



*Home is where your story begins*

## THE CONSTRUCTION PERMANENT LOAN CUSTOM FINANCING FOR YOUR CUSTOM HOME



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### *Special points of interest:*

- Learn all about how a construction loan works
- Details on construction draws and the appraisal
- Information on the loan approval process
- Settlement company and insurance requirements
- Converting the loan to permanent financing

# CONSTRUCTION FINANCE GUIDE

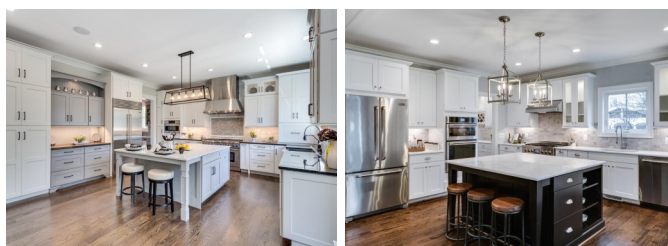
## INTRODUCTION

Borrowers who wish to build a custom home, or do a major renovation typically use a mortgage product called a Construction Loan.

This loan provides a line of credit to fund the purchase of the property and the construction of the home as the work is completed. The loan will then convert to a permanent mortgage upon completion of the project.

The reason a construction loan is often the best way to finance your new home project is because it uses the value of the house upon completion to determine your loan amount. This often means clients can fund more of the project through the loan.

The application and approval process for a construction loan is very similar to a standard mortgage. We will need to see information regarding the project in addition to the normal financial documentation required.



## ABOUT THE LOAN OFFICER

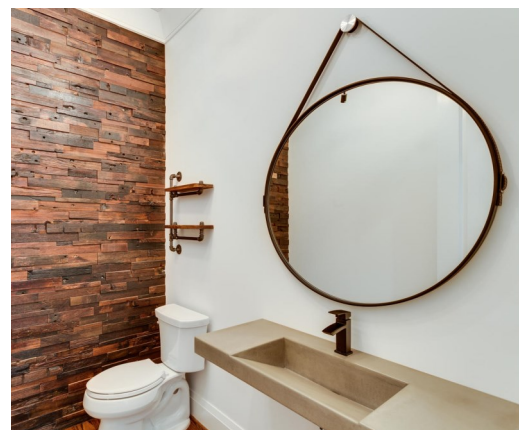
With 25 years of mortgage experience and a growing specialty in residential construction lending, Mark is a top producer in both wholesale and retail loan origination. Best practice and strong relationships with local realtors and builders are the cornerstone of Mark's success. So, too, is his approach to the lending process: active listening, setting realistic expectations, crafting customized lending solutions, and providing dependable/personal service. All of this and more sets the stage for client satisfaction. All of this and more sets the stage for client satisfaction, word-of-mouth referrals, and a growing reputation for dependability and follow-through. Mark is the first

point-of-contact at the Ferguson Team, helping clients to start the application process and crafting a lending solution. To give current and future clients the best possible outcome, Mark makes it a priority to serve on advisory councils at the regional and national levels where he advocates for positive industry change.

Mark served on the Leesburg Business Forum from 2010-2016, was a board member on the Make a Wish Foundation from 2009-2013, and is a Charitable Partner of Flags of Valor, a Veteran-owned, operated, and made company, crafting beautiful works of American art and raising money for veteran/first-responder charities.

## INTERCOASTAL MORTGAGE

Headquartered in Fairfax, VA, Potomac Mortgage Group/MVB Mortgage and Intercoastal Mortgage Co merged and became Intercoastal Mortgage, LLC./ICM. With a balance of conventional, jumbo, and government backed mortgage products, along with a bank portfolio to create financing opportunities for construction loans and alternative mortgage programs, ICM is well positioned to provide customized mortgage solutions to meet the needs of its clients. ICM is a direct lender that controls every aspect of the mortgage process to include processing, underwriting, and closing. With lending capability from Pennsylvania to Florida, ICM is the right solution to help create the ultimate client experience.





