



Turnkey Home vs. Owner Financing: Which is Right for You?

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As someone considering building a home, does the thought of banking and financing make you a bit queasy? Does it all seem hard to deal with?

Building a home is a large investment with plenty of moving parts. Determining how you'll finance your project is an important part of making sure your project will go smoothly and have no uncomfortable surprises at the end.

There are many options today when it comes to financing a new home. But when you're building, there are two paths that are most common: **owner financing** and **turnkey solutions**.

Owner Financing

Works Best When: You're building a home on land that you own

Simply put, owner financing means that you, the home buyer, are handling the financing yourself. Since you own your lot, it makes sense for you to communicate with your lending institution, obtain construction loans, convert to a traditional mortgage, and administrate the draws. Your land will be used as collateral when applying for your construction loan—your builder can't get financing on *your* lot.

Since you are doing the legwork in this situation, it's important to establish a payment schedule. Your lender won't allocate the entire amount of your construction loan upfront when the project starts. Instead they'll release "draws," or portions of the loan proceeds. These pre-set amounts typically occur on a monthly basis for a defined number of months often with an agreed upon schedule of values based on work completed. Everyone involved (buyer, builder, banker) needs to be on the same page when it comes to the financial schedule.

Turnkey Home

Works Best When: You're building a home where the builder owns the lot (often in a neighborhood).

A turnkey solution is ideal when you don't (initially) own the land on which your new home is being built. In this scenario, your builder carries the financing for the project upfront and secures the necessary permits.

The advantage to a turnkey agreement is that it's *simple*. There is no monthly payment throughout the project, and your construction company handles everything upfront. You shouldn't need to become a



banker in order to figure out your home financing. A turnkey approach allows you to leave that to the experts while you watch your new home come together. You will simply work to secure financing for the closing on your home.

Which process is better?

Answering this question is a matter of understanding your own position. For some projects, owner financing may be the best solution. For other people, a turnkey approach may be just what they're looking for. Or maybe, neither one will work best for you.

Building a home is a major investment, and one of the biggest concerns people have when they first begin their home building journey is whether they can afford the project. At Sterling Homes, we guide our customers each step of the way throughout the process, including navigating the various financing options.

We can advise you on pros and cons of each financing option and how they apply to *your situation*. Together we can agree on what makes the most sense for your individual project and define a solution that will work best for you.

Common home building finance questions

Pre-Qualification Letters

People often ask us about the importance of pre-qualification letters. These documents are often required by home builders or home sellers before they will discuss plans with a customer.

Conversations with your lender(s) and the pre-qualification process are important to your peace of mind as the home building process gets started. You need to understand the amount of money you'll be able to get for a loan—and, more importantly, how much you're comfortable with. Be sure to take a realistic look at how a new home mortgage will fit into your family's budget.

When it's time to begin the home building process, Sterling Homes cares much more about whether you're comfortable with the final sales price of your house than an actual pre-qualification letter from a vendor. Once you look us in the eye, shake our hand, and make your deposits, we're ready to get started!

Choosing a Mortgage Lender

As home builders, another question we receive frequently is about choosing a mortgage lender. For our customers who need suggestions, we are able to recommend several institutions. But it's important that you, as the buyer, take the time to do your own research, talk to several lenders, and make a final decision you feel comfortable with. After all, finding the right lender is about more than simply getting a good interest rate; you want to work with experienced professionals who will become your trusted advisors.



Generally speaking, our customers have had great experiences with, and we recommend, local organizations. Local credit unions tend to have high quality customer service and form strong relationships with their clients. There are also several lenders that are specifically known for construction financing. Your Realtor and Attorney are two other good sources of recommendations.

When you're ready to build a new home, navigating the financial aspects shouldn't slow you down. [Start a conversation](#) with Sterling Homes today to begin creating your vision. We'll help you determine whether your ideas are feasible and start planning your project.