



VA One-Time Close Construction Loan: The Complete Guide for Veterans & Military Families

A definitive educational resource for Veterans, Active Duty Military, Reserve, National Guard, military families, and first-time homebuyers — built to inform, empower, and guide every step of the construction lending process.

EDUCATIONAL RESOURCE

VA LENDING AUTHORITY

NMLS #1680719

What Is a VA One-Time Close Construction Loan?

A VA One-Time Close (OTC) Construction Loan is a single loan that finances both the construction of your home and the permanent mortgage — all in one closing. Veterans and eligible service members can build a custom home with no down payment, no private mortgage insurance, and a rate locked before the first nail is driven.

One Application

A single loan application covers both the construction phase and the permanent mortgage. One closing, one set of closing costs — no duplication of fees.

Automatic Conversion

When construction is complete, the loan automatically converts from construction financing to a permanent mortgage. No requalification. No second closing.

Who Qualifies

Available to Veterans, Active Duty, Reserve, National Guard members, and surviving spouses — all with access to the same powerful VA benefit structure.

- ❏ The VA OTC loan is one of the most underutilized mortgage products available to service members. Most Veterans don't know it exists until they explore building a home.

Why Build Instead of Buy?

In today's housing market, building a home isn't just a preference — for many Veterans, it's the most financially sound path to homeownership. Here's why the numbers favor construction over purchase in most major markets.



Inventory Shortage

In most markets, quality existing homes are scarce, overpriced, or require significant renovation after purchase. Building bypasses the bidding war entirely.



Full Customization

Choose your floor plan, finishes, layout, and location — built to your exact specifications. No compromises. No inherited problems from a previous owner.



Energy Efficiency

New construction meets modern building codes, incorporating better insulation, windows, and systems — reducing utility costs significantly compared to older homes.



Instant Equity Potential

Building at construction cost often results in immediate equity when the home appraises at full market value upon completion — a built-in financial advantage from day one.

Who Is Eligible for a VA Construction Loan?

VA construction loan eligibility follows the same foundational framework as all VA home loans — rooted in military service, discharge status, and a valid Certificate of Eligibility. Below are the core eligible categories.



Veterans

Veterans with an honorable or general discharge from any branch of the U.S. Armed Forces. Service length requirements vary by era.



Active Duty

Service members currently on active duty with sufficient service length — generally 90 continuous days of active service.



National Guard & Reserve

Members with qualifying service, including those who have been activated under federal orders. Title 32 and Title 10 activations both count.



Surviving Spouses

Unremarried surviving spouses of Veterans who died in service or from a service-connected disability may be fully eligible for VA loan benefits.

- ☐ All eligible borrowers must also meet lender credit, income, and residual income requirements in addition to the military service criteria above.

The VA Certificate of Eligibility (COE)

The Certificate of Eligibility is the official VA document that proves your entitlement to use VA loan benefits. Lenders require it before processing any VA loan — including construction loans. Fortunately, obtaining it is simpler than most Veterans expect.

How to Obtain Your COE

- **Through your lender** — the fastest method; most lenders access it electronically within minutes via the VA's automated system
- **VA eBenefits portal** — self-service option at ebenefit.va.gov with account creation
- **Mail VA Form 26-1880** — the slowest option, taking several weeks, but available if electronic access is unavailable

What the COE Shows

- Your entitlement amount (basic and/or bonus)
- Your service branch and discharge characterization
- Your current eligibility status
- Any conditions or funding fee exemptions that apply

Pro Tip

If you have a prior VA loan that has been paid off, your entitlement may be restorable — giving you full access to VA benefits again. Ask your lender to review your COE carefully.

VA Entitlement Explained

VA entitlement is the dollar amount the VA guarantees to a lender if a borrower defaults. It's not a loan limit — it's a guarantee structure. Understanding how entitlement works is essential for Veterans considering construction or higher-cost builds.

Basic Entitlement – \$36,000

The VA guarantees up to \$36,000 on loans up to \$144,000. This was the original entitlement structure and still applies in specific scenarios, though most Veterans today use bonus entitlement.

Bonus (Second-Tier) Entitlement

For loans above \$144,000, the VA guarantees 25% of the conforming loan limit in your county. This is the entitlement structure most relevant to construction loans, which often exceed \$300,000–\$500,000+.

Full Entitlement – No Loan Limit

If you've never used a VA loan, or have paid off a prior VA loan and restored entitlement, you have no loan limit with a qualifying lender. You can borrow as much as you qualify for without a cap — the most powerful version of the benefit.

Remaining Entitlement

Remaining entitlement can be used even if you have an existing VA loan on another property. Veterans can carry two VA loans simultaneously if sufficient entitlement remains — a little-known but powerful feature.

