

# Construction Financing

There are two basic ways to finance the construction of a new home:

## **One Closing Construction Permanent**

This product can be used to acquire the lot, build the house, then convert into your final amortized loan. You close one time, when you acquire the lot. During the course of construction you will pay monthly interest on the amount of money you have drawn, usually at prime plus 1% (as of December 2000, the prime lending rate is 9.5%, so prime plus 1 would be 10.5%). The lender will inspect the progress of the construction at the request of the builder and then advance funds at intervals until the house is complete.

At that point, the construction loan will roll into its permanent phase without another closing. Then you will make regular monthly payments. (This type of financing may also be used when you already own the lot – the lender will pay off the balance of your lot loan if necessary). With this product for loan amounts up to \$262,500, you can borrow up to 95% of the cost of the home and lot if it is a primary residence or second home, 90% if it is an investment property. If your loan amount exceeds \$262,500, the percentage you may finance will vary according to the product selected.

## **Two Closing Construction Permanent**

This product is used for various purposes. If your final loan is going to be a government loan (VA, FHA, RD), there is no one-closing product available. You may also wish to use a two closing product if it lowers your cash requirements for the lender to use the appraised instead of the cost of construction.

The two closing construction loan will work the same as a one closing, except you will go to settlement on your final loan when the home is complete instead of rolling. This is generally a more expensive process. With this product it is possible to finance 100%. Your loan amount will be determined by the final appraised value and the product you have selected.

***Construction financing is more complicated than buying an existing home because your loan has two phases, the construction phase and the final phase when the home is complete. You will work with your lender for six to nine months. Your lender will walk you through the various steps. When your new home is complete and designed exactly the way you want it, you will look back on the process and say, "It was all worth it".***

**Courtesy of Beach Realty & Construction**