

VABASSO MORTGAGE

The Construction Loan Guide

Construction-to-permanent financing

Draw schedules and inspections

Loan-to-cost and completed value



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The Construction Loan Guide

A practical guide to construction-to-permanent financing, land equity, project budgets, builder review, draw schedules, inspections, loan-to-cost, completed-value analysis, and conversion to permanent financing.

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In short

A construction loan finances the building of a home rather than the purchase of a finished one. Funds are released in draws as work is completed and inspected, and interest generally accrues only on the amount disbursed. A construction-to-permanent structure converts that financing into a long-term mortgage once the home is complete, while a construction-only loan is repaid or refinanced separately. Lenders size the loan against both the cost to build and the appraised value of the finished home, review the builder and the contract alongside the borrower, and control disbursement through an inspection-based draw process.

Key takeaways

- Construction loans fund work in stages through an inspection-based draw process rather than at closing.
- Interest during construction is generally charged on funds disbursed, not the full committed amount.
- Lenders evaluate the builder, the contract, and the cost breakdown alongside the borrower.
- Loan-to-cost and completed-value loan-to-value are both reviewed, and the more restrictive one usually governs.
- Land already owned is commonly treated as equity in the project, though how it is credited varies.
- A contingency inside the budget is what absorbs the conditions a project uncovers after work begins.
- Construction-to-permanent structures reduce the number of closings but are not available for every project.

Who this guide is for

- Buyers planning to build a primary residence on land they own or intend to buy
- Homeowners considering a rebuild or a major structural project
- Borrowers comparing construction-to-permanent financing with construction-only financing
- Self-employed borrowers planning a build while documenting variable income
- Second-home buyers building on coastal or inland Florida lots
- Investors evaluating ground-up construction against renovation or acquisition
- Anyone who wants to understand draws, inspections, and carrying costs before committing

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01

What is a construction loan?

A construction loan is generally a short-term project-finance vehicle used to fund the building of a home rather than the purchase of a completed one. Instead of disbursing the full loan amount at closing, a construction loan typically releases funds in stages, commonly called draws, tied to verified progress on the project. This draw-based structure exists because the collateral backing the loan does not fully exist yet, and lenders generally want confirmation that money is being spent on work actually completed before releasing the next installment.

During the construction period, interest is commonly charged only on the funds that have actually been disbursed rather than on the full committed loan amount, though this varies by lender and program. Some structures allow interest to be paid out of pocket, while others may allow it to be funded through an interest reserve set aside within the loan itself. The specific approach depends on the lender, the loan program, and the borrower's preference where a choice is offered.

Approval for a construction loan generally extends beyond the borrower's own qualification and also considers the builder and the project itself. Lenders commonly review the builder's licensing, experience, and financial capacity, along with the construction contract, plans, specifications, and budget, because the builder's performance directly affects whether the project reaches completion as planned.

Valuation for a construction loan is typically based on an appraisal that estimates the home's value once construction is complete, sometimes called an as-completed or subject-to-completion appraisal, rather than the value of the land or partially built structure alone. Once construction finishes, many borrowers transition into permanent financing, either through a separate closing or through a structure that converts automatically, depending on how the original loan was set up.

Throughout the process, lenders commonly require periodic inspections to verify progress, updated title searches to confirm no new liens have attached to the property, and a contingency reserve to help absorb unexpected costs. A completion deadline is also typically established, though the exact length and any extension terms vary by lender and project. Borrowers are also commonly expected to contribute funds toward the project cost, with the specific amount and timing varying by program.

A construction loan is not simply a mortgage issued before the home exists. It is a controlled project-finance structure.

02

Construction-only vs. construction-to-permanent: what is the difference?

A construction-only loan generally covers just the building period and must be paid off, refinanced, or replaced with a separate permanent mortgage once construction is complete. A construction-to-permanent loan, by contrast, is generally structured to convert automatically into permanent financing after construction ends, often without a second full closing, though the specific

mechanics vary by lender.

Each structure carries tradeoffs in cost, flexibility, and risk. Construction-only financing may offer more flexibility in choosing the eventual permanent lender and loan product, since the borrower is not locked into converting with the original construction lender. Construction-to-permanent financing may reduce the number of closings and associated costs but can limit the borrower's ability to shop for permanent terms once the project nears completion.

Neither structure is universally better; the right choice generally depends on the borrower's certainty about long-term rate preferences, tolerance for requalifying at conversion, the specific lenders available, and how the project's timeline and budget are expected to evolve.

General comparison. Specific terms vary by lender, investor, and program.

Consideration	Construction-only	Construction-to-permanent
Number of closings	Typically two separate closings	Often structured as a single closing
Closing costs	Costs incurred at each closing	May reduce total closing costs
Rate lock timing	Permanent rate set at a later, separate closing	Rate terms may be set earlier, depending on structure
Requalification risk	Full requalification for the permanent loan	May reduce, but not eliminate, requalification exposure
Lender flexibility	Borrower may choose a different permanent lender	Often tied to the original construction lender
Appraisal requirements	Appraisal for construction and again for permanent financing	May rely on the original as-completed appraisal
Complexity	Two loan applications and two sets of documents	Streamlined into a single overall process
Best-fit scenario	Borrowers wanting maximum permanent-loan flexibility	Borrowers preferring fewer closings and known conversion terms

03

One-time close vs. two-time close: which structure applies?

A one-time-close construction loan generally combines the construction phase and the permanent mortgage into a single closing event, with conversion to permanent terms occurring automatically once construction is verified complete. A two-time-close structure involves a separate construction loan closing followed later by an entirely new closing for the permanent mortgage, with its own underwriting, documentation, and costs.

The one-time-close approach can reduce total closing costs since fees are generally paid once rather than twice, and it can also reduce the borrower's exposure to requalifying under different financial circumstances or market conditions at the end of construction. However, it may offer less flexibility if the borrower's circumstances or preferences change during the build.

The two-time-close approach generally allows the borrower to shop the permanent loan market independently once construction is finished, potentially capturing better terms if the market has moved favorably. It also allows underwriting for the permanent loan to reflect the borrower's most current financial picture, which can be a benefit or a risk depending on how that picture has changed.

Neither structure is universally superior. A one-time-close loan may suit borrowers who want cost efficiency and payment certainty, while a two-time-close loan may suit borrowers who want maximum flexibility to shop permanent financing or who are unsure how long-term rate conditions will move.

General comparison. Specific terms vary by lender, investor, and program.

Consideration	One-time close	Two-time close
Number of closings	One combined closing	Two separate closings
Closing costs	Generally incurred once	Generally incurred twice
Rate structure	Often set or capped earlier in the process	Permanent rate set separately at the second closing
Underwriting	Combined underwriting for both phases	Separate underwriting for each phase
Flexibility	Less flexibility to change permanent lender	Full flexibility to shop the permanent loan
Requalification risk	Reduced, but not eliminated	Full requalification required at conversion
Appraisal	May rely on a single as-completed appraisal	May require appraisals at each stage
Timeline	Generally more streamlined overall	Generally involves more coordination between two loans
Modifications mid-project	May be more restrictive depending on lender	May allow more flexibility between the two loans
Permanent-loan options	Tied largely to the original lender's offerings	Open to a broader market of permanent lenders
Overall complexity	Fewer moving parts, one coordinated process	More documents, more coordination, more decision points

04

What should I know about buying land and building on it?

