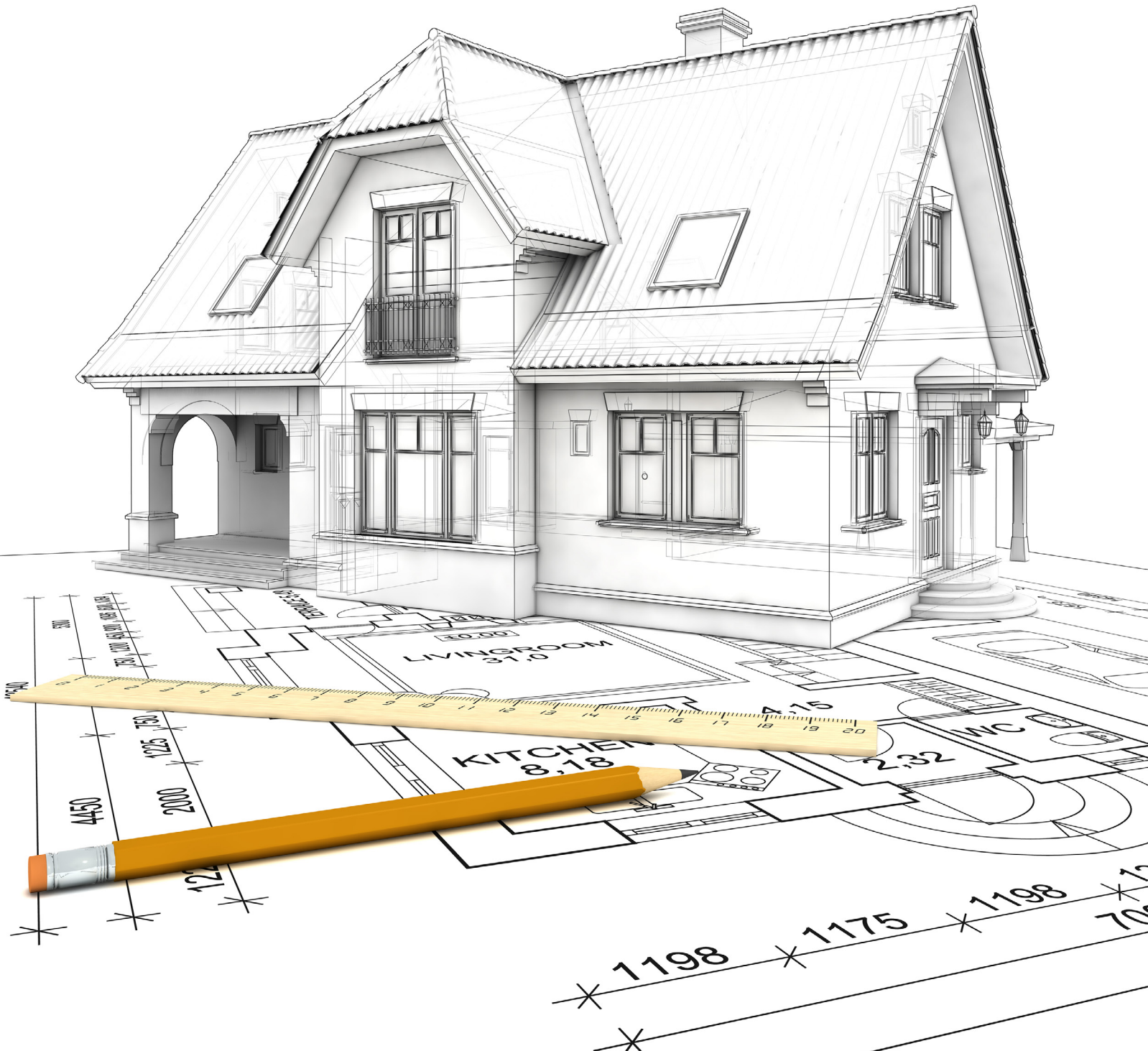


# THE DEFINITIVE GUIDE TO CONSTRUCTION LOAN FINANCING

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# The Definitive Guide to Construction Loan Financing

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**Brought to you by:**

**AmeriFirst Home Mortgage**

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## Intro:

### Build Your Dream

When you don't want to settle for someone else's vision, build your own.

In today's housing market, finding the right house can prove to be as elusive as the pot of gold at the end of the rainbow. With low and aging housing stock, you may find yourself wondering if it's worth the effort and the waiting.

Building your own home may be on your radar for just these reasons. Or maybe you've always dreamed about designing just the right home for you and your family. Whatever the reason, a New Construction Mortgage Loan could be in your future.

