

A CONSUMER GUIDE TO CONSTRUCTION FINANCING

Single Close Construction Loans



ARE YOU BUILDING A CUSTOM HOME?

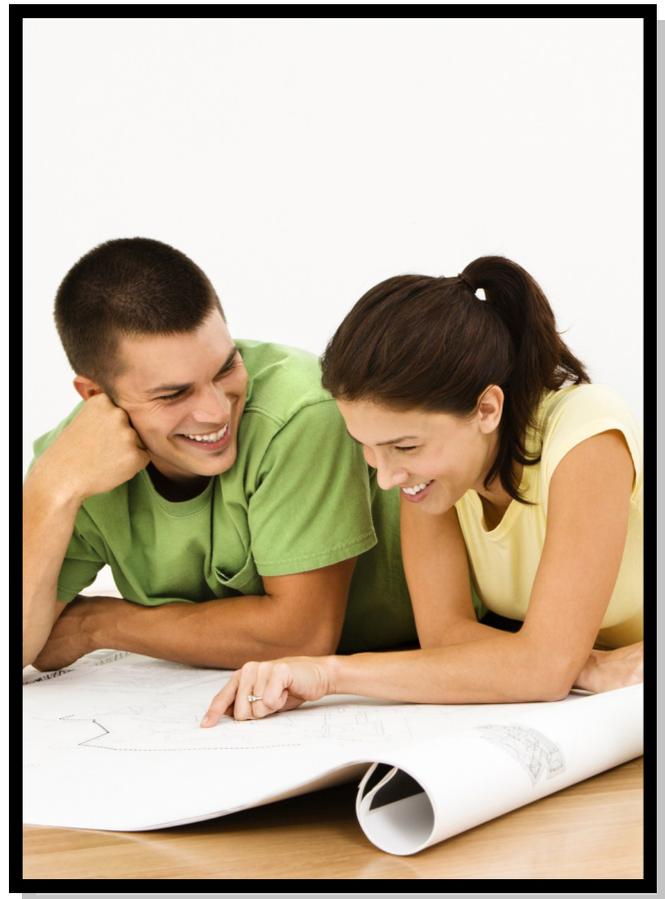
This guide is a valuable resource for anyone planning to build a custom home. It provides information on the financing process, a helpful glossary and a timeline to help you plan your project.

How you finance the construction of your new home is one of the most important things to consider. We are a leader in home construction lending, specializing in Single Close Construction Loans. We are known for our exceptional customer service, and we understand the needs of both the home buyer and the builder.

Our Single Close Construction Loan takes you from groundbreaking to move-in, in one easy process. You will work with a construction loan specialist who is able to answer your questions and the questions of your builder/contractor so that your home construction keeps moving smoothly with no surprises along the way.

A LOAN PROGRAM TO MEET YOUR NEEDS

The Single Close Construction Loan is designed to build a primary residence and is one loan from start to finish. You sign one set of loan documents that covers both the interim construction phase and the permanent loan. This eliminates the need for multiple loans to get into your new home. With a single loan, you can purchase the land for your home and complete the construction. When construction is complete, the loan converts to a permanent mortgage loan saving considerable time and money. The construction period is up to 12 months to allow time to build the new home and sell the existing home.



WHAT MAKES UP THE CONSTRUCTION LOAN COSTS?

There are a number of costs that go into building a new home:

Land Value. You may purchase the land you have under contract at closing with proceeds from the Single Close Loan, or you may have already purchased the land and have a loan to be paid off with proceeds from the Single Close Loan. Or, you may own the land free and clear.

Soft Costs. Permit fees, engineering fees, architectural fees and other costs associated with building the home, but not directly part of the actual construction costs. Many times, you may have already paid some of these costs up front. If so, these paid items may be considered “equity” if you can document the cost with a bill and a canceled check.

Hard Costs. The tangible costs associated with the actual construction of the home. This includes materials and labor costs.

Contingency Reserve. A reserve account covers unforeseen cost overruns in the construction of the home. An additional 10% of the construction costs will be established in a Contingency Account for cost-plus contracts. A Contingency Account is recommended on all contracts to cover change orders or upgrades.

Total Costs. The total cost consists of all of the above.

Maximum Loan Amount. You may borrow up to the maximum loan amount as figured from the lesser of the appraised value or the actual cost (lot plus construction costs).

Lot Equity. The land value is taken from the appraisal if owned more than 12 months. The difference between the appraised land value and the loan to be paid off on the land, if any, will be the lot equity. The lot equity will be a credit toward the required down payment if



HOW DOES THE CONSTRUCTION LOAN PROCESS WORK?

