

YOUR HOME LOAN ADVOCATE

BUILDING A HOME

A practical guide to financing your home from the ground up.

THE ADVOCATE DIFFERENCE

Understand the entire project before you commit to the land, builder or financing structure.

TOM ENGLISH

Your Home Loan Advocate | NMLS #210394

Building From the Ground Up

Building a home is exciting. It also comes with a few more moving parts than buying one that's already standing.

You're choosing a builder, a homesite, a floor plan, finishes and upgrades - and somewhere in the middle of all that, you have to figure out how you're going to pay for it.

That's where I come in.

Construction financing can work very well, but the decisions you make before construction begins can have a significant impact on your financing, cash requirements and final monthly payment.

My goal is to help you understand those decisions early, so your financing strategy works with your building plans rather than becoming something you have to solve later.

— *Tom English, Your Home Loan Advocate*

1. Start With the Entire Project - Not Just the House

When you're building, the construction price isn't necessarily the entire cost of the project. Depending on your situation, we may need to account for:

- The land
- Construction contract
- Site preparation and permits
- Well and septic, when applicable
- Impact fees
- Upgrades and allowances
- Contingencies
- Closing costs
- Interest during construction, depending on the loan structure

FIRST QUESTION

What is the total project going to cost? A set of plans and a builder's base price are a good beginning. They are not necessarily the final number.

2. Do You Already Own the Land?

If you already own your homesite, that's important. The value - or equity - you have in the land may become part of the financing structure and, depending on the loan program and circumstances, may help satisfy some of your required investment in the project.

If you own the property free and clear, that can be particularly helpful. If there's an existing loan on the land, we'll need to understand that too.

And if you haven't purchased the lot yet, I would much rather talk with you before you buy it. Not every lot is equally easy to build or finance.

3. The Lot Matters More Than You Might Think

A great price on a piece of land doesn't necessarily make it a great building lot. Before committing, you'll want to understand things such as:

- Zoning and permitted use
- Legal and physical access
- Utilities
- Well and septic requirements
- Flood zone and wetlands
- Setbacks and surveys
- Site preparation and drainage
- Impact fees
- HOA or architectural restrictions

ADVOCATE TIP

Cheap land can become expensive land. Some of these are not mortgage questions, but they can quickly become financing questions when they add thousands of dollars to the project.

4. Construction-to-Permanent Financing

For many people building a custom home, a construction-to-permanent loan can be an attractive way to finance the project. Rather than thinking of construction and the eventual mortgage as completely separate events, the financing is structured around both phases. During construction, funds are generally released to the builder in stages as work is completed. These are commonly called draws.

After construction is complete, the loan transitions into the permanent mortgage according to the particular loan structure.

LOOK AT THE WHOLE STRUCTURE

There are different ways construction financing can be set up. Don't choose a loan simply because someone calls it a 'one-time close' or a 'construction loan.' We need to look at the entire structure.

5. How Construction Draws Work

Your builder generally isn't handed all of the construction money on day one. Instead, funds are released as the project progresses.

Foundation → Framing → Dry-in → Mechanical Systems → Interior Finishes → Completion

The exact draw schedule varies. Inspections are typically performed along the way to verify that the work associated with a draw has been completed.

ADVOCATE TIP

Before construction begins, make sure your builder understands and is comfortable working with the lender's draw process. That conversation is much easier before you've signed everything.

6. Your Builder Matters to the Lender Too

You aren't the only one being evaluated. The lender will generally want information about the builder as well.

- Licensing and insurance
- Experience
- Financial information, when required
- Construction contract
- Plans and specifications
- Project budget
- Draw schedule

Some lenders maintain approved-builder programs; others have a builder-review process. If you've already selected your builder, let me know early. If you haven't, we can discuss the financing requirements before you make a final commitment.

7. Your Plans, Specifications and Contract Matter

With an existing home, an appraiser can walk through the property and see what's there. With new construction, we're financing something that doesn't exist yet.

The lender and appraiser therefore need enough information to understand what is actually being built. That generally means detailed plans, specifications and a construction contract. The appraisal will consider the proposed completed home based on that information.

FEWER SURPRISES

Changes later can affect cost, value and sometimes financing. The more complete the project is on paper, the fewer surprises we're likely to have later.

8. Be Careful With Upgrades and Change Orders

This is one of the easiest places for a construction budget to get away from you.

You start with one countertop. Then you see the other countertop. Then the flooring changes. Then the appliances. Then someone says, 'It's only another \$4,000.' Except this happens ten times. 😊

Some changes may be financeable. Others may need to be paid out of pocket. And some changes may not add as much appraised value as they cost.

- What does it cost?
- How will it be paid for?
- Does it affect the appraisal?
- Does the lender need to approve it?

REMEMBER

A change order is not just a design decision. Sometimes it is a financing decision too.