How the VA One-Time Close Loan Works: Step by Step

The VA OTC process is more structured than a traditional purchase loan. Every phase has specific requirements, and the order of operations matters. Here is the complete sequence from first conversation to move-in day.

01	02	03
Preapproval Lender reviews income, credit, assets, and COE. You receive a preapproval letter establishing your maximum loan amount and construction budget parameters.	Builder Approval Lender verifies contractor licensing, insurance, experience, and financial stability. Builder approval is a separate track that runs parallel to borrower approval.	Subject-to-Completion Appraisal A VA-certified appraiser estimates the as-completed value of the home based on architectural plans, specifications, and comparable sales in the area.
04	05	06
Loan Approval & Rate Lock Full underwriting is completed. Your interest rate is locked before closing — protecting you from market movement during the entire construction period.	One-Time Close A single closing funds the lot purchase (if applicable) and construction. You sign all loan documents — construction note and permanent mortgage terms — simultaneously.	Construction Draws Funds are released in phases as verified construction milestones are completed. You pay interest only on drawn funds — not the full loan amount.
07		
Automatic Conversion Upon Certificate of Occupancy, the loan converts to a permanent mortgage. Principal-and-interest payments begin on the schedule established at closing.		

Key Benefits of the VA One-Time Close Loan

No Down Payment

100% financing for eligible Veterans. The VA OTC loan eliminates the largest barrier to homeownership — the down payment — for those who have served.

No PMI

Private mortgage insurance is not required on VA loans, regardless of the loan-to-value ratio. This saves hundreds of dollars per month compared to conventional construction loans.

Rate Locked Before Construction

Your interest rate is locked before the first nail is driven — protecting you from market volatility during a 6–12 month build cycle. Conventional construction loans often leave borrowers exposed to rate changes at conversion.

Single Closing

One closing eliminates duplicate origination fees, title costs, and appraisal fees. In a traditional two-close construction loan, borrowers pay these costs twice.

No Requalification

When construction is complete, the loan converts automatically. No new application, no second credit pull, no updated income documentation — the permanent terms were locked at original closing.

Potential Limitations to Understand

The VA OTC loan is a powerful product — but it comes with specific constraints that borrowers must understand before starting the process. These aren't deal-breakers; they're planning requirements.

Fewer Lenders Offer This Product

Not every VA-approved lender handles construction loans. This is a specialized product requiring lenders with specific systems, processes, and construction department infrastructure. Working with a lender who knows this product is essential — a generalist will create friction at every step.

Builder Must Be VA-Approved

Your contractor must meet specific licensing, insurance, and experience requirements established by the lender. This process takes time and requires advance planning — don't choose your builder and then discover they can't qualify.

Dual Housing Cost During Construction

If you're renting while your home is being built, you'll carry both the interest-only construction payment and your rent simultaneously — for 6–12 months. This financial strain must be factored into your budget from the start.

Change Orders Require Approval

Any modification to the original construction contract — scope, materials, cost — must be formally documented and approved by the lender before work proceeds. Unauthorized changes can jeopardize the loan.

Credit Requirements for VA Construction Loans

Construction loans carry higher lender risk than standard purchase loans, which means credit standards are generally stricter. Here is what borrowers need to know before applying.

Key Credit Facts

- **Minimum credit score:** 620+ for most VA construction lenders. Some lenders set overlays at 640+ based on their internal risk models.
- A **tri-merge credit report** is required at application — pulling all three bureaus: Equifax, Experian, and TransUnion simultaneously.
- Lower scores may be acceptable with strong **compensating factors:** low debt-to-income ratio, substantial cash reserves, or long stable employment history.
- Construction loans carry higher lender risk than purchase loans — don't assume your VA purchase loan experience translates directly to construction lending.

Credit Score Comparison by Loan Type

Loan Type	Minimum Credit Score
VA Construction	620+
FHA Construction	640+
Conventional OTC	700+

The VA program offers the most accessible credit threshold of any construction loan product — reinforcing its value as the premier option for eligible Veterans.

Income Documentation Requirements

Lenders need to verify that you can sustain interest-only payments during construction and then transition successfully to full principal-and-interest payments at conversion. Documentation requirements vary based on how you earn your income.

W-2 / Salaried Borrowers

- Last 30 days of paystubs
- Last 2 years of W-2 statements
- Verification of employment (VOE) from employer
- Any documentation of bonus, overtime, or commission income (2-year average required)

Self-Employed Borrowers

- Last 2 years of complete federal tax returns — all schedules, all pages
- Year-to-date profit & loss statement (P&L)
- Business license confirming active status
- CPA letter verifying self-employment for 2+ years in some cases

Bank Statement Programs

- Some lenders offer bank statement programs for self-employed borrowers who cannot document income through traditional tax returns
- 12–24 months of business or personal bank statements used to calculate qualifying income
- Not all VA construction lenders offer this option — ask specifically

VA Residual Income: The Standard That Protects Veterans

Residual income is the single most important affordability metric in VA lending — and it is unique to the VA program. While conventional lenders focus almost exclusively on debt-to-income ratio, the VA focuses on what's actually left in your pocket after all obligations are met.