The Single Close Loan process is very similar to a standard purchase or refinance transaction. But unlike a purchase transaction for an existing home, the Single Close Loan involves determining future value, information must be provided on the planned home, what materials will be used, and the total cost to complete the project.

Final Plans and Specifications. These consist of a legible set of architectural drawings (building plans). They must include a floor plan showing all dimensions and outside elevations (drawings of the exterior). In addition, the builder should provide a detailed description of the materials to be used in construction of the home; for example, would shingle or light-weight tile roofing; brick or stucco exterior. This information will be provided to the appraiser who will give value, subject to completion per plans and specifications.

Construction Contract. This is the agreement between you and the builder/contractor that details the planned construction project, the agreed upon cost



and the construction term to complete the project. The final plans and specifications should be an attachment to the construction contract.

Detailed Line Item Cost Breakdown/Draw Schedule. This schedule is prepared by the builder/contractor and should include hard costs (direct costs) and soft costs (indirect costs). The total should match the Construction Contract total. The Draw Schedule is used to advance funds to the builder as work is completed.

Single Close Worksheet. This form is used to consolidate all the costs, along with certain items that may be pre-paid. The form is also used to determine the maximum loan amount available and funds needed for closing. Your Consultant will prepare the Single Close Worksheet for review and discussion.

Builder Profile. This form requires information that is supplied by the builder and is used solely for the benefit of determining eligibility for our program. Selection of the builder is the exclusive, independent decision of the borrower.

HOW ARE DRAWS DISBURSED FROM MY CONSTRUCTION LOAN?

Draw disbursements or progress payments are made on a work-completed basis and occur over a period of time as the work progresses. The builder will submit draw requests directly to our Construction Department, itemizing the work completed and the amount requested for payment. The percentage of work completed is determined by an independent third-party inspection service. Your builder will designate a construction bank account at a financial institution and disbursements will be wired directly to that account after receipt of the inspection report.

As a convenience to you, a copy of the disbursement statement may be sent to you either via email or regular mail each time your builder makes a draw. This statement indicates the amount of funds disbursed and funds remaining on the project.

Initial Disbursement. The initial disbursement at closing includes the payoff of the lot (if applicable) less your down payment, if any. Also, a start-up draw may be disbursed to the builder.

Deposits. The cost for special order items may be funded up to 50% of the line item on the draw schedule, when accompanied by a request from the builder together with supporting invoices.

Final Draw. The final draw to the builder will be paid upon completion of construction and received receipt of a final appraisal inspection, a "clear endorsement" from the title company, a final survey if required, homeowner's insurance policy, and any other documentation as may be required for our particular loan.

CONSTRUCTION TIME LINE

1. Site Selection. If you have not already selected and purchased your lot, location is one of the most important factors to consider. There are realtors who specialize in finished lots as well as developers who sell finished lots. Many builders also have lots in inventory. A current survey of the property indicating all easements and rights of way will be required for closing.

2. Planning meeting with Builder and Architect. Building a custom home begins several months before you break ground. You may start by meeting with a builder or architect. Many builders have architects on staff or certain architects they regularly work with. Keep in mind that each plays an integral role in the process and will work together to help make your vision a reality.

3. Meet with the Lender. It's never too early to meet with your construction lender. A construction lending specialist can help in planning for your future investment.

4. Loan Closing. You must have an adequate down payment or equity at the time of closing. Equity is defined as cash paid toward the lot or construction costs, both hard and soft.

5. Up to 12 Month Construction Phase

Take up to 12 months to sell or lease your current home.

If you currently own a home, you do not have to sell it before you start a new one. Close on the Single Close Loan and have up to 12 months to sell or lease your current home prior to loan modification. No need to move twice!

Enjoy a construction phase of up to 12 months with interest-only payments while you complete your new home. You will be charged interest only on the funds disbursed.

The interest-only construction phase of your financing may continue past your home's completion and your move-in, up to 12 months from loan closing.

Loan Modification

The Single Close Loan allows for a modification option, which is available upon completion of construction of your home, or up to 12 months after loan closing. Certain condition and restrictions may apply.

6. Move in! Once construction is complete you may move in. If your home is completed early you may opt to continue making interest-only payments through the end of the construction period or you may modify your loan to begin making permanent loan payments.



READY TO GET STARTED?

The Single Close Loan is a better way to build your home. For detailed information on your home construction financing, contact me today.

J. Joshua Jordan

Senior Mortgage Banker

512.682.0588

Email: joshuaj@colonialsavings.com

www.cnmcs.com/JoshJordan

NMLS 462357

