



Construction Loan Rate Structures Explained – California 2025

Understanding rate structures is critical when planning a construction project in California. Construction loans are different from traditional mortgages, with short-term, interest-only features and higher pricing due to increased lender risk.

Common Rate Structures

Rate Structure	How It Works	Best For	Typical Ranges (2025)
Fixed-Rate Construction Loan	Interest rate remains constant through the construction period.	Borrowers seeking predictability in payments.	6.5–8.0%
Adjustable-Rate (ARM) Construction Loan	Rate is fixed during construction, then adjusts periodically after conversion.	Borrowers expecting lower initial payments and refinancing later.	6.0–7.5% (intro)

Interest-Only During Construction	Pay only interest until the home is complete; principal starts after conversion.	Homeowners needing lower upfront costs during the build.	6.5–9.0%
Construction-to-Permanent Loan	Single close; interest-only during construction, converts to fixed or ARM mortgage at completion.	Most California borrowers seeking a streamlined process.	6.0–8.0%
Two-Close Construction Loan	Separate loans; one for construction, one for permanent financing.	Borrowers who want maximum flexibility or plan to shop permanent rates later.	6.5–9.0%

Key Insights

- Construction loans are usually **0.5%–1.5% higher** than standard mortgages.
- Most lenders require an **interest reserve account** to cover monthly payments during the build.
- ARMs may start lower but adjust upward — useful for short-term builds or if refinancing quickly.
- FHA and VA programs can offer lower entry rates for qualified borrowers.

Useful Links

For current policy guidance, see [Consumer Financial Protection Bureau – Mortgage Rules](#).

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