Grade:A++(A++)
Words:2,032(2,004)

10 Tips for Paying for a New Construction Home

The housing market can be tricky to navigate at the best of times and downright overwhelming to many in the current climate. Potential homeowners can save around 15% by building their home as opposed to buying an existing house. With average new home construction costs anywhere from $115,000 to $465,000, building your new home still carries a hefty price tag. There are many factors that you should consider when deciding to build a new house, and we are here to walk you through a few steps and help you make the right choice

What are the Three Options for New Construction Homes

Spec Home

A Spec Home is a move-in ready home that someone else has designed and built. If you want to be the first occupants of a house but not interested in being part of the building process then this is the option for you. Spec Homes are also a good idea if you want a brand new house but do not necessarily have the time to wait through the whole construction from start to finish.

Spec Home Plus

A Semi-Custom home is another opportunity for a new home. You may have seen Semi-Custom referred to as a Spec Home Plus or Spec Home plus a few custom options. If you would like to have some input on design but not have the responsibility of making every decision then a Semi-Custom home is the way to go. A builder will usually present you with home design options or even shoe you model homes that they are most familiar with and already have a good idea of the building costs associated with each. You will work with the builder to pick out things like a floor plan, material, colors and finishes that suit you.

Custom Build

A Custom Build is a third type. If you want to have full control over every decision then you want a Custom build. You may hire a general contractor or choose to self contract the construction process but will have input in all aspects. This is the "Dream Home" option and while it takes longer and costs more, the end result will be completely the design, feel, and floor plan you want.

What are the different financing options for building a new home

Unless you are paying cash for your new build, you will need a new construction loan. It's best to work with a financial institution that is familiar with the construction process. Any local real estate agent should be able to recommend a mortgage company or if you are working with a builder, he or she will probably have a preferred lender they work with on a regular basis. There are a few ways to finance your new construction.

Builder Financing

If you are working with a builder you may not need to finance the construction portion. With Builder Financing, the builder pays for the construction of the home up front. You will purchase the finished house from the builder using a traditional mortgage loan. With this financing option you will normally have to pay a deposit up front. The deposit serves as a show of good faith and gives the builder some working capital.

New Home Construction Loan

The financing option for Custom Home builds is a new construction loan. This is a short-term loan that usually carries a higher interest rate than a mortgage. The funds are doled out as phases of the project are completed and you will likely only pay interest on the borrowed amount monthly until construction is finished. Once your project is complete, you will obtain a traditional mortgage loan to pay off the construction loan.

Construction-to-Permanent Loan

A construction-to-permanent loan is also called a combo loan or combination loan. This is a nice option if your mortgage lender offers it since it only requires one loan approval process and the resulting loan converts from a construction loan to a permanent mortgage when you finish the house.

Bridge Loan

Bridge loans are short-term loans anywhere from a few weeks to a couple of years. This loan type is for those that have a current mortgage while building a new home. It bridges the gap until you sell your current home and close on the new home.

When is the down payment due on a new construction home loan?

Depending on your financing, you will likely be required to pay some sort of deposit or down payment. If you have decided to work with a builder and choose builder financing, you will pay a builder deposit or "earnest money", which is usually anywhere from 5% to 10% of the estimated cost of the finished build. This is also known as good faith money or a good faith deposit. Should you back out of the purchase of the finished project for any reason, you will lose your deposit, but the deposit will come off your final balance when you go through with the purchase.
A down payment is paid on construction loans obtained through a financial institution and will apply towards the home purchase or final construction cost. The amount of the down payment is an out-of-pocket amount you pay towards the final cost, and you finance the rest. Down payment is usually paid at the loan origination.

How much of a down payment do you need on a new home loan?

Down payment amounts will vary according to the applicant's credit score as well as the lender's loan options. There are some VA loans with 0% down payment mortgages available to current military personnel as well as veterans if you qualify. You may also be able to find a conventional mortgage that only requires 3% down payment depending on certain income limits. The average down payment across the board is typically 7% for first time home buyers. Just remember, a lower down payment may be enticing and allow you to get your home faster than saving for a big down payment but the more you are able to put down, the less principal you owe overall.

