

# One-Time **CLOSE** **LOANS**



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# 8

## Important Construction Loan Topics

## One-Time Close Home Loans 101

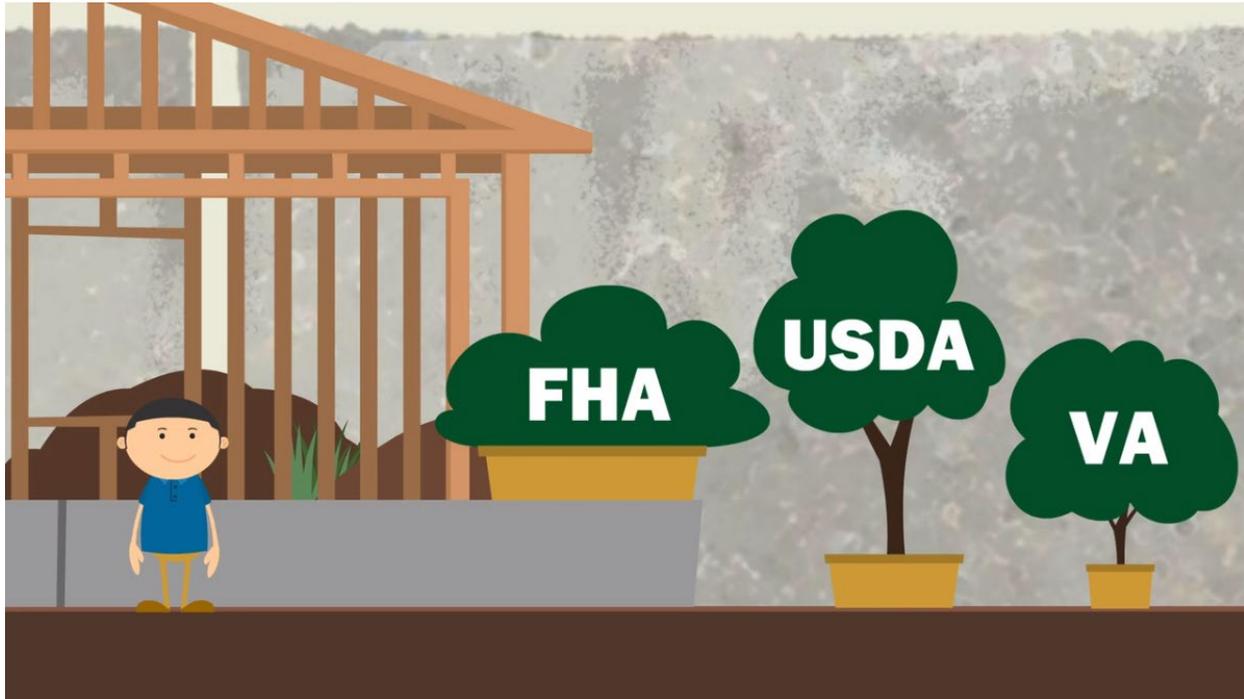
An Easy Reference Guide for Government-Backed Construction Loans

*Updated for loans on or after October 1, 2020*



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## Congratulations on Starting Your Journey to Building a New Home!



Deciding to build your own home comes with the question of how to finance it. One option is to finance the construction, land purchase, and permanent loan for the home itself, all with an FHA/VA home loan program called the “One-Time Close” Construction Loan.

This guide is intended to give you quick answers to basic questions about the FHA/VA One-Time Close Construction Loan program. Whether you want to know about credit requirements, lending limits for the FHA or VA, or the benefit of applying for a One-Time Close Loan itself, you will find all the information here!

In this guide, you will learn about:

