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The Outlook

THE MORTGAGE CORNER

“Self-Built Homes”

Some people may feel they can build their own home for less than it would cost them to buy a new home. Others feel they are not qualified to take on such a big project. Just what is involved in the financing of building your own home?

There are a couple of different ways to look at the financing – either acting as your own General Contractor, or hiring someone else to do it.

When you act as your own General Contractor, there are basically two things that a lender will look at. First, if you are qualified to do the job – based on previous construction experience and what industry you are currently employed in, etc. Secondly – how much of the construction you plan to handle yourself, and how much you will hire out to other contractors.

If you plan to do some of the work yourself and no other single contractor will perform half or more of the work – you may qualify as your own General Contractor. However, if you are hiring someone else to do most of the building for you, that contractor will need to be insured under the New Home Warranty Program.

And how do the funds get advanced during a construction project? The stages of advances will vary somewhat based on whether you have an insured mortgage or a conventional mortgage. But a general rule of thumb is that you need to have enough of your own funds to get to the “lock-up” stage before the financial institution will give you any of the mortgage funds. So you are always using your own money first, which means you need a fairly substantial sum of money to work with.

After the lock-up stage, or air-tight stage, the second advance is often made when the plumbing, heating and electrical systems are roughed in, the drywall is up and the exterior is finished.

The third stage consists of the systems in running order, cabinetry installed. The fourth is when the property is pretty much completed - flooring installed, basement floor poured and the interior is decorated. An inspector will be required to view the property at the various stages, before the mortgage funds are advanced.

It is a big project – but the satisfaction of getting your home exactly how you want it is a great reward! Talk to your mortgage broker to see if a self-built mortgage is right for you.

Midwestern Mortgage