A Practical Guide to Building, Buying or Remodeling your Dream Home

Provided by the
Home Builders Association
of St. Louis and Eastern Missouri

WE BUILD NEIGHBORHOODS
HBA
HOME BUILDERS ASSOCIATION

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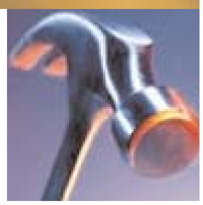


Building Your Dream Home

A new home is as good as money in the bank.

No other investment gives you the financial leverage you gain when you own a new home.

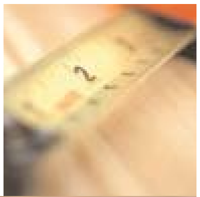
If you're a renter, the time to start building equity in a new home is now. If you're already a home-owner, now is a good time to move up to the dream home you've been waiting for.

Why should you choose a member of the Home Builders Association of St. Louis and Eastern Missouri (HBA) to be your builder or remodeler? What does membership in the HBA mean?

The quality of your new home will largely be determined by the abilities of your builder. An important indicator of professionalism is whether the builder belongs to an association similar to the HBA. Becoming a dues-paying member of such an organization usually means that the builder is an established member of the community who cares about the industry as a whole, not just his or her bottom line. The HBA offers its members the latest educational programs, including those that provide information on how to serve you better.

Be sure to search our web site for a list of HBA builder and remodeler members. Go to the left side of the home page, look under the HBA logo and select either builder or remodeler; when the web pages is brought up just hit search. There is no need to enter a specific company name unless you are looking for a certain company. Don't hesitate to call them. They look forward to working with you on your new home or remodeling project!

Beginning the search for your builder



When you look for a builder, you're looking for someone you can trust.

You also want to be able to communicate and have a positive working relationship with them.

The best way to find the right builder is to do your homework.

Begin the search for your builder as carefully as you would a spouse, business partner or babysitter. Make sure your builder is not only experienced, aware of your dream and budget, but also that your personalities connect. The more knowledge you have, the easier your purchasing decision. Here are some places to start:

- The Home Builders Association of St. Louis and Eastern Missouri, 314-994-7700 (x122) or *www.stlhba.com*
- The *St. Louis Post-Dispatch New Home FOLIO* (Sunday edition)
- *Suburban Journals JOURNAL HOMES*
- The St. Louis Post-Dispatch FOLIO-ONLINE and JOURNAL HOMES online, can be found at *www.stltoday.com/realestate*
- New Homes Guide Magazine
- *www.newhomeonline.com*
- Fine New Homes of St. Louis, Sunday, 10 a.m. on CBS KMOV-TV 4
- www.*FineNewHomesTV.com*
- *www.homebuilder.com*
- The National Association of Home Builders at *www.nahb.org*

You should also talk to homeowners. When you do, take along a notebook to record the information you find and your personal impressions about specific builders and homes. Doing so will help you make comparisons later. Some questions you can ask people are:

- Are you happy with your home?
- Did the builder do what was promised in a timely manner?
- Would you buy another home from this builder?

Usually people tell you if they are pleased with their homes. And if they are not, they'll probably want to tell you why.

It is always a good idea to get to know the builder. Some questions you might ask are:

- Does the builder belong to the local builders association?
- How long has the builder been in business?
- Who do you contact for customer service after the sale?
- Does the builder offer a warranty?
- What responsibility does the builder assume for the work of the subcontractors?
- Does the builder have a list of references consisting of previous customers?

Selecting the right location for your needs

Location, location, location! Next to selecting your builder, location is one of the most important considerations when choosing to buy.

You need to take a personal look at the neighborhood. Take the opportunity to speak with homeowners in the community where you are looking to buy. Your builder's sales representative can also offer valuable information on the school systems and community facilities.

To help you better understand your location priorities, use the checklist below:

- Is the location near enough to your job?
- Is the school system good?
- Do the area's day care facilities meet your needs?
- Will children be safe from traffic hazards?
- Are parks and recreation facilities close?
- Are the necessary stores nearby?
- Are the neighbors likely to be compatible with your lifestyle?
- Will you need access to public transportation?
- How close are police, fire and medical facilities?
- Is there adequate parking or a garage?
- Are there places of worship in the area?
- Do the property taxes and insurance rates fit your budget?
- Does local government offer the services your family needs?
- Is garbage collection adequate?
- Does the community have a reliable source of drinking water?
- Is the home sheltered from sources of smoke, noise or odors?
- Is the neighborhood safe from potential hazards such as large gas or oil tanks or streams that may cause floods?
- Are any development plans under consideration that could substantially change the nature of the community?

A home is primarily a place to live, but it is also an important investment. Consider the appreciation potential of any home and the possible future influences that location, housing supply and demand, and other market factors will have on the value of your new home.

The building process

Now that you have found just the right builder and a great location it's time for the building process.

Building a new home requires a great deal of your attention. The most valuable thing you can do as a conscientious homeowner is make regular house inspections during the construction. Catching a mistake early will save headaches later.

After the contracts are signed, the loan is secured, all plans are finalized and permits are obtained it's time to clear your lot and begin building your dream home.

Following is a basic construction schedule:

- Stake and clear lot
- Excavate for foundation
- Layout, dig and pour footings
- Pour foundation
- Steel and lumber delivery
- Waterproofing and drain tile
- Backfill foundation
- Set steel
- First floor deck and wall framing
- Second floor deck and wall framing
- Set roof trusses
- Frame roof and install roof plywood
- Install windows and doors
- Concrete slabs in basement and garage
- HVAC
- Plumbing
- Electric
- Specialty rough-ins: central vacuum, alarm, telephone and television systems
- Roofing
- Exterior finishes
- Insulation
- Drywall
- Floor finishes
- Interior painting
- Install interior doors and trim
- Install cabinetry
- Install appliances
- Install grills and registers
- Plumbing fixtures
- Patios, porches, sidewalks and driveway
- Decks
- Install electrical fixtures
- Hardware for doors and bathrooms
- Final paint, trim, plumbing and electrical
- Final building inspection (inspections will happen continually throughout the building process)
- Use and occupancy certificate
- Cleaning
- Final walk through
- Move-in

The schedule for the completion of your home will depend on many aspects including size of the project, weather conditions, material availability, inspections and more. Building a house is a complicated process. If you realize delays can happen, the process will be much easier.

Pre-closing orientation

Before you close on your new home, you and your builder will "walk through" your home for a new home orientation.

The orientation provides an opportunity for you to learn how your new home works and to spot items that need to be corrected or adjusted.

Often, a builder will use the walk through to inform the new homeowners about:

- The operation of the home's components.
- The homeowner's responsibilities for maintenance and upkeep.
- Warranty coverage and procedures.
- The community in which the home is located.

Learning about maintenance and upkeep responsibilities is very important. Most new homes come with a one-year warranty on workmanship and materials. However, such warranties do not cover problems that develop because of failure to perform required maintenance. Many builders provide a booklet explaining common upkeep responsibilities and how to perform them.

An effective way to handle the house inspection is with a checklist. The list should include everything that needs attention, and you and your builder should agree to a timetable for repairs.

Builders prefer to remedy problems before you move in, because it is easier for them to work in an empty house. Some items may have to be corrected after move-in.

