A real estate insurance policy required of the buyer protecting the property against loss caused by fire, some natural causes, vandalism, etc. May also include added coverage such as personal liability and theft away from the home.

**House Inspection** – A thorough evaluation and written report of a home's condition both inside and out. The inspection is valuable in locating any problems in a property and helps you determine the extent of renovation needed. You can use the report to have the seller make repairs or reduce the purchase price. Always use your own inspector, and do not rely solely on the seller's inspection reports.

**HUD-1 Settlement Statement** – A standard form used to disclose costs at closing.

**HVAC** – Heating, ventilation and air conditioning systems, including the furnace, heat pumps, ductwork and associated wiring.

**Index** – A published interest rate, such as the prime rate, LIBOR, T-Bill rate, or the 11th District COFI. Lenders use indexes to establish interest rates charged on mortgages or to compare investment returns. On ARMs, a predetermined margin is added to the index to compute the interest rate adjustment.

**Interest Rate** – The percentage of an amount of money which is paid for its use for a specified time.

**Interim Interest** – The interest that accrues, on a per-diem basis, from the day of closing until the end of the month.

**Interior Designer** – Provides consultation on creating a suitable home interior by using colors, furnishings, floor coverings, drapes, patterns, and textures.

**Kitchen And Bath Specialist** – Certified Kitchen Designers (CKD) or Certified Bath Designers (CBD) who specialize in design enhancements for kitchens or bathrooms, including fixtures, cabinetry, etc.

**Leverage** – Using credit or borrowed money to increase the rate of return from an investment. For example, by purchasing a \$100,000 home with 10% down, you are using just \$10,000 to control the investment. If you sell the property in the future for \$120,000, you realize a 100% return on your investment.

**Lien** – A legal claim or attachment against property as security for payment of an obligation.

**Loan Conditions** – These are terms under which the lender agrees to make the loan. They include the interest rate, length of loan agreement and any requirements the borrower must meet prior to closing.

**Loan Payment Reserves** – A requirement of many loan programs that, in addition to funds for the down payment and other purchase-related costs, you have saved enough money to cover one or two months of mortgage payments after your closing.

**Loan Settlement** – The conclusion of the mortgage transaction. This includes the delivery of a deed, the signing of notes and the disbursement of funds necessary to the mortgage loan transaction.

**Loan-To-Value (LTV)** – The ratio between the amount of a given mortgage loan and the lower of sales price of appraised value.

**Margin** – The set percentage the lender adds to the index rate to determine the interest rate of an ARM.

**Modular Home** – A factory-assembled residence built in units or sections, transported to a permanent site and erected on a foundation. Excludes mobile homes.

**Mortgage** – The conveyance of an interest in real property given as security for the payment of a loan.

**Mortgagee** – The lender on a mortgage transaction.

**Mortgage Insurance (MI)** – See Private Mortgage Insurance or PMI.

**Mortgage Specialist** – The Golf Savings Bank mortgage employee responsible for collecting the completed application and all supporting documents before the entire loan packet is submitted to underwriting. Also known as a processor.

**Mortgagor** – The borrower in a mortgage transaction who pledges property as security for a debt.

**Multiple Listing Service** – A computer-based shared listing service for real estate agents that provides descriptions of most of the houses for sale in an area.

**Nonconforming Loan** – Conventional home mortgages not eligible for sale and delivery to either FNMA or FHLMC because of various reasons, including loan amount, loan characteristics or underwriting guidelines.

**Note** – A general term for any kind of paper or document signed by a borrower that is an acknowledgment of the debt, and is, by inference, a promise to pay. When the note is secured by a mortgage, it is called a mortgage note and the mortgagee is named as the payee.

**Origination Fee** – The amount charged for services performed by the company handling the initial application and processing of the loan.

**Points** – A one-time charge by the lender to increase the yield of the loan; a point is 1% of the amount of the mortgage.

**Preapproval** – A written commitment from a lender, subject to a property appraisal and other stated conditions, that lets you know exactly how much home you can afford.

**Prepays** – Closing costs related to the mortgage loan which are collected at loan closing - including per diem pre-paid interest and initial deposits of monthly escrows of taxes and insurance.

**Principal** – The amount borrowed or remaining unpaid; also, that part of the monthly payment that reduces the outstanding balance of a mortgage.

**Private Mortgage Insurance (PMI)** – Insurance written by a private company protecting the mortgage lender against loss resulting from a mortgage default

**Processing** – The preparation of a mortgage loan application and supporting documentation for consideration by a lender or insurer.

**Purchase Contract (Agreement/Offer)** – An agreement between a buyer and seller of real property, setting forth the price and terms of the sale. Also known as a sales contract.

**Rate Cap** – The limit of how much the interest rate may change on an ARM at each adjustment and over the life of the loan.

**Rate Lock** – The borrower and the lender agree to protect the interest rate, points and term of the loan while it is processed.

**Real Estate Agent** – A salesperson, usually licensed by the state, and supervised by a broker. Agents work solely on commissions earned by selling properties.

**Realtor®** – Person licensed to sell or lease real property acting as an agent for others and who is a member of a local real estate board affiliated with the National Association of Realtors.

**Return On Investment** – The percentage of capital gain that you make on an investment. For example, say you invest \$1,000 into a property, and a year later it is worth \$1,500. Your return on investment equals the profit (\$500) divided by the initial investment (\$1,000) or 33 1/3%.

**Roughed In** – Installing wiring, plumbing and heating vents before the walls are covered.

**Soil Test** – A test boring of the soil from where the house will sit to ensure that it can handle the load of the structure.

**Structural Engineer** – Develops structurally sound solutions that fit with an architect’s design and ensure that structures can withstand stresses from earthquakes, wind, ice and snow.

**Survey** – The measurement and description of land by a registered surveyor.

**Title Insurance** – An insurance policy that protects a lender and/or homebuyer (only if homebuyer purchases a separate policy, called owner’s coverage) against any loss resulting from a title error or dispute.

**Truth-In-Lending Statement** – A Federal law requiring full disclosure of credit terms using a standard format. This is intended to facilitate comparisons between the lending terms and financial institutions.

**Underwriting** – Analysis of risk and setting of an appropriate rate and terms for a mortgage on a given property for given borrowers.



**Golf Savings Bank**

*Everything you'd never expect from a mortgage lender.*

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