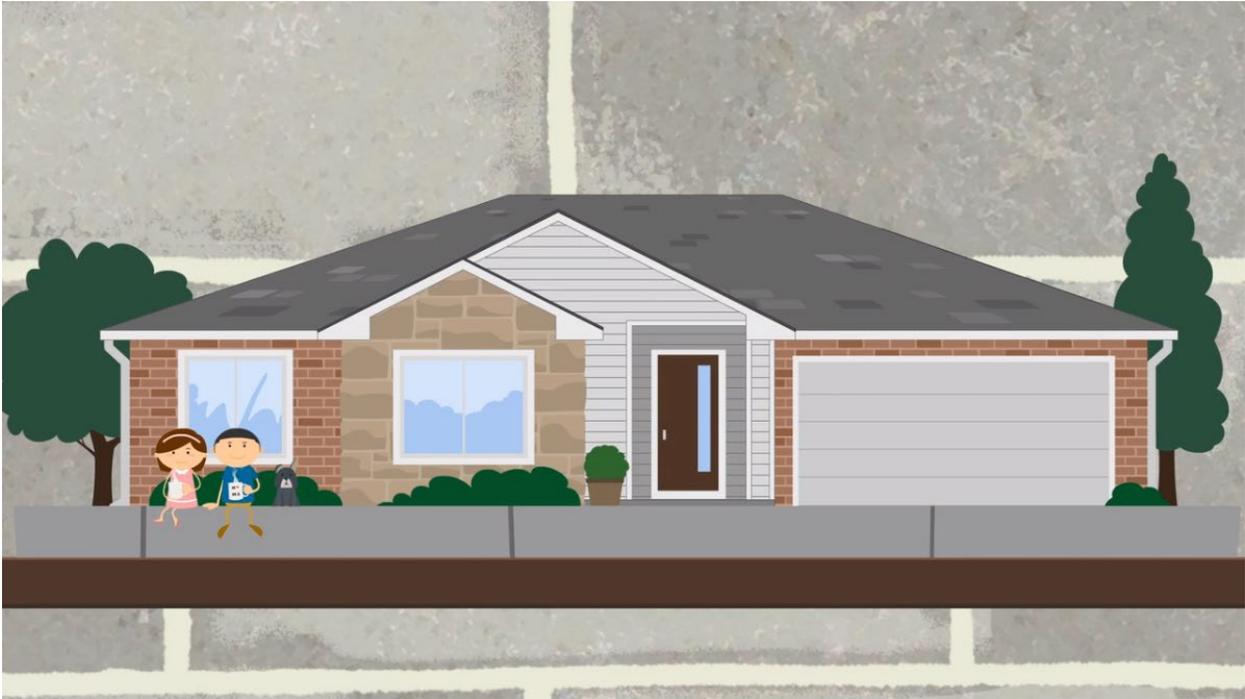
1. Loan Benefits
2. Eligibility Requirements
3. Loan Highlights
4. Loan Process
5. How to Apply
6. Loan Limits
7. Closing Costs

Once you have read this guide, you can get started on your journey to build a newly constructed home with an FHA/VA One-Time Close Construction Loan by getting pre-qualified through a licensed mortgage lender at [www.OneTimeClose.com](http://www.OneTimeClose.com).

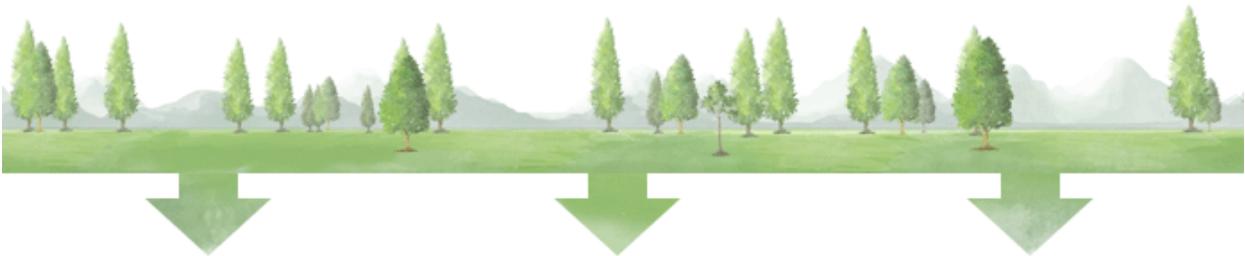
Website: [www.OneTimeClose.com](http://www.OneTimeClose.com) Page | 2

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## Benefits of the FHA/VA One-Time Close Loan



FHA/VA One-Time Close Construction Loans offer a wide range of benefits and consumer protections that conventional loans may lack. Simply put, FHA/VA One-Time Close Loans are easier to qualify for than conventional construction mortgages. There are several reasons why the FHA/VA One-Time Close Loan makes for a compelling option to borrowers building their homes from scratch.



### **ONE SINGLE CLOSING**

Typically, buyers building their own home would have two closings, one for the construction loan and one for the permanent mortgage. The One-Time Close Construction Loan eliminates this redundancy by having a single closing, as well as a single set of closing costs.

**NO REQUALIFICATION**

One closing also means that you will not have to re-qualify for the permanent mortgage. This can be a burden on many borrowers who are anxious about their credit scores or income levels changing prior to the construction being complete.

