



Steps to Building Your Dream Home with a Builder



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ARE YOU READY TO REMODEL OR BUILD YOUR DREAM HOME?

Whether you've outgrown your current home or are looking to downgrade, you have a big decision to make.

Are you in love with your neighborhood? Does your growing family hold too many memories in your current home that you can't imagine leaving, but you know you need more room? Don't have the time to go through the steps of building a new home?

It might be time for you to remodel. The Home Builders Association of the Sioux Empire has a list of qualified remodelers to help you out through this next step in life.

[Search for a Remodeler](#)

Do you want a home with changes that can't be added to your current home? Would the cost of remodeling your home way outpace the home's resale value?

It may be time to build your new dream home! But there are few things to consider before building new as well. First off, building a new home takes time and patience. There are a great number of decisions to be made throughout the process which may cause some stress at times. If you are ready for this great new step in your life, read ahead.

BENEFITS OF BUILDING YOUR CUSTOM HOME

With the country still emerging from the recent recession, many people wonder if this is a good time to build a home.

The answer is: Yes. It's a very good time to build your dream home.

Market conditions can change, and recent opportunities like low mortgage interest rates may not be around for long, so home buyers shouldn't wait. There are a number of reasons to build a custom home that will fit your specific needs instead of settling on an already built home.

BUILT TO FIT YOUR LIFESTYLE

Designed to accommodate today's busy lifestyles, new homes feature open floor plans, flexible spaces, low-maintenance materials and other amenities that make them more appealing than ever before.

ENERGY EFFICIENCY

Innovative materials and construction techniques mean that today's new homes are built to be much more energy efficient than homes constructed a generation ago. A lower cost of living means you can save big over the years.

LESS MAINTENANCE

Compared to older homes, new homes require less ongoing maintenance in their first few years.

BUILDING A CUSTOM HOME

Custom homes stand out from the crowd. They are one-of-a-kind, upscale creations that come with upgrades and unique architectural design. In addition to flexibility in home design and architecture, buyers typically choose their ideal location and environment. As a result, custom home design often incorporates elements of the local landscape, whether that is a view of the lake, a natural stream, or the distinct colors and plants of a prairie landscape.

DIFFERENCES BETWEEN CUSTOM & PRODUCTION HOMES

While production Builders build communities by restricting design to a group of preselected home types on lots they have picked and purchased themselves, custom Builders tend to build on land owned by the customer and start fresh with each design.

Production Builders typically construct a large number of homes throughout the year; these may offer a variety of options, but production Builders generally do not use construction plans other than the ones selected by the building firm. Custom Builders spend more time on each project and often work on fewer homes per year.

TRENDS

New Amenities

Today, home owners like to see features that will improve their lifestyle through health, entertainment or comfort. In this way, custom homes really set themselves apart from the competition. Yoga studios, resistance pools and fitness rooms can be added to encourage healthy living; game rooms, theaters and even a bowling alley can be added for fun; and for comfort, breezy, screened-in porches, outdoor kitchens or warm hearths can make your home feel cozy and welcoming.

Custom amenities are also taking a turn to the world of tech. In a world where there's an app for everything, buyers are beginning to expect a custom home to do more and be "smarter." Nowadays you can control many features in your home using a phone, including energy usage, security systems, lighting and even the music playing in each room.

Multigenerational Living

Whether it's aging parents living with their adult children or young adults moving back in with mom and dad, multigenerational households have specific needs when it comes to a home. Custom Builders are seeing an increasing need to tailor homes to this lifestyle. Multigenerational families often build homes that include the traditional mother-in-law suite or even feature a locked-off living space within the home. These apartment-style spaces can have their own kitchenette, full bathroom and living areas to provide a sense of privacy and independence.

Universal Design

As the country grows older and many baby boomers look to retirement, Universal Design (UD) features are an ever-growing priority for many custom buyers and Builders. UD is used to ensure that features like wider doors, lower countertops and fewer stairs are used to create a home that everyone can enjoy comfortably. An accessible home allows owners to age in place, prolonging their ability to stay in the house independently and can also increase value by opening the market to any future buyer, despite age, stature or ability.

