



YOUR GUIDE TO

New Construction & Renovation Loans



Luminate Bank®

Michael Creed
TEAM

Introduction



In today's dynamic real estate market, financing plays a crucial role in helping individuals achieve their dream homes. Whether you're looking to build a new house from the ground up or breathe new life into an existing property, understanding the ins and outs of **New Construction Lending** and **Renovation Lending** is essential. This guide aims to provide a comprehensive overview of both types of lending, equipping you with the knowledge needed to navigate the mortgage process confidently.

New Construction Financing



Borrower Eligibility

To qualify for a construction loan, borrowers must meet specific eligibility criteria, which include, but aren't limited to:

- Good credit score
- Verifiable income
- Acceptable debt-to-income (DTI) ratio
- Adequate down payment

Types of Loans

- **Construction-to-Permanent Loans:**
Converts to a permanent mortgage once the home is completed. Typically one closing is required, but not two.
- **Stand-Alone Construction Loans:**
Requires a separate mortgage upon completion. Usually requires two closings, one at the beginning and one when construction is complete.

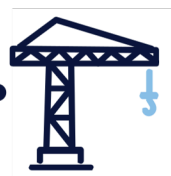
New Construction Loan Process



Apply for mortgage
(permanent financing)



Preapproval for
back-end perm
loan and front-end
construction loan



Identify and
connect with a
General Contractor



Find a property
and get an
offer accepted



Close on
construction loan
(interest only payments)



Initial draw
to begin work
and finance
the acquisition



Order appraisal based
on plans and specs



Good for 12 months



Mitigates risk of
lower value later on



Financing based
on post-renovation
value, not cost



Gets plans and
specs drawn up
for construction
or rehab project



Subsequent
draws as needed
through the
construction
process



Lock in your rate
for backend perm
loan within 6
months
of closing



Close on back-end
perm loan!

Welcome home!

One Time Close Loans

Imagine simplifying your home-building journey with just one application and a single closing - that's what our One Time Close Construction Loan Offers!

≡ Types of Loans

Conventional

- 700 Minimum Credit Score
- 5% Down Payment
- Primary and Second Homes

FHA

- 620 Minimum Credit Score
- 3.5% Down Payment
- Primary Residences Only

VA

- 620 Minimum Credit Score
- No Down Payment
- Primary Residences Only



Benefits & Drawbacks

Benefits

- **Customization:** Ability to design your home as per your specifications.
- **Payments:** Interest-only payments during the construction phase.
- **Flexibility:** Option to convert to a permanent mortgage.

Drawbacks

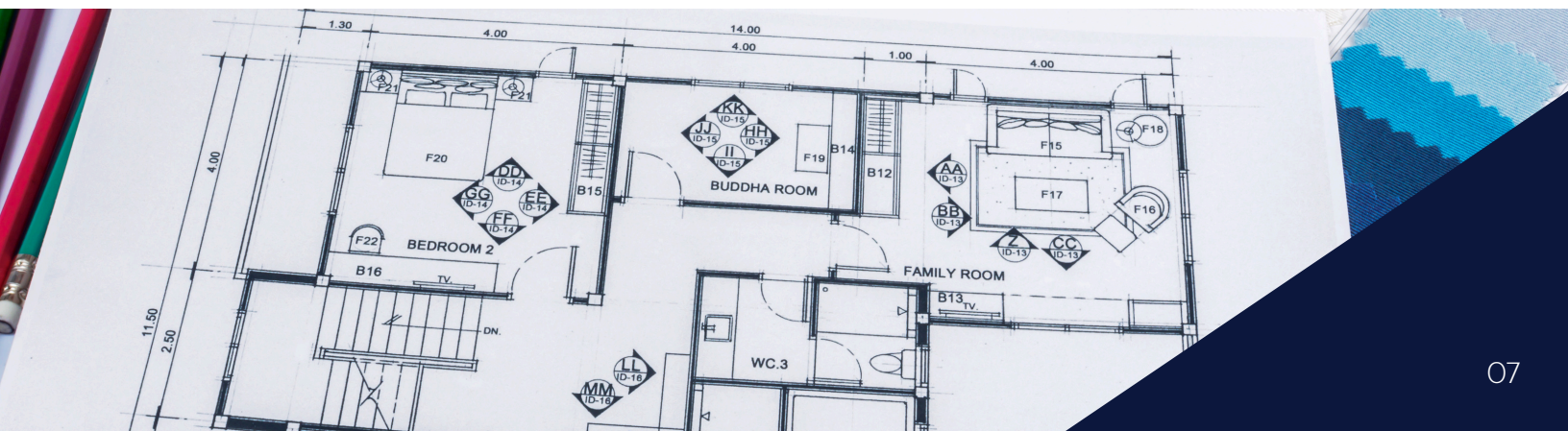
- **Complexity:** Usually a longer and more complex loan process.
- **Costs:** Potential for unexpected expenses and higher interest rates.
- **Risk:** Dependence on the builder's performance and project completion.



Renovation Loans

└ Types of Loans

- **FHA 203(k) Loans:** Insured by the Federal Housing Administration, designed for extensive renovations, allowing borrowers to finance both the purchase (or refinancing) and renovation costs under a single mortgage.
- **HomeStyle Renovation Loans:** Offered by Fannie Mae, this loan lets your clients purchase and renovate a new home—or renovate a home they already own—with as little as 3% down. Available for primary residences, secondary homes, and investment properties, it provides flexibility to make upgrades that enhance a home's value, from minor repairs to major renovations.
- **Personal Loans:** These unsecured loans are used for smaller renovation projects without requiring equity in the property. Since they don't use the property as collateral, they may come with higher interest rates, but they're ideal for those looking for a short-term solution.



Benefits & Drawbacks

Benefits

- **Flexibility:** Can use these funds for a variety of renovation needs.
 - **Value:** Improvements can increase the property's market value.
 - **Convenience:** Renovating an existing home means you don't have to move.
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Drawbacks

- **Higher Costs:** Potential for added and unexpected expenses in lead time or materials.
- **Complexity:** There are usually additional steps for loan approval and fund disbursement.
- **Appraisal Risks:** Future property value must justify the renovation costs.



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