

DELIVERING VALUE WITH CONSTRUCTION-TO-PERMANENT LOAN SOLUTIONS

A guide to simple construction financing



ALL ROADS LEAD HOME

Draw at Closing Breakdown

TOTAL PROJECT	LAND COST	CONSTRUCTION COST	DRAW AT CLOSING
$600,000	**$200,000**	**$400,000**	**$38,000**

Construction cost breakdown — $400,000

Line item	Amount
Base construction cost	$400,000
Less: builder credit to buyer	−$10,000
Less: realtor commission (2.5%)	−$10,000
Less: draw at closing to builder	−$38,000
Remaining for construction draws	**$342,000**

Settlement statement — closing day

Disbursement	Amount
Total construction loan amount	$600,000
Disbursed to seller (land purchase)	$200,000
Disbursed to listing / buyer's agent	$10,000
Credit applied to buyer (builder credit)	$10,000
Draw disbursed to builder at closing	**$38,000**
Held back for future construction draws	$342,000

Notes

The $38,000 builder draw at closing is typically used to cover initial site work, permits, plans, and deposits on long-lead materials. After closing, the remaining $342,000 is drawn down in stages (foundation, framing, dry-in, finish, etc.) as construction milestones are completed and inspected by the lender.

Structural note: In this example the $10,000 builder credit and $10,000 realtor commission are carved out of the $400,000 construction budget, meaning the builder is absorbing $20,000 — leaving $380,000 of actual construction work. Combined with the $38,000 draw at closing, only $342,000 remains for remaining construction draws. An alternative structure is to treat the credit and commission as separate settlement-statement line items rather than construction-budget deductions.

Sample illustrative document — not a loan estimate or closing disclosure.

Draw at Closing Breakdown

VA construction loan — project cost structure & closing disbursement

TOTAL BUDGET	CONSTRUCTION COST	DRAW AT CLOSING	FUTURE DRAWS
$543,370	**$500,000**	**$50,000**	**$450,000**

Total project costs

Line item	Amount
Construction cost	$500,000
VA interest charge (construction period)	$12,000
Contingency reserve	$25,000
Construction management fee	$5,000
Builders risk insurance	$1,200
Title date downs	$170
Total project budget	**$543,370**

Construction cost allocation — $500,000

Line item	Amount
Total construction cost	$500,000
Less: draw at closing to builder	−$50,000
Remaining for future construction draws	**$450,000**

Settlement statement — closing day

Disbursement	Amount
Draw disbursed to builder at closing	**$50,000**

Notes

The $50,000 builder draw at closing is typically used to cover initial site work, permits, plans, and deposits on long-lead materials. The $450,000 balance of construction cost is drawn down in stages (foundation, framing, dry-in, finish, etc.) as milestones are completed and inspected by the lender.

VA interest charge ($12,000): reserved at closing to cover interest-only payments during the construction period. The lender draws against this reserve monthly as interest accrues on the outstanding balance.

Contingency reserve ($25,000 / 5%): held by the lender for unforeseen cost overruns during construction. Any unused portion typically applies to the loan principal at the final draw or conversion to permanent financing.

Title date downs ($170): fees charged by the title company each time the lender requires an updated title search before releasing a draw — this example assumes the initial date down fee only.

Construction management fee ($5,000): paid to the lender or third-party construction manager for oversight of the draw process, milestone inspections, and coordination between the builder, borrower, and lender throughout the construction period.

Sample illustrative document — not a loan estimate or closing disclosure.



A SOLUTION TO A PROBLEM:

THE CONSTRUCTION LOAN

WHAT IT IS

A single-close construction-to-permanent loan, often called 1x close, finances the land, build, and long-term mortgage in one transaction. Buyers only close once. During construction, buyers typically make interest-only payments on funds disbursed. When the home is complete and the certificate of occupancy is provided, the loan converts to a standard mortgage.

WHY IT MATTERS

- One closing. One set of closing costs.
- Rate protection options during the build period.
- Streamlined draw administration that pays the builder as milestones are met.
- No need to re-qualify so long as the project remains within program terms and approved budget.

TYPICAL USE CASES

- Buying land and building a primary, second, or investment property per program requirements.
- Building on already owned land and using lot equity toward requirements.
- Replacing an older home with a new build on the same site.

CONVENTIONAL SINGLE-CLOSE CONSTRUCTION

For qualified borrowers building with an approved general contractor that is licensed or state equivalent.

Owner-builder is permitted when the buyer is a licensed general contractor who meets contractor review requirements.

Finances land, site prep, and construction in a single loan that modifies to the permanent mortgage at completion.

