

Modular Home Loan Financial Transaction

A Client's Guide from Land Acquisition to Permanent Financing

A modular home is constructed in factory-produced sections, transported to a building site and assembled on a permanent foundation. It is built to applicable state and local building codes and is generally financed and appraised like a site-built home—not like a mobile or HUD-code manufactured home.

Freddie Mac states that modular homes are generally treated as site-built single-family homes for financing purposes. [Freddie Mac guidance](#). Fannie Mae also recognizes qualifying prefabricated, panelized, and sectional homes, subject to applicable local building codes. [Fannie Mae guidance](#)

The transaction typically finances:

- Land acquisition or existing land payoff
- Site preparation
- Foundation
- Modular-home manufacturing
- Transportation
- Crane and setting
- Module assembly
- Utility connections
- Exterior and interior completion
- Permits, professional fees and financing costs

1. Confirm that the home is modular

Before seeking financing, obtain written confirmation that the proposed home:

- Is built to state and local residential building codes
- Is not constructed to the federal HUD manufactured-home code
- Will be installed on a permanent foundation
- Will become part of the real property
- Can be legally placed on the selected lot
- Meets the lender's property-eligibility standards

The client should not use “modular,” “manufactured” and “mobile” interchangeably. The classification affects underwriting, appraisal, permits, insurance and loan eligibility.

SITE & MODULAR ELIGIBILITY

Confirm the land, foundation and local-code status before committing funds.



CLIENT CHECKPOINTS

- Verify zoning, setbacks, utilities, access and modular-home acceptance.
- Confirm state and local code construction - not HUD-code manufactured housing.
- Coordinate engineered foundation plans with the approved modular design.

ELIGIBILITY GATE: The site and modular home must qualify together as real property.

2. Define the complete project

Create a project summary identifying:

- Land address
- Land ownership or purchase price
- Modular manufacturer
- Model and floor plan
- Square footage
- Number of modules
- General contractor
- Site contractor
- Foundation contractor
- Transportation and set crew
- Estimated factory-production date
- Delivery date
- Total construction schedule
- Completed property value
- Intended occupancy
- Exit strategy

The lender must understand the entire finished property—not only the factory price of the house.

3. Secure control of the land

The client must own or control an acceptable lot through:

- Existing ownership
- Purchase agreement
- Land-development agreement
- Approved purchase option

Before committing to the modular unit, confirm:

- Residential zoning
- Setbacks
- Minimum home size
- Architectural restrictions
- HOA approval
- Road access
- Utility access
- Water and sewer or septic approval
- Soil and drainage conditions

- Foundation requirements
- Crane and delivery access
- Local acceptance of modular construction

A home may be approved by the manufacturer but still be prohibited or impractical on the selected lot.

4. Select the financing structure

Single-close construction-to-permanent loan

The client closes once.

During construction:

- Funds are advanced through draws.
- Payments may be interest-only.
- Interest is generally based on the amount advanced.

After completion:

- The loan converts to permanent financing.
- Regular amortizing mortgage payments begin.
- A second full loan closing may not be required.

Two-close construction-to-permanent transaction

The client completes two separate closings:

1. Short-term construction loan
2. Permanent mortgage after completion

The permanent rate and approval may need to be obtained again. This structure can create additional closing costs and qualification risk.

Construction-only loan

The lender finances construction, but the client must sell the property or obtain a separate permanent refinance by maturity.

