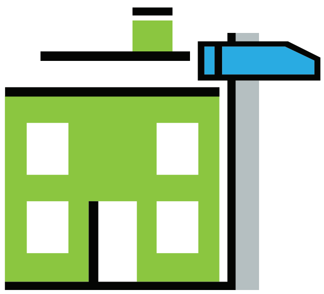
What you should know about financing new home construction

BUILDING YOUR OWN HOME HAS ITS PERKS



With new home construction, you call the shots. But you'll likely need to borrow money for the construction phase. And financing new home construction isn't the same as taking out a traditional mortgage. Knowing more about the process—and how financing the endeavor works—can help you decide whether new home construction is right for you.

BORROWING FOR HOME CONSTRUCTION

Loans used for home construction go by different names, depending on the lender you use. And each lender's loan has its own terms and requirements.

At Dupaco, borrowers take out what's called a one-year ARM, also called a 1/1 ARM. It's short for adjustable-rate mortgage, which means the interest rate you pay on your loan balance can vary over the life of the loan. Once your house is built, you can refinance the loan into a traditional mortgage. Here's how Dupaco's one-year ARM works:

- The loan can be used to fund up to 80% of the costs associated with building your house, which might include labor, equipment or even the lot itself.
- During the first eight months, you take out money as needed to fund construction expenses.
- Interest is accrued on your outstanding balance daily.
- During that eight-month period, you don't have to make any payments.
- After that window, you pay off the interest you've accrued. And you'll start making monthly payments on your loan balance.
- Your interest rate stays the same for the first year. But it can fluctuate up to 2% every 12 months after that. (Over the life of the loan, your interest rate will stay within 6% of the original rate.)
- You can pay off the loan early.

WHAT TO EXPECT DURING THE LOAN PROCESS

Your down payment

Most lenders typically require at least a 20% down payment, which is the case at Dupaco.

Insurance needs

You'll need to take out a special insurance policy, known as a builder's risk insurance policy, while the building is being constructed. Once your house is complete, you can roll the policy into a regular homeowner's insurance policy.

Know who can build

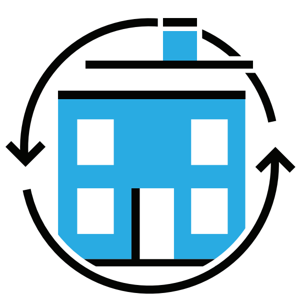
Some lenders won't let you be your own general contractor. At Dupaco, you can hire a general contractor or serve as your own.

Save your construction bills

Be ready to provide your construction bills to your lender to prove how you're spending the money. You also might need to have lien waivers signed each time you withdraw funds.

Be prepared for inspections

Your lender will schedule multiple inspections to check on the progress of your project.



OTHER TIPS TO KEEP IN MIND

Use reputable contractors

Know who you're working with, and choose reputable contractors that you trust. It can be tempting to go with the lowest bid, but you get what you pay for.

Expect it to cost more

Bids can increase, and unexpected expenses can come up. Borrow on the high side of what you think you'll need. If the project costs less than your loan amount, you don't have to use all of the funds.

Keep your budget on track

If your builder suggests a new idea, ask how much that changes the price. If you have the money available and want to move forward, fine. Otherwise, consider whether it's something you can do later.

Plan for it to take longer

Prepare for the construction process to take longer than you think it will.

Stay involved

Even if you're not personally building your home, visit the construction site to check on the progress and make decisions. Stay in contact with your lender as you request money. And stay on top of payments to both the contractor and, eventually, your lender.