



BUILDING YOUR DREAM HOME GUIDELINES FOR SUCCESS

Mortgage Center is pleased to provide construction loans to our credit union members. Building a home can be an exciting and rewarding process. However, there are many details to consider and decisions to make. Mortgage Center can help make those decisions. We stand ready to serve as an important resource in building your dream home.

*A **construction loan** is an interim loan designed to allow you to build your home on a draw basis. In simpler terms, the loan is set up similar to an equity line of credit. Mortgage Center will lend up to 80% of the appraised value, with a minimum investment of 10% of acquisition costs (cost of land plus the cost to build the home)*

***The construction loan must be closed prior to the beginning of construction.** This is a very important statement, as you must be assured that you have the financing in place before you begin your project. In addition, there are construction lien laws that could affect our ability to close your loan, if construction has begun prior to our closing the mortgage.*

Once the first draw is disbursed, a monthly interest payment will be required to be paid by you on the current outstanding balance until the home is complete. The typical Construction loan term is six months, with a draw schedule of up to 5 draws. Mortgage Center retains the last draw of at least 10% of the mortgage amount to ensure that we receive a Final Certificate of Occupancy, Final Inspection by the Appraiser and a Final Authorization to Disburse Proceeds from the title company. After the home is complete, a permanent mortgage loan will replace the construction loan.

This guide is designed to acquaint you with our program and the information that you will need before securing your mortgage financing and builder.

Step 1. Pre-qualification for financing.

Obtaining a pre-qualification is the first step on your path to building your dream home. Mortgage Center offers construction financing for single family homes that are to be occupied as primary residences. Our loan originators will help you determine the maximum amount of financing for which you qualify or the payment amount with which you will be comfortable once the home is complete. Our programs offer flexibility and competitive rates. In order for Mortgage Center to make a lending decision, your loan originator will take your application over the telephone and request the appropriate supporting financial documentation. Once those items are received by Mortgage Center, your loan request will be analyzed and, if approved, an approval letter will be provided. This letter is very important to you and your builder in order to determine the size of your dream home and the amenities you can afford to include in your contract negotiation. Our loan originators will provide you with the details of our current construction loan programs.

Step 2. Selecting a Builder

Selecting a Builder

The selection of a builder is one of the most important decisions that you will need to make. The building process can take an average of six months to complete and there is a great deal of communication required between you and your builder. You need to feel comfortable communicating with your builder and trusting that your builder is honest and dependable. We strongly recommend that you obtain and contact references. Mortgage Center cannot recommend a contractor or builder for you. However, we do need to obtain information from the builder you have selected in order to review the experience level, credit history, licensing and references. The builder will need to meet our required Builder Standards. Our acceptance of a builder does not constitute a representation or warranty to you of the Builder's qualifications, licensure, competency, ability, character or reputation.

We will require the following information from your builder:

1. A copy of the builder's current Builder's License.
2. A copy of the builder's resume.
3. A current balance sheet, up-to-date profit and loss statement, and most recent business tax return from the builder.
4. A Builder Information form, completed by the builder.
5. An authorization form signed by the builder authorizing Mortgage Center L.C. to obtain a personal and business credit report.
6. A copy of the signed contract between you and your builder.
7. A Sworn Statement from your builder listing a complete cost breakdown.
8. A copy of the blueprint signed by you and the builder.
9. A copy of the specifications signed by you and your builder.
10. List of homes under construction.

Step 3. Closing on your construction loan.

Prior to the construction loan closing –

The following items will need to be provided if a builder is managing the project:

1. All conditions required in your approval letter.
2. A copy of the Builder's Risk Insurance and Homeowner's Insurance.
3. A Sworn Statement provided by the builder to the title company and Mortgage Center L.C. If there is work in process, all appropriate lien waivers must be approved by the title company.
4. An Appointment of Designee, signed by the purchasers.
5. A Notice of Commencement provided to the title company for recording, a copy of which must be posted at the site along with blank Notice of Furnishing Forms.
6. A copy of the building permits.
7. A survey site map of the property indicating the proposed building site. A foundation survey will be required once the footings/foundation is in place.

The construction loan closing will take place at the title company selected by Mortgage Center. You will be responsible for paying all closing costs, fees and charges due at the initial closing of your construction loan. You will be responsible for the payment of any tax or insurance assessments due and that may come due during the construction phase. There may be additional costs for services required throughout the construction process that are not collected or paid for at closing. These expenses will be the responsibility of you and/or your contractor. Your first disbursement or "draw" may take place at closing.

Step 4. Disbursement of Funds.