Financing that combines a land purchase with new construction generally requires coordination between the land transaction, the construction contract, and the loan itself. A land purchase contract is typically reviewed alongside the construction budget, and lenders commonly want to confirm that the combined land and construction costs align with the projected as-completed value of the finished home.

A land appraisal is generally used to establish the value of the site before any improvements are made, and this figure is typically distinct from the eventual completed-value appraisal used later in the process. Zoning classification, access to a public or approved private road, and availability of utilities such as water, sewer or septic, and electric service are commonly reviewed as part of confirming the land is actually buildable as intended.

A current survey is commonly required to confirm boundaries, easements, and encroachments, while soil testing may be requested to confirm the site can support the planned foundation type. Flood zone status and other environmental considerations, such as wetlands or protected areas, are also commonly reviewed, since these factors can affect insurance requirements, buildable area, and permitting.

Title work on the land is generally performed to confirm clear ownership and identify any existing liens or easements before closing. Permits, including building, zoning, and any site-specific approvals, are typically pursued once the land purchase and construction financing are aligned, and builder readiness, meaning the builder's ability to begin work on the agreed timeline, is commonly factored into how the overall project schedule and loan structure come together.

Because land purchase, lot development, and construction financing intersect, project timing generally benefits from close coordination between the borrower, builder, and lender from the earliest stages, rather than treating the land purchase as a separate, unrelated transaction.

05

What if I already own the land I plan to build on?

When a borrower already owns the land, that land can commonly be used as part of the overall project financing, though the specific treatment depends on the lender and program. Lenders generally start by confirming the current value of the land, typically through an appraisal, and reviewing whether any existing lien remains against it, since an unencumbered lot is treated differently from one still carrying debt.

Some lenders may apply seasoning considerations, meaning the length of time the land has been owned can factor into how its value is treated, particularly when the land was acquired very recently or at a price that differs meaningfully from its current appraised value. Land improvements already made, such as clearing, grading, or utility connections, may also be considered when establishing the property's contributed value.

Title on land already owned is generally reviewed just as it would be for any other property offered as collateral, and outstanding property taxes are typically confirmed as current before or at closing. Situations involving inherited land or gifted land generally require additional documentation to confirm ownership history and that the transfer was properly completed.

Land held in partnership or through an entity introduces additional complexity, since lenders generally need to confirm the borrower's ownership interest, the entity's authority to pledge the property as collateral, and how that ownership interacts with the individual borrower's loan application. These situations are commonly handled on a case-by-case basis and vary considerably by lender.

06

What is land equity and how can it be used?

Land equity generally refers to the value a borrower has built up in a lot beyond any debt still owed against it. Expressed as a formula, estimated land equity = current appraised land value minus existing land debt. This figure is typically established through a current appraisal rather than the original purchase price, since land values can change over time just as home values can.

Land equity may be used to support a construction loan in several ways, depending on the lender and program. It can potentially count toward a required down payment or overall project contribution, factor into loan-to-cost calculations by reducing the amount of new cash needed, support loan-to-value calculations once the completed home is appraised, or in some cases contribute toward reserve requirements.

Not all land equity receives full credit toward these calculations. Lenders commonly apply their own standards for how much of the appraised land value can be counted, and factors such as how the land was acquired, how long it has been owned, and whether it carries any existing liens or encumbrances can all affect how much equity is actually recognized in the final loan structure.

07

How should a construction project budget be organized?

A well-organized project budget generally breaks the total cost of the home into distinct line items, which helps the lender, builder, and borrower track spending against the draw schedule as construction proceeds. Lenders commonly review this budget closely, since it forms the basis for both the loan-to-cost calculation and the sequence in which draws are approved.

Budgets typically separate site-related costs, such as land, clearing, and grading, from structural costs like foundation and framing, and again from finish-level costs such as flooring, cabinetry, and appliances. Soft costs, including architectural fees, engineering, permits, and the builder's own fee, are commonly tracked separately from these hard, physical construction costs.

An interest reserve and a contingency line are also commonly included within the overall project budget, since both help absorb costs that are not part of the physical construction itself but are still necessary to carry the project through to completion. Closing costs associated with the loan itself round out a typical comprehensive budget.

Illustrative budget template. Specific line items and categorization vary by lender, builder, and project.

Budget line	What it commonly includes
Land	Purchase price or credited value of the lot
Site preparation	Access roads, temporary utilities, erosion control
Clearing	Removal of vegetation, debris, and existing structures
Grading	Leveling and shaping the site for construction
Foundation	Footings, slab, or crawlspace construction

Budget line	What it commonly includes
Framing	Structural framing of walls, floors, and roof
Roofing	Roof structure, underlayment, and covering materials
Windows and doors	Exterior window and door units and installation
Mechanical (HVAC)	Heating and cooling system installation
Electrical	Wiring, panels, fixtures, and related labor
Plumbing	Piping, fixtures, water heater, and related labor
Insulation	Wall, ceiling, and floor insulation materials and labor
Drywall	Interior wall and ceiling finishing
Flooring	Flooring materials and installation throughout the home
Cabinetry	Kitchen and bathroom cabinetry
Appliances	Built-in and included kitchen and laundry appliances
Landscaping	Sod, plantings, and exterior grading finish work
Driveway	Driveway and walkway paving
Utilities	Connection fees for water, sewer or septic, electric, and gas
Permits	Building, zoning, and related permit fees
Architectural fees	Design and plan preparation
Engineering	Structural, soil, or civil engineering review
Builder fee	Builder overhead and profit
Interest reserve	Funds set aside to cover interest during construction
Contingency	Reserve for unforeseen cost increases or changes
Closing costs	Fees associated with originating the construction loan

08

What is the difference between hard costs and soft costs?

Hard costs generally refer to the physical, tangible components of construction, meaning the materials and labor that go directly into building the structure itself. This commonly includes items such as foundation work, framing, roofing, mechanical systems, electrical work, plumbing, and finish materials like flooring and cabinetry.

Soft costs generally refer to the non-physical expenses associated with planning, designing, permitting, and financing the project rather than the physical building itself. This commonly includes architectural

and engineering fees, permit fees, builder overhead and profit, interest reserves, and loan closing costs.

Lenders typically evaluate hard and soft costs separately when reviewing a project budget, and eligible costs within each category vary by program. Some lenders may limit how much of the total loan can be allocated toward soft costs, while others evaluate the budget more holistically. Borrowers should confirm with their lender which specific costs are eligible for financing under their particular program.

General categorization. Eligible costs and treatment vary by lender and program.

Category	Commonly included items
Hard costs	Foundation, framing, roofing, mechanical, electrical, plumbing, insulation, drywall, flooring, cabinetry, exterior finishes
Soft costs	Architectural fees, engineering, permits, builder fee, interest reserve, closing costs, insurance during construction

09

Why do construction loans include contingency reserves?

A contingency reserve generally exists because construction projects rarely proceed exactly as originally budgeted. Change orders requested by the borrower, unexpected increases in material or labor pricing, hidden site conditions discovered once work begins, weather-related delays, material delivery delays, and design changes made mid-project are all common sources of cost overrun that a contingency reserve is intended to help absorb.

Lenders commonly maintain a degree of control over how contingency funds are used, requiring documentation or approval before releasing contingency funds toward a specific cost overrun rather than allowing unrestricted access. This oversight is generally intended to help ensure the reserve is available when genuinely needed rather than depleted early in the project.