For qualifying consumer transactions, construction and permanent financing may be disclosed as one combined transaction or as separate phases, depending on the structure. [Fannie Mae single-close guidance](#)

5. Build the complete project budget

Land and site development

- Land acquisition
- Survey
- Soil and engineering reports
- Clearing and grading
- Driveway
- Drainage
- Well or water connection
- Septic or sewer connection
- Temporary power
- Permanent utilities

Modular-home costs

- Base home price
- Design modifications
- Factory upgrades
- Sales tax, when applicable
- Freight and transportation
- Module protection
- Crane
- Set crew
- Marriage-line connections
- Weatherproofing

On-site construction

- Excavation
- Foundation
- Crawlspace or basement
- Garage, porch and decks
- Roofing completion
- Exterior finishes
- Interior connections and finishes
- Plumbing, electrical and HVAC connections
- Steps, walkways and landscaping
- Final cleanup

Soft and financing costs

- Architecture

- Engineering
- Permits
- Impact fees
- Appraisal
- Inspections
- Closing costs
- Builder's risk insurance
- Origination points
- Interest reserve
- Contingency

The base modular-home price is rarely the total completed-project price.

6. Calculate the financing requirement

Example project

Project component	Amount
Land	\$75,000
Modular home and factory options	\$250,000
Foundation and site development	\$80,000
Transportation, crane and set	\$25,000
On-site completion	\$40,000
Soft costs and financing	\$15,000
Contingency	\$15,000
Total project cost	\$500,000

Assume the lender approves an \$400,000 construction commitment:

$$[\$400,000 \div \$500,000 = 80\% \text{ LTC}]$$

The client would be responsible for at least \$100,000 of project equity, plus non-financed costs and required reserves.

Existing land equity may receive credit, subject to the appraisal and lender's policies.

7. Obtain preliminary loan terms

The client should review:

- Maximum loan amount
- Loan-to-cost ratio
- Loan-to-value ratio
- Construction interest rate
- Permanent interest rate
- Rate-lock provisions
- Construction term
- Extension options
- Origination points
- Required down payment
- Required reserves
- Interest reserve
- Draw procedures
- Inspection fees
- Prepayment terms
- Personal guaranty
- Completion guaranty
- Conversion conditions

A preliminary term sheet is not final approval.

8. Submit the loan package

Client documents

- Loan application
- Identification
- Credit authorization
- Income documents, when required
- Tax returns, when required
- Bank and investment statements
- Proof of down payment
- Proof of reserves
- Real-estate schedule
- Entity documents for investment projects
- Construction experience

Land and project documents

- Land purchase agreement or deed
- Survey
- Site plan
- Modular floor plans
- Elevations
- Specifications
- Manufacturer agreement
- General-contractor agreement
- Foundation plans
- Engineering certifications
- Detailed budget
- Construction schedule
- Transportation and set agreement
- Permit status
- Utility information
- Insurance proposal

The manufacturer's contract should clearly explain payment milestones, cancellation rights, change orders, delivery obligations, warranties and responsibility for damage.

9. Complete the appraisal

The lender orders an appraisal based on the proposed completed property.

The appraiser reviews:

- Land
- Plans and specifications
- Modular construction contract
- Site improvements
- Foundation
- Garage, decks and porches
- Finished square footage
- Local modular and site-built comparable sales
- As-completed market value

Fannie Mae provides special appraisal considerations for modular, prefabricated, panelized and sectional housing. [Fannie Mae modular-appraisal guidance](#)

If the appraisal is lower than expected, the client may need to:

- Increase the cash contribution
- Reduce upgrades

- Negotiate the manufacturer's price
- Modify the project
- Reduce the loan request
- Select a different lot or plan

10. Lender underwriting

The lender evaluates five major areas.

Borrower

- Credit
- Income or investment capacity
- Liquidity
- Reserves
- Experience
- Existing debt

Site

- Title
- Zoning
- Access
- Utilities
- Flood risk
- Soil and foundation suitability

Modular manufacturer

- Experience
- Licensing and certifications
- Financial stability
- Production schedule
- Contract terms
- Warranty
- Insurance

Builder and project

- Contractor qualifications
- Budget accuracy
- Plans
- Permits
- Timeline

FACTORY PRODUCTION & QUALITY CONTROL

Match manufacturer milestones to the lender's approved funding controls.



