Borrow Buy Build
with Matt Siket

MORTGAGE LENDING

CONSTRUCTION LOAN HANDBOOK

Everything you need to know about Liberty FCU's construction mortgage process.

MATTHEW SIKET

MORTGAGE LOAN OFFICER · NMLS #442558

matt@borrowbuybuild.com (602) 400-6518 borrowbuybuild.com

INTRODUCTION

The idea of building your own home can be very exciting; but can also bring many questions and concerns to mind. Liberty Federal Credit Union and our Mortgage Construction team are here to help you through this process and help you build the home of your dreams.

This book discusses the basics of the construction loan process. It has been designed to help you and your builder understand the construction loan process and answer commonly asked questions.

WHAT'S INSIDE THIS HANDBOOK

01 Builder & Renovator Application

02 Construction Draw Process

03 Progress Inspections

04 Cost Overages

05 Construction & Permanent Loan Payments

06 Float Down Program

07 Construction Loan Conversions

08 Loan Modification Agreements

09 Frequently Asked

CONTENTS

01 **Builder & Renovator Application** 3

02 **Construction Draw Process** 5

03 **Progress Inspections** 9

04 **Cost Overages** 11

05 **Construction and Permanent Loan Payments** 13

06 **Float Down Program** 15

07 **Construction Loan Conversions** 17

08 **Loan Modification Agreements** 19

09 **Frequently Asked Questions** 21

BUILDER & RENOVATOR APPLICATION

Builders and renovators new to Liberty FCU must complete the Builder Application and provide the required documentation listed on the Builder Application.

What is the Builder Application?

The Builder Application is part of the process for any Liberty FCU construction-to-permanent mortgage loan and includes a review of your builder's references and experience. The Builder must complete the Builder Application and provide Liberty FCU with the required documentation to be considered for activation.

Why does my builder need to be activated by Liberty FCU?

This protects the interest of both the borrower and the lender. The activation process consists of reviewing the builder's qualifications.

When will we know if my builder has been activated?

Typically, the loan officer will be advised within 1 to 3 business days after the receipt of a completed Builder Application as to the activation status of the builder. If any additional information is needed, the loan officer and/or builder will be contacted by the mortgage construction team.

> The Builder Application process is not a guarantee or a warranty of the contractor's quality of work or performance. Liberty FCU does not represent the builder and therefore assumes no responsibility for the builder's workmanship or the workmanship of his subcontractors or for the equipment, supplies, and materials used in the construction of your home.

BUILDER APPLICATION

Who completes it	**Builder**
When required	**Before activation**
Activation timeline	**1 to 3 business days**
What is reviewed	**References & experience**
Workmanship guarantee	**Not provided**

CONSTRUCTION DRAW PROCESS

What is a Draw?

A disbursement of construction loan funds.

Who receives the draw funds?

Construction draw funds are paid directly to the builder. The builder is responsible for paying subcontractors from the draw funds.

Does Liberty FCU have a draw schedule?

No. A draw schedule may be provided by your builder that can then be followed through the construction process.

How soon after the loan closing can my builder request a draw?

A construction draw can be requested for start-up costs the same day of closing of the loan. A Contractor's Affidavit and Waiver of Liens form must be fully executed by all parties prior to each draw being issued.

How does a builder request a draw?

Your builder may request a construction draw by contacting their Construction Loan Specialist at (812) 477-9271 ext. 8822 or mortgageconstruction@libertyfcu.org.

DRAW PROCESS

Funds paid to	**Builder**
Draw schedule	**Builder-provided**
First draw available	**Day of closing**
Required form	**Contractor's Affidavit & Waiver of Liens**
How to request	**Contact Construction Specialist**

INSPECTION LEAD TIME

Liberty FCU recommends that builders request a progress inspection at least 1 week prior to needing the funds. This will help avoid delays due to inspector scheduling.

CONSTRUCTION DRAW PROCESS (CONTINUED)

What happens once a draw is requested?