**INTEREST RATE IS LOCKED IN**

Your interest rate is set at closing and does not change, regardless of the market. Knowing that the rate will not increase during the construction phase gives borrowers a greater sense of security.

**NO MONEY DOWN WITH LAND EQUITY**

Borrowers who own their land outright can put the equity on their land towards the down payment requirement (3.5% in the case of an FHA loan, and \$0 down in the case of a VA loan).

**HIGH LOAN-TO-VALUE OPTIONS**

With the FHA and VA's lenient guidelines, borrowers can have their dream home built and financed with a low- down payment of only 3.5% with the FHA, or for \$0 down with the VA. That equates to up to 96.5% loan-to-value for FHA loans and up to 100% loan-to-value for VA loans.

**FLEXIBLE FUNDS DISBURSEMENT**

There is no maximum dollar amount for initial disbursement at closing for land acquisition or payoff, if the total loan amount does not exceed the maximum FHA or VA Lending Limits for the designated county.

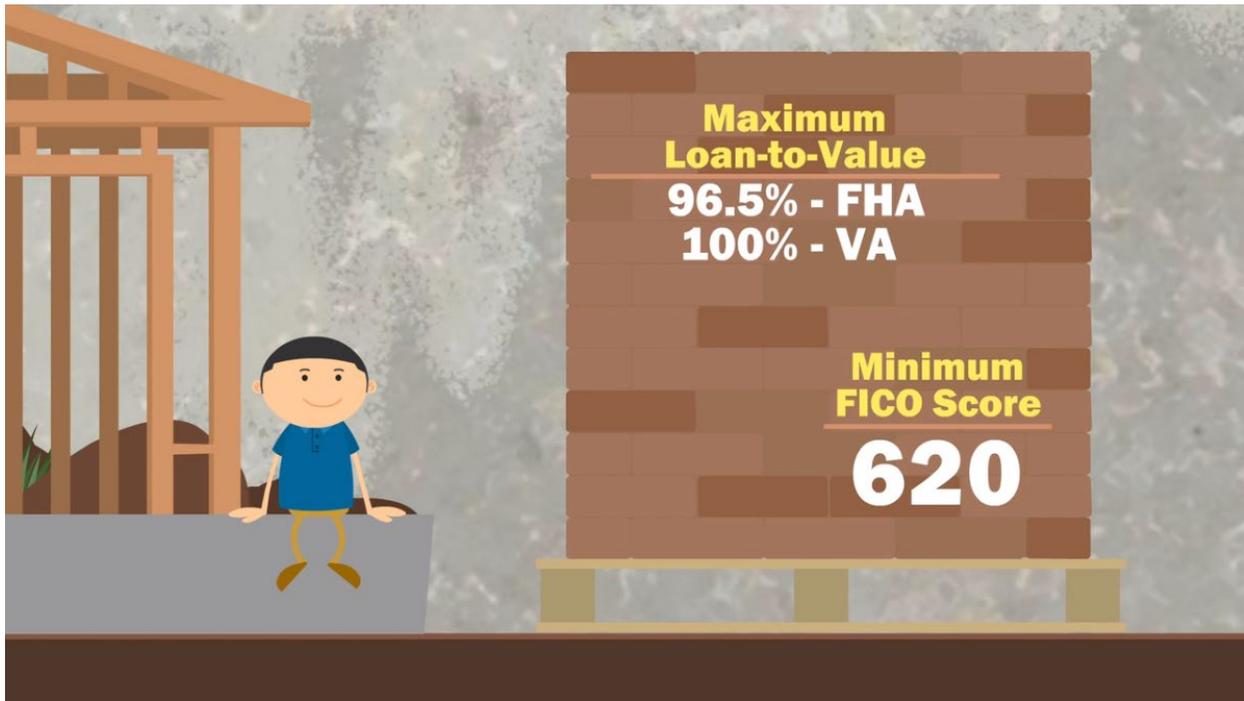
**FREQUENT INSPECTIONS**

With the One-Time Close process, inspections are completed at frequent intervals to ensure that the builder is on track to complete the building plans and that all funds are accounted for and meet the FHA or VA's minimum requirements.

