Financing Your Log Home

Financing
There was a time when finding financing to build a log home was difficult and when you did it, it was given reluctantly and with stifling restrictions. Fortunately, due to education, that has changed. Lenders now have a better understanding of log homes. Their popularity has increased, they're more plentiful, and their resale value is as good as, and often better than, a conventional home. It helped that the Federal National Mortgage Association (called Fannie Mae) and other institutions that help develop home mortgage standards, have eliminated the need for "exact comparables".

Also helpful was the development of the "Marshall & Swift Log Home Appraisal Guide," an invaluable training tool that was developed in response to log home companies' assertion that log home appraisals simply were not fair. For the first time, appraisers were given a tool that not only compared log homes to conventional homes but compared log homes to log homes. Before approaching your lender, be sure they have a copy of the guide (Call 800-544-COST to obtain one). You may still run up against an inexperienced local appraisal and be denied a loan by your banker, but there are national lenders who now specialize in log home loans.

What Kind Of Loan?
Before you approach a lender, first determine what SORT of loan you will be asking for: a construction-only loan or a construction-to-permanent loan (a loan that converts the construction loan to a mortgage upon completion of construction)? With a construction-only loan, the construction lender is the lien holder on your property until a mortgage lender funds the mortgage loan. Some companies offer just one type of loan or they may offer all three options.

Which one's better? They both have their good points. The advantage to securing a construction-only loan is that you are not locked into a long-term mortgage with the construction lender; you're free to shop for the lowest rates among other lenders. However, with a construction-to-permanent loan you can avoid paying closing costs to two institutions by allowing the construction loan to roll over into a mortgage with the same company.

How much can you afford?

The loan amount that you will be able to afford will depend on 3 factors:

1. Your income and how much other debt you have. This will determine how large a PITI (principle, interest, tax, and insurance) payment you can afford.
2. How much you have for a down payment and closing costs.
3. Your credit history.

Use the following Affordability Worksheet in conjunction with the Payment Chart to see how much loan you can afford. Be as accurate in your debt numbers as you are with your income numbers. Remember: mortgage qualification is not an exact science. Lenders will and do make exceptions.

Affordability Worksheet

1. Current monthly household income: (Pre-tax from all sources) $__________
2. Current monthly debt: (Include all monthly payments---student loans, car loans, credit card balances; all debt that will take 10 months to pay off. Do not include utility or rent payments) $__________
3. Debt-to-income ratio: (Divide line 2 by line 1; the result will be a percentage) __________%
4. Maximum desirable debt-to-income ratio: (Other debt plus your mortgage payment should not exceed 36 percent of your gross income) ________36%
5. Percentage available for mortgage payment: (Subtract line 3 from line 4. Since mortgage payments should not exceed more than 28% of your monthly income, if line 5 is less than 28% you may have to reduce current debt to qualify) __________%
6. Maximum mortgage payment most lenders allow: 28% (Multiply line 1 by .28) $__________
7. Interest and principle payment amounts: (Property tax, mortgage insurance and property tax represent about 15% of a monthly mortgage. Factor them out by multiplying line 6 by .85) $__________
8. Maximum mortgage amount. (Find today's interest rate for a 30-year fixed-rate mortgage on the Payment Chart; follow the column to find the monthly payment closest to the amount on line 7. Write down the number from the far right column, which is the approximate mortgage amount for which you qualify.) $__________
9. Affordable home price. (Multiply line 8 by 1.11, which assumes a 10% down payment. The result, the affordable home price, will be higher if the down payment is more than 10%, or lower if the down payment is smaller.) $__________

The next page contains the Payment Chart which will help you calculate the mortgage you can afford.

Payment Chart

Interest Rate	6.00%	6.50%	7.00%	7.50%	8.00%	8.50%	9.00%	Mortgage
APR	6.11%	6.61%	7.12%	7.62%	8.12%	8.63%	9.13%	Amount
	$600	$632	$665	$699	$734	$769	$805	$100,000
	$750	$790	$832	$874	$917	$961	$1,006	$125,000
	$899	$948	$998	$1,049	$1,101	$1,153	$1,207	$150,000
	$1,050	$1,106	$1,164	$1,224	$1,284	$1,346	$1,409	$175,000
	$1,199	$1,264	$1,331	$1,398	$1,468	$1,538	$1,609	$200,000
	$1,349	$1,422	$1,497	$1,573	$1,651	$1,730	$1,810	$225,000
	$1,499	$1,580	$1,663	$1,748	$1,834	$1,922	$2,012	$250,000
	$1,649	$1,738	$1,830	$1,923	$2,018	$2,115	$2,213	$275,000
	$1,799	$1,896	$1,996	$2,098	$2,201	$2,307	$2,414	$300,000
	$1,949	$2,054	$2,162	$2,272	$2,385	$2,499	$2,615	$325,000
	$2,098	$2,212	$2,329	$2,447	$2,568	$2,691	$2,816	$350,000
	$2,248	$2,370	$2,495	$2,622	$2,752	$2,883	$3,017	$375,000
	$2,398	$2,528	$2,661	$2,797	$2,935	$3,076	$3,218	$400,000