It is important that you be very thorough and observant during the walk through. Carefully examine all surfaces of counters, fixtures, floors and walls for possible damage. Sometimes disputes arise because a buyer may discover a gouge in a counter top after move-in and there is no way to prove whether it was caused by the builder's workmen or the homeowner's movers. You may be asked to sign a form after the walk through stating that all surfaces have been inspected and that there was no damage other than what has been noted on the walk through checklist. Ask a lot of questions during the walk through and take notes on the answers.

Never be afraid to appear stupid by asking too many questions. That is how you learn. It is important to view the walk through as a positive learning experience that will enhance your enjoyment of your home.

Should a warranted problem arise after you move in, the builder is likely to have a set of warranty service procedures to follow. Except in emergencies, requests for service should be in writing. This is to ensure that everyone clearly understands the service to be performed.

Many builders schedule two visits during the first year – one near the beginning and the other near the end – to make necessary adjustments and to perform work of a non-emergency nature. You should not expect a builder to rush out immediately for a problem such as a nail pop in your drywall. Such problems occur because of the natural conditions of a new home such as the drying of lumber, drywall/taping compound, concrete, caulking, grout, etc. and are best addressed in one visit near the end of the first year.

Pre-closing orientation check list

Here's a check list to help you with the walk through process.

Grading

- Does the ground around the foundation slope away from the house?
- Make sure the water does not pond in swales. To check, water the areas with a hose if possible.
- Are there signs of erosion?
- If the house has basement window wells, are they clean and graveled?

Roof and Gutters

- Are the shingles flat and tight?
- Is the flashing securely in place?
- Do the gutters, downspouts and splash blocks direct water away from the house?

Exterior Appearance

- Are the windows and doors sealed and protected by weatherstripping?
- Are the trim and fittings tight? Are there any cracks?
- Is the paint smooth over the surface and trim?

Doors and Windows

- Are all doors and windows sealed?
- Do they open and close easily?
- Is the glass properly in place? Is any loose or cracked?

Finishes

- Is the painting satisfactory in all rooms, closets and stairways?
- Did the painters miss any spots?
- Are the trim and molding in place?

Floors

- Is the carpet tight?
- Are there any noticeable seam gaps in vinyl tile or linoleum?
- Are wooden floors properly finished?

Appliances, Fixtures, Surfaces, Etc.

- Do all of the appliances operate properly?
- Are all of the appliances the model and color you ordered?
- Check all faucets and plumbing fixtures to make sure they operate properly.
- Check all electrical fixtures and outlets.
- Does the heating, cooling and hot water heater operate properly? Test them to make sure.
- If the home has a fireplace does the damper work?
- Are there any nicks, scratches, cracks or burns on any surfaces?
- Test the doorbell, the intercom system, garage door opener and any other optional items.

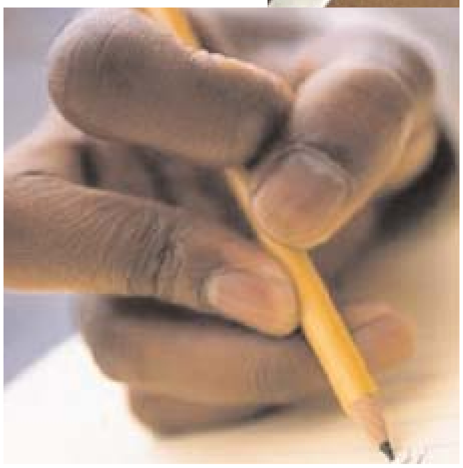
Basement and Attic

- Are there indications of dampness or leaks?
- Is there significant cracking in the floors or foundation walls?
- Are there any obvious defects in exposed components, such as floor joists, I-beams, support columns, insulation, heating ducts, plumbing, electrical, etc.?

Certificate of Occupancy

- Has your local municipality signed off on your house?

Some problems may not be readily apparent during the walk through. Even a professional inspector might miss a few. Most warranties cover problems that are the result of faulty workmanship. However, warranties usually exclude problems that result from owner neglect or improper maintenance.



Solving building concerns

The typical house contains more than 3,000 different parts. These components must be assembled with skill to form the new product you will call home.

It would be unrealistic to expect your new home to be perfect. Even the best built homes are likely to need a few corrections. Most problems are corrected routinely by the builder. However, if a non-routine problem should arise, you should follow certain procedures to correct the situation.

1. First, identify the exact nature of the problem. Then you should put it into writing and send it to the builder. Many builders require all complaints to be in writing and will respond to telephone complaints only in emergencies. Use the following guidelines when you write your letter:
   - Include your name, address, and home and work telephone numbers.
   - Type your letter if possible. If not, use printing or handwriting that is easy to read.
   - Keep your letter brief and to the point, but include all relevant details.
   - State exactly what you want done and when you would like the matter resolved. Be reasonable.
   - Include all relevant documents regarding the issue. Send copies, not originals.
   - Keep a copy of the letter for your files.

2. Before you write and send your letter, familiarize yourself with your warranty coverage. Follow the procedure for making claims as stated in the written warranty. Some builders handle the warranty repairs themselves. Other builders may have contracted with a home warranty company to handle all warranty claims. Some items, such as appliances, are usually covered by a manufacturer's warranty, and are not the responsibility of the builder. If a problem develops after the express warranty has expired, the builder is not required to fix it under the terms of the written warranty.

3. Always go directly to the builder, the home warranty company, or the manufacturer, as applicable, with your complaints. Do not send letters to lawyers, government agencies, home builders associations or any other third parties before you have given your builder a reasonable chance to correct the problem. Interference from outsiders may impede the handling of your complaint. Also, sending angry, sarcastic or threatening letters is not likely to expedite your case. Such letters may do more harm than good.

4. You should be aware that many states have enacted notice and opportunity to repair laws that require you to follow certain statutory procedures before you can take legal action. Typically these laws require you to provide the builder with written notice of the problem, an opportunity to inspect, and an opportunity to correct the problem within a certain period of time. These laws have been passed in an effort to efficiently resolve homeowners' problems and to avoid unnecessary lawsuits. Remember, lawsuits are expensive, time consuming, and in many cases traumatic. They should be avoided, if possible.

5. In the event of an impasse, contact your local home builders association. If your builder is a member, the local association may have a system for examining and resolving construction complaints without going to court. The builders association may be able to bring both sides together to reach an agreement. However, keep in mind that a builders association does not have the authority to compel either side in a dispute to do anything.

To voice your concerns to the St. Louis HBA you must put your complaint in writing and send it to:

Complaints
HBA of St. Louis and Eastern Missouri
10104 Old Olive St. Rd.
St. Louis, MO 63141

Remember that most builders are seeking customer referrals and repeat buyers. They want you to be satisfied. If a problem develops, remain calm and approach your builder in a reasonable manner. By following the procedures described above, chances are that you will be able to resolve the problems.

Buying a New Home

If you are thinking of buying a new home, you must pay close attention to many details to ensure that you find one that will suit your needs and preferences.

Before you start shopping, you should sit down with the members of your household to discuss the features you would all like in a new home. You should also determine how much you can afford to pay for a new home.

