

# Mortgage Minute

## Construction Loans

Product Highlight: Construction-to-Permanent Financing

Construction-to-permanent, or One-Time-Close, financing programs allow people to buy property and build the home of their dreams, and possibly creating instant equity, while avoiding two loans and two sets of loan costs. Traditionally when someone wanted to build a home they would get a construction loan to finance the building phase. Then, once the home was complete, they would secure permanent financing.

The advantage to closing one time on the construction and permanent financing is easy to see, it's cheaper!

However, given the choice, it may be a better option to let the builder finance the construction phase of the home. This way he or she is paying the interest during construction. On the flip side though, the builder may be less flexible in how custom the home can be in case they have to sell it if the buyer walks away.

One of the advantages to using a construction-to-permanent financing product, in addition to

the lower cost, is that interest payments can often be built into the loan, eliminating out of pocket payments during construction.

Another advantage could be the use of the appraised value to determine the loan-to-value of your permanent financing. This is a big difference from a regular purchase where the lender will use the *lesser* of the purchase price or appraised value.

Many people disqualify themselves from this type of program because they think they couldn't qualify, not enough income to support both payments. But, these types of programs actually use potential rent from the current home as income too.

One word of caution before I conclude; it may be worth a few dollars to have the construction contract looked over by a lawyer before committing to anything.

Building a home can be very rewarding in many ways and might be worth considering the next time you begin looking for a new space to call home.

## Today's Rates at a Glance

30-year fixed  
Interest Only  
**6.500%**  
(APR 6.675%)

30-year fixed VA  
**6.375%**  
(APR 6.565%)

5/1 ARM  
**6.000%**  
(APR 7.217%)

Calculations based on a first-time homebuyer purchase, loan amount of \$150,000 and an 80% loan to value. Rates include a 1% origination fee and are as of 7-2-07 and are subject to change.

## Identity Theft Tip of the Month

*Shred any documents with personal or financial information on them. It seems like a no-brainer, but too many times I need a reminder to do even the simple things.*



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