Contingency funds may be structured as borrower-funded, meaning the borrower sets aside additional cash outside the loan itself, or as financed contingency, meaning the reserve is built into the loan amount and drawn against as needed. The specific approach, and whether unused contingency can be returned to the borrower or applied toward the loan balance at completion, varies by lender and program.

This guide does not state a specific contingency percentage, since the appropriate amount depends heavily on the complexity of the project, the builder's track record, site conditions, and the specific lender's requirements.

10

What is loan-to-cost (LTC) and how is it calculated?

Loan-to-cost, commonly abbreviated LTC, generally measures the construction loan amount relative to the total eligible cost of the project. Expressed as a formula, $LTC = \text{construction loan amount} \div \text{total eligible project cost}$. This calculation helps lenders assess how much of the project's total cost is being financed versus contributed by the borrower.

As an illustrative example only, if a project's total eligible cost were estimated at four hundred thousand dollars and the construction loan amount were three hundred thousand dollars, the resulting LTC would be seventy-five percent. This example is purely hypothetical and is not a representation of any specific program's requirements or a rate or approval quote.

Lenders and investors set their own standards for acceptable LTC levels, and those standards vary by loan program, property type, builder qualifications, borrower profile, and market conditions. A lower LTC generally means a larger borrower contribution toward the project, while a higher LTC means the loan is financing a larger share of total costs.

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What is completed-value loan-to-value (LTV)?

Completed-value loan-to-value generally measures the final loan amount against the property's appraised value once construction is complete, rather than against its current, unimproved state. Expressed as a formula, $\text{completed-value LTV} = \text{final loan amount} \div \text{appraised value subject to completion}$. This distinguishes construction lending from a typical purchase mortgage, where the appraisal reflects a property that already exists.

The as-completed appraisal generally relies on the submitted plans and specifications, along with comparable sales of similar finished homes in the area, to project what the home will likely be worth once built. This requires the appraiser to support the projected value with market evidence rather than simply accepting the construction budget as proof of value.

Market support for the projected value can be more difficult to establish for unique, luxury, rural, or waterfront homes, since comparable sales for highly distinctive properties may be limited or less directly comparable. This can introduce additional appraisal risk, meaning the final appraised value may come in lower than anticipated relative to total project cost.

Because the completed-value appraisal is central to how the loan is structured, borrowers and builders are generally encouraged to review comparable sales and market conditions early in the planning process, rather than assuming the full construction budget will automatically be matched by the appraised value.

Construction cost does not guarantee equal completed market value.

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How are builders reviewed for a construction loan?

Lenders commonly conduct a review of the builder in addition to reviewing the borrower and the project itself, since the builder's ability to complete the home as planned directly affects the lender's collateral risk. This review typically includes confirming the builder holds appropriate licensing for the jurisdiction and verifying the builder carries adequate insurance coverage.

Experience and financial capacity are commonly evaluated as well, often through a review of completed projects, references from past clients, and the builder's overall financial standing. Lenders may also ask about any history of litigation or bankruptcy involving the builder, since these can signal heightened risk to project completion.

The builder's relationships with subcontractors, the realism of the proposed construction schedule, and the terms of the construction contract itself, including how draw requests and change orders are handled, are commonly reviewed as part of underwriting the project. Warranty terms offered by the builder and the builder's entity documents, if operating as a corporation or LLC, are also commonly requested.

Not every builder is eligible to work with every construction lender. Some lenders maintain approved builder lists or specific qualification criteria, while others evaluate builders on a case-by-case basis for each project. Borrowers working with a builder who has not previously worked with construction financing should confirm early whether that builder can meet the lender's requirements.

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What should I know about acting as my own builder?

An owner-builder arrangement generally means the borrower takes on some or all of the responsibilities typically handled by a licensed general contractor, such as coordinating subcontractors and managing the construction schedule directly. This arrangement is not broadly available across lenders, and many construction loan programs require a licensed, third-party general contractor rather than permitting an owner-builder structure at all.

Where owner-builder financing is available, lenders commonly evaluate the borrower's relevant construction or project-management experience and, in many jurisdictions, may require the borrower to hold an appropriate license or work under specific regulatory allowances for owner-builders. Lenders may also impose additional cost controls, oversight, or documentation requirements to help mitigate the added risk of a borrower managing their own project.

Conflicts of interest can arise when the borrower and the builder are the same party, since the usual checks provided by an independent contractor relationship are reduced. Lenders commonly respond to this by requiring more frequent inspections, stricter draw administration, and more detailed documentation of costs and subcontractor agreements throughout the project.

Owner-builder projects can also carry additional timeline and completion risk, since the borrower is directly responsible for coordinating trades and managing delays rather than relying on a builder's established systems and relationships. Borrowers considering this path should confirm with a specific lender whether an owner-builder structure is available before assuming it is an option.

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What plans, specifications, and permits are typically required?

Construction lending generally requires a complete set of architectural plans and detailed specifications describing the materials, finishes, and systems to be used throughout the home. A finish schedule, listing specific selections such as flooring, cabinetry, and fixtures, is commonly required alongside a site plan showing the home's placement on the lot.

Engineering documentation, including structural and, where applicable, soil or civil engineering review, is commonly required to confirm the design is appropriate for the site conditions. Energy code requirements applicable to the jurisdiction are also generally addressed within the plans and specifications submitted for permitting.

A building permit is typically required before construction begins, along with confirmation of zoning approval for the intended use and structure. Where a property is subject to a homeowners association, HOA architectural approval may also be required before or alongside municipal permitting.

In Florida specifically, coastal construction requirements, wind-load and impact-resistance standards, and floodplain review are commonly relevant considerations depending on the property's location, and these can affect both design requirements and permitting timelines. Where a property relies on a septic system or private well rather than public utilities, separate septic and well approvals are commonly required, along with utility plans addressing how the home will connect to available services.

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How does an appraisal work for a construction loan?

An appraisal supporting a construction loan generally addresses more than a typical purchase appraisal, since it must account for both the current land value and the value of planned improvements that do not yet exist. Appraisers commonly use a combination of the cost approach, which estimates value based on the cost to construct the improvements, and the sales comparison approach, which looks at completed comparable sales in the area.

The resulting appraisal is generally issued on a subject-to-completion basis, meaning the stated value assumes the home will be built according to the submitted plans and specifications. This is why complete and accurate plans and specifications are commonly required as part of the appraisal request, since the appraiser is valuing a home that does not yet physically exist.

Finding appropriate comparable sales can be more challenging for highly unique or custom homes, and appraisers may need to look further afield or make more significant adjustments to account for differences between the subject property and available comparables. This can introduce more variability into the appraised value for distinctive or less marketable properties.

A final inspection is commonly required once construction is complete, both to confirm the home was built consistent with the plans that supported the original appraisal and, in many cases, to support the transition into permanent financing.

16

How do construction draw schedules typically work?

A draw schedule generally organizes the construction loan's disbursements around major stages of the project rather than releasing funds continuously as costs are incurred. Commonly referenced stages include land acquisition or payoff, site work, foundation, framing, dry-in (meaning the structure is enclosed and weather-resistant), mechanical rough-ins, interior completion, and final completion, though the exact stages and their sequencing vary by lender and project.

Each draw generally follows a similar process: the builder or borrower submits a draw request describing the work completed and the amount requested, the lender arranges an inspection to verify that work matches the request, a title update is performed to confirm no new liens have attached to the property, and lien waivers are typically collected from the builder and relevant subcontractors before the draw is approved and disbursed.