Organize your thoughts by making a list of features you would like in your home. If you like to cook, you may want a home with a large, well-equipped kitchen. Or you may settle for a small kitchen, so that you can have extra space for a library, office, or computer room. Some home buyers seek large, open interior spaces, while others prefer traditional rooms that afford more privacy. Some choose homes with large yards. Others look for options where they can avoid yard maintenance entirely.

While looking for a home, consider whether your needs are likely to change over time. If you plan to add rooms, find out if there is enough space on your site for such expansion and whether such additions are permitted by the local jurisdiction.

Advantages to buying a new home

Convinced that now is the time to buy a house?

Why not get the most for your money and buy a brand new home?

New homes have numerous advantages:

Low maintenance costs
New homes come with everything new, which means fewer repairs on appliances, carpet and siding, giving you more free time to enjoy your home and your family.

Warranties
There is usually a one-year warranty on workmanship and materials. Many builders also offer insured structural warranties for ten years.

Amenities
New homes usually include built-in appliances, central air conditioning and heating systems, more electrical outlets and much more.

Energy Efficiency
New homes consume half as much energy as homes built prior to 1980. This benefits the environment, your health and your wallet.

Safety Features
Better heating systems, built-in smoke detectors, and better electrical power and wiring systems all decrease the risk of fire in a new home.

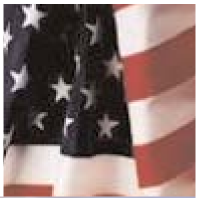
Size
On average, a home built today has 700 more square feet of living space than one built 20 years ago. This means more windows, closet space, spacious garages, larger kitchens and more bathrooms.

Spacious Floor Plan Options
New home buyers can choose from hundreds of floor plans to find a home that matches their lifestyle.

Choice of Interior and Exterior Finishing
New home buyers can choose carpet colors, wallcoverings, paint colors, lighting fixtures, trees, shrubbery, etc.

Home-Site Selection
Prospective buyers can choose a piece of land and build a house to suit their needs.

Value
New homes have a longer life expectancy; therefore they have higher appraisal and more favorable resale values than older homes.



Buying the House that Fits Your Budget

With so many beautiful new homes on the market, you're sure to find the perfect home in your price range. But how do you figure out how much house is right for you?

Lending companies generally recommend that you spend no more than 28% of your gross monthly income on your monthly mortgage payment. Your mortgage consists of principal, interest, taxes and insurance premiums (PITI). There are many lending companies ready to review your household income and expenses to quickly determine the price range that best suits your budget. Many lending services can be found online. Some suggestions are:

- *www.fanniemae.com*
- *www.freddiemac.com*
- National Financial Services Network at *www.nfsn.com*
- your own banking institution

If you don't want to use the "28% rule" noted above, you can calculate the amount yourself. To begin the budget process, determine your household's monthly income and deduct all non-housing expenses. You should be able to make a reasonable estimate of your spending habits and expenses from your receipts, checkbook and credit card statements.

Once you identify where you spend your money, calculate the house payment you can afford. Two worksheets (pages 26 and 27) are included to help you. The first worksheet helps determine your monthly housing costs. The second helps calculate the amount of money available for a down payment on your new home. After you have determined a comfortable mortgage payment and down payment, consult a monthly payment chart to find the qualifying loan amount. The loan amount plus your down payment will be the top price range of the house you can comfortably afford. You can also go online to *www.move.com* for up-to-date interest rates and surveys.

Mortgage Basics

A mortgage is a long-term loan that uses real estate as collateral.

A mortgage loan is commonly used for buying a home. Mortgage loans are usually fully amortizing, which means that the monthly principal and interest payment will pay off the loan in the number of payments stipulated on the note. Mortgage loans are also described by the length of time for repayment, such as 15 or 30 years, and whether the interest rate is fixed or adjustable. A mortgage loan where the down payment is less than 20% usually requires private mortgage insurance (PMI) or government insurance or guarantee.

Most mortgage loans require monthly payments of principal and interest plus additional payments that are set aside in escrow accounts to pay property taxes and homeowners insurance. In addition, loans with PMI or government mortgage insurance may require payment of a monthly mortgage insurance premium as part of the regular monthly payment.

Some lenders offer bi-weekly mortgages, which call for 26 payments per year. The details of bi-weekly mortgages can differ, so it's best to ask the lender to outline the details of how these programs work.

Home buyers who can afford the higher monthly payment sometimes prefer a 15-year mortgage to a 30-year mortgage. Interest rates on 15-year mortgages usually are slightly lower than 30-year rates. In addition, a home buyer financing a home purchase with a 15-year mortgage will repay principal substantially faster and will pay far less total interest over the term of the loan.

Conventional Mortgages
A conventional mortgage is one that is not insured or guaranteed by the government. Conventional loans with a down payment of less than 20% typically require private mortgage insurance (PMI), which protects the lender if the homeowner defaults on the loan.

FHA-Insured Loans
The Federal Housing Administration (FHA), part of the U.S. Department of Housing & Urban Development (HUD), operates several low down payment mortgage insurance programs that buyers can use to purchase a home. FHA-insured loans generally require the buyer to make a three percent cash contribution to the down payment and closing costs. FHA-insured loans are available from most of the same lenders who offer conventional loans.

The maximum FHA-insured loan amount for a one-family home ranges from about $155,000 to $280,749 depending on local median home prices and other factors. Your lender can provide more details about FHA-insured mortgages and the maximum loan amount in your area, or find information on FHA's local area loan limits directly from HUD's web site at *www.hud.gov*.

VA-Guaranteed Loans
If you are a veteran of military service, reservist, or on active military duty, you may be able to obtain a loan guaranteed by the Department of Veterans Affairs (VA), which requires little or no down payment. Get more information about the VA Loan Guaranty program at *www.vba.va.gov*.

Rural Housing Service Loans
The Rural Housing Service (RHS), which is a part of the U.S. Department of Agriculture, offers Section 502 Direct and Guaranteed Rural Housing loans to home buyers located in rural areas. Section 502 Direct loans offer reduced interest rates to lower-income borrowers who qualify, and are arranged directly through local USDA County Agents or through USDA Rural Development state offices. Go to *www.ruralhome.org* for more information.

State Housing Finance Agency Loans
State Housing Finance Agencies (HFA) provide loans to first-time home buyers, often at below-market interest rates. Program availability and eligibility requirements vary from state to state. You should check with your state HFA for programs that are currently available. For a link to Missouri's HFA from the National Council of State Housing Agencies web site go to *www.ncsha.org*.

Adjustable Rate Mortgages (ARMs)
With a fixed-rate mortgage, the interest rate stays the same during the life of the loan. But with an ARM, the interest rate changes periodically, usually in relation to a specific index such as a cost of funds rate or the Treasury bill rate. Payments may go up or down accordingly. Adjustable-rate mortgages (ARMs) are characterized by the time frame for adjustment, such as 1 year, or 3, 5, 7, or 10 years. Hybrid ARMs have grown in popularity because they may offer a favorable fixed rate of interest for a time, such as 3, 5, 7, or 10 years, after which the loan becomes a 1-year ARM.
Lenders generally charge lower initial interest rates for ARMs and Hybrid ARMs than for fixed-rate mortgages. This makes the ARM easier on your pocketbook at first than a fixed-rate mortgage for the same amount. It also means that you might qualify for a larger loan because lenders sometimes make this decision on the basis of your current income and the anticipated monthly payments for the first year or two. Moreover, if interest rates remain steady or move lower, your ARM could be less expensive over a long period than a fixed-rate mortgage.