OCCUPANCY

- Primary residence
- Second home
- Investment eligible per current program guidance

PROPERTY TYPES

- 1-4 units
- Site-built
- Modular
- Manufactured
- Barndominium

CONSTRUCTION TERM

12 months

MORTGAGE INSURANCE

May apply when required by LTV.

RATE PROTECTION

Rate protection and float-down options may be available at conversion, subject to program terms.

VA SINGLE-CLOSE CONSTRUCTION

For eligible veterans, service members, and surviving spouses who meet VA requirements. Certificate of Eligibility is required.

Primary residence purchase or rate/term refi. Entitlement and residual income rules apply.

Often no down payment for eligible borrowers, subject to entitlement and loan limits. VA funding fee may apply.

No monthly mortgage insurance.

Owner-builder is not permitted.

VA appraisal is based on plans and specs. VA inspections and warranties are required.

PROPERTY TYPES

- Site-built
- Modular homes
- Manufactured homes may be eligible per VA and program rules
- Multi-unit eligibility varies by VA guidance

MINIMUM CREDIT SCORE

620 overlay

CONSTRUCTION TERM

- 9 or 12 months
- 6 months for manufactured modular

RATE PROTECTION

Rate protection and float-down options may be available at conversion, subject to program terms.

FHA SINGLE-CLOSE CONSTRUCTION

For qualified borrowers building with an approved general contractor that is licensed or state equivalent.

Finances land, site prep, and construction in a single loan that modifies to the permanent mortgage at completion.

96.5% LTV

Minimum credit score: 620.

Occupancy: Primary residence

PROPERTY TYPES

- 1-4 units
- Site-built
- Modular
- Manufactured
- Barndominium

CONSTRUCTION TERM

- 9 or 12 months
- 6 months for manufacuted modular

RATE PROTECTION

Rate protection and float-down options may be available at conversion, subject to program terms.

**Loan-to-value (LTV) and combined loan-to-value (CLTV) may vary by loan amount.*

COMMONLY ASKED QUESTIONS



CAN LAND EQUITY BE USED AS PART OF THE EQUITY REQUIREMENTS?

Yes. Verified equity in owned land can count toward total equity requirements, subject to appraisal and program rules.

CAN AN EXISTING HOME BE TORN DOWN AND BUILT NEW?

Yes. Scenarios involve demolishing an existing structure on a lot to build a new home. Demolition must be included in the builder's contract and budget. Permits will be required prior to the draw at closing.

ARE DRAW SCHEDULES FLEXIBLE?

Yes. Draw schedules are flexible to each builder's needs and must be outlined in the construction contract. If a contractor requests a schedule with more draws than the standard allocation, it must be stated in the contract and approved with the loan.

HOW DO DRAWS WORK?

The builder requests draws at defined milestones. Each draw is reviewed for progress and compliance before funds are released. The buyer pays only interest on funds disbursed.

CAN THE RATE BE LOCKED?

Yes. The loan is locked prior to closing and protected through the build term. Terms and costs vary. A float-down option may be available at conversion.

CAN A BORROWER BE THEIR OWN CONTRACTOR?

Owner-builder is permitted when they are a licensed general contractor who meets contractor review requirements and is approved. Excludes FHA and VA.

WHAT IF COSTS INCREASE?

Change orders require lender review and must be covered by available contingency, borrower funds, or reallocation within the budget. Unapproved cost overruns are not financed.

WILL THERE BE TWO LOANS DURING CONSTRUCTION?

No. This is a single-close loan that converts to a permanent mortgage at completion. If the buyer has a land loan, proceeds may pay it off at closing if eligible.

HOW LONG DOES IT TAKE TO CLOSE?

Timelines depend on permits, builder approval, and appraisal on plans and specs. The loan officer will set expectations based on the market and file.

WHAT INSURANCE IS REQUIRED?

Builder's risk coverage is required during construction. Standard homeowners insurance begins when the home is complete and converted to permanent.

WHAT DOCUMENTS ARE NEEDED FOR VA?

VA loans require an acceptable Certificate of Eligibility. Additional VA-specific disclosures may apply.

CREATING VALUE THROUGH NEW CONSTRUCTION



WITHOUT A CONSTRUCTION LOAN
The buyer purchases a finished home and pays for someone else's choices.

WITH A SINGLE-CLOSE CONSTRUCTION LOAN
The buyer chooses the lot, the plan, and the finishes. They lock financing up front, manage draws with a professional partner, and convert to a long-term mortgage at completion.

BOTTOM LINE
New construction allows homebuyers tailor the home to their life while keeping financing and build risk organized.

