



# AAFM

COMPASSION • TRUST • PROTECTION

## Construction Loans Vs. Permanent Mortgages

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# AAFMMA Mortgage Services

**Our Mission:** to be the premier provider of Mortgage Services to the American Armed Forces community.





# AAFMMA Mortgage Services

Focusing exclusively on the needs of the military family, we work to provide innovative, personalized, and lifestyle appropriate mortgage services.

AMS only employs state-licensed loan officers and any advice or service we offer is always done in the best interest of our member.





# Agenda

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- What is a construction loan?
- Difference between constructing a new home and purchasing a new home
- Major Differences between construction and permanent financing
- Construction Loan Terms
- Basic requirements for a Construction Loan
- State differences
- Questions

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# What is a Construction Loan?

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- A construction loan is typically a short-term loan used to pay for the cost of building a home. It may be offered for a set term (usually around a year) to allow you the time to build your home. At the end of the construction process, once the house is 100% complete, you will need to get a new loan to pay off the construction loan.



# How Draws Work

- Draws are designated intervals at which the builder can receive the funds to continue with the project. There may be several draws throughout the duration of the build. For instance, the builder may get the first 10% when the loan closes, and the next 10% after the lot is cleared and the foundation is poured. The next influx of money may come after the house is framed, and then the subsequent payout after the house is under roof and sealed up. The draw schedule establishes the amount and timeline that the draws are taken.
- The number of draws and the amount of each is agreed upon between the builder, the buyer, and AMS. AMS requires an inspection at each stage before releasing the money to the builder. This helps ensure that everything is on track, that the money is being spent as it should and that all permits, insurance, and progress is being made.
- Once all the draws have been paid out and the home is built, the buyer gets a long term mortgage to pay off the construction loan.

# Major Differences

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- Construction Loan

- Short amount of time up to 24 Months
- AMS Underwriting
- Stricter guidelines
- Rates more steady state-AMS controls
- More simple to determine the payment during construction loan
- Must do another loan when construction completed

- Mortgage

- A tailored longer term mortgage
- Various financing options are available
- Guidelines dependent on program
- Rates change daily and will be different than construction loan rate
- More common



# Basic Information on the AMS Construction Advantage Loan

- Credit score must meet the minimum requirements of 680
- Clean credit record / debt to income ratio below 41%
- Six months of total expense reserve – equity in lot and other real estate is estimated at a slightly lower value
- Qualified Builder
  - Your builder will be vetted by AMS
  - AMS does not guarantee the construction of your home, but does guide you through the entire process
- An appraisal is completed on the “Subject – To” value of the property
- Ongoing inspections and recertification of insurance
- Up to 24 months to complete





# What I need as a Customer

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- Qualifying for any mortgage, whether a construction loan or a purchase of a home, will require the same or more information.
- Information on the builder
- A contract for the construction of the home
- If purchasing a lot, contract for the simultaneous purchase of the lot
- Be prepared to wait-
  - Appraisals especially in remote areas
  - Inspections are on the timeline of the inspector
  - A way to cut down on the timeline is open communication



# The Process

- Once you have the land and plans selected, choose a builder. At this time or before, start your loan application with AMS and we will start collecting the information needed and review the file.
- Select a builder and then get a construction contract in place. Once this is completed, AMS will conduct due diligence on the builder, review the building plans, and hire an appraiser.
- Once the appraisal is approved and the plans are completed to include a tentative draw schedule, all loan paperwork is complete. Note, because of changes there may be a new set of disclosures to ensure all the paperwork is correct.
- Once building starts the draws are coordinated with the AAFMAA Member, AMS, and the builder.



# Questions?



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