Against these advantages, you have to weigh the risk that an increase in interest rates would lead to higher monthly payments in the future. It's a trade-off – you get a lower rate with an ARM in exchange for assuming more risk.

Here are some things to consider with an ARM or a Hybrid ARM:

- Is my income likely to increase enough to cover higher mortgage payments if interest rates go up?
- How long do I plan to own this home?
- Can my payments increase even if interest rates generally do not increase?
- What index will be used to adjust the mortgage rate?
- How often will the interest rate be adjusted? Every year? Three years? Five years?
- What is the initial mortgage interest rate?
- What is the margin on the interest rate? The margin is the amount that the lender adds to the index rate to calculate your mortgage rate.
- What limits or caps have been placed on the adjustments? Find out the "worst case" situation in the event of a sharp increase in your index rate.
- Is the loan convertible? If so, is there a cost to convert?
- Is there a prepayment penalty? If you sell your house and pay off your loan early, you may be assessed a fee.

CLOSING ON YOUR HOME

Closing (or settlement) is the process which passes ownership of a property from seller to purchaser. Closing on a new home can seem stressful.

Home buyers are usually required to sign a seemingly endless pile of documents, most of which are written in legalese.

Before you go to closing, there are certain important items you should know so that you can achieve the best possible terms for yourself in the transaction.

Ask a lender for a copy of the HUD pamphlet titled *Settlement Costs*. Most lenders are required to provide their loan applicants with a copy of this document under the Real Estate Settlement Procedures Act (RESPA). It provides a good description of the closing process and explains most of the expenses you will encounter.

When you apply for a loan, the lender is required by law to provide you with a good faith estimate of closing costs. Shortly before closing, you will be told exactly how much you owe so that you can get a cashier's check. A personal check is generally not acceptable. In some instances, you may have money returned to you instead of having to pay.

Before you close, familiarize yourself with important settlement terms.

- Appraisal fee
- Attorney's fees
- Credit report
- Earnest money
- Escrow fees and accounts
- Loan origination fee
- Loan discount (points)
- Property survey fee
- Recording fee
- Closing costs between buyer and seller
- Title search and insurance

Before the closing is complete make sure that you have received or will be sent copies of all the important documents, including:

- Sales contract
- Land survey
- Warranties and instruction booklets from the manufacturers for equipment in the house
- All tax payment receipts
- All insurance polices (some might be sent later after they have been properly endorsed)
- The note and deed to your property (which will probably be mailed to you after being placed on record in your local registry of deeds office)
- Home maintenance and care instructions from your builder

Moving to your new home

Organization is the key to an easy move, so plan carefully.

If you hire a professional mover, choose one with a good performance record. Make sure to get written estimates and references from several moving companies before making your final decision.

Ask your mover about the company policy on breakage. Standard moving company insurance may pay only a percentage of the cash value of broken items. Full protection will cost more but may be worth the added expense. Tell the company up front about any special requirements your move will involve. And, remind them the day of the move.

Typically, the actual cost of your move is determined by weighing your belongings after they have been loaded into the van, plus charges for packing, insurance and other items. If the cost turns out to be higher than the estimate, the company will notify you. The moving cost may be determined by an hourly rate when moving short distances.

If the moving company is packing for you, it will take place one or two days before the van is loaded. Supervise packing and all phases of the move. Do not expect to pack plants, firewood or flammable items. You can save money by packing items yourself. You may be able to buy boxes and packing materials from your mover. However, the boxes you pack may not be covered by the mover's insurance. Have a floor plan for your new home so the mover can place beds, tables and other heavy items where you want them.

If you prefer to move yourself, plan carefully. Before you rent a truck and call your friends to help, figure out approximately how much you have to move, where you are going to put it and if any items will require special handling. Pay attention to details.

Before you move, pack for your family as if you were going to stay in a hotel for a few nights. Also, pack a box with some bedding and and cooking items. With thoughtful planning, you should be able to survive comfortably amid the clutter for an evening or two.
To learn more about planning your move, finding a qualified mover or additional packing tips visit the moving section of *www.homestore.com* or the American Moving & Storage Association web site at *www. moving.org*.

Complaints? The Federal Motor Carrier Safety Administration, a division of the Department of Transportation, addresses consumer complaints ranging from failure to deliver or damaged property to property being held for bogus, excessive charges on interstate residential moves. If you feel that you have been victimized by a moving company during an interstate move, call the 24-hour toll-free hotline at 1-888-368-7238 or fill out an online complaint form at *www.1-888-dot-saft.com/*.

To file a complaint for an intrastate move contact:

ILLINOIS
Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701
(217) 782-4654

MISSOURI
Division of Motor Carrier & Railroad Safety
Harry S. Truman Building Rm. 230
301 West High Street
P.O. Box 1216
Jefferson City, MO 65102
(573) 751-3358

Is it time to remodel?

Perhaps it was the moment you realized avocado green and harvest gold are no longer the "in" colors for today's trendy kitchens.

Or maybe you asked yourself "Why am I standing in line to use my own bathroom?" Whatever the motivation, the thought has crossed your mind: Maybe it's time to remodel . . .

If you decide to follow through on that thought, you'll join millions of others who decide to remodel their homes each year. The reasons for remodeling are as varied as the projects we undertake. Some of these include:

- Adding more space.
- Upgrading cabinets, counters, appliances, and fixtures.
- Creating a floor plan that's customized for your lifestyle.
- Improving energy efficiency with new windows, doors, insulation, and climate control systems.
- Increasing the resale value of your home.

Before you head too far down the remodeling path, it's a good idea to think through your wants and needs.

Decide what changes you want to make.

- Ask yourself and other family members what you like and dislike about the house, then create a prioritized list.
- Look at magazines and collect pictures of what you like.
- Think about traffic patterns, furniture placement, colors, lighting, and how you want to use the remodeled space now and in the future.

Choosing a remodeler

Finding the remodeler who is right for you is not as simple as picking up the phone book.

On a big project, you may be working closely with this individual for several months, so you want to do everything possible to ensure that you make the right decision. Here are some good places to start your search:

- Seek referrals from friends, family, neighbors, co-workers, and others who have had remodeling work done.
- Talk to independent trade contractors, building materials suppliers, architects, engineers, home inspectors, and local lenders.
- Look for professional certifications like Certified Graduate Remodelor (CGR) and Certified Aging-in-Place Specialist (CAPS).
- Check the list of HBA remodelers included in the back of this book.

Once you have identified some strong candidates, do even more checking to ensure that these are the kinds of remodelers with whom you would like to do business.

An essential step in your decision-making process is to check a remodeler's references. A reputable remodeler will give you a list of names and phone numbers of current and former customers. It is your job to take the time to interview the people on the reference list (preferably in their homes so that you can take a look at the remodeler's work).

Some of the questions to ask include:

- Would you hire this company again?
- Did the remodeler maintain a neat work site?
- Did the crew show up on time? Were you pleased with their work style?
- Was your project completed on time and within the budget?
- Was the remodeler easy to talk to and did he or she keep you informed as the job progressed?

