



## INTERIM CONSTRUCTION LOAN PROCESS

### **PHASE 1 – LAND & BUILDER**

The borrower needs to [1] already own the land free-and-clear, [2] own the land with an existing land loan, or [3] have a Real Estate Purchase Agreement with a Seller. Then the borrower needs to fall in love with a builder and finalize the floor plans and specifications. The borrower and builder need to discuss whether the construction budget [cost of the home] will include either monthly interest and/or closing costs. Homeowner chooses a builder and receives the following documents:

- [1] Builder and Borrower Contract [if construction is not being done by applicant]
- [2] Floor Plans
- [3] Home Specifications – lists how much and what type [i.e. frame, appliances, floors, etc.]
- [4] Construction Budget – itemization of all costs from Form Survey and Flatwork to Water and Windows. The builder and homeowner need to agree if the construction budget will include Closing Costs, Land and/or Interest Payments. If so, a signed Borrower / Builder Agreement must accompany the Construction Contract.

### **PHASE 2 – HOMEOWNER DOCUMENTS**

Homeowner gathers together the following information in preparation for loan:

- [5] Bank Statements – 2 most recent months for checking and savings
- [6] Verification of Reserve Funds – copies of investment statements
- [7] Tax Returns – 2 most recent years
- [8] Verification of Income and Expenses – copies of paycheck stubs, child support payments or receipts, divorce decree if debt/credit affected by a divorce, etc.
- [9] Current Residence Explanation – letter stating what they are going to do with their existing residence once the house is completed. If own current, must include PITI of both current and proposed in DTI
- [10] Identification – copies of driver's license and social security cards or passports
- [11] Land Ownership – if they own the land: Warranty Deed or Land Loan Payoff, if they plan to purchase: Land Contract

### **PHASE 3 – PERMANENT MORTGAGE**

Homeowner chooses a mortgage company and submits a loan application with their Homeowner Documents. The mortgage company will order the following documents:

- [12] Verification of Employment – letter or form from employer showing proof of employment, salary and length of employment
- [13] Credit Report – no more than 45 days old upon submission for construction financing
- [14] Loan Disclosures
- [15] Title Commitment – no more than 45 days old upon submission for construction financing
- [16] Appraisal Report – 'As-Built' [Appraiser will appraise the land and use the Builder Contract and Specifications to determine the value of the home as if it were completed]



#### **PHASE 4 – CONSTRUCTION FINANCING**

Once *the permanent mortgage is fully underwritten and approved*, all the documents listed above along with those listed below are forwarded to Construction Financial Services for review and underwriting – 22 documents in total:

- [17] Title Company Wiring Instructions
- [18] Builder’s Articles of Incorporation, Assumed Name Certificate or Registration
- [19] Builder – Client References [3]
- [20] Land Survey or Plat showing lot dimensions and set-backs [Survey may be included in Appraisal Report]
- [21] Copy of the Permanent Loan Application and Loan Estimate
- [22] Loan Approval - complete with underwriting notes

#### **PHASE 5 – BREAKING GROUND**

Once approved for the Construction Financing:

- The HUD needs to include the Title Insurance and Builder’s Risk Insurance
- The 1<sup>st</sup> *Loan* Draw will be funded upon closing and may include Closing Costs and Lot Payoff
- The builder must submit a Form Survey before the 1<sup>st</sup> *Construction* Draw will be issued
- Get the shovels and begin building the Dream Home!
- The builder needs to understand that if payment is to be made directly to the Builder, it is on a reimbursement basis. Paid receipts must be supplied for materials, and signed Lien Releases must be supplied for labor. If payment is to be made directly to a supplier or sub-contractor, invoices from the payee must be submitted with the draw request.

#### **PHASE 6 – THE PAYMENT PROCESS**

There are no limits as to how many draws a builder can request. The only limit is the approved budget and approved inspection of work. The Payment Process is as follows:

- Work commences as directed by the builder.
- The builder submits a draw request which includes [1] Draw Disbursement Spreadsheet, [2] Paid Receipts for Materials if reimbursement is to the builder, [3] Lien Releases for Labor if reimbursement is to the builder and/or [4] Invoices if payment is direct to the subcontractors
- The draw request is cross-referenced with the construction budget on file
- If the draw is submitted before 9am, an inspection will be done same-day. If submitted after 9am an inspection will be done the following business day. Inspections cost \$100 per site visit and are applied toward the construction loan.
- Upon the Inspection Approval, checks will be issued within 24 hours and are available for pick-up from our Spring Branch office, can be mailed or wire transferred [a \$30 fee per wire transfer will be applied for each wire].
- The homeowner is responsible for monthly interest payments based upon the balance of the draws [if interest is not being paid through the loan]. Interest Payment Statements are mailed to the homeowner on the 1<sup>st</sup> of each month and are due by the 15<sup>th</sup> of the month.
- If Interest Payments are included in the Construction Budget, interest will be drawn against the loan.
- CFS will provide the builder, borrower and mortgage lender access to a secured online file system. CFS will upload all supporting draw documentation within a timely manner for the interested parties to download, review and keep for their records.
- Once construction is complete, the permanent lender will close the loan with Construction Financial Services, payoff the principal and assume the loan for the terms previously agreed upon.

Please contact Construction Financial Services at any time with questions. We look forward to doing business with you!