

# Consumer Construction Loan

## *What is a Consumer Construction Loan?*

A consumer construction loan is a multi-advance closed draw note. This means it can be drawn on up to the amount approved but is not a “revolving note”, like a Home Equity Line of Credit. When putting the loan in place we try to match the loan amount with what you desire for a permanent loan once your home is completed. This allows for what’s called a “rate and term refinance” in the mortgage industry and thereby gains you the best available mortgage pricing.

## *How much of a Loan Amount is available?*

Loan amount is calculated from the total project cost, including lot cost. If you apply for an 80% loan to project cost you would put your 20% in prior to using the construction loan funds. Any earnest deposit and/or down payment you have made on your lot or directly to the builder would count towards that 20%.

## *How are funds dispersed?*

Draws typically occur monthly and are requested by your builder. Each time a draw is requested a bank representative inspects your new home project to assure sufficient improvements are in place. We also request an update from your title company to assure no changes in the chain of title have occurred. As these items are completed you will also be asked to approve the draw and the builder/contractor will be required to sign a lien waiver for each disbursement. Once all of these items are complete the funds are dispersed.

## *What are the requirements for a construction loan?*

- Mortgage pre-qualification letter from your mortgage lender in the same amount you wish to request a construction loan.
- Construction Contract with an established home builder
- Completed application and verification documents
- Lot Contract

## *What are the terms of a construction loan?*

Most construction loans are set up for a 12 month period but longer periods can be requested due to project size.

## *What is the rate on my construction loan and will I make payments during construction?*

The rate is fixed for the term of the loan and is typically tied to the New York Prime Rate. Yes, you will make monthly payments of interest only based upon the outstanding loan balance. Those payments will be smaller in the beginning but as construction progresses and draws are funded the payments will increase.

## *How do I obtain permanent financing on my new home?*

Once your home is completed you will close on a new loan that will refinance the construction debt. The process to obtain a permanent loan should begin no later than 60 days prior to the completion of your new home.



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