

Ideas for Financing a Chapter House

Our house is not adequate...

We cannot compete because of our house...

What would really help spirit in this chapter would be a new house...

We've got to keep up with competition...

These are familiar comments to those men who visit our chapters.

Responsibility

It must first be reiterated that the Board of Advisors is responsible for the house. The chapter has the obligation to maintain the house, but the Corporation has the obligation to solve the chapter's housing problem. While this statement may seem obvious, it bears repeating for the Board of Advisors is the legally constituted group which will sign any long-term obligations on behalf of the chapter. These comments are designed primarily to give ideas to Chapter Advisors and/or Board of Advisors members who are dedicated to the growth of their chapter.

How Much

Regardless of the buy-and-renovate or build-new approach, the determination of the amount of the initial cost outlay is vital. If the decision is buy-and-renovate, evaluate the present structure carefully checking the heating and/or air-conditioning systems, the wiring, the plumbing, basic floor, walls and ceiling conditions, plus any major renovation requirements, such as addition of a house-mother's suite, additional washroom facilities, enlarging the dining room area, or the chapter room.

If the renovation is considered major, it is advisable to hire a general contractor so that one person or company is under contract to coordinate the various renovation phases to meet a deadline for occupancy. A general contractor can give an estimate of total renovation cost. An architect should be involved in the planning of any new house construction.

Though different parts of North America have different economic conditions, the following idea may be tried in specific cases as a quick way to determine the cost involved for a specific house plan:

Value of the lot, plus \$12,000 times the number of men to be housed plus \$50,000 for the kitchen facilities. If the lot sold for \$20,000 and if the house is to sleep 47 men, its cost would be about \$634,000 ($\$12,000 \times 47 + \$50,000 + \$20,000$). Don't forget in your financial planning the cost of the architect's fee which may range from six to 12 percent of construction cost.

Another vital consideration is the amount required for furniture and fixtures as compared to the amount required for land and building. A detailed cost breakdown showing cost of construction, furniture, etc. will be required for determination of the amount of the mortgage, since a lending institution will very seldom include furniture and fixtures in a first or second mortgage.

From Where?

The actual construction, or renovating, financing will usually come from mortgages. Tau Kappa Epsilon encourages chapters to arrange local financing wherever possible. This not only builds local autonomy, but also helps establish much-needed local credit.

These are the types of financial institutions you can approach in your quest for the best type of mortgage.

- **Commercial Banks** make mortgage loans along with their other services.
- **Credit Unions** in some areas, have become a major source of mortgage funds. They usually keep interest rates and other terms as liberal as possible.
- **Mortgage Bankers** Any type of bank may be listed as a mortgage banker.

In addition, there are independent mortgage companies and mortgage brokers who may be set up to handle your situation. Beyond this, there may be a number of miscellaneous possibilities and some insurance companies make mortgage loans.

Other sources which should be utilized to the fullest either for the house mortgage, or for furniture and fixture money, include chapter building funds, chapter financing drives (such as sponsoring of major concerts or shows), alumni solicitation through brochures and personal contact and local sources.

Each chapter should have an established building fund into which the chapter deposits a set amount each year. These funds are deposited into a savings account to draw interest and be available for major housing projects. Community fund raising projects have raised several thousand dollars for building funds.

In some cases, mothers clubs or alumni have helped out considerably in this type of project. Alumni solicitation may take the form of a concentrated drive in which a team must be organized, goals set, brochures and other literature prepared and deadlines set. Usually a kickoff program is planned to which alumni are invited to be in on the new plans. Each attendee should then be encouraged to contact some members of his graduating class. A follow-up on such a drive is essential to its success.

Another idea which involves all members of the chapter, active and alumni alike, is the signing of house building fund notes when the member is initiated. At that time the member agrees to pay over a given number of years starting at graduation a set number of dollars, equally divided over the given number of years.

Example: a member initiated in the fall of 1999 who graduates in the spring of 2003 pays \$100 into the chapter house fund by signing five notes of \$20 each with the first one due at graduation and one each year for the next four years.

Local sources are those rare examples of an individual who is impressed with a chapter, its need, its planning ability and approach and agrees to help the chapter out. In such cases, as philanthropic as the approach may seem, be sure the individual is financially sound and that any agreement is in writing, for the man who establishes such an agreement may not be the same one who is around throughout the life of the agreement. Regardless of the source of funds, there are nine mortgage features to check on and carefully consider in making a choice:

1. **Amortization:** The typical mortgage of today is amortized (i.e. paid off) in equal installments through the entire course of the loan. In some mortgages the installment goes up-or down-after several years. Others have a so-called balloon at the end of the repayment period - a large amount of the principal that must be repaid in the final installment. For most chapters the ordinary mortgage with fixed monthly amortization is best.
2. **Interest Rate:** Shopping is particularly important here, because of a small fraction on the interest rate can make a difference in hundreds of dollars over the life of the loan.
3. **Repayment Term:** The longer the term of the mortgage, the lower the monthly payment and the greater amount of total interest. Most institutions will not make a loan for more than 30 years, which may make steep payments.
4. **Monthly Payment:** The monthly payment, of course, is determined by three factors - the amount you borrow, the interest rate, and the repayment term.
5. **Escrow Account:** Usually the mortgage lending institution will require an additional monthly payment for an escrow account for insurance on the house and for real estate taxes. Most borrowers consider this a budgeting convenience, but a person should find out in advance just what the repayments are. Payments should be just large enough to make tax and insurance payments as they fall due - and no larger.
6. **Prepayment Penalty:** Nearly all mortgages call for some type of penalty if the mortgage is paid off in the early years. A chapter would have to pay a portion of the interest the lender would have collected in the full life of the mortgage. Even not foreseeing such a possibility, you should try for as liberal a prepayment clause in the mortgage as possible; probably it can be arranged so there will be no penalty after five years.
7. **Assignment:** A good idea is to make sure the mortgage can be readily assigned to a second buyer in case you find it necessary to move.
8. **Open End Clause:** This clause in a mortgage will permit a person to re-borrow the amount of the loan that has been paid up, or some portion of it. This makes an easy and low cost way to finance remodeling.
9. **Closing Costs:** There are always closing costs in connection with a mortgage, to compensate the lending institution for its attorney's fees, title search, and other expenses. These can vary by several hundred dollars.

When contacting prospective lending institutions, it will probably be necessary to show them good quality blue prints of the house you plan to build. The lender will want to include on set of blue prints in his files on the transaction.

As important as arranging the financing is, it bears repeating here, that the timetable of the entire project is even more vital. The FIRST obligation of the Board of Advisors is to establish with the chapter and college or university the need for new housing. NEXT make the selection of by-and-reno-vate an existing structure or build a new one either on the present chapter house site or on a new one. NEXT, verify zoning; then get plans and work with the chapter on an operating budget. The arranging of actual financing may be going on concurrently, but doesn't need to be finalized until the above steps have been worked out. The Board of Advisors must have adequate insurance coverage. Coverage should include not only fire and extended coverage on building and general chapter contents but liability insurance as well. The members living in the house should also have the status of their own personal belongings explained so that they know whether they are covered by their chapter's policy or whether they should have coverage of their own.