Some lenders withhold a portion of each draw, commonly referred to as retainage, until a later stage or final completion, as an additional safeguard to help ensure the project is finished according to plan. Whether retainage applies, and how much, varies by lender and program.

Borrowers should understand that actual draw stages, the number of draws, and the specific documentation required at each stage vary considerably by lender and by the nature of the individual project, and no single draw schedule applies universally across all construction loans.

Illustrative draw stages. Actual stages, sequencing, and number of draws vary by lender and project.

Stage	Commonly associated work
Land acquisition or payoff	Purchase or payoff of the land underlying the project
Site work	Clearing, grading, and utility rough-in
Foundation	Footings and foundation or slab work
Framing	Structural framing of the home
Dry-in	Roof, windows, and doors installed to enclose the structure
Mechanical rough-ins	HVAC, electrical, and plumbing rough-in work
Interior completion	Drywall, flooring, cabinetry, and finish work
Final completion	Final inspections, punch-list items, and certificate of occupancy

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What role do inspections and title updates play during construction?

Draw requests are generally supported by a progress inspection intended to confirm that work claimed as complete has, in fact, been completed to an observable stage. Inspections may be performed by a lender-ordered third party, an appraiser, or a construction-monitoring service, and the specific approach varies by lender, loan size, and property. A completion percentage assigned at each inspection is typically compared against the draw schedule and the amount requested before funds are released.

Because a construction lien theoretically attaches with each phase of unpaid work, most lenders also require a title update, sometimes called a bring-down, before each draw or at defined intervals. This confirms that no new mechanics liens have been recorded against the property since the last review, and that lien priority remains intact for the construction lender.

Lien waivers from the builder and, in many cases, key subcontractors are commonly collected alongside each draw, documenting that parties who performed the prior phase of work have been paid and are releasing any lien rights tied to that payment. Missing or incomplete lien waivers are a frequent source of delay in draw processing.

Permit status and code compliance are typically monitored throughout the build, since work performed without required permits or inspections can create complications for both valuation and future occupancy. Draw approval generally depends on the combination of a passed inspection, an updated title report, and appropriate lien waivers, and a final certificate of occupancy is commonly required before the loan can move toward its permanent phase.

Exact inspection frequency, title update timing, and lien waiver requirements vary by lender, jurisdiction, and project size.

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How does interest work during the construction period?

Unlike a traditional mortgage, a construction loan generally charges interest only on funds that have actually been advanced through draws, not on the full approved loan amount. As additional draws are disbursed, the outstanding balance grows, and so does the interest accruing on that balance, meaning the payment amount can change from month to month during the build.

Many construction loans are structured with interest-only payments during the construction period, which keeps monthly obligations lower while the property is not yet generating any occupancy or income. Some programs allow interest to be funded from an interest reserve set aside as part of the loan, while others require the borrower to pay interest out of pocket as it accrues; which approach applies depends on the lender and program.

Because the outstanding balance is a moving target tied to the draw schedule, the total interest paid over the construction period depends heavily on how quickly draws are requested, how the project proceeds, and whether delays extend the amount of time interest continues to accrue. Rate structure, whether fixed or variable during construction, also affects how payments behave over time.

A commonly used educational formula is: Estimated monthly construction interest = Average outstanding construction balance x annual interest rate / 12. This is a simplified illustration only; actual interest

charged depends on the timing and size of draws, the specific rate structure, day-count conventions, and other loan terms that vary by lender.

Project delays that extend the construction period generally extend the period over which interest accrues, which can increase total interest cost.

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How are change orders handled during a construction loan?

A change order documents a change to the original scope of work, whether that involves a different material selection, a design modification, an added feature, or a change requested by the borrower or recommended by the builder. Change orders commonly affect both price and timeline, and most construction loan structures require formal documentation and lender review before a change is funded.

Depending on the lender and the size of the change, approval may involve reviewing the revised budget, confirming that remaining contingency or borrower funds can absorb the added cost, and, in some cases, requesting an updated appraisal if the change is significant enough to affect projected completed value. Change orders that increase cost without a corresponding increase in value can affect loan-to-cost and loan-to-value calculations.

Funding an approved change order typically comes from one of a few sources: available contingency reserve, additional borrower contribution, or, in limited circumstances, a request to the lender for additional financing, which is never guaranteed and depends on remaining equity, appraisal support, and lender discretion.

Because change orders can affect both the budget and the schedule, most builders and lenders expect a formal written process rather than verbal agreements, and documentation of each change order is generally retained in the project file alongside the original contract and budget.

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What happens if construction costs more than expected?

Cost overruns are a common feature of construction projects and can arise from a range of causes, including material price inflation, labor cost increases, hidden site conditions discovered after excavation begins, borrower-requested design changes, allowance overruns where actual selections exceed budgeted allowances, weather-related delays, and the carrying costs of financing and insurance over an extended timeline.

How an overrun is addressed generally depends on its size and cause. A contingency reserve, where one exists in the budget, is typically the first source used to absorb unexpected costs. Beyond that, a borrower may be asked to contribute additional funds, the project scope may need to be reduced to stay within budget, or the lender may need to review whether a revised financing structure could accommodate the change.

A significant overrun can also prompt a fresh look at the appraisal, since projected completed value drives loan-to-cost and loan-to-value calculations throughout the loan. If costs rise well beyond the original budget without a corresponding increase in supportable value, a project can face a funding gap that requires resolution before work continues.

In some cases, a project may need to be paused while a borrower, builder, and lender work through how to address a shortfall. Vabasso Mortgage does not promise that additional financing will be available to cover an overrun; whether and how a gap can be closed depends on the lender, the remaining equity in the project, and the specific circumstances.

Common causes of construction cost overruns and typical responses; actual outcomes vary by lender, project, and severity.

Common cause	Common response
Material price inflation	Contingency use, revised budget, or borrower contribution
Labor cost increases	Contingency use or scope adjustment
Hidden site conditions	Change order, contingency use, or budget revision
Borrower-requested design changes	Change order funded by borrower contribution
Allowance overruns	Borrower contribution or scope reduction on other items
Weather delays	Timeline extension and possible added carrying costs
Extended financing carrying costs	Reviewed against remaining contingency or borrower funds
Insurance or tax increases	Absorbed within contingency or borrower contribution
Design or engineering revisions	Change order and appraisal review where value is affected
Significant overall shortfall	Appraisal review, revised financing discussion, or project pause

This guide does not promise that additional financing will be available to cover a cost overrun.

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How are construction timelines and extensions typically handled?

Construction loans are generally built around an estimated construction period agreed to at closing, but actual timelines commonly shift due to permit delays, material delivery delays, weather, inspection scheduling, or builder capacity and workflow. This guide intentionally avoids stating a specific number of days or months, since estimated timelines vary widely by lender, market, project complexity, and jurisdiction.

When a project runs past its originally estimated period, many lenders offer a process for requesting an extension, which may involve an extension fee, a review of remaining budget and contingency, and confirmation that the project remains on a reasonable path toward completion. Extension terms and

whether they are available at all vary by lender and program.

A longer construction period generally means more time for interest to accrue on the outstanding balance, which can affect overall project cost even if the fixed construction costs themselves do not change. Rate conditions can also shift during an extended period, which may matter for loans structured to convert into permanent financing at prevailing terms.

A final certificate of occupancy is generally a prerequisite for closing out the construction phase and moving toward permanent financing or loan conversion, so delays that push back this milestone can affect the overall timeline for the borrower's move-in date and permanent payment start.

