

Construction Loan FAQs



Q: Will I be able to borrow all of the costs to build my home?

A: The amount of money you can borrow on your construction loan to build your home will depend on several factors. It is important to get with your lender and discuss whether you want to purchase your land separately. If you already own your land, whether you owe on that land or not, you will be able to borrow 80% to 85% of the appraised value of your home's plans. If you are purchasing land at the same time we are closing the mortgage for your construction loan, you will be able to borrow 80% to 85% of the total costs of the home and land or the appraised value, (whichever is lower). Depending on the result, it could be more beneficial to purchase the land separately.

Example: Let's say you own your land, but you still owe \$15,000 on it to a different bank. You get your plans appraised and the appraised value is \$250,000 while your cost to build is \$225,000. You get approved for a construction loan that will lend 85% of that value. Therefore, you have a loan amount of \$212,500. It's important to remember the land amount will need to be included as well. So, we would pay off the land, which reduces the amount you can use for construction on your loan to \$197,500 (\$212,500 - \$15,000). This means you would need to have \$27,500 (\$225,000 - \$197,500) of your own money to be able to finish the construction of the home.

Q: Do I have to have two separate loans with two separate approvals: one for building my home and then one for after my home is finished?

A: No. At First Metro Bank, we try and qualify all construction customers on a Construction-Permanent loan where it is one transaction from beginning to end. This does not mean that all paperwork will be completed after your home is finished, but it does mean that all the closing costs are treated as one loan and are not duplicated again in the end. You will establish a construction interest rate that is fixed during construction, but then you will have an opportunity to lock in a permanent interest rate for your permanent mortgage as you get close to being finished with your home. The approval in the beginning is an approval for the construction and permanent loan together.

Q: What is the interest of my payments based on?

A: On construction loans, you pay interest due every month, but you only pay interest on the amount of money you have used to build your home to that point. In the beginning, this interest payment is small and as you use more money to build your home, the payment grows. But you are only paying interest on the money you have actually used and you pay that on a monthly basis.

Q: How do I get the funds from my loan to pay my builder when it is needed?

A: A construction loan is set up on a draw basis. That means that we set the loan up as a line of credit and we make draws to a checking account for you as you request monies you need. Then you can write checks to your builder as needed. Let your MLO/Lender know when you need money so we can transfer it from the loan to the checking account. We will check the progress of your home on a regular basis using inspectors that will report how much has been done to the home and the percentage of completion. As long as the percentage of completion is lining up with the amount of money you have drawn to use, then no issues arise with getting money as you need it. If the percentage of completion ever starts to lag behind the amount of money used, we may have to stop making transfers and assess the situation. That is sometimes an indication that the costs are starting to become greater than we anticipated. If we believe this is the case, we'll simply have a discussion with all parties involved and make sure we come to an agreement upon the completion of your home.

Q: What if I need more money than what I originally thought?

A: This is called an overage. We cannot guarantee that overages can be financed in the loan. Some things that you may have spent more money on do not necessarily mean that you have increased the appraised value. If you end up with an overage, you could be required to pay the overage out of your own funds. If you added square footage to your home, we could see an increase in the appraised value, and it could be possible for us to increase your construction loan to help fund an overage. Keep in mind that if you do fund an overage by increasing your loan, you are no longer able to stay in the Construction-Permanent transaction and that will create a separate approval and closing in the end.