Using this chart: Suppose the amount on line one of the Affordability Worksheet is $2,400, 28 percent of that is $672, or $571 after factoring out taxes and insurance. If the current interest rate for a 30-year fixed-rate mortgage is 6.5%, read down the 6.5% column to find the number nearest to $571. Then look to the far left to find the approximate mortgage you can afford. (In this example it would be $90,000.)

Check the Costs of Living in a Particular Region

If you're planning on building your log home in an area with which you're not acquainted, it's time you did a bit of cost comparison. What's the point of building your dream home in an area whose taxes are so high you can't afford to live there? Use the Internet, local chambers of commerce, and regional government organizations to find out the following information:

How does the general cost of living in the new region compare with costs in your present area?

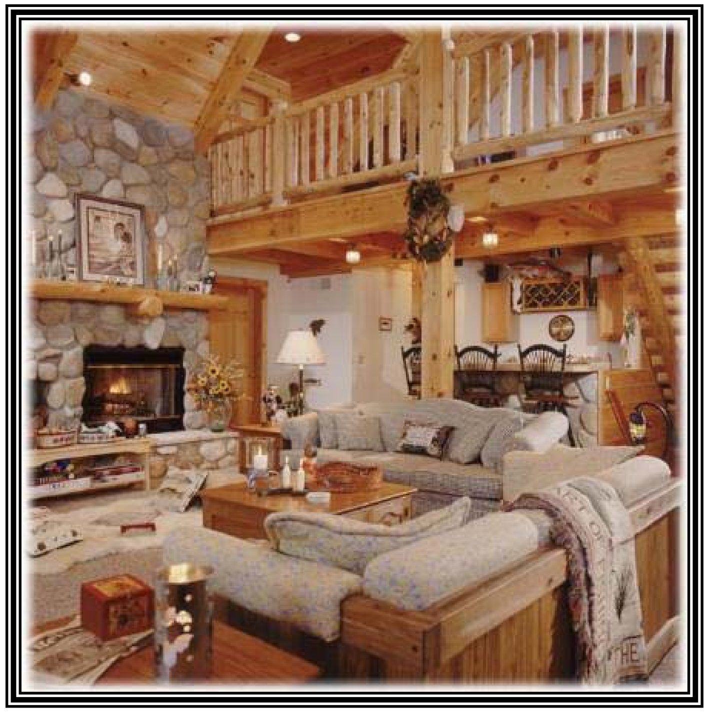
Are there unusually high power, water, or other utility costs?

Is the region prone to special hazards such as tornados, earthquakes, winter storms, etc.? Are there special building code provisions which could affect construction cost?

Will the new local climate require major life style changes? (If you're moving from Florida, for example, will you suddenly have to have snow removal or transportation equipment?)

How will the climate affect your utility costs?

How are the taxes? Taxes can have a significant effect on your living costs in the new area. For example, how much more (or less) will your cost be for:
[ ] State/Provincial Income tax?
[ ] General Sales tax?
[ ] Telephone use tax?
[ ] Motor fuel?
[ ] Restaurant, Theater, etc.?
[ ] Electricity or other Utility tax?
[ ] Telephone per-line tax?
[ ] Heating oil?
[ ] Other taxes?



Before Applying for a Loan
Before searching for a home or attempting to apply for a loan, you should request a copy of your credit report from all three major credit repositories (Experian, Trans-Union, and Equifax). Review the information to see if any known or unknown problems exist that could potentially prevent you from obtaining a loan. The lender will do its own credit check, but this is your opportunity to clear up any potential problems.
If you suspect that you may have credit issues (i.e. recent late payments, open collection accounts, judgments, etc) that appear on your credit report, take care of them immediately. If you decide to pay off a collection amount, try negotiating with the creditor first. Very often creditors will accept a reduced amount in order to be paid (something is better than nothing). However, if you pay off an account, be sure to have documented proof from the creditor that the account is paid in full. If you plan on paying off several credit cards prior to borrowing money, be sure to pay off the account(s) at least one to two months prior to application.