NEW CONSTRUCTION LOAN BASICS

A construction loan is different from your regular mortgage loan. With a construction loan, you're essentially given a line of credit up to a specified amount. You request money from your lender and pay interest as you go.

Think about your construction loan as a credit card that will only work as long as the home is under construction. After construction ends, you will then get a mortgage on the home which will pay for the balance of your construction loan.

TYPES OF LOANS

There are two different financing options for new construction loans. Here are the differences:

ONE STEP LOANS

With this loan type, you use only one lender for both your construction and mortgage loans. When you close, you close on both at the same time.

This type of loan is a great option if you know exactly what your home will cost when it is complete. Any additions like a larger bathroom, will have to be paid in cash because this loan has no room to move around.

TWO STEP LOANS

In this type of loan, the construction loan and mortgage are separate from each other and you close on your mortgage upon completion of the home. This loan give those building more customized homes more flexibility to add any changes (within reason) to the home if needed.

DO I NEED TO SELL MY CURRENT HOME BEFORE I GET A CONSTRUCTION LOAN?

If you currently live in a home that is paid off, the answer will most likely be no. But for example, if you have \$300,000 left to pay on your current mortgage and you're requesting a new construction loan for \$700,000, it will be a matter of if you'll be able to get approved for a debt of \$1,000,000.

The lender basically will want to know if you can make payments on all of your loans you'll be taking out. One option would be to sell your current home and rent during this process to eliminate the extra headache.

USE A PROFESSIONAL LENDER

Once you are ready to start the new construction loan process, meet with a professional lender to help you answer your questions. HBASE has a number of members that are able to help you through the process.

[Click here to see a list of lenders](#)

GET HOMEOWNERS INSURANCE

Before you are even able to use money from your construction loan on the home, you are required to obtain a homeowners insurance policy that needs to include 'Builder's risk coverage'. This type of coverage will shelter you from any financial responsibility if there is any theft, damage or liability as your home is being built.

[Click here to see a list of insurance companies](#)

STEPS TO FINANCING YOUR NEW CONSTRUCTION LOAN

STEP #1: APPLICATION FOR FINANCING

To begin the process for construction financing, it is important to start with the end financing in mind. You will need to apply with a lender who provides the permanent financing. They will typically require the following documents:

- Copies of your most current pay stubs covering a 30 day period
- Copies of your complete Federal tax returns with all schedules for the two most current years
- Two years of W-2's, 1099's, K-1's from all sources
- Two most recent monthly (or most recent quarterly) bank statements and investment accounts
- Divorce Decree(s) (if applicable)
- Bankruptcy Documents (if applicable)
- HUD-1 from sale of previous residence
- If veteran, copies of your DD214 or discharge papers and Certificate of Eligibility
- Driver's license

Upon review of your application and documents the lender will issue you a prequalification letter and discuss the permanent financing options. Most lenders who provide the permanent financing have connections will construction lenders or have access to the construction loan. It is important to get completely approved so that you can successfully complete the financing once

the construction of your new home is completed. That is why it is so important to begin with the end in mind.

It is important to note that some builders provide financing for the construction of your new home and with the mortgage lender's approval letter, the builder will provide the construction loan covering all costs of the project. If that is the case, the lender and builder will work closely together. Typically, the builder will purchase the lot and be on title for the project. This means that your transaction will be considered a purchase loan. You will put together a contract with your builder and the appraisal and final loan to value will be based on the purchase price.

If you own the lot and the mortgage lender provides the construction loan as outlined below, your transaction will be structured as a refinance and you may be able to take advantage of equity gained during the building of your home and you may not need to come up with as much money for the down payment. It is important to review both options when you first meet with your mortgage lender to determine what is best for your situation.

One last thing to note regarding financing. Make sure that you find a lender who offers long-term locks. For new construction, you should have an option to lock up to 1 year. During an increasing rate environment it can be very frustrating to see your interest rate increase during the construction process. Protect yourself with a long-term lock!

STEP #2 INTERIM CONSTRUCTION LOAN SECURED

The interim or construction loan includes all costs associated with the building of your new home.