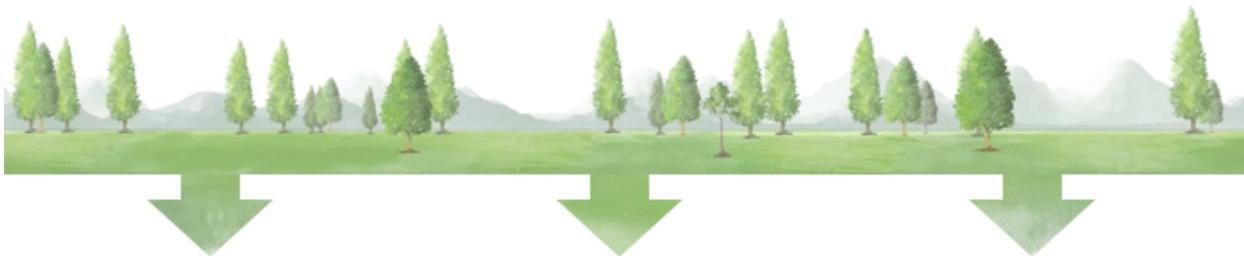
**NO PAYMENTS DUE UNTIL CONSTRUCTION IS COMPLETE**

As the homebuyer, you will not be liable to make payments until construction on your new home is complete, which gives you time to save and put aside money for monthly mortgage payments. Additionally, you will pay no interest during the construction period.

## FHA/VA One-Time Close Loan Eligibility Requirements



FHA loans are insured by the Federal Housing Administration and VA loans are insured by the Department of Veterans Affairs. Consumers wanting to utilize the FHA or VA's One-Time Close Loan program will need to meet the same underwriting guidelines as consumers purchasing an existing home. The underwriting is no different from regular FHA/VA loans except for a "Subject-To" appraisal and a few extra documents placed in the file.



### **DOWN PAYMENTS**

The FHA requires a 3.5% down payment (gift funds are allowed for 100% of it), and the VA offers \$0 down payment loans. Many borrowers may own the land outright, and their land equity can be used to satisfy the down payment requirement. If the lot was gifted, the borrower must have owned it for over six months to use toward the equity or cash in the lot.

## **CREDIT SCORES**

Credit scores as low as 620 are allowed for the FHA/VA One-Time Close Loan. All known One-Time Close Loan construction lenders require a minimum middle credit score for each borrower of 620, based on Equifax®, Experian™, and TransUnion®. If the income of the borrower that has a credit score below 620 is not needed to qualify for the potential mortgage, then the lender can determine if you qualify based on the community property laws of your state. However, if the income of the borrower that has a credit score below 620 is needed, then the loan cannot be granted.

## **MORTGAGE INSURANCE FOR FHA LOANS**

FHA Mortgage Insurance is a policy that protects lenders against losses that result from defaults on home mortgages. FHA requirements include mortgage insurance primarily for borrowers making a down payment of less than 20%. With an FHA loan, the borrower must pay an Up-Front Mortgage Insurance Premium (UFMIP) which is currently at 1.75% of the base loan amount. In addition, the borrower must pay an Annual Mortgage Insurance Premium on terms greater than 15 years with loan amounts less than \$625,000 which currently is .85% annually. Ask your loan officer about all the guidelines pertaining to Up-Front and Annual Mortgage Insurance Premiums.

