



FINANCING - Avoiding Common Financing Mistakes

The purpose of this News Letter is to inform you how to choose a good lender, how to best finance your new home and how to avoid some real pitfalls. A few suggestions are:

1. **Check out your lender**, and make sure you get a lender you feel comfortable with. Get personal references. Ask questions. How long have they been in business? Are they honorable, proven, and willing to service your needs promptly. Of course you want competitive rates, but you also want competitive closing costs. Any lender can quote low interest rates initially, the question is: will your interest rate be competitive when you go to closing? Worse, we've had occasions where buyers were told they were approved by their lender and then later found the statement to be unreliable. These unreliable commitments have ranged delays in closing the loan to the inability of the buyer to obtain financing. Remember, if you choose a good lender upfront, your building process will be much easier.
2. **Buy what you can afford** and stay within qualifying ratios: I'm often asked what kind of home is the best to buy. My response is one you can afford -- one you can pay for. Over the past few years financing has changed significantly making obtaining a loan much more difficult. However, staying within the National Banking Association's and other Government Loan's general qualifying guidelines provides safety. They consist of basically two ratios:
 - a. Buyer's Gross Monthly Income x 28% to 31% = Maximum House Payment
 - b. Buyer's Gross Monthly Income x 38% to 41% = Maximum Amortized DebtOf course there are other factors when qualifying, such as credit history to income levels. However, these ratios have proven statistically that very few buyers will default. It doesn't matter how nice the home is, if you can't afford it, you'll soon learn to hate it.
3. **Know up front your total out of pocket cash required.** Each lender is required to give you a good faith estimate of your down payment and required closing costs. Understand them. If you don't -- ask. A good lender will spend the time to make sure your questions and concerns are answered. This also gives you the chance to roll any closing costs into the sales price thus reducing your out of pocket cash.
4. **Get you lender's approval in writing.** It doesn't take long to run a credit check, employment verification and qualifying ratios. A good lender will have a written approval for you.
5. **Meet early with your lender.** It costs nothing to meet with them and they can give you some real valuable "heads up" information on cleaning up or keeping your credit clean, what your payments will be, what you can qualify for, buy-downs, and what type of loans are available and best for you.
6. **Choose the best loan with the best interest rate.** As stated, your interest rate clearly is "king" in lowering your payment. Your lender can give you all the loan options you need to make that decision. Talk to your lender. A good lender gives you all these options.
7. **Verify how and who's paying for the construction loan.** Most buyers end up getting two home loans - one while building and one the permanent financing. Obviously this can complicate things but is necessary as most builders and buyers don't have the funds to finance the construction loan. However, as Patterson Homes, we finance the home (in house) while the home is under construction thus making it so the buyer only needs to be approved for the long term financing to start construction. This also saves our buyers hassle and about \$6,000.00 plus.

8. **Stay in touch with your lender.** Don't wait until the day before closing to notify them you are closing. Instead there should be regular contact during construction and a projected closing day a couple of weeks before completion. Make sure they have the latest figures of down payment, sales price, etc. and have them correlate with your title company.
9. **Talk with your builder.** He may have suggestions and loan companies they work closely with. For example, at Patterson Homes, we have our own preferred lenders to better serve our buyers. Our preferred lenders give our buyers the lowest closing costs with the most competitive rates available all while providing clear communications and prompt response to our buyer's needs.

I'm convinced if you'll follow this lending advice you'll choose a right the right lender and loan for you. Good Luck

- James Patterson -