



UNDERSTANDING THE DIFFERENCE BETWEEN 1X [ONE-TIME CLOSE] AND 2X [TWO-TIME CLOSE] CONSTRUCTION-TO-MORTGAGE LOANS

1X Loans: Although they may be hard to find, there are banks that offer 1X financing. This is when the same bank offers both the construction loan and the permanent mortgage.

2X Loans: More available, more flexible and easier to qualify for, most homeowners opt for 2X financing, where one company provides the construction loan and another company refinances it into a permanent mortgage once construction is complete.

To determine which approach is right for the homeowner, consider these factors:

FACTORS TO CONSIDER	1X [One Time Closing]	2X [Two Time Closing]
Qualification - Cash Down	[con] Limitations to Loan-to-Value may require borrower cash equity due at closing	[pro] Equity needed to secure the loan can come from the borrower and/or through builder hold-back
Qualification - Credit	[con] Typically require mid-to-high credit scores with a lower maximum DTI [debt-to-income ratio]	[pro] Ability to qualify is dependent on the mortgage lender’s qualification guidelines.
Qualification - Builder	[con] Strict builder approval qualifications; many require builder financials with minimum revenue requirements	[pro] Builder must know how to build a home and must be in good standing w/state. That is it.
Builder Draw Payouts	[con] Many will allow lump sum payouts without verification of how the money is being spent	[pro] CFS requires paid receipts and/or Release of Liens for every dime, and each payout must pass an on-site inspection for completion
Interest Rates - Mortgage	[con] Typically the interest rate for the permanent mortgage is higher than a non-construction loan.	[pro] Mortgage interest rates are approved at traditional refinance rates
Builder-Borrower Loans	[con] Borrower must be builder by trade. If builder is relative of borrower [non-arms length transaction], builder must go through stringent approval process, including credit check, references & financial review	[pro] Borrower must have LLC or Inc. and show successful construction projects. If builder is relative of borrower [non-arms length transaction], builder must either own construction company or have builder-of-record.
Closing Costs & Interest Financing	[con] Typically will not allow closing costs and/or interest to be financed into the loan	[pro] CFS will allow borrower to finance closing costs and interest into the loan
Closing Costs	[pro] Only 1 set of closing costs, yet fees may be higher	[con] Two sets of closing costs; 1 for each loan
Interest Rates - Construction	[pro] Since the bank is making their money off the mortgage, the rate during construction is not as high as with a 2X close	[con] Interests rate for the construction phase are higher than with a 1X close

If the homeowner meets the 1X qualifications, the decision comes down to if they want to place a large down payment and save on short-term interest, or keep their money in the bank and pay a bit more for interest and closing costs.

CONSTRUCTION LOANS FOR CUSTOM HOMES