The reason is due to the slow response time of many creditors in showing that an account is paid off on your credit report. If a lender cannot prove that you have paid off an account on your credit report, that debt may be included in your debt to income ratio (thus reducing the amount of the loan you qualify for). Another sticky issue that many borrowers have to dance around is verification of their money in order to close. Lenders generally require that money rests in a bank account for a minimum of three months.
If you know you will be ready to build your home soon, put the money in the bank and let it sit there for at least three months. If the funds will be coming from an acceptable source such as the sale of an asset, be sure to

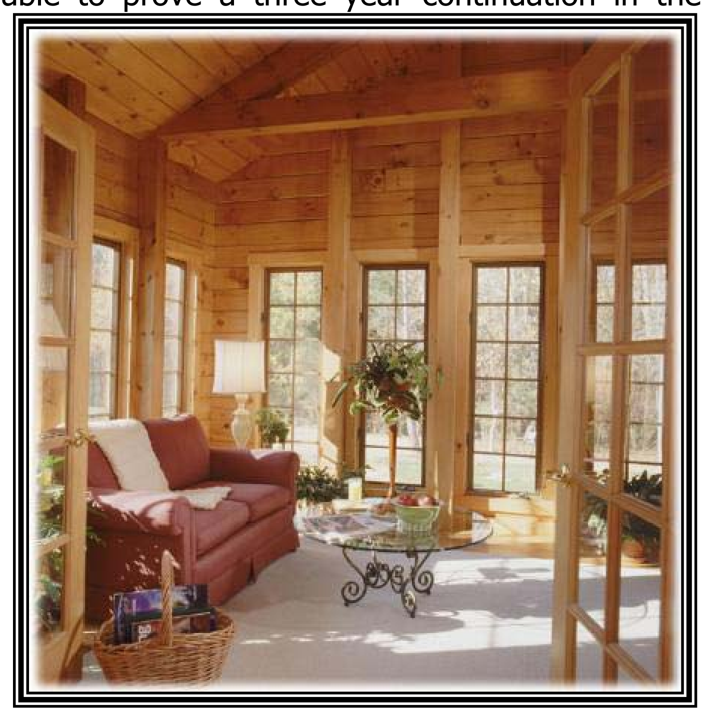
document the transaction by a bill of sale, a copy of the check, and a copy of the deposit slip. TIP: When depositing the money into your account, DO NOT take cash back or deposit other items with the money into your account. You want your bank statement to reflect the exact dollar amount from the transaction. For example, you sell your car for $2,000.00 and you make copies of all the paperwork, your deposit slip should only read $2,000.00. Nothing more and nothing less. If you need to make an additional deposit, do it on another deposit slip.

Loan documentation – You'll need a lot of documentation to apply for a mortgage. Your lender will provide a list, but it's likely to include:

- Two years' employment and residence information.
- All current banking account numbers and street addresses.
- Copies of recent pay stubs or other proof of current monthly income for the last 30 days for all wage earners.

Monthly income consists of:

- Gross monthly salaries
- Commissions (using a two year average)
- Bonuses (using a two year average)
- Investment income (two year average but not dividend re-investment plans)
- Pension or trust income (must be able to prove a three year continuation in the future)
- Alimony and/or child support (must be able to prove that it will continue for at least the next three years
- Two years' worth of W2's. If you are self-employed, copies of your tax returns for the past two years with all pertinent schedules.
- All current monthly obligations, including credit card account numbers, monthly payment and balance owed.
- If real estate is currently owned, all mortgage information, including lender, address, loan number, original and current balance.
- The source of your down payment and closing costs



Acceptable sources include:

