



First-time Homeowner?...Here's How! (Part 1)

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So you have made the decision to acquire your own home, have you done the initial groundwork? What initial groundwork you may ask, all I need to do is go to my bank to apply for a loan. This could not be further from the truth. This is not to scare or deter you but as the single largest investment one will ever make, acquiring a home can be very stressful. To guide you through this process we will outline some points that we think should be beneficial to you, the potential homeowner.

Understanding the Process

One of the first mistakes people make is that they approach the process in reverse. Most people believe that the first thing to do would be to get a plan or a prospective property and approach the bank for a loan. Quite the contrary, one should first go to the bank to get an idea of the mortgage that they would qualify for. Most first-time homeowners may be unaware of the price of materials and the actual cost of building. Thus, in planning their 'dream home' they do not take into consideration the high costs that can be incurred. A lending officer would be able to tell you based on your *debt service ratio* (which is a comparison of your monthly expenses in relation to your monthly income) the amount that you would qualify for, whether it is \$150,000 or \$500,000. Armed with this information one can then approach an architect with ideas and price range. When the process is handled this way, the need for changes that may result in additional costs is eliminated.

Another important piece of housekeeping that must be handled is the drawing up of a contract between the contractor and the homeowner. There are a number of reasons why

a contract is drawn up. All parties must be committed to delivering on their promise. The homeowner agrees to pay the contractor based on a schedule, a specific amount and the contractor in turn agrees to deliver a house in line with the architect's plans and by a specific time with agreed upon penalties. Without a contract, there is no recourse if a homeowner is not satisfied with the quality of work or even the date of completion.

Preliminary Works

Especially for first time homeowners who are building it is important to get a quantity surveyor to assess the suitability of the soil on which the home is to be built. More often than not, contractors commence construction only to encounter underground hindrances. For example, finding solid rock just below ground level may be a good thing in that the building may have a solid foundation. However, excavation costs may run into the thousands. This may be problematic as these costs would not have been factored into the mortgage. The homeowner would therefore have to come up with these funds from his or her own pocket or take an additional loan. Therefore, an exploration of the site could save a lot of money and hassle.

In our column next week we will discuss what to look for when buying a home and the implications of cost overruns and project extensions. For more information on mortgages call a Personal Banking Officer at Bank of Saint Lucia at 456-6000.