

What Is Construction Financing?

Funding New Builds, Additions and Major Renovations

Building a new home or undertaking a major renovation is exciting—but it requires more than just blueprints and a contractor. It also takes a specific kind of funding. Construction financing gives homeowners and builders the capital needed to bring a project from dirt lot to dream home.

HOW IT WORKS

Unlike traditional mortgages, which release the full loan amount at closing, construction loans are disbursed in phases, called draws. These draws correspond to specific stages of the project — foundation, framing, plumbing, and so on. Before releasing each draw, the lender may require an inspection to confirm the work has been completed as planned.

Construction loans are short-term — usually lasting 6 to 18 months — and often carry higher interest rates than standard mortgages. Most loans are interest-only during construction, with full repayment (or a refinance) due at the end of the project.

At completion, borrowers typically convert the construction loan into a traditional mortgage, known as a con-



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struction-to-permanent loan. This avoids having to close twice and simplifies the financing process.

WHAT LENDERS REQUIRE

To qualify for construction financing, you'll need more than a good credit score. Lenders will want to see:

- Detailed building plans
- A project timeline and budget
- A licensed general contractor
- Proof of land ownership or purchase plans

Because construction carries more risk than a completed home, lenders scrutinize these

elements closely. They want to know the project can be completed on time, within budget and according to code.

Some lenders may also require a larger down payment — often 20% to 25% — and a contingency fund to cover unexpected costs. Having a solid financial cushion can

improve your chances of approval.

Construction financing can unlock your vision for a custom-built or deeply renovated home, but it comes with complexity. By understanding how these loans work and preparing your plans thoroughly, you'll be ready to build with confidence.



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REAL ESTATE 101



HOMEWISE GLOSSARY

You'll Need a Detailed Project Plan

To get approved for a construction loan, lenders require building plans, a timeline, a budget and a licensed contractor. They want to know exactly what you're building and how you plan to complete it.

Construction Loan: A construction loan is a short-term loan used to finance the building or major renovation of a home. Unlike traditional mortgages, funds are released in stages as work progresses, often requiring inspections at each step.

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