When a request for a draw is received, a Construction Loan Specialist will review the amount requested. The Construction Loan Specialist will order a progress inspection on the property, if needed. Once all required draw documentation and inspections are received by the Construction Loan Specialist and reviewed, the draw will be processed. The Construction Loan Specialist will notify the builder and/or borrower once the draw has been processed.

What is the Contractor's Affidavit and Waiver of Liens?

The Contractor's Affidavit and Waiver of Liens is a form that must be signed by the builder and borrower for each draw. A new Contractor's Affidavit and Waiver of Liens form will be required for each draw. By signing this form, the borrower is authorizing Liberty FCU to release construction funds to the builder. It is the responsibility of the borrower to communicate with the builder with each draw request regarding the amount of the draw, use of draw funds, and comparing actual costs to budgeted and contracted costs.

Final Draw

A final inspection must be completed and state that construction is 100% complete before final funds are released. The builder or borrower should notify their Construction Specialist of completion of the home so that a final inspection can be ordered. Once that has been received, the final funds can be released with a completed Contractor's Affidavit and Lien Waiver. Some ordinances require a Certificate of Occupancy prior to the borrower being able to occupy a new construction property. This is something that the builder will obtain from the local jurisdiction if applicable and forward to our team. The construction loan will be converted to permanent financing upon completion and/or

FINAL DRAW REQUIREMENTS

Final inspection	**100% complete**
Contractor's Affidavit	**Required**
Lien Waiver	**Required**
Certificate of Occupancy	**If required by jurisdiction**
Conversion triggered by	**Completion or CO**

PROGRESS INSPECTIONS

The purpose of the inspection is to determine an approximate degree of completion based on the construction project. The inspection does not evaluate the quality of construction, workmanship, or materials, nor will it provide a current home value.

Who will order these inspections?

The Construction Specialist assigned to the project will order the inspections. The inspector will then reach out to the builder or borrower to schedule a time to complete the inspection.

What occurs during a progress inspection?

An inspector will visit the property. Utilizing the plans and specifications, the inspector will determine how much of the project has been completed. They will take photos of the completed work.

Why is an inspection needed?

In many instances, an inspection will need to be completed prior to releasing construction draw funds. This usually occurs when receiving a draw request that increases the total amount of loan funds disbursed above the project completion percentage. Liberty FCU uses inspections to monitor the progress of the project over time.

INSPECTION OVERVIEW

Who orders it	**Construction Specialist**
Who schedules access	**Inspector contacts builder or borrower**
What it measures	**Completion percentage**
What it does not evaluate	**Quality, workmanship, or value**
Recommended lead time	**1 week minimum**

Foundation Survey: Construction projects will need to have a foundation survey completed after the foundation has been poured and set by the builder. Liberty FCU will order this survey from a third party to ensure that the foundation is not within setback lines, easements of other properties, or utility lines.

COST OVERAGES

Cost overages are a legitimate concern that may be caused by unforeseen circumstances or changes made during the project.

What is a Cost Overage?

Cost overage, known also as a cost increase or budget overrun, is any unexpected or incurred cost that causes a project to exceed the original budget.

What happens if we have cost overages that exceed the available construction loan funds?

Cost overages need to be communicated to Liberty FCU immediately. Any overages will need to be paid out of pocket by the borrower.

What causes Cost Overages?

- Design changes during the construction phase
- Supply and/or labor increases during the construction phase
- Unforeseen circumstances

How can I avoid Cost Overages?

Maintaining communication with your builder about the budget will not avoid cost overages, but it can help you to know what to expect so you are not caught by surprise with an additional bill once construction is complete. Track your budget with every draw request. It is the responsibility of the borrower to communicate with the builder with each draw request to determine whether construction is still on budget. If further information is needed, you can reach out to your Construction Specialist for additional information.

Can my construction loan amount be increased to cover any cost overages?

Unfortunately, once the construction loan has closed, it cannot be increased.

OVERAGE CAUSES

Design changes during build	**Most common**
Supply increases	**Market-driven**
Labor increases	**Market-driven**
Unforeseen circumstances	**Site-specific**
Loan increase after closing	**Not available**

CONSTRUCTION AND PERMANENT LOAN PAYMENTS

When are my payments due?