This digital guide will walk you through one option for financing new construction. This one-closing loan option means you're not going back to the closing table once your new home is built. Instead, you're free to live your life!

You'll find information here that answers your questions about what a new construction loan is, what it isn't, the guardrails in place and what to expect throughout the process. We'll also offer up frequently asked questions and their answers, plus other resources available to you when it comes to financing your dream home with us.

All the best to you on this next step in your journey. Please let us know if we can answer further questions.

### *Welcome Home.*





## Section 1:

### What Is a Construction Loan?

A construction loan is typically a short-term loan used to pay for the cost of building a home. It may be offered for a set term (usually around six months to a year) to allow you the time to build your home.

Construction loans are typically short term with a maximum of one year, and have variable rates that move up and down with the prime rate. The rates on this type of loan are higher than rates on permanent mortgage loans. To gain approval, the lender will need to see a construction timetable, detailed plans and a realistic budget, sometimes called the “story” behind the loan.

Once approved, the borrower will be put on a bank-draft, or draw, schedule that follows the project’s construction stages and will typically be expected to make only interest payments during construction. As funds are requested, the lender will usually send someone to check on the job’s progress.



## Section 2:

### What Is a One-Time-Close Construction Loan?

In a technical sense, AmeriFirst's one-time-close construction loan is a 30 year FHA construction to permanent mortgage.

A construction-to-permanent loan combines the features of a construction loan from the previous section with a traditional long term permanent mortgage. We achieve this with a single loan closing before construction begins.

What does this mean to a home buyer looking to build? Here are some benefits of this one-time close construction mortgage loan:

- The construction loan is made directly to you.
- The lot can be purchased at closing, or you can build on land you already own.
- Construction can begin as soon as the loan closes.
- Six-month construction period (can be extended)
- You have only one application, one closing, and one loan. In other words, you don't need to refinance to a permanent loan after the project is complete. You can focus on the design and construction of your home without worrying about another loan qualification, a new appraisal and dual fees associated with a second loan (saving you time and effort).
- You get to build a brand new dream home!
- All with as little as a 3.5% down payment



## Section 3:

### Nuts & Bolts -

Now that you have a better understanding of the construction-to-permanent Mortgage, let's dive a little deeper. In this section we'll cover the "nuts and bolts" of the construction mortgage with AmeriFirst. We'll talk about closing costs, down payment, escrow funding and draws.

#### Closing Costs

Closing costs, or cash-to-close, will include your down payment, origination fee, fair lending loan fees, construction administration fee, builder validation fee, appraisal completion inspection fee and modification related fees such as title update, recording fees, modification fee. This is not an all-inclusive list and includes fees from AmeriFirst as the lender, but also third-party businesses related to the process.

#### Down Payment

Your down payment\* is calculated by the maximum mortgage amount. You can borrow up to 96.5% of the lesser of the:

- appraised value or
- acquisition cost (which includes acquisition cost (which includes the builder's price to build and the cost of land if already owned for 6 months or less)

This means you are required to have a minimum 3.5% down payment based on the total acquisition cost.

#### Construction to Perm Maximum Mortgage Amount Example:

Builder's Price to Build	\$195,000
Cost of Lot, Purchased at Close	\$25,000
Acquisition Cost of Property	\$220,000

As long as the home appraises at \$220,000 or more (based on plans and specs) you may be able to borrow up to 96.5% of \$220,000. Your down payment in this case would be \$7,700.

Note: *If you want to build on your own land, the acquisition cost will include the value of the land from a site value of the appraisal.*





## Escrow Funding

You will be responsible for paying insurance and property taxes during the construction phase. Once that wraps up, the permanent loan will have an escrow account to handle these payments for you. The escrow account will also manage payment of the monthly FHA mortgage insurance premium (MIP) which will be added to your loan with the modification.

Funding that escrow account will happen once construction is finished, so make sure you're continuing to save up money throughout the process – don't blow your savings during this process!

To start the escrow account, you will need to make a deposit out of pocket. The deposit amount will be based on an initial escrow analysis, which will look at what we expect your insurance, property tax, and MIP bills to be over a 12-month period. The analysis will then determine how much is needed in the escrow account to get started, as well as what your escrow payment will be each month to keep the escrow account on track going forward.

## Draw Overview

During the construction phase, your builder will want to be paid. This happens through disbursements from your loan funds. These disbursements are referred to as "draws."

Here is where the process gets a bit deep, so bear with us here.

The principal balance of your loan will not start as the full loan amount for which you were approved. Your starting principal balance will be the initial draw amount from closing (or zero if there was no draw at closing).

