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Financing a Home Construction

You don't want one of those boring, cookie cutter suburban homes. You want to build your dream house (or at least as much of it as you can afford.) You've found the land, you've got the perfect floor plan – you only lack the financing.

While all construction loans are different, one of the most popular ways to finance home construction is with a construction-to-permanent home loan. With this program, instead of having to first find a loan for the contractors and construction materials, and then find a lender for your mortgage loan on the land, the construction-to-permanent loans will provide you with an all-in-one package. The loan to finance the construction will roll over into your mortgage loan upon completion.

Here's how it works:

Your lender will typically provide around 80% of the land and construction funds up front. You will be required to put up 20% down of the total loan at the beginning to help secure the land from its seller. This will generally mean you pay about 30% of the land cost alone at closing. The lender will supply the remaining 70% as part of the construction loan. This is important because you must own the land before construction begins. The rest of your loan will be parceled out in construction funds. You will usually pay just the interest on any money loaned during this period. You can get the construction part of your loan to be either a fixed rate or adjustable rate loan. The lender will set a construction payment schedule at the beginning of the loan, which you will agree to. This money will be paid to your contractor upon completion of various projects. Each time a project is finished, the lender will send in an inspector to certify the work. Be sure to check with your contractor to see if the payment schedule fits his needs. If he requires some materials or fees be paid up front, you as the buyer may need to pull some cash out-of-pocket. When the construction is finished, you can move in upon obtaining an occupancy permit and upon completion of the final inspections. In a construction-to-permanent loan, your construction loan will automatically convert into your mortgage loan when you move in. The greatest benefit of this program is that it will save you the closing costs and other fees you would have had to pay in obtaining a separate loan. This converted loan can also have a fixed or adjustable rate, which you will generally have to decide before the construction process begins.

Once the home is done, you have a treasure that is uniquely yours. If you find the right land, house plans, and construction loan you may also save yourself a pretty penny! Consult with local lenders to find the best loan for your needs.