STEP-BY-STEP GUIDE

- A Fairway loan officer reviews available program options and potential budget ranges.
- The lot is selected, or the land intended for purchase is identified if not already owned.
- A builder is chosen, and plans, specifications, and a detailed budget are developed collaboratively.
- The complete builder package, including license, insurance, references, and contract, is submitted for approval.
- An appraisal based on the plans and specifications is ordered, and title and permit statuses are verified.
- Final underwriting evaluates income, assets, credit, and the project budget.
- A single closing occurs, and construction funds are placed into a draw account.
- Construction begins, with interest-only payments made on funds as they are disbursed.

THE LOAN IS FINISHED, BUT THE HOME ISN'T. WHAT HAPPENS DURING THE BUILD?



FLEXIBLE DRAW SCHEDULES

- Draw schedules are flexible to each builder's needs. The schedule varies by construction cost and the project plan.
- If a contractor requests a draw schedule in excess of the allocated amount, it should be noted in the construction contract with the proposed draw schedule as submitted by the contractor.

TYPICAL MILESTONE SEQUENCE

- Permits and mobilization
- Draw 1: Site work and foundation
- Draw 2: Framing and shell
- Draw 3: Mechanical rough-in for HVAC, plumbing, and electrical
- Draw 4: Insulation, drywall, and exterior finishes
- Draw 5: Interior finishes such as cabinets, trim, paint, and fixtures
- Final draw after the certificate of occupancy and final inspection
- Conversion. The loan modifies to the permanent mortgage. The standard principal and interest payments begin on the permanent loan schedule.

EXAMPLE DRAW COUNTS BY CONSTRUCTION COST

Construction cost	Draws
$1 – $250,000	5
$250,001 – $500,000	8
$500,001 – $750,000	10
$750,001 – $1,000,000	12
>$1,000,001	Varies by project

Draw count follows the approved schedule and scope. Staged draws are acceptable. Fewer, well-timed draws reduce paperwork and keep work moving. If additional draws are required exceeding the table above an additional $290 fee is applied.



FEATURE	CONVENTIONAL	VA	FHA
Occupancy	Primary residence, second home, and investment eligible per current program guidance	Primary residence	Primary residence
Units	1–4 units	1–4 units	1–4 units
Property types	Site-built, modular, manufactured, and barndominium, subject to appraisal and program approval	Site-built, modular, manufactured, and barndominium, subject to appraisal and program approval	Site-built, modular, manufactured, and barndominium, subject to appraisal and program approval
Maximum LTV	95%	100%*	96.50%
Construction term	12 months	6,9, or 12 months	6,9, or 12 months
Land options	Finance land purchase or build on already owned land. Verified equity can count toward requirements.	Finance land purchase or build on already owned land.	Finance land purchase or build on already owned land. Verified equity can count toward requirements
Payments during build	Interest-only on disbursed funds	Interest-only on disbursed funds, paid from an interest reserve account	An interest reserve account may be required based on DTI
Appraisal	Based on plans, specs and finished value	Based on plans, specs and finished value	Based on plans, specs and finished value
Builder	Licensed, insured, and approved. Owner-builder permitted when borrower is a licensed general contractor who meets contractor review requirements.	Licensed, insured, and approved	Licensed, insured, and approved
Draw schedule	Flexible to builder and project. Draw inspections required at milestones before funds are released.	Flexible to builder and project. Draw inspections required at milestones before funds are released.	Flexible to builder and project. Draw inspections required at milestones before funds are released. No advanced funds for work not in place.
Contingency	5 percent minimum to cover approved change orders or overruns. Any unused contingency reduces the principal at conversion.	5 percent minimum to cover approved change orders or overruns. Any unused contingency reduces the principal at conversion.	5 percent minimum to cover approved change orders or overruns. Any unused contingency reduces the principal at conversion.
Mortgage insurance	Required when applicable	VAFF	Required
Rate lock	Locked prior to closing and protected through the build term. Float-down may be available at conversion.	Locked prior to closing and protected through the build term. Float-down may be available at conversion.	Locked prior to closing and protected through the build term. Float-down may be available at conversion.
Conversion	Modifies to permanent mortgage after certificate of occupancy	Modifies to permanent mortgage after certificate of occupancy	Modifies to permanent mortgage after certificate of occupancy

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Lucky Buxton
Loan Officer, NMLS 2449638
Office: 713-679-1123
Cell: (713) 679-1123
Fax: 866-397-9285
lucky.buxton@fairwaymc.com
www.fairwayindependentmc.com/lo/lucky-buxton-2449638

14547 Lake Business Drive, Suite 504 &505,Conroe,TX77304

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