



Construction Lending, Start to Finish.



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Construction Lending

At First Federal, we offer loans to builders and homeowners for construction of residential dwelling units. The purpose of this guide is to share some information about our procedures, and hopefully make the construction Process more clear and comfortable for our customers. The scope of this writing is limited to residential construction loans to individual borrowers.

At First Federal, we make construction-permanent loans on fixed rate loans & ARM Loans.

How does a First Federal construction loan work?

Our residential construction loans are made as “construction-permanent” loans. Maximum loan to value ratio is 90% of appraised value as determined by an independent fee appraiser chosen by First Federal. The appraised value represents a combined value of the building lot plus dwelling.

“**Construction-permanent**” means only one closing. Borrowers lock into a low rate during the construction of the home, paying interest only payments based on the balance outstanding each month. .

How long is the construction loan period?

Our construction loan period ranges from 4-12 months. In the majority of cases, this is sufficient time to build a house.

Do I have to own a lot before I get a construction loan?

No, however, the building lot must be titled to the borrower before a construction loan can be filed. The First Federal loan must be the first and best lien on the property. The building lot equity can be used to meet First Federal's 20% equity requirement. In some cases, depending on the value of the lot and cost of the dwelling, a borrower may be able to borrow a portion of the lot cost and include it in the construction loan. This should be discussed with your loan officer prior to time of application. The construction loan application, in most respects, mirrors the application for a loan on an existing dwelling, with one important exception. Since no house exists at the time of application, a set of detailed blueprints (plans) must be provided by the builder. The loan is based on the appraised value of the building lot, plus the home to be constructed.

Following is a list of items which should be brought to First Federal at the time of application:

- 🕒 **Detailed and accurate building plans (one set) – Builder provides**
- 🕒 **Specification list – Builder provides**
- 🕒 **Builder's cost breakdown – Builder provides**
- 🕒 **Executed building contract – Builder provides**
- 🕒 **Copy of deed, if lot is titled to borrower. If borrower is purchasing lot in conjunction with the construction loan, a copy of the purchase agreement will be required.**

What do I need to bring with me at time of application?

- 🕒 **Income, assets and liability information as requested by your loan originator.**
- 🕒 **Application fee.** At closing, application fee may be refunded or credited toward loan amount.
- 🕒 **Personal information and employment history:**
 - Two (2) years complete Federal Income Tax returns & W2's for all borrowers
 - If self-employed, Year To Date profit-and-loss statement
 - Two (2) years Federal Income Tax returns for partnership/corporation with all supporting schedules
 - Current pay stubs (to substantiate current pay levels)
 - Employment history for past two (2) years, including name and address of current and past employers for that period of time, position, and length of time employed

- Current rate of base earnings and average of overtime, commissions, bonuses, etc.
- If you choose to include income for child support and/or alimony, provide documentation evidencing receipt of said income for the past six (6) month period along with a copy of recorded Separation Agreement and Divorce Decree
- Other income (i.e., Social Security, pension, rental, stock, interest, dividends, etc.) requires documentation evidencing receipt as consistent income

🕒 **Information regarding assets**

- List of depositories, including name, address, account numbers and balances
- Copy of most recent statement for mutual fund and brokerage accounts, including retirement accounts
- Documentation for any other source of funds to be used as down payment and/or closing costs (i.e., gift letters, savings bonds)

🕒 **Information regarding liabilities**

- If child support or alimony payments are made, we will require a copy of recorded Separation Agreement and Divorce Decree

How do I qualify for a construction loan?

Qualifying for a construction loan is done in the same manner as any of our other mortgage loan applications.

How long does it take to find out if my loan has been approved?

It normally takes about 7 - 10 working days after application to learn if the loan has been fully approved.

Assuming a loan is approved, the next step is the issuance of a Commitment Letter. Upon receipt, the borrower is required to execute and return to the lender a copy of the Commitment Letter, which serves as a formal acceptance of the loan's terms and conditions offered by First Federal. In most cases, a nonrefundable application fee (\$350) must be forwarded to First Federal within 7 days of loan approval.

If the loan is made, this fee is typically applied against closing costs, unless otherwise stated in the Commitment Letter. Upon approval of the loan, First Federal will also order all necessary title work required in connection with the loan.