What Is Residual Income?

Residual income is the money remaining each month after paying all major expenses: housing costs, debt obligations, estimated taxes, and maintenance expenses. It's a real-world measure of financial health.

Why It Matters

Residual income is why VA loans have historically maintained the lowest default rate of any mortgage product in the United States — including conventional loans with significantly more restrictive qualification standards.

How It Works in Practice

- The VA sets minimum residual income thresholds by **family size** and **geographic region** (Northeast, Midwest, South, West)
- **Example:** A family of four in the South must have at least \$1,003/month remaining after housing, debts, and taxes
- A family of four in the West must clear a higher threshold — reflecting regional cost-of-living differences
- Exceeding the residual income threshold by 20% or more is a compensating factor that can offset a higher DTI
- Falling below the threshold is a disqualifying factor, even if the DTI appears manageable on paper

Asset Documentation & Reserves

Construction loans require more thorough asset documentation than standard purchase loans. The extended build timeline — often 6–12 months — demands that lenders verify you have sufficient reserves to weather unexpected costs and maintain payments throughout the process.



Bank Statements – 2 Full Months Required

All pages of all account statements are required — including blank pages. Lenders use these to verify liquid assets, identify large deposits, and assess overall financial health.



Large Deposit Documentation

Any deposit exceeding 50% of gross monthly income must be sourced and explained in writing. Undocumented deposits can trigger additional underwriting conditions and delays.



Gift Funds – Special Requirements

Gift funds are allowed but require a signed gift letter confirming the funds are not a loan, plus donor bank statements showing the transfer. Both the giver and receiver must document the transaction thoroughly.



Reserve Requirements

Construction loans typically require larger cash reserves than standard purchase loans. The 6–12 month build period creates financial exposure — lenders want to see that you can handle the unexpected without defaulting.

Buying Land with a VA Construction Loan

One of the most commonly misunderstood aspects of the VA One-Time Close loan is its ability to finance the land purchase alongside construction — all in a single loan. Veterans don't need to own land in advance or secure separate lot financing.

Land Purchase Included

Yes — the VA One-Time Close loan can finance the land purchase and construction in a single loan. The lot purchase agreement must be signed with clear pricing included in the total contract value submitted to underwriting.

Combined Appraisal Value

The appraiser evaluates the combined value of the lot plus the proposed completed home together — not separately. This combined as-completed value determines the maximum loan amount.

Land Suitability Requirements

The land must be suitable for residential construction. Zoning classification, utility availability (water, sewer/septic, electric), and legal access must all be confirmed before application. Rural lots may require a well and septic system inspection.

 Tip: Confirm zoning and utility access before falling in love with a lot. Unsuitable land discovered mid-process can derail an otherwise approved loan application.

Using Land You Already Own

Veterans who already own their lot have a significant advantage that most lenders don't proactively explain. Existing land equity can be applied directly to the loan — functioning similarly to a down payment and potentially reducing or eliminating any out-of-pocket requirement at closing.

How Lot Equity Works

If you already own the lot, its appraised market value serves as your equity contribution toward the total project cost. For example: if your lot appraises at \$75,000 and your total construction cost is \$400,000, your existing equity represents nearly 19% of the project — potentially eliminating any additional down payment requirement entirely.

Lot equity is one of the most **underutilized advantages** available to Veterans who already own land.

Required Documentation for Owned Lots

- Copy of the recorded deed showing clear title in your name
- HUD-1 or ALTA settlement statement from the original lot purchase
- Payoff information if any mortgage or lien exists on the lot
- Lender-ordered appraisal of the existing lot to establish current market value
- Title search confirming no encumbrances that would affect construction financing

Important Note

If the lot has an existing mortgage, that balance is factored into the total loan calculation. A clear title simplifies the process significantly.

Builder Requirements: What Lenders Look For

Builder approval is a non-negotiable component of the VA One-Time Close loan process. The lender is extending significant capital to build a home that doesn't exist yet — comprehensive vetting of the contractor is essential to protect both the borrower and the lender.



State Contractor License

Active, in good standing, and matching the business name on the construction contract exactly. Any mismatch in business names causes immediate delays.



General Liability Insurance

Minimum \$500,000–\$1,000,000 coverage. The lender must be listed as additional insured on the policy. An expired or insufficient certificate of insurance will halt the approval process.



Builder's Risk Insurance

Protects the structure during construction from weather, theft, fire, and vandalism. Required from groundbreaking through final inspection.