- Lot payoff
- Interim Costs (interest costs for construction loan)
- Costs to build including design

The lender will order an appraisal and submit your plans and specs to the appraiser to determine what the appraised value would be upon completion. The construction lender will review your supporting documents and close your loan. The construction loan is a line of credit. It works just like a credit card as you need money to pay down the construction costs, your loan balance will increase. This charge is called a draw. It is typical to have several draws during the process.

DRAW PROCESS

- A draw request is completed by you or your builder. The construction budget is typically used to detail how much and when the funds will need to be withdrawn.
- The draw request should be signed by you and then forwarded to the construction lender.
- The construction lender should send an inspector to the home

to confirm the completion of your budgeted items.

- The draw funds will become available to the builder.

It is important to note that you do not pay interest on funds that are not yet drawn. The credit balance will increase as you take draws. As you take more draws, the amount of monthly interest that will be due to the construction lender will increase. To avoid unnecessary interest, you should only take draws on work that is completed to your satisfaction. The payment of construction loan interest is made monthly.

STEP #3 CONSTRUCTION COMMENCES

As mentioned in Step #2, during the construction process the only financing considerations you need to be concerned about are draws and interest rates if you have not locked in your permanent financing. If you decide to do any upgrades during the process, it is extremely important to involve your lender in those decisions and make sure that you have the funds necessary to make changes.

STEP #4 & #5 CONSTRUCTION COMPLETED & PERMANENT LOAN COMPLETED

As your construction process draws to a close it is important to review all costs with your builder and your lender to make sure that there are not any last minute changes. Your permanent lender will require a Certificate of Occupancy issued by your local municipality. They will not be able to close your loan without this certificate. It is also very important that your builder and lender are aware of any items that will not be completed prior to the permanent loan closing such as exterior items like paint, landscaping, etc. If there are remaining items, it is possible to close the permanent financing as long as the builder is willing to put aside funds in an escrow account with the title company to cover those costs.

Beginning October 2015, there are new rules that have been put in place by the Consumer Protection Finance Bureau (CFPB) that do not allow you to make any changes to your loan amount three days prior to the closing. Your builder and lender will need to work closely together to finalize all numbers at least a week prior to closing or there could be a chance that your closing is moved back. The CFPB does not allow for you to waive this three day waiting period so it is essential that you work with a reputable lender who will help you monitor the process to make sure you close on time.

The construction loan process is more complicated than a normal mortgage loan. It is very important to choose a lender with experience and who pays attention to the details. This will ensure that you will have a smooth closing process and be able to enjoy your new home without last minute issues.

If you're in the market to build a new home, you should shop for your Builder as carefully as you shop for your home. You want to know that you are building a good quality home with a reputable Builder. Here are some tips to help you choose a Builder.

MAKE A LIST OF POSSIBLE BUILDERS

The Home Builders Association of the Sioux Empire (HBASE) should be your first stop for finding potential Builders who construct homes in your area.

[View single family Builders](#)

[View single family Builders \(out of town...\)](#)

[View multi-family Builders](#)

Flipping through [Home Ideas Magazine](#) and reading the articles can help you to learn which Builders are active in your area. Local Real Estate Agents may also be able to help you in your search.

Ask friends and relatives for recommendations. Ask about Builders they have dealt with directly, or ask them for names of acquaintances who have recently had a good experience with a Builder.

DO YOUR HOMEWORK

When you have a list of potential Builders, it's time to start asking lots of questions — of both the potential Builders and the owners of homes they have built.

When you're thinking about building a new home, selecting the right home Builder is a key step in creating the home of your dreams. You should feel comfortable asking a potential home Builder every question that you think is important. A professional Builder or sales representative will want to make you a happy and satisfied home owner.

LIST OF QUESTIONS TO ASK BUILDERS

- Will they give you references of recent customers?

Some questions to ask home owners include: Are you happy with your home? If you had any problems, were they fixed promptly and properly? 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.

- Are there options in the floor plan — for example, can a sunroom or deck be added?
- Can a room such as the basement be left unfinished?
- How much "customizing" can be done versus standard features?

- Can appliances be upgraded or down-graded?
- How far out are they from accepting and starting a new build?
- What is their preferred method of communication?
- Will there be a home owner's association (HOA)? If so, what will the dues cost and what do they cover?
- Does the Builder offer a warranty program?
- Does the price include landscaping?
- Are there any restrictive covenants?
- What are the estimated taxes on the property?
- How is the school system rated?
- Are daycare and grocery stores conveniently located?
- What about emergency facilities - police, a fire department and hospitals?
- Are there any major development plans for the area in the next five to ten years?