The Right Fit

Remodeling is a very personal process. The remodeler you hire will be part of your home life for several weeks or months, so it's important to make sure that your personalities work well together. If, for example, you want to know every detail as the project progresses, you probably won't be happy with a remodeler who gives one-word answers.

The bottom line is: Do you feel comfortable with this individual? A strong rapport and close communication with your remodeler will help make any job go well.

Pre-Qualify your Remodeler

When you hire a remodeler, you are buying a service rather than a product.

The quality of service the remodeler provides will determine the quality of the finished project and your satisfaction. Listed below are some qualifications you will want to explore and questions you will want to ask when you interview a remodeler.

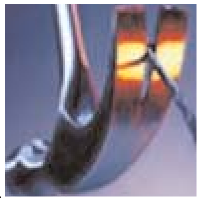
Does the remodeler:

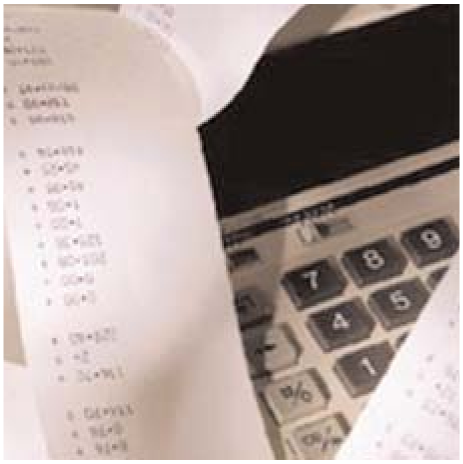
- Maintain a permanent mailing address, a phone number, and a pager or answering system? You want to be able to reach the remodeler quickly and easily – especially at critical times.
- Carry insurance that protects you from claims arising due to property damage or job site injuries? Ask for a copy of the remodeler's insurance certificates so you can be sure that you are not liable for property damage or job site-related injuries. Also ask how much the project will add to your home's value and then obtain the necessary additional insurance.
- How long has the company been in business? Longevity usually suggests financial stability.
- Does the remodeler maintain solid relationships with experienced independent trade contractors and work with them as a team to keep your job running smoothly?
- Possess a trustworthy reputation among customers and those in the remodeling industry?
- Does the remodeler have a track record of successful projects similar to yours?
- Participate in a trade organization such as the National Association of Home Builders Remodelors™ Council? Membership reflects a remodeler's commitment to professionalism in the remodeling industry.
- Carry a designation such as Certified Graduate Remodelor™ (CGR), Certified Bath Designer (CBD), or Certified Kitchen Designer (CKD)?
- Have sound structural and architectural knowledge of what is likely to be behind a wall or under a floor to help provide reliable estimates. Extremely low bids may reflect a remodeler's lack of this knowledge and a poor understanding of the actual costs involved.
- Know what products and materials would likely be used for your project?
- Offer an array of options when selecting products, materials, and techniques?
- Specialize in particular types of projects?
- Arrange for the building permit? Remember that the person who obtains the permit is the contractor of record and therefore liable for the work.
- Offer a warranty? If so, what kind and for how long? What is covered under the warranty and what is not?
- Understand the scheduling issues required to begin and complete your job within your timetable?
- Respond promptly to your inquiries?
- Emphasize customer service?
- Listen to and understand your needs and wants?
- Facilitate and encourage communication? Ask how the remodeler handles communication during construction (such as a message center in the house for you and the remodeling team).

RED FLAGS:

- Someone who wants you to pay cash upfront.
- Someone who wants you to pay for most of the of the job before it starts.
- Someone who says you don't need a written contract.
- Someone who comes to your door and wants to sell you right then and there.

With the answers to these questions, you'll be able to pick the remodeler who is best for you.





Ask for estimates

Ask for a written estimate of the work to be done based on a set of plans and specifications. This is a time-consuming process for the contractor, so you should be prepared to pay for this package.

Make sure that you're comparing apples to apples. Estimates from different remodelers need to be based on identical project specifications.

Conventional wisdom states that you should get at least three bids before hiring a contractor. But it's a mistake to let price alone drive your selection. If you like a remodeler and are confident that he would do a good job, don't automatically switch to another contractor (who may not rank as high in customer service, competence, communication, etc.) if the estimate is more than you can afford. You may be able to scale down by making a few modifications – using quality stock rather than custom designed cabinets or selecting less expensive appliances or fixtures.

Living with your remodeling project

You've researched, interviewed, and hired the best remodeler for the job.

Congratulations!

The only step that remains, of course, is the project itself.

Your Home Becomes a Work Site
Having your home remodeled is uniquely different from having a new home built. With remodeling, your home becomes the work site. You live side-by-side with the project from start to finish.

The atmosphere of a remodeling project can lead to disrupted routines and impact your personal space. Just remember this will pass and focus on the progress being made. See the remodeling process as an adventure.

Once construction begins, you'll probably long for simple pleasures like a dust-free home or a fully functioning kitchen or bath. But the end result will be well worth these inconveniences.

You can prepare for some of the inconveniences by setting up a temporary cooking quarters by moving the refrigerator, toaster oven, and microwave to another room. Arrange a dishwashing station in your laundry room. If the weather is warm fire up the grill.

To keep out as much dust as possible: 1) Seal off doorways and stairs; 2) Turn off central air or heat when workers are sanding and stock up on extra filters so that you can change them often; 3) Have deliveries made though a designated entrance; 4) Use doormats and temporary floor coverings where appropriate; 5) Remove anything that might get damaged by the dust or at least cover it with plastic drop cloths that are taped shut.

Communicate With Your Remodeler
Consistent and open communication between you and your remodeler will enhance your understanding of the project, provide an opportunity to exchange ideas, and ultimately help to make the experience a positive one for everyone involved.

To facilitate this process, you need to:

- Determine who you and your remodeler should contact for daily decisions or an after-hours emergency and have a backup for each.
- Create a place in your house where the contact persons can leave messages for each other.

- Speak up. If you are uncertain about any aspect of the project, be sure to let the contact person know.
- Plan for and actively participate in a pre-construction meeting. This allows your remodeler to clarify procedures and explain how the job will progress. It also offers both you and your remodeler an opportunity to prepare for those issues that may arise later. This meeting is a forum for all participants to define their expectations and agree on the anticipated outcome.

Some of the issues you may wish to cover at this meeting include:

- Will you allow your remodeler to place a company sign on your property? Remember that, in addition to being a marketing tool, signs help contractors and suppliers locate your home.
- Do you have a place on site to store building materials for your project?
- Who is responsible for removing your belongings and later returning them to the newly remodeled space?
- How will you ensure that your children and pets stay out of the work space?
- Does the remodeler anticipate any interruptions of utilities during the project? If so, when and for how long? At certain stages of construction, the project may affect basic household necessities like water and electricity. Will you need to vacate the house at any time?
- Talk about any items such as lighting fixtures or cabinets that you want salvaged and where you will store them.
- Decide where the dumpster will be located.
- What are your expectations regarding clean up? Will sweeping be sufficient for a daily cleaning, or will you need a more thorough cleaning in order to use the space?

