



Construction Financing – Understanding the Home Building Process

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Process Overview

- Choosing a construction and/or lot lender
- Financing your land
- Builder review process
- Construction documents
- Assignment and consent agreement
- Draws and change orders
- Monthly payments
- Contingency reserve funds



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Choosing a construction and/or lot lender

U.S. Bank offers a variety of unique construction products



Permanent financing options for newly completed properties

- Construction of home is financed by the builder, such as tract homes/developments

Construction to permanent financing provides funds to build the home and automatically converts to a permanent mortgage after the construction phase

- Construction of the home is financed by the borrower
- Borrower has one-time loan closing and one set of closing costs
- Construction of primary residences: U.S. Bank can lend up to \$3 million
- Construction of second homes: U.S. Bank can lend up to \$1.5 million
- Select from our fixed- or adjustable-rate construction loans



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Financing your land

Land and financing options

U.S. Bank offers vacant lot loans for borrowers planning to build in the near future

- **Parcels with acreage** are allowed if typical for the area and residential in nature
- **Any balance owing** on the lot will be paid off with funds from the construction loan
- **Purchase of the vacant lot** can be combined with the construction financing as long as all required project documentation is ready upfront
- **One closing** as closing costs are only paid once



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Builder review process

Selecting a builder



- Builders are required to undergo a review process in order to determine if the builder meets the U.S. Bank standard requirements
- If the builder has not been previously reviewed by U.S. Bank, we will work with the builder to complete the checklist of items required
- Once all of the information is submitted, the review process typically takes 7–10 business days
- Builder review is good for up to two years

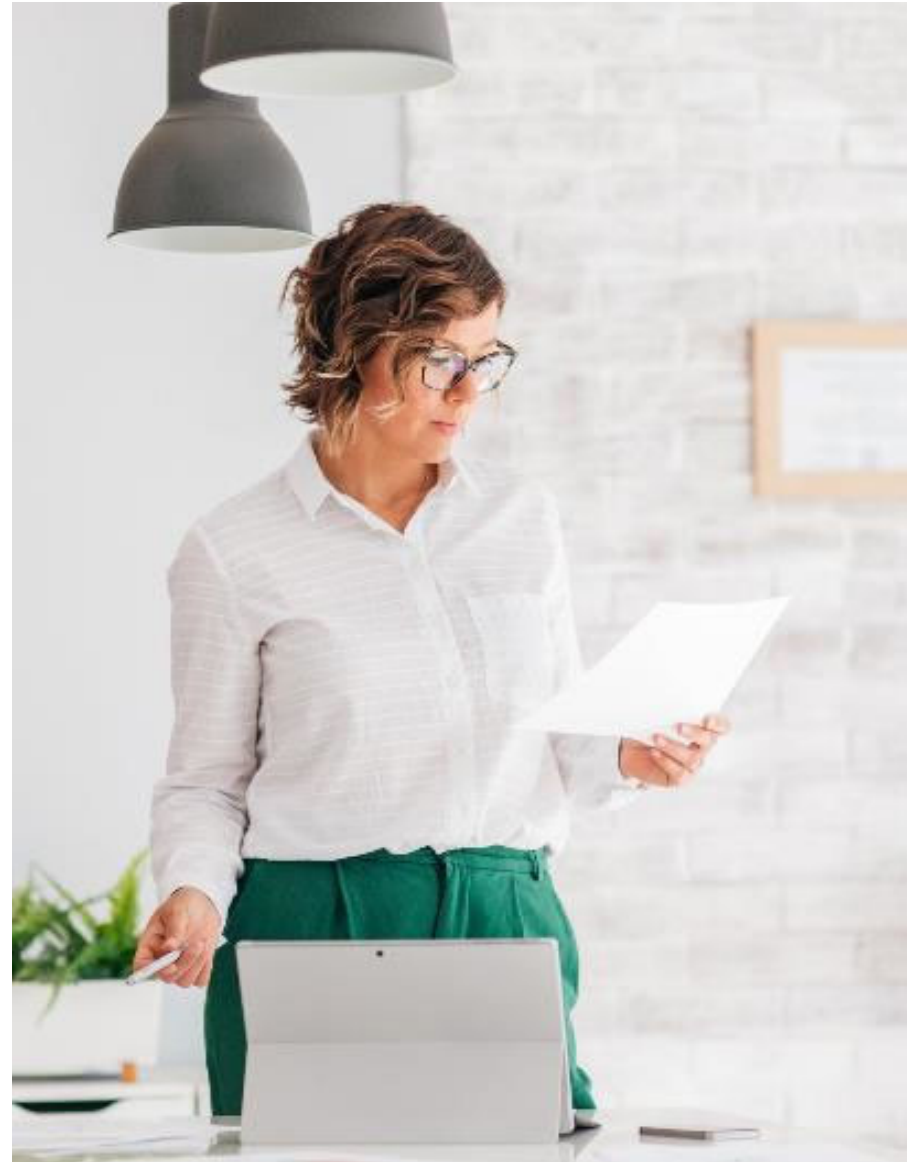


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Construction documents

Required construction project documents

- A fixed price contract is required
- Line-item cost breakdown/budget form
- Description of materials list (specifications)
- Building plans



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Assignment and consent agreement



- Defines responsibility of the lender, builder, borrower, and title company during construction
- Borrower contributed funds at closing (down payment/equity) are collected at the mortgage loan closing and retained by the Construction Administration Department in a non-interest bearing account
- Any borrower funds contributed towards the construction are disbursed prior to using the loan proceeds
- A homeowner's insurance policy is required. The policy must include endorsements providing coverage for theft of materials during construction and collapse of foundation coverage.



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Draws and change orders

How it works

- The builder is able to request draws as needed, however, an average of up to one draw per month is preferable.
- The builder is required to state the number of draws anticipated to complete the construction project.
 - U.S. Bank will ensure the number of draws the builder requests is in compliance with U.S. Bank draw policies.
- If change orders occur during construction that result in an increase to the construction costs, and the borrower has not been approved for contingency reserve funds, the borrower must be prepared to fund cost overruns out-of-pocket at the time the work is completed.



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Monthly payments

Understanding your mortgage payments



- **During the construction period** of the home, you will make interest only payments according to the terms of the loan with U.S. Bank (plus tax and insurance escrows if applicable). Monthly interest is based upon the amount of money drawn against the original mortgage loan amount.
- **At the end of the construction period** or otherwise the interest only period of the construction loan, regardless if construction has been completed, the borrower will make full principal and interest payments based on the full note amount (plus taxes and insurance escrows if applicable) for the remainder of the loan term.
- **Billing statements** are generated on the 20th day of each month and will be mailed to the borrower for any interest due on the funds drawn during the construction period of the loan.
- **An auto-draft payment option** is also available.



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Contingency reserve funds

Preparing for the unexpected

- Unforeseen expenses can arise during construction
- The borrower can include up to 10% of the cost to construct as a contingency reserve amount
- Reserve amount funds may be used specifically to cover expenses relating to change orders and cost overruns
- The optional contingency reserve must be requested prior to closing
- Upon completion of construction, any remaining funds are applied to reduce the outstanding principal balance of the mortgage



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Questions?

If you have questions, you can reach Tim at 707-321-9640 or email at tim.olson1@usbank.com

