

CONSTRUCTION LOAN



FREQUENTLY ASKED QUESTIONS

Q. How does a construction loan differ from a permanent mortgage loan?

A. A Construction loan is a short-term loan used to build your new home. A permanent mortgage loan is a long-term loan with fully amortized payments. It is used to pay off any liens or mortgages associated with the construction.

Q. How much of a down payment is required for a construction loan?

A. We require a 30% down payment or that you have at least 30% equity in the estimated value of the completed project.

Q. What payments will I be required to make during construction?

A. You will receive a monthly billing statement based on the amount drawn from your construction loan. You will be required to make an interest-only payment based on the outstanding balance drawn from your construction loan.

Q. Will principal and interest be included in my construction loan payments?

A. No. You will be making interest-only payments during your construction loan.

Q. When do I begin principal & interest payments?

A. You will begin making principal & interest payments once your loan switches from a construction loan to a permanent mortgage loan.

Q. Will my construction loan convert automatically into a permanent mortgage loan after the project is complete?

A. The construction loan does not convert automatically into a permanent mortgage loan. After the construction project is complete, you will be able to apply for the permanent mortgage loan.

Q. Can I buy the land with the construction loan?

A. Yes. You may use the construction loan to purchase the land.

Q. I already own the land, but I have a loan against it. Does it have to be paid off prior to obtaining a construction loan?

A. The first draw of the construction loan would be used to pay off the balance due on the land. This transaction would be handled through a title company due to the complexities of lien releases.

Q. Can I begin work on the property before my loan is funded?

A. No. Work cannot begin until Savings Bank of Mendocino County has perfected its lien by recording a Construction Deed of Trust.

Q. Does my General Contractor have to be licensed?

A. Yes, Savings Bank of Mendocino County requires the general contractor and all subcontractors be in good standing with the California Contractor's State License Board and be operating under an active California Contractor license.

Q. Will you require additional information from my General Contractor?

A. Yes, Savings Bank of Mendocino County will require additional information. Most of the information requested depends on whether your contractor has already been approved by the Bank and is currently listed as one of our approved contractors.

Q. May I act as my own General Contractor/Builder?

A. The Bank's policy does not allow a homeowner to be their own contractor/builder. However, if you are a general contractor with an active California Contractor's License and are in good standing with the California Contractor's State License Board, an exception can be requested.

Q. What is a contingency reserve and is it required?

A. A contingency reserve is a budgeted amount of money above and beyond the contracted price with your builder, which is set aside for any unforeseen cost overruns. A contingency reserve is beneficial for the homeowner and, of course, you do not pay interest on the money unless you need it and it is disbursed. Savings Bank of Mendocino County will require that a 10% contingency reserve be included in the budget.

Q. What is a "draw"?

A. A construction loan is a draw-down line of credit. A draw is an advance against that line for costs associated with building your new home.

Q. When should I request a draw?

A. Draw requests should be limited to once per month. In addition, a draw request should only be submitted when the percentage of completion justifies the request.

Q. How do I submit a draw request?

A. Savings Bank of Mendocino County requires a signed draw request be approved and submitted by you and the contractor in a spreadsheet format. This request can be delivered either in person, by fax or email to the Real Estate Disbursement Specialist or Loan Officer. The draw request should include all supporting invoices and/or receipts, and must be labeled with the corresponding line item number from the approved budget. Draw requests need to include the level of completion for each line item.

Q. How much time does it take to process a draw and how will I know if my draw request has been approved?

A. Each draw request will be reviewed within two business days of receipt. Once all the required documentation is received, and a third party inspection has been completed (please allow up to five days for the inspection to take place), the Real Estate Disbursement Specialist will notify you of any discrepancies and ask that you come in and sign a "Commitment Account Withdrawal Application". When the Commitment Account Withdrawal Application has been signed, the funds will be deposited to your account at Savings Bank of Mendocino County or a cashier's check will be made payable to you for the amount of the approved draw.

Q. Do I need to insure the new home during construction?

A. Yes. You will be required to obtain course-of-construction insurance, which is a Builder's risk policy. Once the home is completed, you will be required to obtain a Homeowner's Insurance policy, which will protect you. You may be required to purchase flood insurance, if the property is located in a standard flood hazard area and a participating community.

Q. Will construction loans allow me to be reimbursed for pre-paid items?

A. Yes, you may provide receipts for any pre-paid items you would like to get reimbursed for. The items must have been included in the budget.

Q. What documents will you require from me?

A. Initially, we will require a completed Construction Loan Application Packet as well as your two most recent tax returns and W-2s, your two most recent paystubs, and your two most recent months of bank statements. Once you are pre-approved for the loan amount requested, we will require a contractor profile report, cost breakdown, description of materials, project plans, architectural contract, general contractor agreement, list of subcontractors, and receipts for pre-paid items.



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