You should also use the pre-construction meeting to establish guidelines for the remodeling crew working on the project:

- What times will workers begin and end work at your home? Be sure to consider the neighbors as well as household members. Your remodeler may contact your neighbors and give them a phone number to call if they have any concerns about your project.
- Agree on a pathway for workers, equipment and vehicles to avoid damaging outside structures and landscaping.
- Will bathroom facilities in your home be available to workers?
- What is the remodeler's policy on the use of profanity? If you are especially sensitive to this issue, you should let your remodeler know.
- Will you allow workers to play their radios at a reasonable volume? Are there any stations or programs that you do not want played?
- Determine whether or not workers will be allowed to smoke or use your telephone and bathroom.

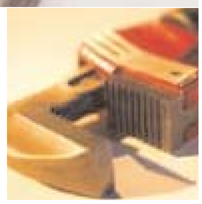
Schedule And Time Your Project Carefully

The time it takes to complete a remodeling project varies quite a bit depending on the scope of the project and uncontrollable factors like the weather. A simple bathroom remodel may only take a few weeks, while a two-story addition may take six months or more.

To stay on schedule, you need to plan ahead:

- Expect to set aside time for telephone calls and regular meetings with your contact person to review progress and discuss the schedule for remaining work.
- Ask your remodeler which product orders require the longest lead times. For custom-made items, it is especially important to make your selections as early in the process as possible.
- Realize that changes you make to the project after work has begun may affect the schedule and the budget. Change orders should include prices, full descriptions, and authorization in writing before any new work begins.

Most importantly, maintain a sense of humor. Remember that certain things are out of your control and it's best to laugh rather than upset yourself about things like the weather or delayed delivery of materials.



Financing your remodeling project

One of the most important considerations for your home improvement project is financing. After all, the project will go nowhere if you can't pay for it.

Plus, when to pay your remodeler.

Fortunately, there are several options that can provide the dollars you need. Four of the most common are a home improvement loan, a home equity line of credit, a home equity loan (second mortgage), and a cash-out refinancing of your current mortgage. However, the simplest method of financing is cash.

Cash

If you have cash in savings to pay for your remodeling project, this may be the best way to finance your home improvements. But be sure to consider the fact that, by paying in cash, you tie up money that could be earning interest in other investments. In other words, you need to look at the interest rate that you would be charged by financing the project and compare this to the interest you could earn by investing these funds.

Also remember that interest payments on a home improvement loan may be tax-deductible, while you can't write off the expenses of a remodeling project paid for in cash. Crunch the numbers and meet with a financial advisor to determine whether paying in cash will really pay off in the long run.

Home Improvement Loan

Two special loans administered through the Federal Housing Administration (FHA) are the Title I and Section 203(k) programs. A Title I loan allows you to borrow up to $25,000 for improvements to a single-family home. These are fixed-rate loans that FHA insures against the risk of default. Loans must be made by an approved Title I lender.

The 203(k) program is not as well known, but if you are looking to purchase a fixer-upper, it is a terrific opportunity. It allows homeowners to receive a single, long-term, fixed or adjustable rate loan that covers both the acquisition and rehabilitation of the property. To obtain a loan under the 203(k) program, you must use an FHA-approved lending institution. Most mortgage lenders are approved to make loans through this program.

Home Equity Line of Credit

A home equity line of credit is a form of revolving credit in which your home serves as collateral. This allows you to tap into these funds whenever you need it. The credit line is usually set at 75 to 80% of the appraised value of your home minus the balance of the first mortgage. Your credit history and ability to pay may also be considered in determining the amount of credit available.

Home equity lines of credit usually carry a variable interest rate that is figured by adding a margin to the current Prime Rate or some other index. Other costs associated with setting up a line of credit may also apply and will vary from lender to lender.

Second Mortgage
If you are not comfortable with the open-ended nature of a line of credit (which requires discipline to ensure that you don't go way over budget), a home equity loan, or second mortgage, may be right for you. This is a fixed-rate, fixed-term loan based on the equity in your house that is paid back in equal monthly installments over a specific period of time.

Cash-Out Refinancing
If interest rates today are significantly less than when you first purchased your house, refinancing your mortgage may be a wise move. This refinancing alternative allows you to use the accumulated equity in your home to take out a new loan to pay off your existing mortgage and then use the remaining funds for your remodeling project.

Make sure you factor in the length of time you plan to live in the house and the number of years left on your current mortgage before you decide to refinance.

Keeping Your Budget in Line
Once you've decided how much you can afford to spend fulfilling your remodeling dreams, the real challenge is making sure you stick to this budget. So, how can you prevent your expenses from spiraling out of control?

Plan on spending only 80% of what you can afford. Put the additional 20% in reserve to cover changes, unforeseen problems, and miscellaneous charges.

Remember that anything not included in the original contract will cost extra. It's very easy to start tacking on hundreds and even thousands of dollars in change orders that will break both your budget and your timeline.

Stay focused on the task at hand. Stick to the project you have planned rather than deciding that now is the time to overhaul the rest of the house.

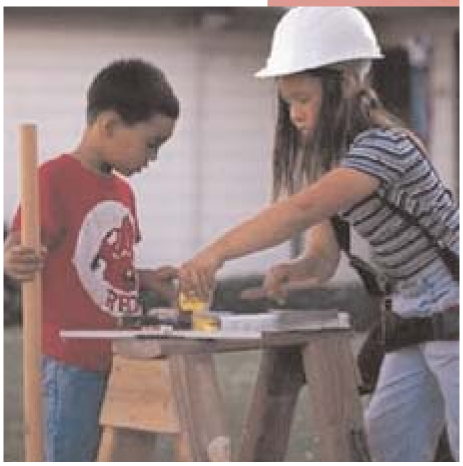
How should you pay your remodeler?

10% when you sign the contract.
This will be a point when you already have talked over what should be in the contract. You can specify before you have paid a penny what terms you want in the contract.

20% when work starts.
This means that you see construction materials have been delivered to the job site and workers are beginning to actually work.

60% spread out during the actual job—in one of two ways.
Either insert specific dates for additional percentage payments or insert specific stages of completion (like when drywalling starts) for additional percentage of payments.

10% when the job is completed.



Protecting yourself from contractor fraud

Don't let your excitement about the remodeling process keep you from doing your homework.

Your enthusiasm may be understandably tempered when you hear stories about unscrupulous contractors who take your money then skip town. Or, you've heard about new roofs that leak during a heavy downpour and jobs begun but never completed. It's enough to make anybody wary.

But you can protect yourself by watching out for these warning signs:

- The contractor solicits business door-to-door. This sales approach is often accompanied by high pressure sales tactics, intimidation and threats.
- You can't verify the remodeler's name, address, telephone number or credentials.
- The contractor claims to be endorsed by the Federal Housing Administration for the Title I home improvement loan program. More information on this type of deceptive advertising is available from the Department of Housing and Urban Development's web site at *www.hud.gov*.
- The contractor is not willing to offer references or the references provided were not happy with the contractor's work.
- You are asked to pay for the entire job in advance.
- The contractor will accept payment only in cash.

If you do sign a contract and then have second thoughts, remember that the Federal Trade Commission's "Cooling Off Rule" may apply if the contract was signed somewhere other than the contractor's place of business (in your home, for example). Under this law, you have up to 72 hours to cancel the agreement.