## CONSTRUCTION LOANS

Using a single set of closing costs, ICM provides an interest only loan program with the first year dedicated to construction. At the end of 12 months, or when construction has completed (if less than one year), the construction loan is transitioned with no out of pocket closing costs into the traditional loan of the client's choosing, to include 30 and 15 year fixed, ARM programs, etc. Extended rate lock options are available in most scenarios to provide clients options for securing their traditional mortgage terms well before construction is complete.



## CONSTRUCTION LOAN PURPOSES

There are many scenarios for which clients use a construction loan. Clients can purchase a property and build a new home or renovate the existing home. Many clients rebuild or renovate their existing home, either to modernize or increase their living space.

These can include Tear Downs or Pop Tops where the existing home is completely rebuilt or a new story is added.

In many cases, existing equity in the home will serve as the client's financial contribution towards the project.

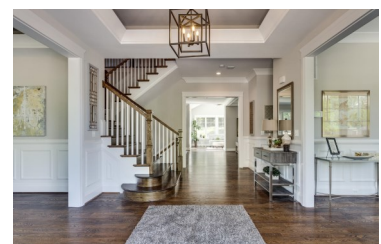


## DOWN PAYMENT AND EQUITY REQUIREMENT

Typically the amount of down payment or equity required for a project will range between 5-25%, increasing in proportion to the cost. This amount will vary depending on whether the house is currently owned and the existing equity can be used or if the property is being purchased.

For a purchase, the amount of required equity is based on a percentage of the sum of the lot cost, site work/soft costs and the building contract. When the property is already owned, there is no lot cost but there may be a payoff for existing mortgages, which must be included in the client's loan.

Equity in the property, deposits to the builder, and cash paid at closing are all sources of equity.



## THE APPRAISAL

Appraisals are the secret weapon in the Construction Loan process because they assume the value of the property once it's completed rather than in its current state. Quite often the value added will enable the loan to be large enough to accommodate the construction budget while requiring a smaller personal investment from the client.

Appraisals are conducted by a highly qualified, licensed appraiser who will value the property based on the completed project.

Using the building contract, plans, and specifications, the appraiser will determine a value comparing the project to similar houses in the immediate area.



## LOAN APPLICATION

Obtaining a Construction Loan is similar to getting any other type of residential mortgage with a few extra requirements given the nature of the transaction. As with any other loan, it starts with submitting a loan application, which can be done by visiting [www.yourfergusonteam.com](http://www.yourfergusonteam.com), applying in person, or via phone.

Standard supporting documentation such as tax returns, paystubs, and bank statements will also need to be provided. In addition, the land purchase contract, building contract, plans, and specifications are required.

Prior to converting to a traditional loan, clients will need to provide a few updated financial documents.



***Except for a few additional pieces of information, applying for a construction loan is the same as any other mortgage.***

## LOAN APPROVAL

Beginning with the end in mind, approval for both the construction and traditional loans happen simultaneously. By doing so we ensure a smooth transition once construction is complete.

Standard underwriting criteria includes stable income, assets, and credit worthiness.





## THE BUILDING PROCESS

The typical building process takes on the following steps in the same order:

**Step 1.** Decide to build a custom home or plan a renovation. For many people, this is the hardest step because of the commitment in terms of both time and money.

**Step 2.** Once the decision to proceed has been made it's important to submit a loan application along with supporting documentation to get prequalified. Knowing how much you qualify for will help guide the process in terms of knowing what's possible.

**Step 3.** Clients need to identify the right builder for their project and finalize a budget.

**Step 4.** Write a contract for the land purchase (if applicable) and for construction.

**Step 5.** Have the project appraised based on the plans and specifications, finalize loan approval and complete settlement.

**Step 6.** Submit for permits and begin construction.

**Step 7.** Finish construction, obtain occupancy permit, and convert the loan to traditional financing.



## THE DRAW PROCESS

Draws are periodic advances taken against the construction loan to reimburse the builder for completed work. If the project is a renovation, often a portion of the first draw goes towards paying off the existing mortgage.

Each time a draw is performed, the appraiser will visit the site and confirm the work has been

completed and the Title Company will check to make sure no mechanics liens have been filed against the builder.

Typically the builder contacts the ICM Construction Department and requests the funds to be deposited in the builders designated account. This takes 2—3 days from the time the initial request is made and the funds are disbursed.