Payments are due monthly on the 1st. There is a 15-day grace period prior to a late fee being assessed.

How long is my construction term?

Your construction term is initially set up for 12 months. A short-term extension of the construction phase may be granted depending on a review of the project.

How do the construction payments work?

During the construction phase, interest payments are calculated based on the amount of funds disbursed and the interest rate of the loan. Since the interest due depends on the amount of funds disbursed, construction loan payments will vary from month to month. If your loan is escrowed, monthly escrow payments will be collected during the construction phase. This escrow payment will be due regardless of any construction loan funds disbursed. If loan funds are used for a draw at closing, this will result in having a payment due on the first due date.

How am I billed for my loan payments?

You will receive a monthly billing statement in the mail for your loan payment each month. Monthly billing statements are generated 15 days before each due date and mailed to your primary address on file.

What will my payment be after the construction period?

Your loan payment is determined prior to the construction loan closing. The payment is based on your original loan amount, interest rate, and term.

PAYMENT SUMMARY

Payment type during build	**Interest-only on disbursed balance**
Due date	**1st of each month**
Grace period	**15 days**
Construction term	**12 months**
Billing statement	**Mailed 15 days before due date**
Permanent payment	**Determined at closing**

FLOAT DOWN PROGRAM

The Rate Float Down program is currently being offered for construction to permanent loans. This program gives you, the borrower, an opportunity to float down the rate, if the comparable interest rate is lower at the time of conversion to permanent financing.

How does the float down work?

A construction specialist will communicate with you if your loan is eligible for a lower rate at the time of conversion. If you wish to take advantage of the float down, the construction specialist will need to create a loan modification agreement that you will need to sign and return to Liberty FCU promptly. This will allow the construction specialist team to have the signed documentation in hand by the time the loan is converted to permanent financing.

What changes if my rate floats down?

If your rate floats down, the principal and interest payment amount will also be decreased.

Does the float down affect my escrow payment?

Please note that if taxes and/or insurance are included in your payment, the escrow payment will not be affected by the float down program.

FLOAT DOWN SUMMARY

Available on	**C2P Loans**
Eligible when	**Comparable rate is lower at conversion**
Who notifies you	**Construction Specialist**
Required action	**Sign Loan Modification Agreement**
Effect on P&I payment	**Decreases**
Effect on escrow	**No change**

CONSTRUCTION LOAN CONVERSIONS

What is conversion?

Conversion is the process of converting your loan from the interest-only construction phase to permanent financing.

When does my loan convert to permanent financing?

Construction loans are converted from construction to permanent financing upon completion and/or upon receipt of the Certificate of Occupancy.

What happens if the construction phase of the loan ends before actual construction is completed?

A typical construction phase is 12 months and can be extended if more time is needed to complete the home. 18 months is the maximum construction term. If the construction loan converted to permanent financing prior to project completion, the process for disbursing funds will continue to be the same as it was during the construction phase.

What do I need to do in order for my loan to convert?

There will not be an additional closing for the loan to convert to permanent financing. A Construction Specialist handles the conversion to permanent financing.

Do you need anything after my loan converts?

When your loan converts to permanent financing, Liberty FCU asks that you send an updated copy of your Homeowner's Insurance policy. This information would need to be submitted to the Liberty FCU Escrow team at escrow@libertyfcu.org.

CONVERSION OVERVIEW

Triggered by	**Completion or Certificate of Occupancy**
Additional closing	**Not required**
Handled by	**Construction Specialist**
Construction term	**12 months (max 18)**
After conversion	**Updated HO Insurance required**
Submit insurance to	**escrow@libertyfcu.org**

LOAN MODIFICATION AGREEMENTS

Loan modifications may be available prior to the loan converting to permanent financing provided one of the following takes place during construction.

When is a loan modification available?