What happens after the loan closes?

When the Commitment Letter is issued, First Federal will contact the escrow agent (Title Company) to coordinate an appointment to sign the final loan documents, which include the Note, Mortgage Deed, Construction Loan Agreement, etc. Any funds needed to purchase the lot, close the deal, meet full contract price or pay closing costs should be deposited with the Title Company at the time of signing.

After papers have been executed, all documents which must be filed of record with the County Recorder are forwarded by the Title Company. Title Companies work directly with our Closing Department in the transferring of title, filing of the mortgage and disbursing funds for payment of title charges, lot purchase price, etc.

Once the transaction has been filed, or "closed", a mechanics' lien survey (also known as the "first picture") is taken by the survey company. After this picture is taken, work can begin on the dwelling.

Please Note: No clearing, digging, mowing or construction work of any nature can begin prior to closing and the taking of the first picture. At this time, your file is transferred to the Construction Loan Department, where it will remain until the home is completed. You will be assigned a representative, who will assist you throughout the construction period, answer your questions, and address any concerns you may have.

Who pays for insurance during construction?

This should be discussed directly with your builder. In most cases, insurance is the responsibility of the homeowner. The builder will, of course, carry workmen's compensation and liability coverage, but the actual insuring of the property is normally paid by the borrower. We require that a Builders' Risk or Homeowners' Policy with theft coverage (for building materials left on the lot and not attached to the dwelling) be obtained.

First Federal will require evidence of insurance prior to disbursing construction loan funds.

Prior to disbursement of funds, the foundation must be installed and a foundation survey must be done. The purpose of this picture and survey is to make certain that placement of the foundation complies with all applicable building and lot line requirements. Either the builder or borrower should call First Federal when the foundation is in so survey can be ordered and to avoid any delay in payment of bills.

How does my builder get paid?

At First Federal, we pay the builder on a "draw" basis. Bills are paid on a monthly basis, based on percentage of completion as determined by an independent inspector chosen by First Federal.

A properly completed, executed sworn statement must accompany each request for payment. Payment to the General Contractor for work done directly by him/her should be invoiced as for any other payee and included on this statement.

When do inspections occur?

Inspections will begin upon notification that the foundation is in and will continue throughout construction. These inspections are made for the purpose of determining percentage of completion of the property and that the home is being built in conformance with the plans and specifications submitted. We do not inspect for quality of workmanship or materials. Once the property is under lock and key, please notify the Bank so arrangements can be made for access to the property by our inspectors.

When do my payments start?

During construction, interest is billed monthly based on funds disbursed from the loan. Borrower-contributed funds are generally used first, since no interest is owed on these funds. A detailed billing is prepared 10 days before the end of each month. This statement assumes interest to the end of the month. Disbursements made from a construction loan after the cut-off date will be included in the following month's billing. Payment of construction loan interest must be received prior to the 15th of the following month.

Upon completion of the property, the loan is transferred to a permanent status and regular monthly payments begin. At this time a coupon book will be generated. Upon completion of construction, the loan is automatically transferred to permanent status. This arrangement can be made by calling your construction loan representative in advance of the expected completion date and reviewing First Federal requirements at that time. We will require:

- ⌚ A copy of the occupancy permit
- ⌚ Final Affidavit from builder
- ⌚ Written instructions regarding disbursement of any remaining construction funds
- ⌚ Final inspection report (ordered by First Federal)
- ⌚ Hazard Insurance Policy

When construction is done, how do I get my loan transferred to permanent status?

We may require a Loan Modification Agreement, which sets forth the actual beginning payment date, the revised maturity date, and the actual loan amount and monthly payments. In most cases, this form can be mailed to you for signature. We do not escrow funds for payment of real estate taxes and insurance on our construction loans. These are paid directly by the borrower during the construction period.

In this guide, we have tried to answer the most frequently asked construction loan questions and give an overview of First Federal's construction lending procedures. If you have further questions or concerns, please take the time to call your First Federal mortgage representative, Bill Lavelle. THIS GUIDE IS PROVIDED FOR INFORMATIONAL PURPOSES AND IS SUBJECT TO CHANGE WITHOUT NOTICE.

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