SHOP FOR QUALITY AND VALUE

Look at new homes whenever you can. [Parade of Homes](#) put on by the HBASE and open houses in the area are good opportunities to look at homes in all price ranges.

When examining a home, look at the quality of the construction features. Inspect the quality of the cabinetry, carpeting, trimwork and paint. Ask questions and get as many specifics as possible. If you receive the answers verbally rather than in writing, take notes.

INTERVIEW MORE THAN ONE BUILDER

Not sure which Builder to choose? Is price a big element in your decision? Feel free to meet with more than one Builder. If quoting, make sure to give each Builder the same requirements for your building needs so all the quotes you receive will be equally compared. Don't settle on your first quote received.

Remember not to choose your Builder based on the least expensive quote. Personality can play a large role in the home building process. Make sure you'll feel comfortable working with the Builder you choose as you'll be working with them very closely while building your dream home.

CONTRACTS

After choosing your Builder, you will have to agree to a contract before construction begins on your home. If you have specific needs, get it in writing to avoid any disputes in the future.

CHOOSING LAND

A local Builder or Real Estate Agent will be able to show you a variety of available lots in the area. Certain home Builders are also aware or own available land to show you as options. There are a few things to consider when you are picking out a piece of land to build your new home on. Keep these tips in mind to ensure you are building your home on the correct lot.

BENEFITS OF WORKING WITH REAL ESTATE AGENTS

- They can help you understand your financial situation and offer advice on what properties you can afford.
- Agents who are members of the National Association of REALTORS® can use the MLS to locate properties.

[Search for a local Real Estate Agent](#)

LAND AVAILABILITY & SUITABILITY

The process begins by finding how much land is available, the location, and price. Your options may be buying an acreage, buying existing land and tearing down the current home, or building on vacant land. Whichever land you decide on, it must fit the size of your home design. Every lot is different, so you must make sure the home you want will work on the lot.

SERVICES & FACILITIES

Look at the services that are available in this neighborhood such as the water and sewer system, power, storm water drainage, and soil conditions. There are smaller additions such as telephone and internet connection that may add to the costs of building your home. Talk to others in the neighborhood and local authority to know what to expect before you start building. Ask about flood levels and other situations that may arise.

LIFESTYLE & NEIGHBORS

Your lot will depend on the lifestyle you want to live. You may be looking for a quiet neighborhood, one with a lot of families, or one with a big yard. You may want to find a lot in the country, or in the city. Decide which location would be most convenient for you and your family. If you have children you will want to check out the school districts and decide which one you would like them to attend.

KNOW THE LAND

Make sure to talk with an expert to make sure the home you want to build will fit and work on the land. There are many companies who can help you with necessities from utilities to zoning approvals and permits for construction.

BUILDING YOUR DREAM HOME ON YOUR OWN LOT

You have a lot of flexibility in the design process when you build your own home. You can customize the floor layout and design elements around to make it your own, and you get the ability to choose the land your home will be built on.

Local Builders and Real Estate Agents can help you find available land. You can customize the inside of your home or work with an architect and tell them what you want. You must decide which Builder you want to hire, and you can do that by touring homes on the [Parade of Homes](#) and looking at different examples of their work.

Before building, it is always a good idea to see if the Builder has any homes you can look at. Doing this will help you become familiar with the Builder's style, and you can get ideas to use in your new home. Ask if they have any previous customers that have built a home with them - if so, contact that home owner and ask if they're share their experience.

TIME AND MONEY

Building a new home can vary in time needed. Be prepared for a longer building process if you are building a completely custom-designed home. Using a pre-designed floorplan can be easier, costs less and these floorplans can be modified to your preferences.

Think about what you would like in your home and what your budget allows. Something may cost more now, but it will become an investment later. Adding the hardwood floors may seem spendy, but it will add value and quality to your home in the future.

If you're ready to get started on building a home on your land, most Builders can recommend several lenders with expertise in construction finance and can work with you to make your dream home a reality.