1. Borrower wants to apply a lump sum to their principal balance to lower their principal and interest payments.
2. Construction term was extended causing the first payment date and maturity date to be adjusted.
3. Construction project was finished in less than 12 months and borrower converted to permanent financing early.
4. At the time of conversion, the loan is eligible for the float-down program.

Our standard loan modification fee is waived for these scenarios above.

Early Completion

If construction is completed earlier than anticipated, your loan will be converted to permanent financing. We reserve the right to re-pull credit and re-verify income, employment, and assets prior to conversion.

How is a loan modification completed?

Once prepared, a loan modification agreement will be sent to you via email or can be sent to the branch of your choice. The loan modification will need to be signed by all individuals that are on the original mortgage in the presence of a Notary Public. The original signed document will need to be sent back to the Mortgage Construction team. If you sign at one of the local branches, they can send that original document back for you.

MODIFICATION OVERVIEW

Standard modification fee	**Waived for qualifying scenarios**
Delivery method	**Email or branch**
Signature requirement	**All borrowers, Notary Public**
Return to	**Mortgage Construction team**
Early completion	**Credit re-pull may apply**

FREQUENTLY ASKED QUESTIONS

What happens if there is money left over from the construction loan funds?

Any funds left over from the construction loan can be used for the following: Borrowers may receive reimbursement for items listed in the original contract that were paid for out of pocket — a receipt or paid invoice is required for reimbursement. Remaining funds will be applied to the principal balance of the loan at conversion.

Why am I paying PMI during construction?

On a single close construction loan, PMI is paid during the construction phase. This is due to the loan converting to permanent financing without a second closing taking place.

Can PMI be removed during construction?

PMI removal can be reviewed upon construction completion. PMI removal is based on the PMI disclosure signed at closing.

Why am I paying taxes at full value?

Taxes are estimated based on the completed value of the property. This avoids large increases in loan payments after the project is completed.

What communication will happen with Liberty FCU during the construction?

After closing, your Construction Specialist will reach out to the borrower and builder about the new loan. On a monthly basis, a Construction Specialist will reach out to the builder in preparation for potential draws for the next month. If the builder anticipates needing a draw, the construction team will communicate with the borrower regarding the draw request. The Mortgage Construction team will also reach out to the borrower a month prior to their conversion date.

What information will be shared with my builder during construction?

The construction loan term, the balance of the construction loan funds available, and any other information that the borrower gives us permission to share with the builder during the process to assist in the build.

FREQUENTLY ASKED QUESTIONS (CONTINUED)

As a homeowner, am I required to carry Homeowners Insurance on my new construction?

Builder's risk insurance is required during the construction. That is paid either by the builder or borrower. Homeowner's insurance must be obtained once the home is completed.

What happens if the builder and borrower have a dispute?

Liberty FCU recommends that you refer to your original contract to settle disputes between both parties. The original contract should outline what steps to take if a dispute arises. Disputes should be worked out between the builder and the borrower.

Why was money collected for a survey at closing?

Construction projects will need to have a foundation survey completed after the foundation has been poured and set by the builder. Liberty FCU will order this survey from a third party to ensure that the foundation is not within setback lines, easements of other properties, or utility lines.

Borrow Buy Build
with Matt Siket

READY TO BUILD?

LET'S TALK ABOUT YOUR PROJECT

20+ years financing construction projects. One closing, one lender, no refinance at the end. Reach out and let's build a loan around your project.

MATTHEW SIKET

MORTGAGE LOAN OFFICER · NMLS #442558

matt@borrowbuybuild.com (602) 400-6518 borrowbuybuild.com

LIBERTY FEDERAL CREDIT UNION. NMLS #518136. FEDERALLY INSURED BY NCUA. EQUAL HOUSING LENDER. LOANS SUBJECT TO CREDIT REVIEW AND APPROVAL. RATES SUBJECT TO CHANGE DAILY. PRODUCT AVAILABILITY MAY VARY BY PROPERTY LOCATION. WE DO BUSINESS IN ACCORDANCE WITH THE FEDERAL FAIR HOUSING LAW AND EQUAL CREDIT OPPORTUNITY ACT.