## **FUNDING FEE FOR VA LOANS**

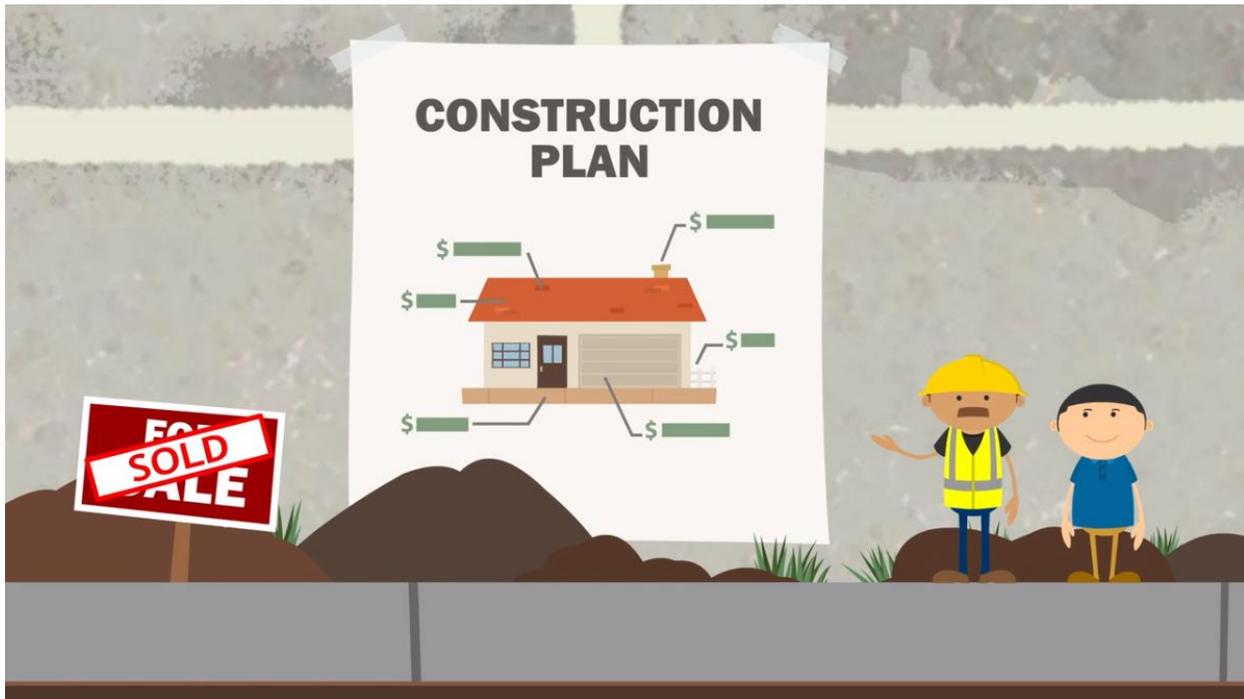
The VA Funding Fee is a one- time payment that goes to the Department of Veterans Affairs to protect lenders against losses that result from defaults on VA home mortgages. VA requirements on \$0 down loans charge a first-time use fee of 2.3% of the loan amount, and 3.6% for subsequent use. The funding fee can be rolled into the loan amount and larger down payments allow for lower funding fee amounts. The funding fee is waived for all veterans who were injured while in service and receive disability compensation or have a disability rating of 10% or more.

## **DEBT-TO-INCOME RATIO**

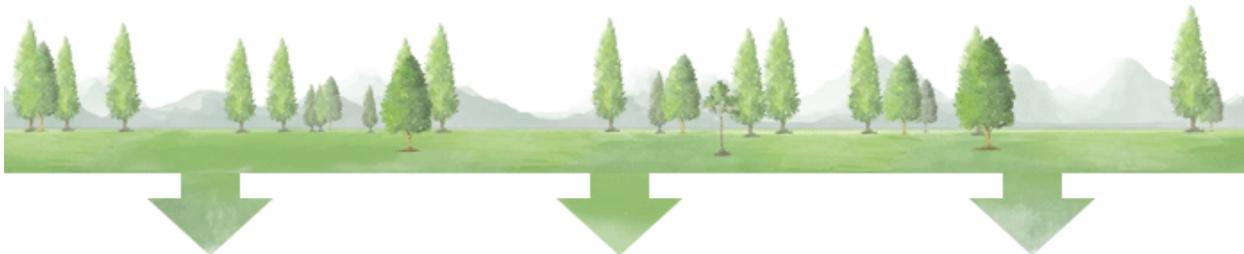
FHA Borrowers must have a “front-end” debt-to-income ratio (the amount of a proposed mortgage payment alone, which includes principal, interest, taxes, and insurance) no higher than 31% of the borrower’s monthly income. The FHA also mandates that the “back-end” ratio, which is the amount of total monthly debt including the proposed mortgage payment, be no higher than 43% of the borrower’s monthly income. VA borrowers must have a “debt-to-income ratio” (which is the amount of total monthly debt including the proposed mortgage payment divided by your monthly gross income) no higher than 41% of the borrower’s monthly income.

*FHA/VA loan rules do provide exceptions for borrowers who may exceed these limits when there are “compensating factors.” Ask your loan officer about these compensating factors if you have concerns.*

## FHA/VA One-Time Close Highlights



The FHA and VA both offer One-Time Close Loans with 15 or 30-year fixed rates available to suit the buyer's needs.



### **AVAILABLE PRODUCTS**

Includes site-built homes, modular homes, and Manufactured Homes (multi-wides only), all up to 96.5% LTV for FHA and 100% LTV for VA.

### **FINANCIAL CONTRIBUTIONS**

The FHA allows up to 6% seller or builder contribution for the borrower's closing costs and prepaids, and the VA allows up to 4%.