Surety Bond

Some lenders require a surety bond to guarantee project completion if the builder defaults or becomes unable to finish the project. Not universally required, but common with larger loan amounts.

The Builder Approval Process

Builder approval runs as a parallel track to borrower approval — both must be completed and cleared before the loan can close. Understanding this process helps you plan realistic timelines and avoid last-minute surprises.

What Lenders Review

- State contractor license — active, matching name, correct classification
- General liability and builder's risk insurance certificates
- Portfolio of completed projects — photos, addresses, project types
- Professional references from prior clients and subcontractors
- Experience with builds similar in size, type, and complexity
- Completion of lender's builder approval package forms

Timeline & Key Rules

- **Standard timeline:** Most lenders complete builder approval within 3–7 business days for complete packages. Incomplete submissions can extend this timeline significantly.
- Builders cannot use another contractor's license or act as general contractor without proper approval under their own credentials.
- The builder's approval package is separate from the construction contract — both are required before closing.

 Submit your builder's complete package at the same time as your loan application — not after. Waiting adds weeks to an already structured timeline.

Can I Use My Own Builder?

Yes — and this is one of the most important facts Veterans need to know. You are not required to use a lender-affiliated builder, a preferred builder list, or any builder other than the licensed contractor of your choice. That said, there are specific rules that govern builder selection.

Your Choice of Builder

You may choose any licensed contractor who meets the lender's approval requirements. The lender does not select your builder for you. This freedom is a core feature of the VA OTC product — you build what you want, where you want, with the contractor you trust.

Builder Must Complete the Approval Package

Your builder must complete the lender's approval package, which typically includes 2–3 standard forms plus supporting documentation (license, insurance, portfolio). Stronger credentials — more experience, larger portfolio, similar project history — result in faster approval and fewer lender overlays.

Owner-Builder Arrangements — Generally Not Permitted

Owner-builder arrangements — where the borrower acts as their own general contractor — are generally not permitted under VA construction loan guidelines. You must use a licensed, independent, third-party contractor. This rule exists because lender risk increases dramatically when the borrower and builder are the same person.

The Subject-to-Completion Appraisal

Because the home doesn't exist yet, the appraisal process for a VA construction loan differs fundamentally from a standard purchase appraisal. The appraiser is estimating what the home will be worth when fully built — making the quality and completeness of your plans and specifications critical to this outcome.

How It Works

A VA-certified appraiser analyzes your architectural plans, specifications, site plan, and construction cost breakdown — then compares them to recently sold, comparable completed homes in the area. The result is an **as-completed value** estimate: the projected market value of your home when finished.

Why It Matters

The loan amount cannot exceed the appraised as-completed value. If construction costs exceed the appraised value, the borrower must cover the difference out of pocket — or redesign to bring costs in line. This is why accurate, realistic budgeting is essential before the appraisal is ordered.

Required for the Appraisal

- Detailed architectural floor plans (all levels)
- Material specifications — grade levels, brands, finishes
- Site plan showing lot dimensions and home placement
- Complete construction cost breakdown by trade
- Elevation drawings (exterior views of the completed home)
- Survey of the lot (in most cases)

Construction Budget & Cost Breakdown

The construction budget is one of the most scrutinized documents in the entire VA OTC loan process. Underwriters, appraisers, and construction administrators all rely on it. A budget that is vague, incomplete, or inconsistent with the contract will cause delays — or worse, undermine the loan approval.



Materials & Labor Costs

The core of the budget — broken down by construction trade (foundation, framing, electrical, plumbing, HVAC, finishes, etc.). Each line item should have both material and labor costs specified separately.



Permits & Inspection Fees

Building permits, utility connection fees, local inspection fees, and impact fees vary significantly by municipality and must be included in the budget to prevent shortfalls during the draw process.



Contingency Reserve – 5-10%

A minimum 5-10% contingency line built above the base construction cost. This buffer absorbs unexpected costs, minor change orders, and price increases without jeopardizing the overall loan structure.



Soft Costs

Architectural fees, engineering reports, land surveys, soil testing, environmental assessments, and HOA documentation fees. These are real costs that must be captured in the budget.

 The contract amount must match the construction budget exactly. Any discrepancy between these two documents will delay approval and may require resubmission to underwriting.

The Construction Contract: What Must Be Included

The construction contract is the legal foundation of your VA OTC loan. The lender, underwriter, and appraiser all work from this document. An incomplete or ambiguous contract is one of the most common causes of construction loan delays — often discovered after weeks of processing.

→ **Fixed-Price (Turnkey) Contract Required**

Lenders require a firm, fixed-price contract that covers all labor and materials from groundbreaking to final completion. Cost-plus arrangements — where the final price depends on actual expenses — are not acceptable. The lender needs a defined, predictable number to underwrite against.