AT THE CONSTRUCTION SITE

Before your Builder can begin construction on the home, they will need to organize a number of elements. They'll need to pull permits, line up subcontractors and create some sort of project calendar to make sure that the project keeps on schedule.

CHECKING ON YOUR HOME'S PROGRESS

Let your Builder know when you plan on stopping out to the site to check on progress. As the project begins, the jobsite can be hazardous with moving machinery, tools and workers at work. It's best to be as cautious as possible when you walk around the site.

COMMUNICATION DURING CONSTRUCTION

Communication is key to keeping everyone happy in the construction process. If you stop by the jobsite and see any red flags with a worker or subcontractor, make sure you talk to your Builder directly.

Discuss progress regularly, this will help to keep everyone on the same page and the project on track.

Before you go to settlement on your purchase of a newly constructed home, you and your Builder will do a walk-through to conduct a final inspection.

This walk-through provides an opportunity to spot items which may need to be corrected or adjusted, learn about the way your new home works and ask questions about anything you don't understand.

Often, a Builder will use the walk-through to educate buyers about:

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

YOUR WALK-THROUGH CHECKLIST

Create a checklist when inspecting the house. The list should include everything that needs attention, you and your Builder should agree to a time table for repairs.

Builders prefer to remedy problems before you move in because it is easier to work in an empty house. Some items may have to be corrected after move-in. For instance, if your walk-through is in the winter, your Builder may have to delay landscaping adjustments until spring.

It is important that you be thorough and observant during the walk-through. Examine all surfaces of counters, fixtures, floors and walls for possible damage carefully.

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 workers or the buyer's movers. Many Builders ask their buyers to sign a form at the walk-through stating that all surfaces have been inspected and that there is 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. Don't worry about 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 the enjoyment of your new home.

[View sample walk-through checklist](#)

OPERATION OF HOME COMPONENTS

When you buy a new appliance or piece of equipment, such as a printer or a washing machine, you usually have to read the instructions before you understand how to use all of the features.

With a new house, you will receive a stack of instruction booklets all at once. It helps if someone takes the time to show you how to operate all of the kitchen appliances, heating and cooling systems, water heater and other features. Such an orientation is particularly useful because people often are so busy during a move that they have trouble finding time to carefully read instruction booklets.

MAINTENANCE RESPONSIBILITIES

Part of your walk-through will be learning about maintenance and upkeep responsibilities. 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.

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 helps to ensure that everyone clearly understands the service to be performed.

BUILDER VISITS DURING THE YEAR

Many Builders schedule 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. Don't 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 settling of the house and are best addressed in one visit near the end of the first year.

Every home is different, but many houses have the same potential issues. A builder may give you a new home inspection checklist to use during your walk through. You can use their list or create a check list of your own. Checklists are available online. Be sure the check list you use includes the following items:

HEATING AND COOLING

- Turn on and listen to the heater
- Check that warm air is coming out of the vents
- Turn on and listen to the air conditioning unit outside
- Check that cool air is coming out of the vents
- Check that an air filter has been installed

ELECTRICAL

- Inspect all of your light fixtures to make sure they have no missing or broken parts
- Turn on all lightswitches and fans to confirm they work
- Plug a nightlight into each outlet to test
- Test the doorbell

PLUMBING

- Check every faucet to make they turn on and off easily
- Run every fixture for five minutes. Check for leaks from the base of the fixture and drips from the faucet

KITCHEN

- Check countertops for scratches and abrasions
- Inspect the front of each cabinet for a smooth finish
- Open every cabinet. Look for sturdy hinges and hardware
- Pull out every drawer as far as possible. Be sure each drawer pulls in and out smoothly
- Turn on each appliance and make sure that it functions correctly

BATH

- Inspect the bathtub, shower, sink and toilet for chips and cracks
- Close the bathtub and sink stopper. Add a couple inches of water. Wait two to three minutes to be sure the stopper doesn't leak
- Flush every toilet. Check for leaks around the base of the toilet
- Sit on the toilet to make sure it is securely fastened to the floor

WINDOWS

- Check glass to make sure there are no cracks
- Open every window to its fullest and then close it tight. Hold a lit match or lighter around the edges of the window. A flickering flame will signal an air leak.
- Check each for sturdy hinges and hardware
- Be sure there is a screen tightly installed on every window. Look for holes or tears in the screen.