**DOCUMENT EXPIRATION**

There is no expiration on credit documents or the appraisal report once the loan closes.

**CONTRACTOR ROLES**

Lenders do not allow borrowers to act as their own contractors due to liabilities that arise. This also includes any relatives of the borrower. Borrowers must (1) use the builder from start to finish, (2) not deviate from the plans whatsoever, (3) not be their own contractors, or (4) not have a relative as their contractor.

**GRANT RESTRICTIONS**

The One-Time Close Loan cannot be combined with either a down payment grant or a first-time homebuyer grant in the case of FHA loans.

**PRIMARY RESIDENCE**

Any home purchased with an FHA/VA One-Time Close Loan must be the borrower's primary residence. It cannot be used as a second home or investment property.

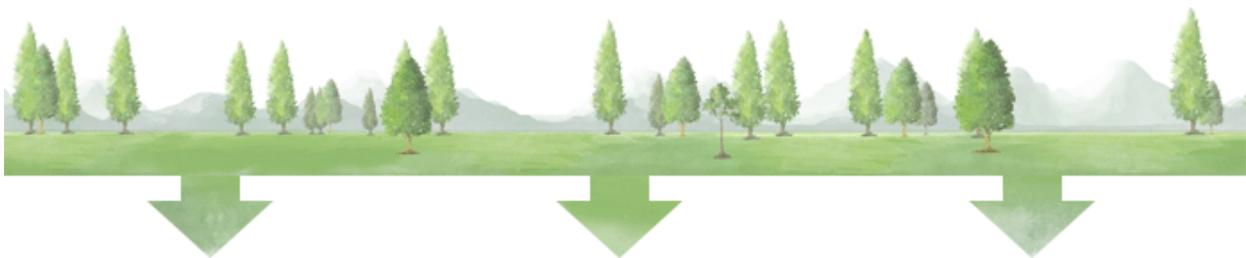
**INELIGIBLE PROPERTIES**

This list includes kit homes (consist of steel homes in kits), barndominiums (metal buildings with living quarters inside), log cabin homes, shipping container homes, stilt homes (houses raised on piles over the surface of the soil or a body of water), solar or wind-powered homes, tiny houses, duplexes, tri-plexes, or four-plexes.

## The One-Time Close Loan Process



The Construction Loan Process involves everything leading up to the closing and start of construction on your new home. Once you are approved by your lender and your builder is registered, steps need to be taken and documents need to be provided to make it to closing.



### **GETTING PRE-APPROVED**

An important step in the process is getting pre-approved for a One-Time Close loan. Getting pre-approved confirms that you meet the necessary income and credit qualifications and gives you a clear idea of how much you can afford. It also shows potential contractors that you are serious about hiring them.

## **FINDING A BUILDER**

Hiring the right builder is a crucial step in the FHA/VA One-Time Close loan process. A seasoned, licensed general contractor will be able to provide you with floor plans and suggest the best materials to use. They will also be able to advise you on the type of land to build on, or whether the land you own is suitable.

## **THE LAND**

Some borrowers already own the plot of land on which they mean to build their home. If you already own the lot outright, you can use the equity you have in the land towards the down payment on your mortgage.

## **CLOSING ON THE LOAN**

To move forward with the FHA/VA One-Time Close loan, your lender will require specifics from the contractor, such as blueprints for the build, a timeline for the project, and a list of construction materials. With all this in place, your lender can go ahead with the loan approval and you can move to closing where you provide the down payment (if applicable) and closing costs, and your interest rate is locked in.

## **CONSTRUCTION**

When construction begins on your new home, your contractor will need to be paid for the labor, materials, and salaries. The lender makes payments in installments or “draws,” according to a draw schedule as each phase of construction progresses.

## **MOVE IN!**

Once your home is built and your builder is paid, the loan converts to a permanent mortgage. You are required to move into your new home within 60 days and monthly payments become due.

## How to Apply for a One-Time Close Loan



When you apply for an FHA/VA loan to finance the construction, land purchase, and permanent loan, you are required to submit detailed information on your existing credit, employment history, and current income. With this information, FHA/VA lenders evaluate this information based on something called “the four C’s.”

- Credit history
- Capacity to repay
- Cash assets available to close the mortgage
- Collateral

According to the FHA/VA, the lender must evaluate all loan applications by:

- Considering the income the borrower needs to qualify.
- Analyzing the borrower's liabilities to determine creditworthiness.
- Reviewing debt-to-income ratios and compensating factors.