→ **Clear Timelines and Milestones**

The contract must include defined start and completion dates, along with construction milestones that align with the draw schedule. Vague or open-ended timelines raise underwriting flags.

→ **Detailed Construction Specifications**

Materials, finishes, systems, and construction methods must be clearly specified. "Builder's standard" is not sufficient — specific grades, brands, and installation standards must be documented.

→ **Zero Ambiguity**

Every term that could lead to a cost overrun or scope disagreement must be addressed in writing before closing. Disputes discovered during construction are significantly more difficult and expensive to resolve than those anticipated in the contract.

The One-Time Close: What Happens at Closing

Closing day on a VA OTC loan is more comprehensive than a standard purchase closing — you are executing documents for both the construction phase and the permanent mortgage simultaneously. Understanding what happens removes anxiety and ensures you come prepared.

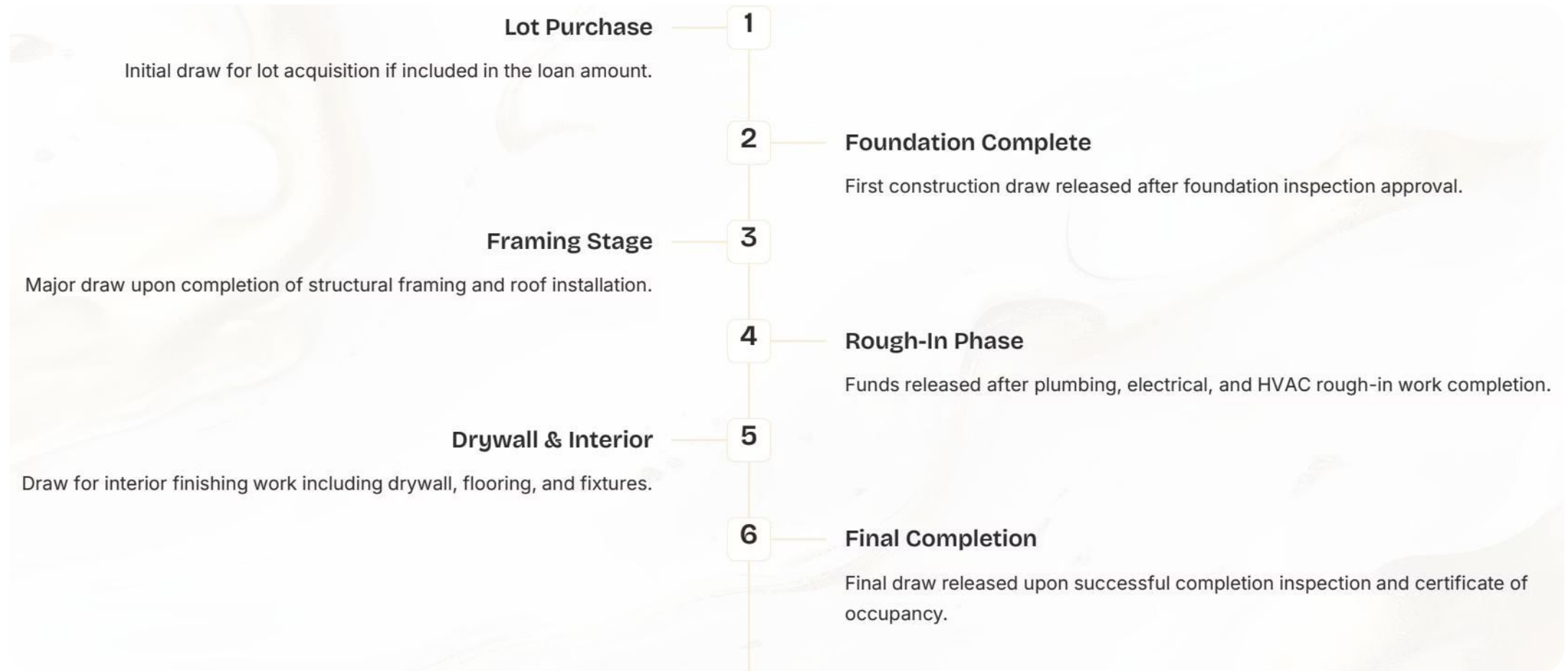
What You Sign at Closing

- The construction note — establishing the terms of the construction phase
- The permanent mortgage note — locking in your long-term rate and payment schedule
- Deed of trust or mortgage (depending on your state)
- Draw schedule — documenting when and how funds will be disbursed to the builder
- Lot purchase documents — if the land is being purchased simultaneously

After Closing: The Construction Phase Begins

- Your interest rate is locked and confirmed — protecting you for the entire build period
- Construction begins as soon as the builder is ready to proceed
- You make **interest-only payments** on drawn funds during construction — not on the full loan amount
- As draws are released and the outstanding balance grows, your interest-only payment increases proportionally
- No principal payments are due until the loan converts to permanent status

The Construction Draw Process



Construction draws are the mechanism by which loan funds flow from the lender to the builder — always tied to verified milestones, never paid in advance. Understanding this process helps both borrowers and builders plan effectively for cash flow throughout the build.