During the construction process, additional draws will be made to pay your builder, and each one will increase your principal balance. The draws will not exceed the full loan amount established at closing.

Once the construction phase is complete and your loan enters the permanent phase, the total amount you borrowed will be reduced by any unused funds. This means that your principal balance going into the permanent phase will equal the amount of funds used to build your home (less any principal payments you might make during construction).

At closing, a draw schedule will be set, outlining when certain portions of the work are expected to be complete and when another draw will be needed. We will cover draws more in-depth in our next section.

Are you ready to dig deep and learn all about starting (and finishing) the construction-to-permanent mortgage financing process? Let's get to it in Section 4.

## Section 4:

### Getting Started

#### Pre-Qualification and Application

Pre-qualification (often called pre-approval) is the first step in the loan origination process. During this stage, your loan originator will estimate how much you can afford to borrow towards the building project. This is not an approval as it is only based on the loan originator's initial review of the financial information you provide to them (approvals can only be issued by an underwriter once they have fully reviewed all of the required documentation). However, pre-qualifications are important because they give you a picture of how much you will be able to spend on the project before you decide to move forward with a full application.

When you are ready to proceed with a full application, contact your loan originator. Once they receive your full application, you will receive a Loan Estimate within 3 business days. You will then need to provide certain documentation so we can process and underwrite the loan. A checklist of general documentation is below (additional information may be required).

Loan Documentation Checklist	
	Deed/settlement statement for the land or contract to purchase the land
	Contract with a licensed builder (the borrower cannot be the builder)
	Builder information
	Plans for the home construction
	Insurance
	Building permit

#### Underwriting

Once we receive all of the required documentation, your file gets submitted to an underwriter. The underwriter will review all of the information to determine whether we can approve your loan. They will also evaluate cash flow needs to ensure that you have the ability to pay interest during the construction phase along with interim housing expenses.

The builder and construction plans will be reviewed as well. We will review the builder for financial reliability and qualification for the proposed scope of work. They must have a minimum of 5 years of experience; be stable, reputable and properly credentialed. This is important to make sure that your new home can be built from start to finish free of mechanic's liens.

The construction plans will be reviewed by comparing the project against the proposed budget based on market value. The plans, budget, contract, appraisal, and permitting requirements will all be taken into account to ensure that the loan will be sufficient to complete the construction of your home.

#### Closing

Once your loan is approved, it will proceed to the closing process. You will receive a Closing Disclosure three business days before closing, so that you can review all of the final details before proceeding with the loan. As soon as the documents are signed and the loan is closed, construction can begin.



## Construction Process

Construction can begin as soon as loan closes. Draws are managed by an experienced renovation department. When the specified portion of work is verified as complete, the next draw will be issued, taking place in three stages:

- **Initial draw:** The initial draw is issued at closing to pay off the lot purchase, or if you already own the land, it will be used to pay off any loans due against the property. If no funds are needed to purchase or pay off a lot, there will be no initial draw. Funds are not released to begin the construction process at this point – the builder must be able to fund the start of the project.
- **Interim draws:** Most construction projects will have 5-7 draws, depending on the schedule set at closing. Inspections will be completed to verify that the required percentage of work is complete before draws will be issued. The draws are based on the percentage of the project that is complete. There will be a 10% holdback (for example, if the inspection shows that \$40,000 of the project is complete, we will hold back \$4,000 as the 10% and issue a \$36,000 draw). Draws are capped at 80% of the project amount.
- **Final draw:** Once the construction is complete, the final draw will pay your builder's final invoice, including any funds that were not previously released due to the 80% cap and all holdbacks.

Before a draw can be issued, an inspection must take place to verify the percentage of completed work. An inspector will review the construction project and provide us with a report. If the report shows that enough work has been completed to issue another draw, the draw process can move forward (see section below for how to request a draw).

*Note: Keep in mind that the inspector will only be looking at the overall percentage of completed work, and will not be reviewing the specific items you agreed upon with your builder (such as making sure the correct fixtures are being installed, the style of flooring you chose is correct, etc.). Make sure that you stay involved with your builder and let them know if something doesn't look right so it can be corrected before the project progresses any further.*

## Interest Only Mortgage Payments

During the construction phase, interest only payments will be due each month. You will receive a monthly billing statement that includes current details of your loan and specifies how much you will need to pay. The interest will be calculated daily based on the actual amount of funds disbursed, rather than the full loan amount. This means that your first payments will be very small (since not many draws will have been processed), and later payments will be larger (since more draws will have been made and the principal balance will be higher).

