FROM HOME LOT TO MOVE-IN: UNDERSTANDING CONSTRUCTION LOANS

It should come as no surprise that designing and building your own home is more involved than a standard home purchase with a mortgage loan. Assuming you've already purchased the lot, to finance the new construction you'll be dealing with two different loans: a construction loan during the home build, which will transition into a more traditional mortgage once the build is complete. Here are the key steps for moving from an empty lot to moving into your new home:

Designing and Costing Your Home
Before you can borrow money to build a home, the lender is going to want to know exactly what you're building and what its value will be once it's completed. This is because the lender will typically loan only up to 85% of the value of the home for contractor-build projects or up to 75% for owner- or self-build projects, and because the home will become collateral for the long-term financing.

This step requires a licensed architect and/or contractor to develop – or if self-building, review – a house plan and specifications list that details all the materials to be used in your home and the associated cost to build.

Applying for a Loan
As with any sizeable loan, your lender will want a slew of documentation confirming your financial status and anticipated ability to repay the loan. This is also when you'll decide what type of financing you're looking for. For example, if you have a land loan for the building lot, you can consider refinancing that into the construction loan for a single payment moving forward. With Carolina Farm Credit, you can also decide between a construction-to-permanent loan, with which you'll start paying principal and interest from the beginning, or a two-step loan paying interest only during a 12-month construction period and then refinancing with a separate closing into a long-term loan.

Appraising the Home's Value
Once the lender's underwriting department determines the credit-worthiness of the borrower, the planned house will be appraised on an "as will be" basis, based on the house plans and specifications provided.

Breaking Ground and Tracking Progress
With a successful appraisal, as well as proof of a septic permit to confirm that a septic and well system can be installed on the property, it's time to break ground and start building your home. Construction will take months, with different materials and tradesmen needed at different points in the process, so your contractor will need funds throughout the construction period.

"Construction loan funds are held in an escrow account and paid out to the contractor on an established schedule. With each milestone achieved, the contractor will reach out to your CFC loan officer, who will visit the site and inspect whether the appropriate proportion of work has been completed and that the money being requested is going toward your project," says Zack Lovingood.

Transitioning to Long-term Financing
Once construction is complete and you have a certificate of occupancy from the county, it's time to transition the loan to long-term mortgage financing…and to move into your new home!

Zack Lovingood
Loan Officer, Carolina Farm Credit