DOORS

- Open and close all doors to their fullest and then close. Look for a smooth operation of the hinge with no dragging at the bottom of the door
- Make sure all sides of the door are painted, including the tops, bottoms and edges
- Lock and unlock every door. Look for a smooth operation of the lock with no binding.
- Check the threshold under every door to be sure there is no open space under the door

WALLS, FLOORS AND CEILINGS

- Check the finish for the desired level of smoothness
- Check drywall for visible seams or nail heads
- Confirm that paint and varnish colors are correct
- Check floor and ceiling moldings. Look for a smooth finish with no protruding nail heads. Check for gaps that may need caulking. Look for broken, chipped or cracked floor and wall tiles. Check for missing grout
- Look for scuff marks on hardwood, tile and linoleum flooring
- Check carpeted areas. Look for loose fitting carpet at the edges or in the middle of the room

PORCHES AND DECKS

- Check the sturdiness of the construction
- Be sure that there are no exposed nails or screws

GARAGE DOOR

- Open and close the door. Be sure the door opens and closes completely.
- If there is an automatic garage door opener, test the door from the wall switch and the remote control openers. Open the door halfway and then quickly stop the opening. Place a small item like a bucket under the open door and then close the door to test the reversing device. Be sure that the light bulb in the automatic door opener is functioning.

BASEMENT AND ATTIC

- Check the walls for cracks and water damage
- Check attic ventilation system. Manually turn any fans or blades.

EXTERIOR

- Check exterior paint for defects. Be sure it is the correct color and that all surfaces are evenly covered
- Check to make sure all gutters and downspouts are installed. Be sure there are no cracks in the garage floor, driveway or patio

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 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.

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.

NOTICE AND OPPORTUNITY TO REPAIR (NOR) LEGISLATION

Passed by the South Dakota Legislature in 2007, the Notice and Opportunity to Repair (NOR) legislation provides that prior to commencing a lawsuit against a contractor for a construction defect, the home owner must:

1. Deliver to the contractor a written notice describing the alleged defect; and
2. Allow the contractor, within thirty days of receipt of the notice, to (a) inspect the alleged defect and (b) deliver to the home owner a written offer to repair the defect or pay for it.

The home owner may not commence the lawsuit until 30 days after delivery of the notice or until the contractor refuses to remedy the alleged defect, whichever occurs first.

If the homeowner commences suit without giving the contractor 30-day's notice and an opportunity to remedy the defect, the lawsuit will be stayed until the homeowner has complied with this requirement.

The home owner, however, is not required to give the contractor written notice of any additional defects discovered after the delivery of the initial notice of defect.

GUIDELINES TO WRITING A WRITTEN NOTICE TO YOUR BUILDER

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 how soon you expect the problem to be resolved. Be reasonable. Include all relevant documents regarding the problem.

Send copies, not originals. Keep a copy of the letter for your files.

Before you write your letter, familiarize yourself with your warranty coverage. If a problem develops after the warranty has expired, the Builder is not required to fix it under the terms of the written warranty. Some items, such as appliances, may be covered by manufacturers' warranties and are not the responsibility of the Builder.

Always go directly to the Builder 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 usually do more harm than good.

Contact outsiders only if you have reached an impasse with your Builder. Try to avoid legal proceedings. Lawsuits are expensive and time consuming and should be attempted only as a last resort.

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.

- **Adjustable Rate Mortgage (ARM).** A loan whose interest rate is adjusted according to movements in the financial market.
 - **Amortization.** A payment plan 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.
- **Downpayment.** The difference between the sales price and the mortgage amount on a home. The downpayment 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 downpayment requirements than conventional loans.
 - **Fixed Rate Mortgage.** A mortgage whose interest rate 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 whose 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 whose payments are identical for each month over the life of the loan.
- **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 1 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 1 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 downpayment, 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 downpayment requirements for honorably discharged veterans and their surviving spouses.
- **Walk-Through.** A final inspection of a home before settlement to search for problems that need to be corrected before ownership changes hands.
- **Warranty.** A promise, either written or implied, that the material and workmanship of a product is defect-free or 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.