Milestone-Based Disbursement

Funds are released in scheduled draws tied to verified construction milestones. The draw schedule is established at closing and cannot be changed without lender approval.

Inspection Before Each Draw

Each draw requires a third-party inspection confirming the work described in the draw request is complete before disbursement occurs. Funds are never released on promise — only on verified performance.

Builder Cash Flow Planning

Builders are reimbursed for completed work — not funded in advance. This structure requires builders to have sufficient working capital to start each phase before reimbursement arrives. Vet your builder's financial stability accordingly.

Construction Inspections: Who Pays and What They Cover

Draw inspections are a built-in consumer protection mechanism — they ensure that money is only released when work is genuinely complete. Understanding how they differ from a traditional home inspection helps set accurate expectations throughout the build.

Who Orders and Pays for Inspections

The lender orders each draw inspection through a third-party inspection service. The cost is typically paid by the borrower and is either collected upfront or built into the loan at closing. Inspection fees vary by market but generally range from \$75–\$250 per visit.

What Draw Inspectors Verify

Inspectors confirm that the work described in the draw request has actually been completed to specification — foundation poured, framing erected, roofing installed, etc. They are verifying progress and completeness against the draw schedule milestones.

How Draw Inspections Differ from Home Inspections

Draw inspections confirm **construction progress**, not code compliance. Local building inspectors handle code compliance separately through their own permit inspection process. A draw inspector reports to the lender. A code inspector reports to the municipality. Both are necessary — neither replaces the other.

Borrower Protection Built In

This inspection structure means the borrower never funds work that hasn't been completed. It's a layer of financial protection that isn't available in all construction lending products — and one of the structural advantages of the VA OTC framework.

Change Orders: What Happens When Plans Change

In construction, change is inevitable — but in VA construction lending, every change must follow a formal, documented approval process. A change order is not a casual conversation between a homeowner and a builder. It is a legal amendment to the contract that affects the loan.

What Is a Change Order?

A change order is a formal written amendment to the original construction contract — required any time the scope, materials, cost, or timeline of the project changes. Even seemingly minor changes — swapping a flooring material, upgrading an appliance, adding an electrical outlet — require documentation.

The Approval Chain

- Borrower and builder agree on the change in writing
- Change order is submitted to the lender for review
- Lender evaluates impact on loan amount, appraisal, and timeline
- Lender approval is issued before work proceeds
- If cost increases significantly, a new or updated appraisal may be required

The Cost of Unauthorized Changes

Proceeding with work that hasn't been approved through the change order process is one of the most serious compliance issues in construction lending. It can:

- Jeopardize draw disbursements
- Trigger an underwriting review of the entire loan
- Create legal disputes between borrower and builder
- Delay final conversion to permanent mortgage

Pro Tip

Minimize change orders by finalizing all material selections, finishes, and upgrades before closing. Every change after closing adds time, cost, and administrative burden. The time invested in planning before the loan closes pays dividends throughout the build.

Construction Timeline: How Long Does It Take?

Understanding realistic construction timelines is essential for financial planning, housing logistics, and expectation management. Custom homes — especially on rural or semi-rural lots — take longer than production homes and require patience at every phase.

Overall Timeline

- **Typical construction period:** 6–12 months from groundbreaking to Certificate of Occupancy
- Custom homes on rural lots may take longer due to utility installation, permitting backlogs, and site preparation complexity
- Most VA construction loans allow up to 12 months for construction, with some lenders offering extensions for documented delays
- The loan application and approval process itself typically adds 45–75 days before groundbreaking begins

Construction Phase Timeline

Phase	Typical Duration
Site prep & foundation	4–8 weeks
Framing & roof	4–6 weeks
Rough-in (plumbing, electrical, HVAC)	3–5 weeks
Insulation, drywall, interior	6–10 weeks
Finish work, fixtures, landscaping	4–8 weeks
Final inspection & CO	1–2 weeks

Common Construction Delays – and How to Avoid Them

Delays during construction are costly — both financially and emotionally. Many of the most common causes of construction delays are predictable and preventable with proper planning before and during the build phase.



Permitting Delays

Apply for permits as early as possible — some jurisdictions take 4–8 weeks for initial approval, and revisions extend that further. Confirm with your builder that permit applications are submitted immediately after closing.



Subcontractor Scheduling

Experienced builders maintain reliable subcontractor networks and relationships. When vetting your builder, ask specifically about their subcontractor bench — depth of relationships predicts schedule reliability more than anything else.