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What insurance is commonly involved in a construction project?

Construction lending typically involves several types of insurance working together, and the specific combination required varies by lender, project type, and state. Builder's risk insurance is commonly required to cover the structure itself, materials, and equipment on site during the construction period, while general liability insurance held by the builder is generally expected to address third-party injury or property damage claims arising from the work.

Workers' compensation coverage held by the builder and its subcontractors is commonly requested as part of the builder documentation package, since it addresses injuries to workers on the job site. Depending on the property's location, flood insurance and wind coverage may also be required, particularly for coastal Florida construction where wind mitigation and elevation considerations can affect both underwriting and premium.

Before construction begins, some lenders require evidence of vacant land insurance for the underlying lot, and a course-of-construction endorsement or policy is commonly used to bridge coverage from the start of the build through completion. Once the home is finished, this typically transitions into a permanent homeowners insurance policy, which is generally required before the loan can convert to permanent financing.

Contractor certificates of insurance are commonly collected and verified before each draw, confirming that required coverage remains active throughout the project. Coastal construction may also involve additional wind mitigation or elevation certificate requirements depending on jurisdiction and flood zone designation.

Types of insurance commonly involved in a construction project; specific requirements vary by lender, property, and location.

Coverage	What it commonly addresses
Builder's risk	Damage to the structure, materials, and equipment during construction
General liability	Third-party injury or property damage claims tied to the work
Workers' compensation	Injuries to workers employed by the builder or subcontractors

Coverage	What it commonly addresses
Vacant land insurance	Coverage on the underlying lot before construction begins
Course-of-construction endorsement	Bridges coverage from groundbreaking through completion
Flood insurance	Damage from flood events where the property sits in a mapped zone
Wind coverage	Damage from windstorm events, often significant in coastal Florida
Permanent homeowners insurance	Coverage that generally begins at or near completion and continues afterward

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What do lenders generally review regarding credit, income, and assets?

Construction borrowers are generally evaluated across the same broad categories as any mortgage applicant, including credit history, debt-to-income ratio, and income stability, but a few areas often receive additional attention because of the nature of a construction transaction. Employment history and, where relevant, self-employment documentation are reviewed to establish that income can support both the construction period and the eventual permanent payment.

Reserves are commonly evaluated with more scrutiny for construction loans than for a standard purchase, since lenders generally want assurance that a borrower can weather delays, cost overruns, or an extended construction period without financial strain. Down payment, closing costs, and any required contingency contribution are typically reviewed together as part of the overall funds-to-close calculation.

If a borrower will incur temporary housing costs while the home is being built, such as rent or a temporary living arrangement, that expense is sometimes factored into the overall debt and cash-flow analysis. An existing housing payment, if the borrower is not yet selling their current home, land debt tied to the lot being built on, and payments on other properties owned can all factor into the debt-to-income calculation.

Liquidity, meaning readily accessible funds beyond what is strictly required to close, is generally viewed favorably in a construction scenario given the possibility of unexpected costs or delays. Exact requirements in every one of these areas vary by lender, loan program, and borrower profile.

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How are self-employed borrowers evaluated for construction financing?

Self-employed borrowers pursuing construction financing are commonly asked for a similar documentation package to other self-employed mortgage scenarios, including personal and, where applicable, business tax returns, and in some cases a year-to-date profit and loss statement. Business bank statements are sometimes used as an alternative or supplemental form of income documentation,

depending on the program.

Business liquidity, meaning the cash position of the business itself, may be reviewed alongside personal assets, particularly if business funds are being considered as part of the down payment, contingency, or reserve requirement. Declining income trends across recent tax years can prompt additional underwriting scrutiny or a request for further explanation and documentation.

Some lenders offer alternative documentation approaches for self-employed construction borrowers, including asset-based or asset-depletion qualification methods that consider liquid assets rather than, or alongside, traditional income documentation. Availability of these approaches for construction lending specifically varies significantly by lender and program.

If business funds are proposed as part of the project contribution, lenders generally want to confirm that withdrawing those funds will not adversely affect the ongoing operation of the business, and documentation supporting that conclusion may be requested.

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What is different about building a second home?

Constructing a second home generally introduces occupancy-related underwriting questions not present in a primary-residence build, since lenders typically want to confirm that the property is intended for the borrower's personal use on a part-time basis rather than as a rental or investment. Documentation and program eligibility for second-home construction vary by lender.

Coastal and resort markets are common settings for second-home construction in Florida, which often brings insurance considerations, including wind and flood coverage, more prominently into the underwriting and budgeting process. Property management arrangements, if the home will be used only seasonally, may also be discussed even where the property is not intended as a rental.

Lenders generally want assurance that rental intent, if any exists, is properly disclosed, since a property financed as a second home but used primarily as a rental can create compliance issues under many loan programs. Reserve requirements for second-home construction are commonly evaluated separately from a borrower's primary residence obligations.

Because second-home construction loan amounts can be larger relative to a borrower's overall financial picture, jumbo financing considerations sometimes apply, which can bring additional documentation, reserve, and qualification requirements depending on the lender and loan size.

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How does construction financing differ for investment properties?

Construction loans for investment properties are commonly underwritten as business-purpose transactions, which can shift both the documentation expected and the consumer protections that apply compared with an owner-occupied loan. Builder experience is frequently scrutinized more closely in an

investment context, since the lender's risk is tied more directly to the project being completed successfully and on budget.

An exit strategy is generally expected as part of the underwriting conversation, whether that means selling the completed property, refinancing into permanent financing, or holding the property as a long-term rental. Projected rent and a stabilized value estimate are commonly used to evaluate whether a completed project will support a take-out loan or ongoing debt service.

Private money and bridge loan structures are sometimes used for investment construction projects, particularly speculative builds without a signed end buyer, and these sources typically carry higher cost and shorter terms than conventional construction financing. A DSCR, or debt-service-coverage-ratio, takeout loan is one common path some investors use to refinance a completed project based on the property's income rather than the borrower's personal income.

Short-term rental intent, where applicable, is generally expected to be disclosed, since it can affect projected income assumptions and loan eligibility. Reserve requirements for investment construction are commonly higher than for owner-occupied projects, and entity ownership, such as financing through an LLC, is common in this space, which can change documentation, guarantee, and disclosure requirements.

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How does construction financing compare with renovation financing?

Ground-up construction and renovation financing are related but distinct paths, and choosing between them generally depends on whether a borrower is starting from vacant land or improving an existing structure. The table below outlines general considerations that commonly distinguish the two, though specific program features vary by lender.

General comparison between ground-up construction and renovation financing; specific terms vary by lender and program.

Consideration	Ground-up construction	Renovation financing
Starting point	Vacant land or a lot being purchased	An existing structure, often already owned or being purchased
Basis for loan amount	Land value plus projected completed value	Purchase price or current value plus planned improvements
Draw structure	Multiple draws tied to construction milestones	Draws tied to renovation scope, sometimes fewer in number
Builder requirement	Licensed builder generally required for the full build	Contractor requirements vary by scope and program
Plans and specifications	Full architectural plans generally required	Scope of work and specifications tied to the renovation
Appraisal approach	Completed-value appraisal based on plans	As-improved appraisal based on renovation scope
Typical project scale	Entire structure built from the ground up	Partial to substantial improvement of an existing home

Consideration	Ground-up construction	Renovation financing
Occupancy during work	Not applicable until completion	Sometimes possible depending on scope and program
Interest structure	Interest-only common during the build	Varies; some programs blend construction and permanent phases
Conversion to permanent financing	Common feature of many programs	Common feature of many renovation programs as well
Documentation intensity	Generally extensive given land and full-build scope	Varies with project size and program

Borrowers weighing a smaller project may also want to review the renovation loan guide for a closer comparison to their specific scope.