9. Build a Contingency Into Your Thinking

Even with an excellent builder and a detailed contract, construction projects can change. Site conditions can be different than expected. Material choices change. Something costs more than anticipated.

That's why I don't love seeing someone put every available dollar into the project. I'd rather see you finish your new home with some financial breathing room.

THE SAME PRINCIPLE APPLIES

Just because you can spend it does not necessarily mean you should. Your new house should improve your life - not leave you financially stretched the day you move in.

10. What Happens While the Home Is Being Built?

Depending on the loan structure, you may have payments during construction based on funds that have actually been advanced. That means your financial picture during the building period matters too.

- Paying rent
- Carrying another mortgage
- Preparing another home for sale
- Paying construction-related expenses
- Saving for furniture and moving costs

The question isn't only, 'Can I qualify for the finished home?' It's also: Can I comfortably get from here to there?

11. Don't Forget the Final Monthly Payment

During a long construction project, it's easy to focus entirely on getting the house built. But eventually construction ends - and your permanent mortgage begins.

- Principal and interest
- Property taxes
- Homeowners insurance
- HOA / CDD, when applicable

Rates can also change during the construction period depending upon how the financing is structured. We'll discuss how your particular program handles that risk.

Your Building-a-Home Checklist

Before Buying Land

- ☐ Talk with Tom about the overall financing strategy
- ☐ Establish my comfortable total project budget

- ☐ Determine whether land financing is needed
- ☐ Confirm zoning and permitted use
- ☐ Understand utility availability
- ☐ Investigate well/septic requirements if applicable
- ☐ Review flood-zone and wetland considerations
- ☐ Understand site-development costs
- ☐ Review HOA/architectural requirements if applicable

Before Signing With a Builder

- ☐ Confirm builder is properly licensed and insured
- ☐ Discuss lender builder-approval requirements
- ☐ Review construction contract
- ☐ Review plans and specifications
- ☐ Establish a realistic construction budget
- ☐ Understand allowances
- ☐ Understand change-order procedures
- ☐ Review estimated construction timeline
- ☐ Discuss draw process with builder

Your Building-a-Home Checklist

Before Construction Begins

- ☐ Finalize financing
- ☐ Complete appraisal
- ☐ Confirm cash required
- ☐ Establish contingency reserves
- ☐ Confirm insurance requirements
- ☐ Review draw schedule
- ☐ Understand construction-period payments
- ☐ Know how permanent financing will work

During Construction

- ☐ Monitor project budget
- ☐ Keep records of change orders
- ☐ Discuss significant changes before committing
- ☐ Respond promptly to lender requests
- ☐ Avoid major credit or employment changes
- ☐ Keep adequate cash reserves
- ☐ Stay in communication with builder and Tom

Before Moving In

- ☐ Complete final inspections
- ☐ Obtain Certificate of Occupancy when required
- ☐ Confirm homeowners insurance
- ☐ Review final financing and payment
- ☐ Complete final walkthrough
- ☐ Prepare for closing/conversion to permanent financing
- ☐ Get the keys
- ☐ Enjoy the house you watched being built!

My Homebuilding Worksheet

Use this page as a starting point for the conversation. These are planning numbers and questions, not a loan approval or final quote.

Planning Item	My Information
Target construction start	_____
Target completion	_____
Do I already own the land?	Yes / No
Estimated land value / purchase price	\$ _____
Existing land loan	\$ _____
Estimated construction contract	\$ _____
Estimated site-development costs	\$ _____
Estimated upgrades / options	\$ _____
Contingency reserve	\$ _____
Estimated total project cost	\$ _____
Cash available for project	\$ _____
Comfortable finished monthly payment	\$ _____
Current housing payment during construction	\$ _____
Builder	_____
Property location	_____

Questions I want to ask Tom:

7 Questions to Ask Before Building

1. What is my realistic total project cost - not just the builder's price?
2. How will the land and any equity I already have in it affect my financing?
3. How much cash should I expect to need before and during construction?
4. How does the lender's draw process work?
5. What happens if I make changes or go over budget?
6. What will I be paying while the house is being built?
7. What should I expect my permanent monthly payment to be when construction is finished?

One Last Thought

Building a home gives you the opportunity to create something that's truly yours. But there are a lot of decisions between 'We'd like to build' and 'Here are your keys.'

You don't need to figure out the financing after you've already made all the other decisions. I'd much rather be involved early.

We'll look at the land, builder, construction budget, available cash, financing options and your long-term goals - and make sure all of those pieces work together.

Thinking About Building?

SCHEDULE A CONVERSATION

Choose a time that works for you. If you don't see a convenient time, just give me a call or send me a message.

You don't need a set of blueprints before we talk. Sometimes the best time for our first conversation is before you've bought the lot or selected the builder.

START MY APPLICATION

Ready to move forward? You can start securely online from the Digital Office.

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To the Closing Table...and Beyond.

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