Material Shortages

Lock in material selections and place orders before closing when possible. Supply chain disruptions can delay specific materials by weeks or months. Windows, doors, and specialty items have historically long lead times.

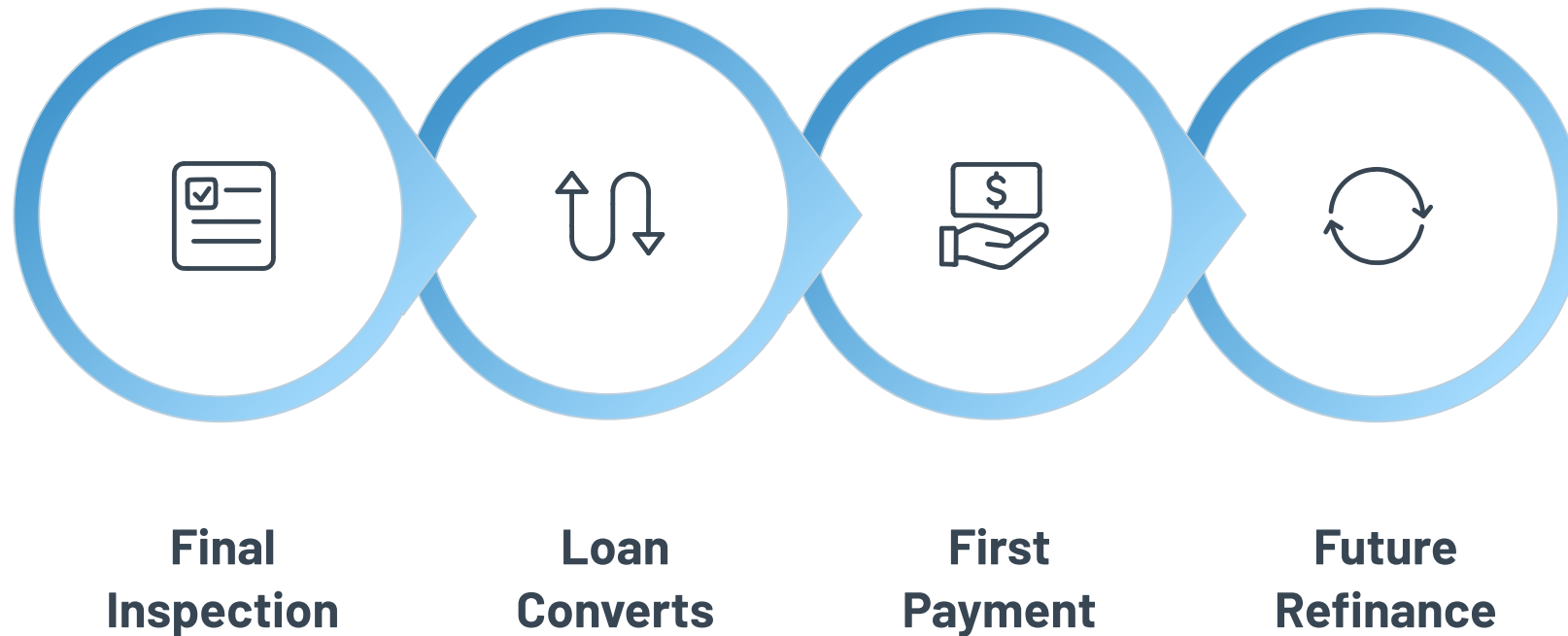


Weather & Change Orders

Build schedules should account for seasonal conditions in your region — winter in northern climates, hurricane season in coastal areas. Every change order approved during construction also pauses related work while lender approval is obtained.

What Happens After Construction Is Complete?

The completion of construction triggers the final phase of the VA OTC loan — the automatic conversion to a permanent mortgage. This is the moment the entire structure was designed to reach, and understanding what happens at each step removes uncertainty from the final stretch of the process.



Automatic Conversion

Upon final inspection and issuance of the Certificate of Occupancy, the loan automatically converts to a permanent mortgage. No new application, no new credit pull, no requalification — the permanent terms were locked at the original closing.

First Full Payment

Your first full principal-and-interest payment begins on the schedule established at closing. The rate and term are exactly what you agreed to before construction began — no surprises.

Future Refinance Option

You may refinance the permanent loan in the future using a VA Interest Rate Reduction Refinance Loan (IRRRL) if market rates improve — a streamlined process with minimal documentation and no appraisal required in most cases.

Frequently Asked Questions

The following questions represent the most common concerns Veterans and military families raise when exploring VA construction financing. Direct answers — no filler.

Can I finance the VA Funding Fee into the loan?

Yes. The VA Funding Fee can be rolled into the loan amount rather than paid as cash at closing. This preserves your cash reserves and keeps the loan truly zero out-of-pocket in most cases. The fee amount varies based on your service history, down payment, and whether it is your first or subsequent VA loan use.