CLIENT CHECKPOINTS

- Use lender-approved plans, specifications and manufacturer agreements.
- Confirm who owns and insures modules before delivery to the building site.
- Require supported invoices, inspections and approvals before fund release.

DEPOSIT GATE: Confirm lender treatment before paying a nonrefundable factory deposit.

- Contingency
- Delivery and crane plan

Exit

- Conversion to permanent financing
- Rental stabilization and refinance
- Sale of completed property
- Backup repayment strategy

11. Receive conditional approval

Typical conditions include:

- Acceptable appraisal
- Clear title
- Final plans and specifications
- Approved manufacturer
- Approved contractor
- Building permit
- Foundation permit
- Builder's risk insurance
- General liability insurance
- Final budget
- Construction schedule
- Verified client contribution
- Required reserves
- Permanent-financing approval
- Signed manufacturer and construction contracts

No factory deposit should be treated as financeable until the lender confirms its draw policy.

12. Understand the factory-deposit challenge

Modular manufacturers may request payments before modules are delivered:

- Initial design deposit
- Production reservation
- Start-of-production payment
- Factory-completion payment
- Delivery payment
- Final balance

The lender may not automatically fund large deposits for materials or modules located away from the building site.

Before signing, obtain written answers to these questions:

- Will the lender fund factory deposits?
- Will the lender inspect modules at the factory?
- Must the manufacturer provide a bond?
- Must the client advance the deposit?
- Will the client be reimbursed later?
- Who owns the modules before delivery?
- What happens if the manufacturer fails?
- Does the lender require stored-material insurance?
- Will the lender pay the manufacturer directly?

The manufacturer's payment schedule and lender's draw schedule must be compatible.

13. Close the construction loan

At closing:

1. The client signs the note and loan documents.
2. The client contributes required equity.
3. The lender records a lien against the land and proposed improvements.
4. The land seller or existing land lender is paid.
5. Approved closing expenses are paid.
6. Remaining project funds enter a controlled construction account.
7. Initial advances are released according to the approved schedule.

The full loan commitment does not normally go directly to the client.

14. Prepare the building site

Initial draws may cover:

- Clearing and grading
- Excavation
- Foundation
- Utility installation
- Driveway and crane access
- Drainage
- Required inspections

The foundation must match the engineered modular plans precisely. Foundation errors can delay delivery or prevent proper installation.

15. Manufacture the home

While site work proceeds, the modules are constructed in the factory.

The lender may require:

- Factory progress reports
- Photographs
- Invoices
- Manufacturer certifications
- Third-party inspections
- Evidence of insurance
- Confirmation that modules meet approved plans
- Evidence of clear ownership

Any design change should be documented and approved before production.

16. Coordinate delivery and installation

Before delivery, confirm:

- Foundation has passed inspection
- Site is accessible
- Crane location is prepared
- Road and utility clearances are confirmed
- Weather conditions are acceptable
- Modules are insured in transit
- Set crew is scheduled
- Temporary weather protection is available
- Required permits are active

Responsibility for damage during transportation, craning and installation should be established in writing.

17. Process construction draws

A standard draw process is:

1. Approved work or production milestone is completed.
2. Contractor or manufacturer submits an invoice.

3. Client submits a draw request.
4. Lender performs a site or factory inspection.
5. Lien waivers and supporting documents are reviewed.
6. Lender confirms the budget remains in balance.
7. Funds are released to the appropriate party.

Potential recipients include:

- Manufacturer
- General contractor
- Foundation contractor
- Site contractor
- Crane company
- Set crew
- Material suppliers

18. Pay interest during construction

Interest is generally charged on funds that have been advanced.

Example:

- Current outstanding balance: \$250,000
- Interest rate: 10%
- Estimated monthly interest:

[

\$250,000 \times 10% \div 12

\$2,083.33

]

As more funds are advanced, the interest expense increases.

