



CONSTRUCTION
FINANCIAL SOLUTIONS

BUILDER AND HOMEOWNER CONSIDERATIONS

To protect the homeowner's interest, following is a list of items to consider before signing a contract with a builder:

CONTRACT TYPE

- **Cost Plus:** Vendors [materials] and Subcontractors [labor] are paid directly by CFS or as reimbursements to the builder or homeowner. Builder obtains Administrative Fees and Profit either based on a percentage of the home's cost or a set fee and are paid by CFS and are dependent upon the progression of construction / completion of the home. Any overages in the budgeted line items for construction are the responsibility of the homeowner and will not be funded through CFS. Any shortages in the budgeted line items can be applied to other areas of construction. The budget is shared with the homeowner.
- **Set Fee:** Vendors and Subcontractors are either paid by the builder who then submits a draw request for reimbursement, or are paid directly by CFS. Builder's Administrative Fees and Profit are included in the set fee and are paid by CFS dependent upon the progression of construction / completion of the home. Any overages in the budgeted line items for construction are the responsibility of the builder and will not be funded by CFS. Any shortages in the budgeted line items can be applied to other areas of construction or paid to the builder as project management fees. The budget is not shared with the homeowner.

DRAW FREQUENCY

Mutual agreement on the number of draws the builder will submit to CFS for payment should be included in the contract. Draws that include labor must pass an informal on-site inspection for percentage of completion. Draw inspections are for verification of completion only, not code compliance or quality. Each inspection costs \$100 per site visit. These fees are either paid by the loan, by the builder, or by the homeowner. The charges are automatically applied to the payoff on the loan. If requested disbursements are wired directly to a bank account or sent by FedEx, a fee of \$30 is applied to each transaction.

DRAW AUTHORIZATION

CFS does not require draw requests be approved by the homeowner prior to processing, as the level of homeowner involvement in the construction varies with each loan. It is an agreement between the builder and homeowner if homeowner draw authorization is required prior to processing.



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BUILDER CERTIFICATIONS

CFS will require the following:

- Builder's Risk Insurance with the Homeowner and Lender listed as an additional insured for the full Price of the home
- Builder's General Liability Insurance for a minimum of \$1,000,000.00, or a General Liability Supplement to the Builder's Risk Policy
- Membership to a Warranty Program if the take-out mortgage is FHA or VA, or Waiver Verification from the borrower
- Forms Survey before the slab is poured
- Lien Wavers signed by sub-contractors for Workman's Compensation

It is the **homeowner's responsibility** to ask if the builder will obtain and show proof of:

- Licensed Real Estate Inspections:
 - Before the slab is poured,
 - Before drywall is installed, and
 - Upon completion of the home
- Workman's Compensation Insurance

CONSTRUCTION TIMELINE AND DELAYS

Typically all builder contracts specify the time needed to complete the home: 6 months [180 days], 9 months [270 days] or 12 months [365 days]. The time specified is for actual active construction, and does not include the time needed to obtain HOA approvals and city permits, or delays caused by weather or unforeseeable events. The total amount of time from loan approval to mortgage refinance should be agreed upon as it will determine the term of the construction loan.

If progression of construction is delayed beyond the agreed timeline, the homeowner may incur additional costs, including Loan Modification and Extension Agreement legal fees and recording fees, as well as interest on the construction loan. In the event delays occur, the contract should detail who will be responsible for the additional costs.

BUILDER ACCEPTANCE

Builders must be accepted by Construction Financial Solutions, yet CFS does not review a builder for quality or become involved with contract negotiations. It is the homeowner's responsibility to perform due diligence on the builder to ensure they are satisfied the builder has experience, financial integrity and stability to complete the improvements agreed upon by the homeowner and builder.



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COMMONLY ASKED QUESTIONS

IS THE HOMEOWNER REQUIRED TO SIGN EACH DRAW REQUEST? No. The homeowner's draw authorization is not required UNLESS it is a condition of the Builder's Contract.

IS THE BUILDER LIMITED TO THE NUMBER OF DRAWS? No.

WILL INSPECTIONS BE PERFORMED TO ENSURE THE WORK IS COMPLETE BEFORE THE BUILDER RECEIVES FUNDS? Yes. CFS will order inspections performed by a 3rd party inspector to validate completeness only, not for compliance or quality of workmanship.

IS THERE A FEE FOR EACH DRAW? A \$100 inspection fee will be paid by CFS via the homeowner's equity account if the draw includes labor. A \$30 EFT fee will also be applied for any FedEx or Wire payments.

WHAT IS SUBMITTED FOR A DRAW DISBURSEMENT? If payment is to the builder for reimbursement, paid receipts are required for materials, and signed lien releases are required for labor. If payment is directly to vendors and/or subcontractors, submit invoices. These documents are sent to CFS along with a completed Draw Disbursement Request based upon the builder's construction budget.

WHAT IS THE DRAW DISBURSEMENT TIMEFRAME? Draws that include labor must pass an informal inspection to ensure the work is complete before funds are paid out. Draws for materials are paid out within 24 hours; draws for labor are paid out within 48 hours. Payments can be issued via USPS, FedEx or Wire Transfer to the builder, vendors or subcontractors.

WILL FUNDS BE DISBURSED TO THE BUILDER IN LUMP SUMS? [i.e. down payments or advancements] No. Funds are paid based on materials purchased and/or labor completed. The builder cannot request down payments or advancement of funds. Builder Administrative Fees are paid based on the progression of construction.

CAN VENDORS AND SUBCONTRACTORS BE PAID DIRECTLY? Yes. If the builder does not want to carry the costs, invoices can be submitted directly from vendors and subcontractors for direct payment.

CAN THE HOMEOWNER SUBMIT RECEIPTS FOR REIMBURSEMENT? Yes. If the homeowner wants to purchase materials, for example on a credit card to obtain reward points, they can in turn submit the paid receipt for reimbursement.

HOW WILL THE HOMEOWNER KNOW WHAT HAS BEEN PAID FOR?

Upon loan approval, CFS will create an account in ShareFile, a secured server for the borrower, builder and mortgage lender to access. Within 2 business days of a draw disbursement, all receipts, invoices and lien releases associated with draw will be uploaded to the borrower's folder. The borrower, builder and the mortgage lender will receive auto-notifications of uploads and have access to view and download the files as needed.