

How To Finance The Construction Of Your Dream Home

Looking for the perfect home for your family can be an exciting but difficult challenge. Your new home needs to meet your requirements for size, layout, location, and price. That's a lot to ask in a seller's market. One way to improve your odds of success is to look beyond the existing homes on the market and instead build exactly the one you want. With proper planning and the right team in place, a construction loan can make that dream possible.

Brian Jones, SVP, Real Estate Loan Officer

What's a Construction Loan?

A construction loan is a short-term loan that provides the financing to build your home from the ground up. These loans are typically structured with interest-only payment periods of 12 to 18 months – depending on the size and estimated time of completion. Once construction is complete, a conventional mortgage is taken out to pay off the construction loan and finance your newly built home for the long-term.

Three Steps for Success

Once you've made the decision to build your dream home, you'll need to take several key steps to prepare for the journey ahead. Banks have very specific guidelines around this type of lending, because they're lending you money for something that doesn't yet exist. It's important that you understand and prepare for these requirements to help make sure the process goes smoothly.

1. Find the right builder

This is one of the most important decisions you will make to ensure a happy outcome. A qualified and reputable builder is vital to ensuring the quality of the end product – your dream home. The bank needs to know you're working with a builder who can get the job done on time and on budget. Do your due diligence beforehand and be sure to choose a builder that complements your style and personality. Finding the right person to build your new home will go a long way toward eliminating costly headaches in the days ahead.

2. Have your plan and paperwork ready

Banks require thorough, project-specific documentation in order to get to know your project. It's important to discuss these details with your banker to make sure you have everything needed. Project-specific items include:

- Construction contract
- Budget/costs breakdown
- Plans and specifications
- Property survey

- Builder information

Each phase of your home's construction should be mapped out, budgeted, and documented to help avoid expensive delays or missteps. Taking time and attention on the planning phase of the project will help pave the way for an efficient and productive construction process.

3. Get your financial house in order

Before building your dream home, you need to make sure your financial house is in order. Banks require down payments for construction loans similar to traditional mortgages, which are typically a minimum of 20 to 25 percent. Additional requirements include:

- Minimum credit score
- Maximum debt-to-income ratio
- Reserves/liquidity

Making Your Dream Home a Reality

A construction loan can be the first step toward realizing your dream of owning the perfect home for your family. But, as with any large investment, you'll need proper planning, diligence, and discipline to make that dream a reality. Working closely with an experienced banker can help you through every phase of the process.

At PlainsCapital Bank, we specialize in construction loans and can help walk you through every phase of the process to build your future dream home. We have been serving Texas homeowners for more than three decades and understand the importance of working with a banker you can trust during the construction loan process.

To learn more about our construction lending options in Texas, call 972.732.1989 today.