

VA Construction Loans

Definition

A 2-time VA construction loan refers to a permanent loan used to pay off the costs of constructing a dwelling on land owned by the Veteran.

Eligibility

The borrower must have contracted with a licensed general contractor to construct the dwelling.

The borrower may act as the general contractor only if they are a licensed general contractor. If the borrower acts as the builder, then only actual costs may be included in the acquisition cost.

Maximum LTV / CLTV

The maximum LTV / CLTV is 100.00% of the lesser of the appraised value or the documented acquisition cost.

Determining the Land Value

If the land was acquired by the Veteran within 1 year of the application date, then the actual cost should be entered; If the Veteran acquired the land more than 1 year from the application date, then the value of the land from the VA appraisal should be entered; If the land was gifted to the borrower AND has no existing liens, then the value of the land from the VA appraisal should be entered; If the land was gifted AND there are existing liens, then the amount of the existing liens should be entered.

Because VA does not require that the appraiser report the current land value, a request should be made to the appraiser requesting that they include the land value.

Acquisition Cost

- The builder's price or the sum of all subcontractor bids and materials
- Borrower-paid options and construction costs not included in the builder's price to build
- Interest and other costs associated with a construction loan to fund the construction; and
- The value of the land

Case Number Assignment

The VA case number must be assigned as a purchase transaction and the appraisal ordered as Construction to Permanent.

Disclosure

Because the borrower is on title to the land, the loan should be disclosed and closed as a refinance, not a purchase.

Underwriting

Per VA guidelines outlined in VA Circular 26-18-7, the loan must be underwritten as a purchase, not a refinance, and all purchase guidelines apply.

Cash Back to the Borrower

Cash back to the borrower at closing is not allowed except to replenish the borrower for any borrower paid extras over and above the contract and any out-of-pocket expenses not included in the builder's price. All extras and expenses, along with the cost must be itemized.

Financing Closing Costs

The costs associated with the loan may be included in the loan amount, subject to LTV restrictions, provided the borrower has been on title to the land for at least 12 months at the time of closing the VA loan or if the land was received as a gift.

Additional Required Documentation

- The date of purchase of the land must be verified with a copy of the settlement statement or other legal document.
- Evidence that the funds used to pay for borrower paid options were from an acceptable source.
- The VA 2-Time Close Construction Loan Amount Worksheet must be completed.
- All new construction requirements must be met.