If an interest reserve is included, those payments are made from loan proceeds and increase the outstanding balance.

19. Keep the project in balance

The remaining loan funds and client equity must be sufficient to complete the home.

DELIVERY, CRANE SET & SITE COMPLETION

Coordinate the factory, carrier, crane, foundation and site contractors.



CLIENT CHECKPOINTS

- Pass the foundation inspection before scheduling transportation and crane work.
- Confirm route, access, weather, insurance and responsibility for transit damage.
- Complete module connections, utilities, finishes and required inspections.

INSTALLATION GATE: Delivery is not completion - final site work must remain funded.

Example:

- Undisbursed loan funds: \$100,000
- Remaining client contribution: \$15,000
- Total available: \$115,000
- Estimated cost to complete: \$130,000
- Shortfall: \$15,000

The lender may require the client to deposit the shortfall before approving another draw.

20. Complete the on-site work

After the modules are set, work may remain:

- Module connections
- Roofing completion
- Plumbing connections
- Electrical connections
- HVAC commissioning
- Drywall and trim at marriage lines
- Exterior siding
- Steps, porch and deck
- Garage
- Driveway
- Landscaping
- Final utility connections

A modular home is not finished merely because the modules are on the foundation.

21. Obtain completion documents

The lender may require:

- Final inspection
- Certificate of occupancy
- Final appraisal certification
- Final survey
- Contractor affidavit
- Final lien waivers
- Manufacturer warranty
- Building-code approvals
- Permanent homeowners insurance
- Updated title
- Completed punch list

Final funds or retainage may remain withheld until these items are delivered.

22. Convert, refinance or sell

Single-close conversion

If all conversion conditions are satisfied:

- Construction advances stop.
- Final balance is established.
- Permanent mortgage terms take effect.
- Principal-and-interest payments begin.
- Builder's risk coverage changes to permanent insurance.

Two-close refinance

The client completes a new permanent-loan closing:

1. Permanent lender approves the finished property.
2. Final appraisal and certificate of occupancy are verified.
3. New lender pays off the construction loan.
4. Construction lender releases its lien.
5. Permanent mortgage begins.

Freddie Mac offers construction-to-permanent financing designed to transition from the interim construction phase into permanent financing. [Freddie Mac construction-to-permanent guidance](#)

Sale exit

For an investor or developer:

1. Buyer closes on the completed home.
2. Construction lender receives its payoff.
3. Liens and selling expenses are paid.
4. Lender releases its lien.
5. Remaining proceeds go to the developer.

Primary risks to explain to the client

- The home may be misclassified as manufactured rather than modular.
- The lot may not permit modular construction.
- Manufacturer deposits may not match the lender's draw policy.
- The manufacturer can experience delays or financial problems.
- Foundation measurements can be incorrect.

- Delivery access may be inadequate.
- Transportation or crane damage may occur.
- Appraisal comparisons may be limited.
- Site-development costs may exceed projections.
- Draws may require client advances before reimbursement.
- Unapproved changes may not be funded.
- Interest expense increases as draws accumulate.
- Permanent financing is not guaranteed unless firmly committed.
- Cost overruns remain the client's responsibility.

The seven keys to a successful modular-home loan

Eligible land + code-compliant modular home + compatible contracts + approved manufacturer + accurate foundation + coordinated draw schedule + verified permanent exit.

The financial transaction works best when the land contract, manufacturer agreement, construction contract, and loan agreement are reviewed together before the client pays a nonrefundable deposit.

COMPLETION & PERMANENT FINANCING

Finish the property, satisfy conversion conditions and complete the loan exit.



CLIENT CHECKPOINTS

- Obtain final inspection, certificate of occupancy, warranties and lien waivers.
- Convert to permanent terms, refinance or close a completed-property sale.
- Use final proceeds to pay principal, accrued interest and lender charges.

EXIT GATE: Permanent financing depends on final value, completion and borrower approval.