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When might private money or bridge financing be used instead?

Private money and bridge financing are sometimes used as alternatives or supplements to conventional construction lending, particularly for transitional properties, speculative construction without a committed buyer, or projects that need to move faster than a conventional underwriting timeline allows. These sources are generally more flexible on property condition and documentation but come with tradeoffs that borrowers should weigh carefully.

Non-owner-occupied and investment construction projects are common users of private money, especially when a builder or investor has incomplete documentation, an unconventional project structure, or a short-term need that does not fit neatly into a conventional construction program. Speed of funding is often the primary reason borrowers consider this path.

Borrowers should understand plainly that private money and bridge financing are typically more expensive than conventional construction loans, carry shorter terms, and generally require a clear exit strategy, such as a sale or refinance into permanent financing, within that shorter window. These structures generally carry meaningfully higher risk if the exit strategy does not materialize as planned.

Because private money underwriting can be more flexible on documentation and property condition, borrowers sometimes assume the overall transaction is simpler than a conventional loan; in practice, the tradeoff for that flexibility is typically cost, term length, and the pressure of a defined exit timeline.

Private money and bridge financing generally cost more and carry shorter terms and more risk than conventional construction financing; they are not a substitute for a clear exit strategy.

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What does the general construction loan process look like from start to finish?

While the exact sequence varies by lender and project, most construction financing follows a broadly similar path from initial planning through conversion to permanent financing. Early stages focus on defining the project and reviewing the land and builder, while later stages shift toward underwriting, closing, draw administration, and eventual completion.

Understanding this sequence in advance can help a borrower prepare documentation earlier and anticipate what happens at each stage, though this guide intentionally avoids specifying exact timelines, since processing speed and construction duration vary considerably by lender, market, and project complexity.

General construction loan process

- Define the scope and goals of the project
- Review the land, including ownership status, zoning, and any existing debt
- Select and vet a builder
- Prepare complete architectural plans and specifications
- Build a detailed project budget, including a contingency reserve
- Estimate the projected completed value of the finished home
- Review the borrower's credit, income, and asset profile
- Complete pre-qualification or pre-approval with a lender
- Submit the builder for lender approval and documentation review
- Order and review an appraisal based on plans and specifications
- Proceed through underwriting of the full construction package
- Close the construction loan
- Begin draw administration as construction proceeds
- Undergo progress inspections tied to each draw request
- Complete construction
- Undergo a final inspection
- Obtain a certificate of occupancy
- Convert to permanent financing or close out the construction loan

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What documents are commonly gathered for the overall project file?

A construction loan file generally draws together documentation about the land, the plans, the budget, and the regulatory approvals surrounding the project, in addition to standard borrower financial documentation covered elsewhere in this guide. Gathering these items early can help avoid delays once underwriting and draw administration begin.

Project document checklist

- Land deed or evidence of current ownership
- Land purchase contract, if the lot is being acquired as part of the transaction
- Current survey of the property
- Title report or commitment for the land
- Complete architectural plans
- Detailed specifications for materials and finishes
- Itemized construction budget
- Building permits or evidence of the permitting process
- Executed builder contract
- Evidence of required insurance coverage
- Appraisal or valuation supporting projected completed value
- HOA approval, where the property sits within an association
- Engineering reports, where required by site conditions
- Utility connection documentation
- Environmental information relevant to the site
- Flood zone determination and related information
- Construction schedule or projected timeline
- Documented change-order process and procedures
- Reserve documentation supporting the borrower's contingency and reserve funds

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What documents are commonly requested from the builder?

Because a lender's risk is closely tied to the builder's ability to complete the project, most construction loans require a dedicated builder approval process, separate from the borrower's own qualification. This generally involves reviewing the builder's licensing, insurance, experience, and financial standing.

Builder document checklist

- Current contractor license
- Evidence of required insurance coverage, including general liability
- Completed W-9 form
- Entity formation documents, where the builder operates as a company
- Documentation of relevant construction experience
- References from prior clients or projects
- Financial statements, where requested by the lender
- History of recently completed projects
- Disclosure of any pending or past litigation
- Executed construction contract with the borrower

- Detailed project budget
- Projected construction schedule
- Information about key subcontractors
- Warranty terms offered on the completed home
- Draw request and disbursement instructions

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Construction planning worksheet

The interactive worksheet on the web version of this guide is designed to help borrowers organize the many moving pieces of a construction project in one place, and a printable version is included in the downloadable PDF for those who prefer to work through the inputs offline or alongside a builder or advisor.

The worksheet generally asks for figures such as land value, any existing land debt, the land purchase price if the lot is being acquired, estimated hard costs, estimated soft costs, a builder fee, a contingency amount, closing costs, an interest reserve if applicable, an estimated completed value for the finished home, the borrower's planned cash contribution, an estimated construction period, an estimated construction-phase interest rate, an estimated permanent-phase interest rate, and an estimated permanent loan term.

From those inputs, the worksheet can produce illustrative outputs, including total project cost, estimated land equity, an estimated amount of financing being requested, an estimated loan-to-cost ratio, an estimated completed-value loan-to-value ratio, an estimated borrower contribution, an estimated average construction interest figure, an estimated permanent payment once the loan converts, a potential shortfall if costs exceed supportable financing, a list of commonly missing documents based on the inputs provided, and a set of recommended next steps.

As with every calculator and worksheet referenced in this guide, the results are illustrative estimates for educational purposes only. They are not a loan approval, a commitment to lend, a quote, or a guarantee that a project can be completed within the figures entered, and actual terms depend on a full application, appraisal, and underwriting by a lender.

Worksheet inputs

- Land value
- Existing land debt
- Land purchase price, if applicable
- Estimated hard costs
- Estimated soft costs
- Builder fee
- Contingency amount
- Closing costs
- Interest reserve, if applicable
- Estimated completed value
- Borrower cash contribution

- Estimated construction period
- Estimated construction-phase interest rate
- Estimated permanent-phase interest rate
- Estimated permanent loan term

Worksheet outputs

- Total project cost
- Estimated land equity
- Estimated amount of financing requested
- Estimated loan-to-cost ratio
- Estimated completed-value loan-to-value ratio
- Estimated borrower contribution
- Estimated average construction interest
- Estimated permanent payment
- Potential shortfall
- Commonly missing documents based on inputs
- Recommended next steps

Worksheet results are illustrative estimates only and are not a loan approval or a guarantee of any outcome.

Frequently asked questions

What is a construction loan?

A construction loan is generally short-term financing used to fund the building of a home, disbursed in stages known as draws as work is completed rather than as a single lump sum. It typically covers land, labor, and materials tied to an approved budget and plans. Interest generally accrues only on funds actually disbursed. Terms, structure, and eligibility vary considerably by lender, program, property, and borrower, so specifics should always be confirmed with a licensed advisor.

How do construction draws work?

Draws are periodic disbursements of loan funds released as construction reaches defined milestones, such as foundation, framing, or drywall completion. Before each draw, a lender generally requires a progress inspection, an updated title report, and lien waivers confirming prior work has been paid. The number and structure of draws vary by lender and project. Because interest generally accrues only on disbursed funds, how quickly draws are requested can affect overall carrying cost.

