

4 Things to Know About Construction Loans

There are many reasons why people decide to build their home, instead of buy. 1.) It meets your every want and need in a home; 2.) The resale value can earn you some bang for your buck; and 3.) The emotional connection you feel when the process is over.

But before you start demolition for your home, you need to know the basics of residential construction loans. Here are four things you need to know about construction loans:



Be pre-approved before plans. The most important step of obtaining a construction loan is getting pre-approved. It's how you decide how much you can afford to spend to build that dream home you have always wanted. If you're working with a good lender, it's the time to find answers to all your questions about the construction process.

It's a process. Construction loans are a process rather than a one-time transaction. They involve a multiple components and a number of specifications. There's more paperwork, more discussions and more decisions. But when done correctly, it can pave the way to a happy home building experience.

There are multiple types. Just like other loans, you need to choose between multiple types that will fit your individual situation. Construction loans offer two basic types. The first is a one-time-close loan and the second is a two-time-close loans. Simply put, most people would like to do a one-time-close loan because they include the construction loan as well as the mortgage into one single loan. A two-time-close loan is exactly as it sounds, two separate loans. A short term loan for construction and a different mortgage loan for the entire project.

How to find the right lender. Before you can start financing your construction project, you need to find a lender. And not just any lender, the right lender for you. When choosing a financial institution you need to make sure they have: A lot of local experience in financing construction; A great history of working with local business builders and developers; The answer(s) to all of your questions and can clarify any confusing jargon; Insightful questions that can help you make fully informed choices about the building process. Choose a lender who makes you comfortable about meeting with and talking to them over the next six to twelve months. Choosing a lender that handles construction financing very well will put your mind at ease during this exciting time.