Do I pay rent and a mortgage during construction?

Potentially, yes. You pay interest only on drawn funds during the construction phase — but if you are renting while the home is being built, you carry both costs simultaneously for the duration of the build. This dual housing expense must be factored into your pre-closing budget analysis.

Can I refinance after construction is complete?

Yes. Once the loan converts to permanent status, a VA IRRRL allows streamlined refinancing if rates improve. The IRRRL requires minimal documentation, no appraisal in most cases, and no income reverification — making it one of the most efficient refinance options available.

What if my builder can't finish the project?

This is why builder vetting matters so extensively. A surety bond (where required) and lender oversight through the draw inspection process provide structural protection. The lender's involvement at every draw milestone ensures early identification of financial or performance issues before they become catastrophic.

Common Mistakes to Avoid

These are the five most damaging and most preventable mistakes Veterans make when pursuing VA construction financing. Each one has derailed real transactions — understanding them in advance is the difference between a smooth process and a costly lesson.

1 Choosing a Builder Before Confirming Lender Requirements

Always verify builder eligibility with your specific lender before making any commitments to a contractor. Builder requirements vary by lender. Discovering your chosen builder doesn't qualify — after months of planning — is devastating and entirely avoidable.

2 Underestimating the Budget

A budget that's too tight leaves no room for change orders, material price increases, or unexpected site conditions. Always budget a minimum 5–10% contingency above the base construction cost — and resist the temptation to cut corners to hit an artificial number.

3 Making Major Financial Changes After Closing

Opening new credit accounts, changing jobs, or making large purchases after the construction loan closes can affect your financial profile at the permanent loan conversion stage. Maintain financial stability from application through final conversion.

4 Skipping the Contingency Reserve

Always build 5–10% above the base construction cost into your budget. No construction project is completed exactly as planned. The contingency reserve is not pessimism — it is professional financial management.

5 Waiting Too Long to Lock the Rate

Rate volatility during a 12-month build cycle can be significant. The VA OTC structure allows you to lock your rate before construction begins — use this protection. Borrowers who delay rate lock decisions hoping for better rates routinely expose themselves to unnecessary risk.

VA Construction Loan Glossary

A working knowledge of these terms will make every conversation with your lender, builder, and real estate professional more productive — and help you identify when something isn't right.

Certificate of Eligibility (COE)

The official VA document confirming a Veteran's or service member's entitlement to use VA loan benefits. Required before any VA loan can be processed.

Subject-to-Completion Appraisal

An appraisal based on architectural plans and specifications before construction begins, estimating the as-completed market value of the proposed home.

Draw Schedule

Predetermined construction milestones at which loan funds are released to the builder following verified inspection of completed work. Established at closing and documented in the loan agreement.

Residual Income

Monthly income remaining after all major obligations are paid — the VA's primary affordability measure. Set by family size and geographic region. The metric most responsible for the VA loan program's historically low default rates.

Turnkey Contract

A fixed-price construction agreement covering all labor, materials, and work from groundbreaking to final completion. Required by VA construction lenders — cost-plus arrangements are not acceptable.

Certificate of Occupancy (CO)

A local government document issued after final inspection confirming that the home is safe, code-compliant, and legal to occupy. Triggers the automatic conversion of the construction loan to permanent mortgage status.

Ready to Explore Your Options?



Douglas Wilkerson

Founder, Freeman Douglas | Branch Manager, Edge Home Finance

Marine Corps Veteran | NMLS #1680719 | 904-906-8869

Douglas specializes in VA construction lending for Veterans and military families — guiding borrowers through one of the most complex mortgage products available with the precision and discipline he carried in uniform.

Schedule a Strategy Call

Book a free, no-obligation consultation to review your eligibility, COE status, and construction financing options.

[Schedule Your Strategy Call](#)

Request Your VA COE

Start the process by requesting your Certificate of Eligibility — the foundational document for any VA loan.

[Request Your VA COE](#)



Every construction project begins with a plan. The financing strategy should too.

Sources & References

The educational content in this guide is drawn from official VA lending guidance, lender overlay documentation, and subject matter expertise in VA construction financing. The following source documents were used in developing this resource.

OTC Borrower Facing Section 3

Construction draw process, inspection requirements, builder approval timelines, and change order documentation standards for VA One-Time Close loans.

[View Source Document](#)

OTC Borrower Facing Section 1

Foundational borrower eligibility, loan structure, entitlement guidelines, and qualification standards for the VA One-Time Close Construction Loan program.

[View Source Document](#)

- ❏ This guide is intended for educational purposes only. Loan guidelines, VA funding fee amounts, and residual income thresholds are subject to change. Always verify current requirements with a licensed VA-approved lender. NMLS #1680719.