Check out the remodelers' list at the back of this publication for HBA Remodeler members to assist in your selection and help avoid such situations.

How Much Can You Afford?

WORKSHEET 1

1. Household Income
   - Take Home Pay __________________
   - Any other income __________________

   TOTAL (1) __________________

2. Average Monthly Non-Housing Expenses
   - Automobile Costs and Insurance __________________
   - Clothing - purchase and cleaning __________________
   - Commuting Expenses __________________
   - Credit Card Payments __________________
   - Groceries and Household Supplies __________________
   - Medical Costs and Insurance __________________
   - Personal Spending Money __________________
   - Savings/Investment Programs __________________
   - Telephone - including cellular __________________
   - Miscellaneous Expenses __________________

   TOTAL (2) __________________

3. Monthly Income Available For Housing
   - Total Monthly Income (1) __________________
   - Minus (-) Total Non-Housing Expenses (2)

   TOTAL (3) __________________

The dollar figure (TOTAL 3) represents the money you have available for monthly housing expenses. The best price range for your budget is also dependent upon how much cash you have available for a down payment. Calculate Worksheet #2 to see how much down payment you have available right now.

Calculating Your Available Down payment

WORKSHEET 2

Down payments usually range from 5 to 25 percent of the total cost of the home. While a large down payment can lower your overall loan, you may not want to use all of your investments for this purpose. There are many mortgage options from lenders that have varying down payment requirements. For starters, calculate a down payment estimate using this worksheet.

1. Available Funds

Equity in present home	________
Savings	________
Investments/Mutual Funds (current value)	________
Insurance (cash surrender value)	________
Other available funds	________
TOTAL (4)	________

2. Expected Expenses

Closing Costs (About 5%)	________
Furniture/Furnishings	________
Alterations or Landscaping (if needed)	________
Moving Costs	________
Utility Connection Fees	________
TOTAL (5)	________

3. Available Down Payment Funds

Available Funds (4)	________
Minus (-) Expected Expenses (5)	________
AVAILABLE FOR DOWN PAYMENT	________

Mortgage Calculator

15 Years

	4%	4.5%	5%	5.5%	6%	6.5%	7%	7.5%	8%	8.5%	9%	9.5%
$50,000	370	382	395	408	421	435	449	464	478	493	507	522
$60,000	443	459	474	490	506	522	539	556	574	591	609	626
$70,000	517	535	553	572	590	609	629	649	669	690	710	731
$80,000	592	612	632	653	675	696	719	741	765	788	812	835
$90,000	665	688	711	735	759	783	809	834	860	887	913	940
$100,000	740	765	790	817	843	871	899	927	956	985	1,015	1,044
$110,000	813	841	869	898	928	958	989	1,020	1,052	1,084	1,116	1,149
$120,000	887	918	949	980	1,012	1,045	1,078	1,112	1,147	1,182	1,217	1,253
$130,000	961	994	1,028	1,062	1,097	1,132	1,168	1,205	1,243	1,281	1,319	1,357
$140,000	1,035	1,071	1,107	1,143	1,181	1,219	1,258	1,298	1,338	1,379	1,420	1,462
$150,000	1,109	1,147	1,186	1,225	1,265	1,306	1,348	1,391	1,434	1,478	1,522	1,566
$160,000	1,183	1,224	1,265	1,307	1,350	1,393	1,438	1,483	1,530	1,576	1,623	1,670
$170,000	1,257	1,300	1,344	1,385	1,434	1,480	1,528	1,576	1,625	1,675	1,725	1,775
$180,000	1,331	1,377	1,423	1,470	1,518	1,567	1,618	1,669	1,721	1,773	1,820	1,880
$190,000	1,405	1,453	1,502	1,552	1,603	1,654	1,708	1,761	1,816	1,871	1,927	1,984
$200,000	1,479	1,529	1,581	1,634	1,687	1,742	1,798	1,854	1,912	1,970	2,029	2,088

30 Years

	4%	4.5%	5%	5.5%	6%	6.5%	7%	7.5%	8%	8.5%	9%	9.5%
$50,000	238	253	268	283	299	316	332	350	367	385	403	420
$60,000	286	304	322	340	359	379	399	419	440	461	483	504
$70,000	334	354	375	397	419	442	465	489	514	538	563	588
$80,000	381	405	429	454	479	505	532	559	587	615	644	673
$90,000	429	456	483	511	539	568	598	629	661	692	724	757
$100,000	477	506	536	567	599	632	665	699	734	769	805	841
$110,000	525	557	590	624	659	695	731	769	807	846	885	925
$120,000	572	608	644	681	719	758	798	839	881	923	966	1,009
$130,000	620	658	697	738	779	821	864	909	954	1,000	1,046	1,093
$140,000	668	709	751	794	839	884	931	979	1,028	1,077	1,127	1,177
$150,000	716	760	805	815	899	948	997	1,049	1,101	1,154	1,207	1,261
$160,000	763	810	859	908	959	1,011	1,064	1,118	1,174	1,230	1,288	1,345
$170,000	811	861	912	965	1,019	1,074	1,130	1,188	1,248	1,307	1,368	1,429
$180,000	859	912	966	1,022	1,079	1,137	1,197	1,258	1,321	1,384	1,449	1,513
$190,000	907	962	1,019	1,078	1,139	1,200	1,263	1,328	1,395	1,461	1,529	1,597
$200,000	955	1,103	1,073	1,135	1,199	1,264	1,330	1,389	1,468	1,538	1,610	1,681

There are many mortgage calculators available online. You can conduct an online search by entering “mortgage calculator” or “online mortgage guide” in your search engine.

Home Buyer's Dictionary

Adjustable Rate Mortgage (ARM). A loan with an interest rate that is adjusted according to movements in the financial market.

Amortization. A payment schedule by which a borrower reduces a debt gradually through monthly payments of principal and interest.

Annual Percentage Rate (APR). The annual cost of credit over the life of a loan, including interest, service charges, points, loan fees, mortgage insurance, and other items.

Appraisal. An evaluation to determine what a piece of property would sell for in the marketplace.

Appreciation. The increase in the value of a property.

Assessment. A tax levied on a property or a value placed on the worth of property by a taxing authority.

Assumption. A transaction allowing the buyer of a home to assume responsibility for an existing loan on the home instead of getting a new loan.

Balloon. A loan which has a series of monthly payments (often for 5 years or less) with the remaining balance due in a large lump sum payment at the end.

Binder. A receipt for a deposit paid to secure the right to purchase a home at terms agreed upon by the buyer and seller.

Buydown. A subsidy (usually paid by a builder or developer) to reduce the monthly payments on a mortgage loan.

Cap. A limit to the amount an interest rate or a monthly payment can increase for an adjustable rate loan either during an adjustment period or over the life of the loan.

Certificate of Occupancy. A document from an official agency stating that the property meets the requirements of local codes, ordinances, and regulations.

Closing. A meeting to sign documents which transfer property from a seller to a buyer. (Also called settlement)

Closing Costs. Charges paid at settlement for obtaining a mortgage loan and transferring real estate title.

