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THE INDEPENDENT GUIDE TO NEW CONSTRUCTION · AUSTIN, TX

Chapter 02: Financing Explained

Builder lenders, outside lenders, rate locks, and why a builder's 'preferred lender incentive' deserves math, not gratitude.

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02. Financing Explained

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The loan types, briefly

Conventional loans are the standard for most buyers with solid credit and at least 3–5% down. FHA loans allow lower credit scores and 3.5% down but carry mortgage insurance for most of the loan's life. VA loans, for eligible veterans and service members, allow zero down with no monthly mortgage insurance — usually the strongest product available to those who qualify. Some lenders also offer zero-down or down-payment-assistance programs with income or location requirements. The right answer depends on your credit, savings, and eligibility — not on which product the sales office mentions first.

Builder lenders: what they are and why they exist

Most large builders own or partner with a mortgage company. Builders offer incentives — closing cost credits, rate buydowns — for using it. This isn't charity: the builder captures the loan's profit, keeps the transaction under one roof, and gains visibility into your finances and timeline during construction.

None of that makes builder lenders bad. Their incentives are often genuinely valuable, and their familiarity with the builder's timeline can smooth a to-be-built purchase. The mistake is treating the incentive as automatically the best deal without comparing.

The comparison that actually matters

Get a full Loan Estimate from the builder's lender and at least one outside lender within the same few days (rates move daily, so same-week quotes are the only fair comparison). Compare the total cost: rate, points, lender fees, and the incentive. A $15,000 incentive tied to a rate a half-percent above market can cost you more than $15,000 within just a few years of payments. Sometimes the builder lender genuinely wins. Sometimes the incentive is a rebate on an overpriced loan. Only the side-by-side tells you which.

Rate locks on a to-be-built home

A standard rate lock lasts 30–60 days — useless for a home that won't finish for eight months. For to-be-built purchases, ask about extended locks (often with a fee, sometimes with a float-down option if rates fall) and understand exactly what happens if construction runs past the lock. Get the lock terms in writing, including extension costs.

Pre-approval vs. a builder's 'commitment'

A real pre-approval means a lender has reviewed your credit, income documents, and assets. Some builders' in-house 'pre-qualification' or 'commitment' letters are lighter reviews designed to get you writing a contract. Before you sign anything, know your true approved number from a full-document review — not a conversation.

> Reporting note: You can usually still claim a builder's lender incentive after shopping. Comparing costs you nothing but a week. Skipping the comparison can cost you the difference every month for thirty years.