Disbursement of each draw will be made once the following procedures have been met:

1. Your contractor will submit a request for funds for work completed and materials purchased, both to you and to Mortgage Center L.C.
2. Mortgage Center L.C. will forward a copy of the request to the title company.
3. The title company will contact the builder and obtain the necessary Waivers of Mechanics or Materialmans Liens. The title company will check the amounts against the initial sworn statements to insure the amount requested is as stated. A Mechanics/Materialmans Lien is a legal means by which a laborer or subcontractor, who has performed work or provided a service or material on your project, is given a lien on the property. This lien is an encumbrance to title and must be satisfied by the contractor signing an Unconditional or Partial Lien Waiver stating that they have been paid for the work performed.
4. The title company will insure that the waivers are acceptable and forward an authorization to Mortgage Center L.C. indicating their approval to disburse the funds.

5. Mortgage Center L.C. will send our appraiser to inspect the home to determine the percentage of completion and to confirm that the work for which the builder has requested funds is done.
6. If everything is satisfactory, the funds will be disbursed. Steps 1-6 will take an average of four business days.

The Draw Schedule

Funds are disbursed from the construction loan at the completion of certain phases of construction, as outlined below. These disbursements will begin after all your equity is in place. Your equity is the amount of money you will have paid toward the purchase of the land, and/or the money you are paying to the builder, if you own the land free and clear. The Draw Schedule will closely resemble the following schedule:

First Draw – Any amount due to pay off the land.

Second Draw – Foundation

1. Footer, foundation and any other underground work are properly installed in accordance with all plans and specifications.
2. If a slab foundation, the sub-floor is complete and the appropriate governmental approval is posted on the job site.

Third Draw – Rough In

1. Exterior framing is complete (floor, walls, roof).
2. Exterior sheeting (walls, roof) is complete.
3. Interior framing is complete.
4. Plumbing is roughed.
5. Wiring is roughed.
6. Heating ductwork is complete.
7. Basement floor is poured.
8. Windows are installed.
9. Exterior doors are installed with hardware.
10. Septic/sewer tap is complete.

Fourth Draw – Trim

1. Roof is complete.
2. Exterior trim is complete.
3. Siding/brick is complete.
4. Wall insulation is complete.
5. Drywall is complete.
6. Fireplace is installed.
7. Cabinets and vanities are installed.
8. Interior trim is complete.
9. Interior doors are hung.
10. Heating unit is installed.
11. Well/water tap is complete.

Fifth Draw – Final

1. The rough grading is complete.
2. Exterior painting is complete.
3. Interior painting is complete.
4. Finish plumbing is complete.
5. Finish electrical is complete.
6. Ceiling insulation is complete.
7. All exterior concrete is complete.
8. Landscape (per commitment) is complete.
9. All appliances are installed.
10. All tile work is complete.
11. All flooring is complete.
12. A/C compressor is set and charged (per commitment).
13. House is cleaned and ready for occupancy.
14. Area is clear of all construction debris.
15. Driveway is complete.
16. House is complete according to original plans and specification list. Lender must approve any exceptions.
17. An occupancy permit has been issued by the appropriate governmental agency.
18. Final walk through and acceptance by borrower.

Cost overruns and change orders

Be aware that cost overruns are very common in construction projects. Generally, changes to the original plan or changes in materials cause this. The cost of such changes must be carefully reviewed before the expenditure is made. Any additional costs, which are outside the building contract, may not be incurred without the prior written approval of the lender. A written request for the change must be submitted to the lender and must contain the signatures of the borrower(s) and the builder.

The borrower will be responsible for immediate payment of any costs outside the building contract. It is not the policy of Mortgage Center to advance construction loan funds or increase mortgage balances to pay for these items. Therefore, after the change has been approved and the item is installed, or work is completed, the borrower must provide satisfactory evidence that any money owed has been paid along with the source of funds used. If such proof is not provided in a timely manner, the processing of any further draws for work or materials will be delayed until the required documentation is received.

Loan payments during the construction phase.

You will receive a monthly billing statement. Your payment will be based on the outstanding balance drawn on your construction loan. The payment will be an interest only payment due on the 1st of the month.

Step 5. Converting your construction loan to permanent financing.

Your loan will be automatically converted to a permanent loan. At the time of conversion, your regular principal and interest payment will be due. If your account will have an escrow for taxes, insurance, and/or private mortgage insurance, that payment will be due as well.

Step 6. Cost and Fees.

A construction loan differs from a standard mortgage in many ways, one of which is cost and fees. Construction loans require additional third-party functions and services as well as added management oversight. These additional features directly increase the cost of a construction loan and can include but are not limited to the additional costs (not including standard mortgage fees) noted here. Refer to your Good Faith Estimate and discuss with your loan originator ALL of the cost and fees that will be associated with your construction loan and end-loan mortgage.

Construction management (Admin Fee):	1% of loan amount
Draw/Disbursement Fee (5 draw):	\$500.00 (\$125.00 for additional draws after 5)
Modification Fee:	\$255.00
Foundation Survey:	\$225.00
Final Inspection:	\$175.00
Loan Extension Fee:	.25% of loan amount due at time of extension