Conditions, Covenants, and Restrictions (CC and Rs). The standards that define how a property may be used and the protections the developer has made for the benefit of all owners in a subdivision.

Condominium. A home in a multi-unit complex; each purchaser owns an individual unit, and all the purchasers jointly own the common areas, such as the surrounding land, hallways, etc.

Conventional Loan. A mortgage loan not insured by a government agency (such as FHA or VA).

Convertibility. The ability to change a loan from an adjustable rate schedule to a fixed rate schedule.

Cooperative. A form of ownership in a multi-unit complex; the purchasers own shares of the entire complex rather than owning individual units.

Credit Rating. A report ordered by a lender from a credit bureau to determine if the borrower is a good credit risk.

Default. A breach of a mortgage contract (such as not making monthly payments).

Density. The number of homes built on a particular acre of land. Allowable densities are usually determined by local jurisdictions.

Down payment. The difference between the sales price and the mortgage amount on a home. The down payment is usually paid at closing.

Due-on-Sale. A clause in a mortgage contract requiring the borrower to pay the entire outstanding balance upon sale or transfer of the property. A mortgage with a due-on-sale clause is not assumable.

Earnest Money. A sum paid to the seller to show that a potential purchaser is serious about buying.

Easement. Right-of-way granted to a person or company authorizing access to the owner's land; for example, a utility company may be granted an easement to install pipes or wires. An owner may voluntarily grant an easement, or in some cases, be compelled to grant one by a local jurisdiction.

Equity. The difference between the value of a home and what is owed on it.

Escrow. The handling of funds or documents by a third party on behalf of the buyer and/or seller.

Federal Housing Administration (FHA). A federal agency which insures mortgages that have lower down payment requirements than conventional loans.

Fixed Rate Mortgage. A mortgage with an interest rate that remains constant over the life of the loan. The payments are not necessarily level. (See Graduated Payment Mortgage and Growing Equity Mortgage).

Fixed Schedule Mortgage. A mortgage in which the payment schedule for the life of the loan is established at closing. The payments and interest rate are not necessarily level.

Graduated Payment Mortgage (GPM). A fixed-rate, fixed-schedule loan which starts with lower payments than a level payment loan; the payments rise annually over the first 5 to 10 years and then remain constant for the remainder of the loan. GPMs involve negative amortization.

Growing Equity Mortgage (Rapid Payoff Mortgage). A fixed-rate, fixed-schedule loan which starts with the same payments as a level payment loan; the payments rise annually, with the entire increase being used to reduce the outstanding balance. No negative amortization occurs, and the increase in payments may enable the borrower to pay off a 30-year loan in 15 to 20 years, or less.

Hazard Insurance. Protection against damage caused by fire, windstorm, or other common hazards. Many lenders require borrowers to carry it in an amount at least equal to the mortgage.

Housing Finance Agency. A state agency which offers a limited amount of below-market-rate home financing for low-and moderate-income households.

Index. The interest rate or adjustment standard which determines the changes in monthly payments for an adjustable rate loan.

Infrastructure. The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems

Interest. The cost paid to a lender for the use of borrowed money.

Joint Tenancy. A form of ownership by which the tenants own a property equally. If one dies, the other would automatically inherit the entire property.

Level Payment Mortgage. A mortgage in which the payments are identical for each month over the life of the loan.

Loan Origination Fee. A lender may charge a fee for the cost of processing the loan, some times calculated as percentage of the loan amount.

Mortgage Broker. A broker who represents numerous lenders and helps consumers find affordable mortgages; the broker charges a fee only if the consumer finds a loan.

Mortgage Commitment. A formal written communication by a lender, agreeing to make a mortgage loan on a specific property, specifying the loan amount, length of time and conditions.

Mortgage Company (Mortgage Banker). A company that borrows money from a bank, lends it to consumers who want to buy homes, then sells the loans to investors.

Mortgagee. The lender who makes a mortgage loan.

Mortgage Loan. A contract in which the borrower's property is pledged as collateral and which can be repaid in installments over a long period. The mortgagor (buyer) promises to repay principal and interest, to keep the home insured, to pay all taxes, and to keep the property in good condition.

Mortgage Origination Fee. A charge by a lender for the work involved in preparing and servicing a mortgage application (usually one percent of the loan amount).

Negative Amortization. An increase in the outstanding balance of a loan when a monthly payment is not large enough to cover all of the interest due.

Note. A formal document showing the existence of a debt and stating the terms of repayment.

PITI. Principal, interest, taxes, and insurance (the 4 major components of monthly housing payments).

Point. A charge of one percent of the mortgage amount. Points are a one-time charge assessed by the lender at closing to increase the interest yield on a mortgage loan.

Prepayment. Payment of all or part of a debt prior to its maturity.

Principal. The amount borrowed in a loan, excluding interest and other charges.

Property Survey. A survey to determine the boundaries of your property. The cost will depend on the complexity of the survey.

Rapid Payoff Mortgage. (See Growing Equity Mortgage).

Recording Fee. A charge for recording the transfer of a property, paid to a city, county, or other appropriate branch of government.

Real Estate Settlement Procedures Act (RESPA). A federal law requiring lenders to provide home buyers with information about known or estimated settlement costs. The act also regulates other aspects of settlement procedures.

R-Value. The resistance of insulation material (including windows) to heat passing through it. The higher the number, the greater the insulating value.

Sales Contract. A contract between a buyer and seller which should explain, in detail, exactly what the purchase includes, what guarantees there are, when the buyer can move in, what the closing costs are, and what recourse the parties have if the contract is not fulfilled or if the buyer cannot get a mortgage commitment at the agreed-upon terms.

Settlement. (See Closing).

Shared Appreciation Mortgage. A loan in which partners agree to share specified portions of the down payment, monthly payment, and appreciation.

Tenancy in Common. A form of ownership in which the tenants own separate but equal parts. To inherit the property, a surviving tenant would either have to be mentioned in the will or, in the absence of a will, be eligible through state inheritance laws.

Title. Evidence (usually in the form of a certificate or deed) of a person's legal right to ownership of a property.

Transfer Taxes. Taxes levied on the transfer of property or on real estate loans by state and/or local jurisdictions.

Veterans Administration (VA). A federal agency which insures mortgage loans with very liberal down payment requirements for honorably discharged veterans and their surviving spouses.

Walk through. A final inspection of a home before closing to specify items that need to be corrected.

Warranty. A promise, either written or implied, that the material and workmanship of a product will meet a specified level of performance over a specified period of time. Written warranties on new homes are either backed by insurance companies or by the builders themselves.

Zoning. Regulations established by local governments regarding the location, height, and use for any given piece of property within a specific area.

The information contained in this booklet was collected from the National Association of Home Builders. Please go to *www.nahb.org* for more information on building or buying a new home or remodeling your home.

For a list of HBA builders or remodelers please call 314-994-7700 (x122).

The Home Builders Association of St. Louis & Eastern Missouri is a not-for-profit membership organization of businesses involved in the home building industry. The Association makes no claim nor guarantee that the work performed by Association members shall be free of defects, or satisfactory to the consumer. It is the sole responsibility of the consumer to follow prudent guidelines for choosing qualified individuals to perform business services in order to maximize the success of the endeavor and to experience a satisfactory contractual relationship.

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