You can begin the FHA/VA One-Time Close Construction Loan process in one of two ways. You can start by finding the builder you want to use, get the total costs including the land, and apply for the loan. Another way—one recommended by many personal finance experts—is to get pre-approved for the loan amount before committing to a builder.

Either way, you will need to be prepared for an FHA/VA home loan application with the following information:

- Social Security numbers
- Checking and savings account information (including account numbers)
- Information on all open lines of credit, including credit cards, student loans, auto loans, etc.
- Complete information on any real estate you currently own
- Gross monthly income for all current employment
- Your addresses for the previous two years
- The name and addresses of your employers for the previous two years
- Tax returns for the previous two years
- Pay stubs or other paperwork verifying your current income
- Income statement and business balance sheet (if self-employed)

When pre-qualifying for an FHA/VA home loan, you will be asked to specify a zip code, approximate value of the property, and time range for when you wish to purchase. It is a good idea to set a budget and decide on a loan amount early in the process so you can fill out a prequalification form online with ease.

FHA/VA loan experts recommend obtaining, reviewing, and examining your credit report. You can obtain a complimentary credit score by reviewing the third party offer on **www.OneTimeClose.com**. This can help you learn how to maximize your credit score before filling out loan paperwork. Be sure to go over and calculate your debt-to-income ratio, which is crucial in the loan application process. Once you have examined your credit and taken any recommended actions, the next step is to go to **www.OneTimeClose.com** and request to be put in touch with a licensed lender.

## Lending Limits for a One-Time Close Loan

For mortgages backed by the US government, lending limits establish the maximum loan amount that will be insured. Different agencies set their own loan limits by county and update them annually. If you are looking to buy a house that exceeds this limit, you will be required to pay the difference as your down payment.

### **FHA LOAN LIMITS**

The FHA does not set a single, maximum loan amount for FHA-insured home loans. The loan amount you qualify for depends on a combination of factors, including the local market in your county or zip code, the appraised value of the property, and the amount you may qualify to borrow based on your credit and payment history.

FHA loan limits do not stay the same from year to year. Changes in the market or federal law may alter the loan limits.

Again, the FHA loan limit is not necessarily the amount you will qualify to borrow—the value of the property and your credit qualifications help determine your loan amount. Your lender can help you learn more about FHA loan limits in your specific case.

### **VA LOAN LIMITS**

The VA eliminated maximum VA lending limits for each county starting in January of 2020. Currently there is no maximum lending limit if the veteran qualifies with the VA debt to income ratio. Most One-Time Close Loan lenders will go up to \$750,000 and review higher loan amounts on a case by case basis.

## Closing Costs for Your Construction Loan



When it is time to close the loan, borrowers should know the costs associated with their new home construction purchase. The Closing Disclosure is provided to the consumer at least three business days prior to the date of the closing by the mortgage lender. Exact costs will be given to you by your loan officer once they receive all the builder's fees and associated costs.

If you are a first-time borrower, you may not be familiar with some or all the closing costs associated with an FHA/VA One-Time Close Construction Loan. The closing costs can include but are not limited to:

- Attorney fees
- Documentation preparation fees
- Escrow fees
- Property taxes
- Loan Origination fee
- Recording fees
- Survey fee
- First Mortgage Insurance Premium (where applicable)
- Title insurance
- Loan discount points
- Escrow account for future real estate taxes and insurance

- Paid receipt for homeowner's insurance policy (and fire and flood insurance if applicable)

One of the most important things to know about closing costs is the fact that FHA/VA rules keep the payment of closing costs separate from the down payment. When you pay closing costs, you are not putting money down on the home—the down payment is a separate cost.

## ARE YOU READY TO GET STARTED?



Finding an experienced FHA or VA mortgage lender for this type of financing is not an easy task. Most FHA/VA lenders concentrate on regular home loans, cash-out refinances, and streamline refinances.

Only a select few companies around the country employ loan officers who fully understand how to put these deals together and provide quality service throughout the process. It is important to speak with one of these FHA/VA lenders at the beginning of the process.

To get started with a One-Time Close Construction Loan through the FHA or VA, go to **[www.OneTimeClose.com](http://www.OneTimeClose.com)** to request to be put in touch with a licensed lender who is familiar with this type of loan and begin your journey to building a newly constructed home!