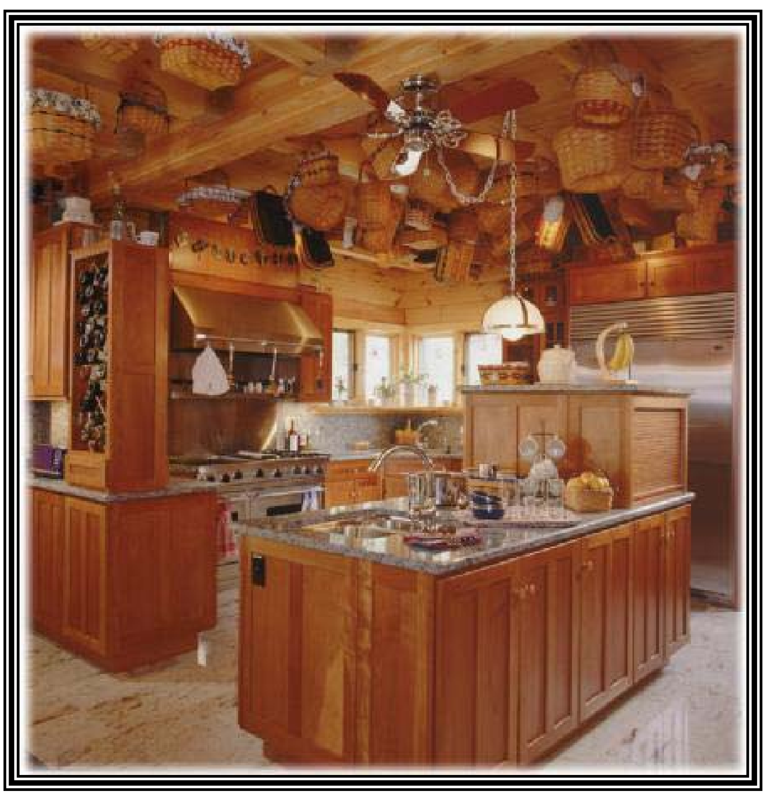
- Checking and savings accounts
- Borrowed funds (against secured assets like cars, CDs, real estate, life insurance, etc)
- Earnest money deposit
- Gift funds (if it does not have to be repaid)
- IRAs and Keogh Accounts
- Sale of assets
- Stocks, bonds, trust accounts or other investment accounts

Unacceptable sources include:

- Cash on hand
- Proceeds of a personal or unsecured loan
- A gift that must be repaid in full or in part
- Cash advance on a revolving charge account or unsecured line of credit
- Cash for which the source cannot be verified

Other items needed:

- Current rent (include name and address of your landlord)
- Any bankruptcy history
- Any legal actions you are involved in
- Citizenship status (work visas, passport, etc)
- Alimony and or child support obligations (to include the divorce decree(s))



- Foreclosure history
- Value of stocks and bonds
- Value of life insurance
- Value of automobiles owned
- Value of other major assets
- Copy of all earnest money deposits (front & back)
- Property appraisal
- Complete set of home plans

For a construction (or construction-to-permanent loan) you will also need:

- Land Contract or Deed: If you don't already own the land, you and the lender will want a contract before proceeding. Otherwise, you'll need the deed.
- Land Loan Documents, if any: May include variances or easements. If any are needed, the lender will want them before

granting final approval.

- Survey (the lender may require proof of the surveyor's licensing): Generally required to be performed by a licensed surveyor, showing the location of the property, dwelling, garage, or other buildings, utilities, or rights of way or other easements.
- Proof of Regulatory Compliance: Both you and the lender will want detailed documentation concerning compliance with zoning laws, flood area regulations, wetlands regulations, environmental, hazardous material regulations, and other government and regulatory agencies, including as applicable, such as:
  - Certification of public sewer availability or percolation test
  - Certification of public water supply availability or deep hole test and water quality test
  - The building permit for the proposed construction
  - Compliance or completion bonds, if required

- Plans and Specifications; Count on providing the lender with two complete, detailed sets of floor plans and elevation site plans, specifications, and cost breakdowns. Generally the lender will keep these and not return them to you.
- Proof of Insurance (title, homeowner's construction, and/or builder's risk)
  - Title Insurance: Where title insurance is required, the lender will probably require a binder from an approved title insurance company. The binder will be replaced with a regular signed policy after closing.
  - Hazard (Builder's Risk) Insurance: This insurance covers at all times, the full replacement cost of the improvements, regardless of the cause of the loss (the so-called "all risks of physical loss" coverage). Provided by you or by the builder, depending on your contract. This is more comprehensive than the standard homeowner's policy. Nonetheless, you should arrange overlapping homeowner's coverage near the end of construction.
  - Flood Insurance: Only needed if you're building in a HUD designated special flood area. Not available everywhere.
- Building permits, as required
- Builder's Contract: The contract between you and the builder.
- Builder's resume, trade references, asset worksheet, cost breakdown (the builder may be asked to send these directly to lender): Include all licenses. The cost breakdown is usually a comprehensive list covering every anticipated cost item, beginning with the land clearing through shell erection and utility installations, to final landscaping.
- A check for the application fee and origination fee.