

# NORTH BEACH LOTS AND LAND CONSTRUCTION LOANS

## Construction Loan – Borrower’s Guide

At North Beach Lots & Land we understand that each construction project is unique, and we are dedicated to providing great service and communication throughout the construction loan process. This Construction Guide, which was originated from one of our prime construction lenders information formats, will provide a general overview of important information to help you as we work together during the construction and financing of your new home.



## Construction Process

Our construction loan lenders offer “one-time close” construction loans that contain a variety of construction loan periods, to ensure that sufficient time is provided for you to complete your project. We understand that many things can happen during construction, so it is very important that a realistic time frame is set with your builder early in the process. It is critical that your loan is locked with an adequate construction period in order to give your builder sufficient time to complete your home.

During this construction period, you will be billed interest only based on the amount of funds that have been drawn for your project’s “work in progress.” When the construction period ends, your loan will begin full principal and interest payments based on the full note amount. In the event construction is not complete at this time, we will set aside any remaining funds in order to continue funding the project. It is important to note that no construction may begin until the loan has closed and funded. If any construction starts, including equipment being placed on the property, this may prevent the construction loan from closing due to potential liens that could be placed on the property.

## The Construction Contract

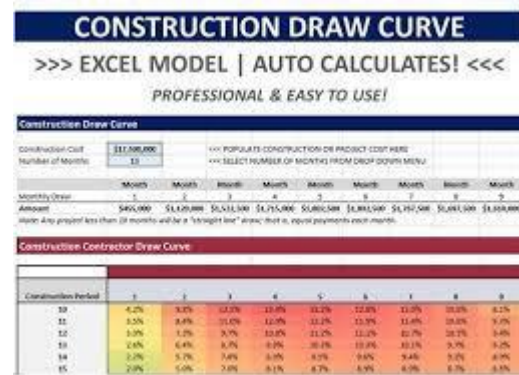
- A typical lender construction contract requires a “Fixed Price” contract that covers all aspects of construction that will result in a completed project.
- The contract must clearly state the base price cost plus any additional costs or credits to the base price of the home.
- Builders are required to provide a line-by-line cost breakdown detailing the project budget.
- The builder will also need to provide the appraiser a set of approved plans/blueprints and specifications.



- Most construction lenders honor draws based on “Stage Draw” or “Percentage Completed” schedules but require a cost breakdown.
- Any increase in costs to the project as a result of change orders or upgrades is the responsibility of the borrower.

### The Draw Process

- A standard draw policy allows builders to request payment for work that is complete, and materials installed.
- The builder will be required to work through a disbursing agent for all draws. This disbursing agent will either be a fund control company or a title company, depending on location.
- Most lenders will allow a down payment at the time of loan closing for an amount up to 5% of the contract price including any amounts previously paid by the borrower(s). Any down payments received by the builder must be accounted for at the time of the first draw.
- Draw requests of one draw per month are typically allowed (approximately every 30 days). Any draws requested must be for completed work and materials already installed.
- Typically, a lender will fund a 50% down payment of the budgeted amount on custom and specialty items [such as cabinetry, windows, countertops, exterior front doors, garage doors, stone work (i.e., fireplace stone), flooring, granite/tile/marble, light fixtures, plumbing fixtures, truss systems, geo thermal, structural steel, and elevators]. Any deposit amount limited to an amount up to 50% of the budget for that item may be considered. The remaining budgeted amounts for these items are payable upon installation.
- If change orders occur during construction that result in an increase to construction costs, the borrower(s) will be responsible to fund these cost over-runs out of pocket as the work is completed.
- Transfer requests can be considered, with appropriate supporting documentation.



### Land Loan Terms Proforma

Purchase Max Loan Amount	LTV Improved	LTV Un-improved
• \$300,000	80%	75%
• \$400,000	75%	70%
• \$500,000	70%	65%
• \$750,000	65%	60%

### **Improved Lots**

- A lot which may or may not be in a subdivision
- The basic utilities are available
- Utilities Include:
- Public sewer and water available for hookup
- Private well/septic must be installed

### **Unimproved Lots**

- A lot which may or may not be in a subdivision
- Will require private well/septic to be installed
- Public utilities are not available for hookup

### **General Conditions**

- Property is not eligible if there are any structures on the site.
- Structure defined as four walls and a roof. Standard land appraisal is required. PUD documents if applicable.
- Percolation test (or equivalent) is required on all unimproved lots and/or lots with private septic **prior to loan application submission.**

### **Lot Use**

- Lot must be single family residential.
- Purpose should be to secure lot on which to build, not for speculation.
- Limited to one lot loan at a time.
- May secure an exception to allow for adjacent lots.

### **LTV restrictions**

- Lots greater than 5 acres, standard maximum of 10 acres, up to maximum 20 acres if value supported by comps of similar acreage.
- Lots Exceeding 5 acres are restricted to 65% LTV if improved and 50% if unimproved.
- Property must be residential in nature.

### **Credit & Reserves**

- Reserves of 6 months PITI required with FICO of 720 FICO or higher.
- 12 months required for FICO less than 720

### **Loan Terms**

- Margin is 3.25% + 1 year treasury index.
- 3/1 ARM (Adjustable-rate mortgage)
- Fixed for first three years, annual adjustments thereafter.
- Adjustment cap 2% +/-, Lifetime cap 6% over initial rate.
- Amortized over 30 years.

This Construction Guide is meant as a general overview and is not all inclusive of the requirements as they pertain to the construction and financing process of a home. Communication and coordination are very important parts of a successful project, as well as working with a lender you can trust.

This information is provided to assist borrowers and is not a consumer credit advertisement as defined by Regulation Z. This document is intended for borrower use only and not for public distribution. This is not a mortgage loan approval or commitment to lend. Loan is subject to credit approval and program guidelines. Not all loan programs are available in all states for all loan amounts. Interest rates and program terms are subject to change without notice.