## BUILDER'S RISK INSURANCE

A Builders Risk Insurance Policy is a type of Homeowners Insurance that protects the construction of the home as it is built. It is required to be in place at the start of construction and can be provided by most companies that write homeowners insurance. Just like a traditional mortgage, the policy needs to be paid one year in advance and ICM needs to be named as the loss payee. It will generally transition to a standard homeowners policy when the house is completed.



## SETTLEMENT/TITLE COMPANY

Clients have the option of selecting which Title Company they want to work with on their project, though we may make recommendations based on expertise in working with this loan product.

Just as with any other residential real estate settlement, the title company will conduct the closing and either transfer ownership, (in the case of a purchase) or pay-off the current mortgage if the property is already owned. The settlement company will provide a Title Bringdown on every draw request made by the builder to ensure there have been no liens filed on the property.

The settlement/title company will serve as the Mechanics Lien Agent during construction and must be listed as such on the building permit so they can obtain lien waivers.



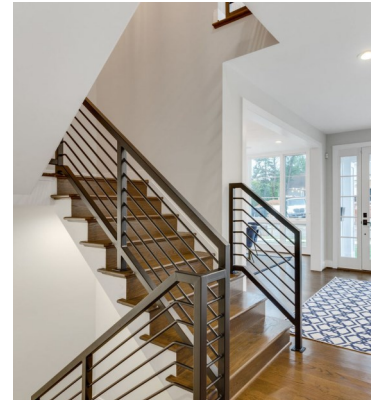
## TITLE INSURANCE & MECHANIC'S LIEN COVERAGE

Title insurance with Mechanics Lien coverage is required for all Construction Loans. Mechanics Liens occur when the builder fails to pay their subcontractors so the construction project must be insured in case this happens.

The settlement/title company serves as the Mechanics Lien Agent and it is their job to collect lien waivers from the builder and make sure they are in place at the time draw disbursements are made.

The Mechanics Lien coverage provides insurance protection in case anything slips through the cracks.

***Title Insurance and Affirmative Mechanics Lien Coverage are required on all construction loans, for all parties protection.***



## CONVERSION TO TRADITIONAL FINANCING

Once the house has been completed and the Certificate of Occupancy issued, the construction loan is now ready to convert to permanent financing. The permanent loan essentially refinances the construction loan into a 30 Year fixed, 10 Year Arm, 15 Year fixed, or preferred loan term.

The out of pocket costs paid at transition will be: accrued but unpaid interest on the construction loan and the new traditional mortgage, plus the funds needed to establish the escrow account for taxes and insurance.



## FREQUENTLY ASKED QUESTIONS:

**Q. When should a loan application for a Construction Loan be submitted?**

- A.** A loan application should be submitted on the front end to determine the maximum qualifying loan amount, which will help determine the construction budget.

**Q. How long does the approval process take?**

- A.** Typically it takes three or four weeks to get the loan in place once all the supporting documentation (ie. W2s, paystubs, bank statements) has been received.

**Q. Can the loan close if there is a land contract but no building contract?**

- A.** Yes. Given how competitive it is to purchase a good lot, quite often we need to settle on the land before the building plans and specs have been completed.

**Q. Does the full balance on the construction loan need to be rolled into the traditional loan?**

No. In many cases the loan amount is changed. Often times a current residence is sold during construction and the proceeds are used to pay down the loan. There are also times additional costs are incurred during construction and the loan needs to be increased to cover those costs.

**Q. How do I handle property taxes?**

- A.** During the time the construction loan is in place, the client will be responsible for making any property tax payments that come due. Once the loan converts to traditional financing, taxes and insurance will be collected through the escrow account. Keep in mind that the county will be reassessing the value of the home upon completion so you can expect the amount owed for taxes to increase.

**Q. How much should be borrowed for the construction loan?**

- A.** We recommend taking the maximum construction loan and use the surplus for contingencies that may arise during the building process. The client only pays on the outstanding balance and the traditional loan will cover the outstanding balance.







# THE CONSTRUCTION PERMANENT LOAN

*CUSTOM FINANCING FOR YOUR CUSTOM HOME*

