

New Construction Loan

A construction loan is a short term loan that is used to pay for the building of a house. Construction loans are paid off by a long term mortgage loan on the completed home.

The money from the construction loan is disbursed throughout the course of the building project. Usually the lender is involved throughout the course of construction, reviewing completed work at various stages.

Construction loans are closely tied to the final mortgage on the home. Borrowers have to apply for the final mortgage and they have to be approved before applying for the construction loan.

The long term mortgage and the construction loan on the finished home are usually tied together in what is called a construction/perm loan. This is beneficial financially because the closing costs are reduced. The application and approval process are also much easier.