Tips for Buying a New Home Construction

If you have decided to purchase a new home construction as opposed to building a new home, here are a few tips.

1) Find the right agent

You can always do your own research on all the moving pieces of the buying process but finding a great agent will help you in the long run. A buyer's agent that is familiar with new home construction is ideal. This agent will be able to help you find the right development or area for your needs. Agents will normally have established relationships with area builders and can help you navigate finding the perfect fit.

2) Compare lenders

It may take more effort but taking the time to compare lenders can make a big difference in experience. You want to find a reputable institution that is familiar with the loan program best suited to your situation. Your builder may have some suggestions and a buyer's agent can point you in the right direction too. Buyers that shop around for a mortgage lender have saved an average of $1500.00 over the life of their loan.

3) Research

Research all parts of the project that you possibly can. Time spent researching can save you time, money and stress in the end. When researching a home builder for example, look for past clients, what was their outcome? Do they use quality material? What is the builder's experience?
Research the neighborhood. Does it offer everything you need? Is it established? Does it work for you and your family logistically? Is it safe?
Research the available lots or locations of the new construction. Is it at a busy section of the development? Do you like the views? Will there be noise? Is it too secluded?

4) Consider your floor plan

When deciding on a floor plan, don't think about your current needs only. You will want to think about future possibilities. Will your family be expanding or are you close to an empty nest? Does the floor plan offer the space and flow you need? Are there enough storage areas? Can you optimize the space?
It's also a good idea to choose a floor plan and any design elements that will add to the home value. If you plan on living in the house for a while then flipping it as a resale home, you will want to be sure the space makes sense now and will hold up well to future home buyers.

5) Manage expectations

There are many factors that impact new home construction. Weather and supply chain interruptions can delay even the best of plans. There may be labor shortages that even the most reputable builder can not control. If something can happen, it likely will happen. Have a plan and a back up plan but just expect that there will be delays.

6) Don't skip the inspection

Yes, a home inspection on a newly built home. Things happen and even the most experienced building crews can overlook minor issues. You want to find those tiny mistakes before they become big problems. Get an inspection.

FAQ for Financing a New Home

How do I start the home loan process?

Work on improving your credit score. Typically borrowers with higher credit scores receive better interest rates and loan terms. Then you will want to shop around for lenders. You should look for a lender with good reviews or recommendations and one that is familiar with the type of loan you need. A great lending partner can help you identify special financing you may be qualified for such as FHA loans or may be able to help you find financial incentives.

Do I need to prequalify for a home loan?

It's a good idea to pre-qualify for a loan amount and many realtors require a pre-qualification letter before you begin house hunting. Pre-qualification helps you figure out how much home you can afford by analyzing your income, credit score and employment status and allows the realtor to help narrow your search.

What are the average interest rates for first time home buyers?

The national average interest rate for a 15-year fixed rate mortgage is 4.75% and the average for a 30-year fixed rate mortgage is 5.5% as of January 2023.

Are there any tax benefits for first-time homebuyers?

On a federal level there are not any tax benefits for buying a home. Some states offer credits and at a local municipal level, you may have property tax benefits. A tax professional in your area will be able to help you find any savings available.

What is mortgage insurance?

Mortgage insurance is not the same as homeowners insurance. Mortgage insurance will protect your lender in the event you stop making payments on your loan.

What is the difference between a fixed-rate mortgage and an adjustable-rate mortgage?

A fixed-rate mortgage will lock in your interest rate for the entirety of your loan. If interest rates rise, you will not be affected and if they drop you will not benefit, however your payment will stay the same.
An adjustable-rate mortgage will give you a low initial interest rate, for the first few years. After that agreed upon period your interest rate will rise and fall. This type of loan will generally have a limit on how high the rate can rise. An Adjustable-rate mortgage is unpredictable, nice when rates are low but can get expensive.

What should I do to keep my credit in good standing while a new home loan is being processed?

During the entire loan process from application to closing, you will want to stay away from major purchases. Do not apply for any other loans or lines of credit, do not co-sign for anyone, do not refinance any existing lines of credit. Additionally, you will want to show you have a stable job so now is not the time to change careers. Keep your payments current on any accounts you already have established, you will not want late or skipped payments to pop up during this time.