



CONSTRUCTION LENDING

WHAT YOU NEED TO KNOW!



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ONE-TIME CLOSE

- You close just one time. One set of closing costs and your rate is locked at the time of closing.
- Offers a modification option to qualified borrowers upon completion.
- Affords borrowers confidence in knowing that their permanent loan is secured.
- Loan payment is interest only based upon drawn funds during construction and then modifies to a permanent and fully amortizing loan once the home is complete.
- Recast options are available.



TWO-TIME CLOSE

- Borrower gets a separate construction loan and then has to re-qualify for a separate permanent loan.
- Perfect for borrowers who want to use a specialty program for the permanent loan such as VA (95% up to \$1 Million or certain Jumbo loans.)
- Downfall: Potentially two sets of closing costs (with most lenders). The construction loan and the for the permanent loan. Also subject to rates rising during the construction period for a permanent loan. Rates could always decrease too.



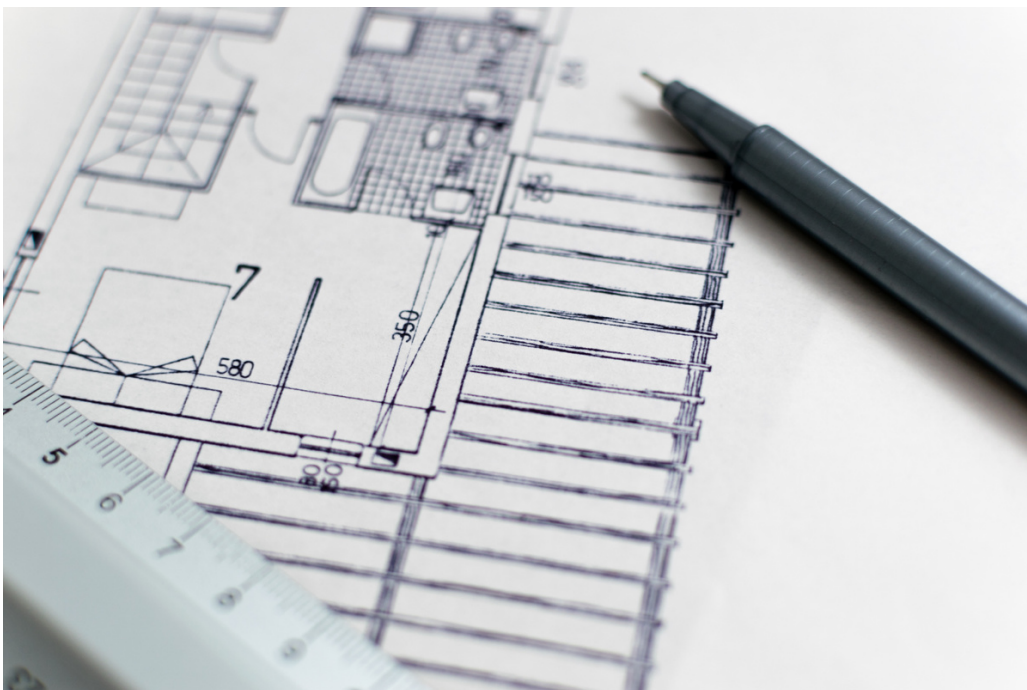
DOWN PAYMENT

QUESTION:

How much money do I need to put down on a construction loan or one-time close loan?

ANSWER:

On a conforming loan amount $\leq \$647,200$, as little as 5% is required. On a jumbo loan, as little as 10% down is required.



HOW MANY CLOSINGS?

QUESTION:

How many closings do we need to go through in order to build our home?

ANSWER:

Anywhere between 1 and 3!

A: Buy lot, do construction loan, refinance with permanent loan = 3 closings

B: Buy lot, do one-time close loan = 2 closings

C: Close on lot and one-time construction loan at the same time = 1 closing



COORDINATING CLOSINGS

QUESTION:

How can I actually coordinate closing on everything at one time?

ANSWER:

It's kind of tricky, but it can be done!

Easiest: Buy lot from builder or developer that is building you home.

Harder: Have your builder picked out ahead of time. Design your home and complete the plans, specs, and most of the budget (except site costs). Seller of lot must agree to a slightly longer than normal closing time (45-60 days) so that you can get final bids for site costs finalized before everything goes to the lender.

Hardest: Find seller of a lot that is willing to have a very extended closing time-frame (up to 120 days) so that you have time to find a builder, do home design, plans, specs, etc and for lender to go through their process.

LENGTHS OF LOANS

QUESTION:

What are the difference lengths offered on construction loans for build time?

ANSWER:

Typically, a 12 month construction period is allotted. You just have to let the lender know up front what is expected. If you run into delays, we will give you up to an additional 6 month increase in time.



DO I MAKE PAYMENTS?

QUESTION:

Do I make payments on the loan during the construction period?

ANSWER:

Yes. The payments are interest only based on what is drawn.



I OWN MY LOT

QUESTION:

If I already own my lot, can I just use my equity as my down payment?

ANSWER:

YES! In some cases, your land equity can cover your entire down payment and closing costs.



DOWN PAYMENT

QUESTION:

When is my down payment due?

ANSWER:

Your down payment is due when you close on your loan.



BUILDER VETTING

QUESTION:

Does my builder need to get vetted with the mortgage lender?

ANSWER:

Yes! The lender will have the prospective builder fill out a questionnaire and then will check references and run business reports on them. This is to protect both you and the lender.



CAN I BE THE BUILDER?

QUESTION:

What if I want to build the house myself?

ANSWER:

No! You cannot be the builder of record for your own home. You will have to find a different builder of record. The borrower cannot be the same person as the one who also signs the mechanics lien.



NUMBER OF DRAWS

QUESTION:

Is there a limit to the amount of draws a builder can take and how involved is the borrower in the draw process?

ANSWER:

Typically, draws are about once a month, but the lender may allow up to two. Borrowers and the builder have to sign off on each draw before it can be processed. Once a signed draw request is received, the lender will send an inspector out to make sure the work is completed. Upon satisfactory receipt of the inspection, the lender will fund the draw request. This process takes about 3 days.



SHOW ME THE MONEY

QUESTION:

What if I want to put more money down once the house is complete? Will it change my end payment even with a one-time close? What if we don't end up using all of the money allotted in the construction loan?

ANSWER:

You can absolutely make a principal reduction when the loan goes to a permanent loan and it will lower the end payment. Also, whatever money you don't use during construction will go as a principal reduction on the end loan.



MISCONCEPTIONS

All banks/credit unions/mortgage companies are created equal.

Absolutely not! Shop around. EXPERIENCE is a key aspect!

I need 20% down in order to build a home.

Absolutely not! Some lenders offer as little as 5% down on conforming loans and as little as 10% down on jumbo loans.

I don't need insurance on the house when it is being built.

Not true! Builder's Risk Insurance is required (either paid by the builder or borrower) and Liability Insurance is also highly recommended.

Construction Loans and One-Time Close Construction Loans are so difficult to get, I might as well not even try.

They really aren't difficult if you are working with someone who is experienced in construction lending. They are just like any other loan, except there is just a little more paperwork involved. The process is exciting and much easier than you would think!