What is construction-to-permanent financing?

Construction-to-permanent financing generally combines the construction loan and the eventual long-term mortgage into a single overall structure, so the borrower does not need to separately apply for permanent financing once the home is complete. It can be structured as a single closing or two separate closings, depending on the lender. Rate and payment structure typically shift once the loan converts from the construction phase to the permanent phase. Availability and structure vary by lender and program.

What is a one-time close construction loan?

A one-time close structure generally combines the construction loan and the permanent mortgage into a single closing, meaning the borrower signs one set of loan documents upfront and the loan automatically converts to permanent financing once construction is complete. This can reduce duplicate closing costs compared with financing the two phases separately. Terms for the permanent phase are typically set at the original closing, though how that works varies by lender. Not every lender offers this structure.

What is a two-time close construction loan?

A two-time close structure generally involves a separate closing for the construction loan and a separate closing later for the permanent mortgage once the home is complete. This can offer more flexibility to shop the permanent loan separately, but it also means two sets of closing costs and a second qualification review at conversion. Market conditions and the borrower's financial picture may have changed between the two closings, which can affect final permanent terms.

Can I buy land and build in the same transaction?

Many construction loan programs allow land acquisition and the construction budget to be combined into a single financing structure, though availability and specific terms vary by lender. Some borrowers already own the land outright, while others are purchasing it as part of the overall project. Whether land purchase and construction can be financed together, and on what terms, generally depends on the lender's specific program and the borrower's qualifications.

Can land equity be used toward a construction loan?

In many cases, equity in land already owned free and clear, or owned with only a small remaining balance, can be credited toward a construction loan's overall financing structure, potentially reducing the cash contribution otherwise required. How land equity is calculated and applied varies by lender, and generally depends on a current valuation of the land itself rather than its original purchase price. Confirming the specific approach with a lender is an important early step.

How is the value of the land determined?

Land value is generally established through an appraisal or valuation that considers comparable lot sales, location, size, zoning, and any site-specific conditions. If the land was purchased recently, the purchase price may also factor into the lender's review, though an independent valuation is still typically required. Land value can differ meaningfully from what a homeowner believes it to be, so an early estimate should be treated as preliminary until confirmed.

What is loan-to-cost, or LTC?

Loan-to-cost, or LTC, generally compares the amount being financed to the total cost of the project, including land, hard costs, soft costs, and other budgeted items. It is one measure lenders use to evaluate how much of the total project cost the borrower is expected to fund directly versus finance. Maximum LTC thresholds vary by lender, program, and borrower profile, and this guide does not state a specific maximum since it differs case by case.

What is completed-value loan-to-value, or LTV?

Completed-value LTV generally compares the loan amount to the property's projected value once construction is finished, rather than its current, unimproved value. This figure is typically supported by an appraisal based on the approved plans and specifications. It is a key figure in construction underwriting because it reflects the collateral value the lender expects to exist once the project is complete, though actual completed value can differ from the initial estimate.

How is a home appraised before it is built?

An appraiser generally reviews the approved plans, specifications, and budget alongside comparable recently built or similar homes in the area to estimate a projected completed value. This is inherently an estimate rather than a certainty, since it is based on plans rather than a finished structure. A follow-up inspection is typically performed once construction is complete to confirm the home was built consistent with what was appraised.

Can I use my own builder?

Many construction loan programs allow a borrower to select their own builder, but the builder generally must go through a separate approval process covering licensing, insurance, experience, and financial standing before the loan can close. Not every builder will meet a given lender's approval criteria. Confirming builder eligibility early in the process, before signing a construction contract, can help avoid delays later.

Can I be the general contractor on my own project?

Some lenders offer owner-builder structures that allow a borrower to act as their own general contractor, though this option is far less common than borrower-hires-licensed-builder structures and generally comes with additional documentation, experience, and reserve requirements. Availability varies significantly by lender, and many programs do not offer this option at all. Borrowers considering this path should discuss it early, since it can meaningfully affect underwriting.

Are owner-builder loans available?

Owner-builder loans exist in the market but are offered by a limited number of lenders and generally involve stricter underwriting, since the lender is relying more heavily on the borrower's own experience and management ability rather than a licensed third-party builder. Documentation requirements, reserve expectations, and eligibility criteria vary widely by lender. Borrowers interested in this structure should confirm availability directly with a licensed advisor early in planning.

What documents does the builder need to provide?

Builders are commonly asked for a current contractor license, evidence of insurance coverage, a completed W-9, entity formation documents where applicable, references and experience documentation, financial statements in some cases, disclosure of any litigation history, the executed construction contract, a detailed budget, a projected schedule, and information about key subcontractors. Exact requirements vary by lender and loan size.

Are permits required before closing?

Permit requirements and timing vary by lender and jurisdiction; some lenders require evidence that permits are in process or approved before closing, while others allow permitting to continue in parallel with early loan stages. Building without required permits can create complications for inspections, valuation, and eventual occupancy. Confirming the specific permitting expectations with the lender and local jurisdiction early in the process is generally advisable.

How are cost overruns handled?

Cost overruns are commonly absorbed first through an available contingency reserve, and if that is insufficient, may require an additional borrower contribution, a reduction in project scope, or a review of financing options. A significant overrun can also prompt a fresh appraisal review. This guide does not promise that additional financing will be available to cover an overrun, and outcomes depend on the specific lender, remaining equity, and circumstances.

What is a contingency reserve?

A contingency reserve is generally a portion of the overall project budget set aside to cover unexpected costs, such as hidden site conditions, material price changes, or minor scope adjustments discovered during the build. It is not guaranteed to cover every possible overrun, and its size varies by lender, program, and project. A larger contingency generally provides more cushion but also increases the total amount that needs to be financed or funded upfront.

Who pays interest during construction?

Interest during construction is generally the borrower's responsibility, though some loans allow interest to be funded from an interest reserve established as part of the loan rather than paid directly out of pocket each month. Whether an interest reserve is available, and how it is structured, varies by lender and program. Borrowers should confirm which structure applies to their specific loan before closing.

Are payments interest-only during construction?

Many construction loans are structured with interest-only payments during the build phase, since the home is not yet complete or generating occupancy value. This keeps monthly obligations lower while construction is underway, though it does not reduce the outstanding principal balance. Once the loan converts to permanent financing, payments generally shift to include both principal and interest, depending on the loan structure.

Is interest charged on the full approved loan amount?

Generally, no. Interest during construction is typically charged only on funds actually disbursed through draws, not on the full amount approved for the project. As draws are released over time, the outstanding balance — and the interest accruing on it — grows accordingly. This is a key difference from a standard mortgage, where interest generally accrues on the full loan amount from the start.

What happens if construction is delayed?

Delays are common in construction projects and can arise from permitting, weather, material availability, or builder scheduling. Most lenders offer a process for extending the loan term if a project runs past its original estimated period, sometimes involving an extension fee and a review of remaining budget and contingency. A longer construction period generally means more time for interest to accrue, which can affect overall project cost.

Are extension fees possible if the project runs long?

Many lenders charge a fee to extend a construction loan beyond its originally estimated period, though whether an extension is available at all, and its cost, varies by lender and program. Extensions are generally granted when a project remains on a reasonable path toward completion rather than facing an open-ended delay. Borrowers should ask about extension policies before closing so expectations are clear if delays occur.

What insurance is required during construction?

