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Buying, Building, Or Refinancing? What You'll Need To Know

Whether you're purchasing an existing home, planning to build a custom house, or refinancing later, each path has its own requirements, risks, and opportunities. This guide helps you compare the three so you can decide which fits your goals—and what to watch out for along the way.

1. Buying (Purchasing an Existing Home)

- Loan types & eligibility: Choose among conventional, FHA, VA, or USDA depending on your qualifications.
- Appraisal & inspection: Verify the home's value and condition before finalizing.
- Closing costs: Expect 3%–5% of the home price in fees.
- Down payment: Ranges from ~3% to 30%; less than 20% often means Private Mortgage Insurance is required.
- Documentation: Income, assets, debts, tax returns, and credit history.
- Timeline: A purchase usually takes 45-60 days.

2. Building (Construction Loans)

- Loan structure: Often a construction-to-permanent loan.
- Interest during construction: Usually interest-only on amounts drawn.
- Draw schedule: Funds disbursed in stages (foundation, framing, finishing).
- Inspections: Required on a monthly basis or other preset schedule.
- Stricter requirements: Often need higher credit, larger down payment, and cash reserves.
- Longer timeline: Always plan for possible delays and added costs.

3. Refinancing (Restructuring Your Mortgage)

- Reasons: Secure lower rate, shorten/extend term, switch loan type, or access equity.
- Costs: Closing costs apply—savings should outweigh them.
- Appraisal & equity: Usually need ~20% equity to avoid PMI.
- Credit & income check: Lenders re-verify financials.
- Break-even analysis: Calculate how long to recoup costs.
- Special programs: FHA streamline, VA IRRRL may reduce requirements.



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Comparison: Buying vs Building vs Refinancing

Feature	Buying	Building	Refinancing
Purpose	Acquire a home	Construct a new home	Modify an existing mortgage
Loan types	Conventional, FHA, VA, USDA	Construction-to-permanent	Limited cash-out
Requirements	Standard docs: income, credit, assets	Standard docs: income, credit, assets plus builder contract, budget and plans	Standard docs: income, credit, assets
Timeline	45-60 days	12-24 months	30-45 days

Feature	Buying	Building	Refinancing
Risks	Inspection issues, market shifts	Delays, overruns, permits	Rate changes, break-even risk
Payment timing	Begin after closing	Interest-only during draws	Begin after closing

Tips & Warnings

- Always get a detailed builder contract with timelines and inspection rights.
- Budget 10%–20% extra for construction contingencies.
- Maintain cash reserves—don't overextend.
- Compare Loan Estimates and Closing Disclosures carefully.
- Lock mortgage rates strategically, watch expiration dates.
- Avoid overleveraging with cash-out refinancing.

Decision & Action Checklist

- ☐ Clarify your goal: buying, building, or refinancing.
- ☐ Check loan eligibility and program options.
- ☐ Get prequalified with your lender.
- ☐ Gather required documents (ask your lender for a complete list).
- ☐ Request cost estimates and compare scenarios.
- ☐ Perform break-even and cash flow analysis.
- ☐ Start shopping: homes, builders, or refinance offers.
- ☐ Prepare for inspections, appraisals, and closing.