Conventional, FHA or VA: Mortgage Comparison

Conventional mortgages with new construction

1. If a client borrower has 5% down payment plus closing costs or in exchange for cash, similar value in land equity, a client borrower can get a 30 year fixed rate mortgage commitment prior to the beginning of construction and New Century Bank will maintain the commitment during construction. Upon completion of the home construction, the construction mortgage is refinanced into a low fixed rate mortgage immediately. There is private mortgage insurance to pay temporarily, but no huge up front VA or FHA funding fee (2.15% - 3.30% for VA and 1.75% for FHA) and we avoid an extra $10,000.00 in cost of construction for needless government requirements during the building process, so the offset is a break even. Conventional financing is a great option for a Veteran. Having a mortgage commitment before construction begins is much safer than what VA will allow.

2. If a person does not have 5% plus closing costs, then get a gift or save the money. It is really not that much to contribute and it is a good thing, because you build equity in your home. Fortunately, New Century Bank does offer the advantageous option of low down payment construction loans for qualified borrowers.

Government Issued Mortgages

VA mortgages and new construction

1. VA does zero percent financing for Military personnel or Veterans when purchasing an existing home, but still requires a buyer to pay the closing costs. VA does allow sellers to pay closing costs, but in a new construction transaction there is not a seller. VA does not give money to contractors, but only for the purchase or refinance of an existing mortgage on an existing home. So we have to get a home built first and therefore the need for a construction mortgage.

2. However, VA appraisal are not accepted until construction is finished. So banks cannot get a commitment for a VA mortgage until you have already built a home. It would be like starting over at the end of construction with the mortgage process

and hoping the appraisal comes in at the correct amount. This is a risk to both the bank and the client borrower.

3. A construction mortgage is not a VA mortgage and the rule says VA will only refinance a non-VA mortgage at 90% of the cost or appraisal value whichever is lower. So this only works if you have 10% down payment + closing costs. But still there is no commitment until the VA appraisal is completed and reviewed. If a client has 10% down payment why pay VA pay the huge upfront VA funding fee of 2.15% or even 3.30% of the loan amount when conventional mortgages do not require it.
4. VA mortgages that follow new construction, requires a general contractor that is licenses with the VA and complies with all the government inspections and paperwork. Without the VA contractor and compliance to government rules, the home would need to be built first then refinanced into some other type of loan, then 12 months later, the mortgage would be eligible for refinance at the 90% LTV of the appraisal, not costs.
5. The cost to the client borrower to build a home to VA requirements, then immediately move to a VA mortgage will cost the borrower approximately $10,000.00 more for a typical mortgage due to the government fees and inspections and other requirements that are not required when using a conventional mortgage. Our recommendation is to use the $10,000 as a down payment and build equity rather than wasting to pay for needless government oversight.

FHA mortgages and new construction

1. FHA provides the least attractive of all mortgages when it comes to new construction. It does provide for only 3.5% down payment + closing costs, which is only slightly better than the 5% down payment allowed in conventional mortgages, but FHA brings with it the burden of government oversight which is even more costly than VA. The extra $10,000.00 in building costs because of government fees and inspections is much more than the additional 1.50% down payment required by the conventional mortgages. Our recommendation is to pay yourself instead of the government.

2. A General Contractor is again required for FHA new construction, one who will warranty the construction and complete the mountain of government required paperwork. Contractors charge more for this service, assuming you can find one who will build with such government oversight.

3. In addition to the 1.75% funding fee charged by the FHA up front to obtain the mortgage, they also charge mortgage insurance monthly at the rate of .85% of 1.00%. The FHA mortgage insurance charge is for the life of the loan, whereas conventional mortgages allows the mortgage insurance to be removed when the loan reaches 80% LTV (loan to value) either from the normal amortization or from increase home value or early principal payments, or a combination of these. FHA mortgage insurance is the worst and most costly insurance ever created by man. We get to thank our government for the option of loan down payment mortgages, however, there is a huge long term cost associated with monthly Mortgage Insurance Premiums that never go away.