Construction projects commonly require builder's risk insurance covering the structure and materials, general liability and workers' compensation coverage held by the builder, and in some cases flood or wind coverage depending on the property's location. Vacant land insurance may be needed before construction begins, transitioning into permanent homeowners insurance near completion. Exact requirements vary by lender, property, and state.

Can I build a second home with construction financing?

Second-home construction financing is available through many lenders, though it generally involves occupancy-related underwriting to confirm the home is intended for personal, part-time use rather than rental. Coastal Florida second homes often bring additional insurance considerations into the process. Jumbo financing considerations may also apply depending on loan size. Eligibility and terms vary by lender and program.

Can I build an investment property with construction financing?

Investment property construction is commonly financed as a business-purpose transaction, often with closer scrutiny of builder experience and a clearly defined exit strategy, such as a sale or refinance into a DSCR-based takeout loan. Private money and bridge structures are sometimes used for speculative or non-owner-occupied projects, generally at a higher cost. Reserve requirements and documentation expectations tend to be more extensive than for owner-occupied construction.

Can I use a VA construction loan?

VA-backed construction financing exists in the market, though not every lender offers it, and program availability, builder requirements, and documentation can be more limited than conventional construction financing. Eligible veterans and service members interested in this path should confirm with a lender whether VA construction financing is offered and what specific requirements apply, since details vary considerably by lender.

Can I use FHA construction financing?

FHA offers construction-related loan programs in the market, though availability among individual lenders varies, and specific requirements around builder approval, draw structure, and documentation can differ from conventional construction financing. Borrowers interested in an FHA-backed construction path should confirm directly with a lender whether the program is offered and what conditions apply to their specific project.

Can self-employed borrowers qualify for a construction loan?

Self-employed borrowers can generally qualify for construction financing, though documentation typically includes tax returns, and in some cases a profit and loss statement or business bank statements, depending on the program. Business liquidity may be reviewed if business funds are proposed for the down payment or contingency. Some lenders offer alternative documentation programs, though availability for construction specifically varies by lender.

Can asset depletion be used to qualify for construction financing?

Some lenders offer asset-based or asset-depletion qualification methods that consider a borrower's liquid assets rather than, or alongside, traditional income documentation. Whether this approach is available for construction lending specifically, and how it is calculated, varies significantly by lender and program. Borrowers relying primarily on assets rather than income should confirm this option directly with a lender before assuming it applies.

Can I build in a flood zone?

Building in a mapped flood zone is possible in many cases but generally involves additional requirements, including flood insurance, elevation considerations, and sometimes an elevation certificate, depending on the jurisdiction and flood zone designation. These requirements can affect both the construction budget and ongoing insurance costs. Confirming flood zone status and associated requirements early in project planning is generally a useful step.

Can construction loans finance pools, landscaping, or other site improvements?

Whether a construction loan budget can include items such as a pool, landscaping, or other site improvements generally depends on the lender, the appraisal's ability to support that added cost within the projected completed value, and how the item is documented in the plans and budget. Some lenders limit financeable improvements to the primary structure. Borrowers should confirm which site improvements can be included before finalizing a budget.

What happens after construction is completed?

Once construction is substantially complete, a final inspection and certificate of occupancy are generally required before the loan can move toward its permanent phase or be closed out. Depending on the loan structure, this may involve an automatic conversion to permanent financing or a separate closing on a new permanent loan. Final lien waivers and a final title update are also commonly required at this stage.

When does the permanent mortgage payment begin?

The permanent payment generally begins once the loan converts from the construction phase to the permanent phase, which typically follows completion, a final inspection, and issuance of a certificate of occupancy. The exact timing and process for this transition vary by lender and by whether the loan is structured as a one-time close or a two-time close.

What documents should I prepare before applying for construction financing?

Borrowers are generally well served preparing land documentation, architectural plans and specifications, a detailed budget, the executed builder contract, evidence of insurance, and standard personal financial documentation, including income, asset, and credit information. Builder-specific documents such as licensing, insurance, and experience history are also commonly required. Reviewing the project and builder document checklists in this guide is a useful starting point.

Can modular or manufactured homes be financed with a construction loan?

Some lenders offer construction financing for modular homes built off-site and assembled on a permanent foundation, though eligibility, appraisal approach, and draw structure can differ from a fully site-built home. Manufactured housing is generally treated differently and may fall under separate loan programs with their own requirements. Availability for either path varies considerably by lender, so confirming eligibility early is important.

Can construction financing be used for a teardown and rebuild?

Teardown-and-rebuild projects, where an existing structure is demolished to make way for new construction, can generally be financed through construction loan programs, though the process may involve additional steps around demolition permits, existing lien payoff, and site preparation. Underwriting generally treats the transaction similarly to ground-up construction once the lot is cleared, but specific requirements vary by lender.

What should I know about coastal Florida wind and building requirements?

Coastal Florida construction is commonly subject to wind mitigation standards, elevation requirements, and stricter building codes intended to address hurricane exposure, which can affect both construction cost and ongoing insurance premiums. Builders working in these areas are generally expected to be familiar with applicable code requirements. Borrowers building near the coast should budget for these considerations early and discuss insurance implications with their advisor and insurance provider.

Tools, related pages, and next steps

A stronger plan begins before the application. Understand the loan, prepare the funds, estimate the payment, and take the next step with greater clarity.

Calculators

- **Construction Loan Calculator** vabasso.com/calculators/construction-loan
- **Renovation Loan Calculator** vabasso.com/calculators/renovation-loan
- **Mortgage Payment Calculator** vabasso.com/calculators/mortgage-payment
- **Amortization Calculator** vabasso.com/calculators/amortization
- **Closing Costs Calculator** vabasso.com/calculators/closing-costs
- **Debt To Income Calculator** vabasso.com/calculators/debt-to-income

Loan programs

- **Construction Loans** vabasso.com/loan-programs/construction
- **Renovation Loans** vabasso.com/loan-programs/renovation
- **Jumbo Loans** vabasso.com/loan-programs/jumbo
- **Bank Statement Loans** vabasso.com/loan-programs/bank-statement
- **Private Money Loans** vabasso.com/loan-programs/private-money
- **Conventional Loans** vabasso.com/loan-programs/conventional
- **Va Loans** vabasso.com/loan-programs/va

Related reading

- **Construction loans explained** vabasso.com/resources/article/construction-loans-explained
- **How the mortgage process works** vabasso.com/resources/article/how-the-mortgage-process-works
- **Understanding appraisals** vabasso.com/resources/article/understanding-appraisals
- **Mortgage Glossary** vabasso.com/mortgage-glossary
- **Guide library** vabasso.com/resources/guides

Next steps

- **Model a construction project** vabasso.com/calculators/construction-loan
- **Compare renovation financing** vabasso.com/calculators/renovation-loan
- **Explore my mortgage pathway** vabasso.com/mortgage-pathway
- **Get pre-qualified** vabasso.com/get-pre-qualified
- **Apply now** vabasso.com/apply
- **Mortgage Readiness Assessment** vabasso.com/pre-qualify

Sources

Program rules referenced in this guide are maintained by the applicable agency, investor, and lender. Confirm current requirements with your licensed mortgage advisor and official program guidance before making decisions. Editorial review dated 2026-07-31.

Consumer Financial Protection Bureau — Mortgage key terms
U.S. Department of Housing and Urban Development — Construction to permanent financing
Federal Trade Commission — Hiring a contractor
Florida Department of Business and Professional Regulation — Verify a license

Disclosure

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