If your down payment exceeds the cost of purchasing or paying off the land and your own funds will go towards construction costs, you will not be charged interest on those funds. Interest is only charged on the balance that you borrow through your loan. Any funds that you put down in excess of purchasing or paying off the land will be managed through our draw process without accruing interest. Once those funds have been depleted and draws are made on the borrowed funds, interest will then begin to accrue on those funds only.

You will not be required to pay any funds towards the principal balance during the construction phase, although you do have the option of paying towards principal if you choose. Any principal payments you make during the construction phase will reduce your balance and the amount of interest that accrues. However, if you do choose to pay down principal, you cannot re-borrow the funds to expand the construction project. Draws are limited to the total loan amount established at closing.

## Modification Requirements

When your home is built and you're ready for your house-warming party, we will modify your loan. This means the construction part of the loan is finished and you're moved into the permanent mortgage world. Before the loan can be modified, the following must take place:

- Final inspections must be completed to verify the construction project as complete.
- The local authority will need to issue a Certificate of Occupancy/final inspection.
- A title update will be obtained.
- The builder will need to sign a final lien waiver.
- You will need to obtain a homeowner's insurance policy.
- If your property is located in a flood zone, you will need to obtain a flood insurance policy.
- The final draw will be paid out to your builder.
- You will need to make an escrow deposit.

## Full Monthly Loan Payment

Once the modification is complete and your loan has rolled to the permanent phase, full monthly loan payments will be due each month. The full monthly loan payments will include payment of principal, interest, and escrow (for insurance, property taxes, and MIP). It is important to note that full payments will be significantly higher than the interest only payments due during the construction phase.

You will receive a billing statement each month including payment information and other loan details. Monthly payments are due on the first day of each month, and you will have a 15-day grace period before a late fee is charged.

## Permanent Loan Servicing – Customer Care Department

After the modification has been completed, our Customer Care Department will continue to handle the day to day administration of your loan and be available to assist you with any questions. You can reach the Customer Care Department at 1-844-814-7788, or by email at [customer care@amerifirst.com](mailto:customer care@amerifirst.com). Customer Care is available Monday through Friday from 8:00 a.m. to 7:00 p.m. Eastern Standard Time.



## FAQ

### Q: Can I build on land I already own?

A: Yes. Our construction-to-permanent mortgage is good for a borrower purchasing land at closing or for someone who has owned land for six months or less at date of case number assignment.

### Q: How much can I borrow to build my new home?

A: Your loan originator will work with you to determine how much you might qualify to borrow. Your down payment must be at least 3.5%, so the maximum mortgage amount is 96.5% of the appraised value or acquisition cost of the property (whichever is less). "Acquisition cost" means one of two things:

- If you are purchasing your land at closing, or have owned it for six months or less, the acquisition cost includes the builder's price to build your new home and the cost of the land (if already owned for 6 months or less).
- If you have already owned the land for more than six months, the acquisition cost includes the builder's price to build your new home and the value of the land (from a site value appraisal).

If you already own your own land, any equity you have in the property can be used towards your down payment. However, land equity cannot be used to pay for closing costs or be withdrawn as cash.

### Q: Will my interest rate adjust?

A: The interest rate will only adjust once: when the loan is modified from the construction phase to the permanent phase. The interest rate for the construction period will be set at closing and remain fixed during the construction phase. Then, once your new home has been completed, the interest rate will adjust once to a new fixed rate (based on market at that time) and remain fixed for the life of the loan.

A maximum permanent interest rate will be set and disclosed to you before your loan closes. Even if the market drastically fluctuates while your house is being built, your permanent rate will not be any higher than the maximum permanent rate that was disclosed to you.

### Q: Will the loan have an escrow account to pay insurance and property taxes?

A: An escrow account will be required on the permanent loan; however, during the construction phase, you will be responsible for maintaining your builder liability insurance policy as well as paying your property taxes. You will need to pay any insurance and property tax costs out of pocket during the construction phase.

When construction is complete and the construction loan is modified to a permanent loan, you will need to make an escrow deposit out of pocket to start the escrow account. This will establish your required escrow account for insurance, property taxes, and FHA mortgage insurance (MIP). Because the escrow account is required by FHA, it cannot be waived.

### Q: Do I have to make payments while my new home is being built?

A: During the construction phase, you will need to make interest only payments based on the actual balance that has been withdrawn. As draws are processed and your principal balance increases, your interest only payments will also increase.

When your home is completed and your construction loan is modified to a permanent loan, you will have a new full monthly payment for the permanent phase. The new full payment will include principal, interest, and escrow (for insurance, property taxes, and FHA mortgage insurance), and will be significantly higher than your interest only payments.

### Q: What fees are involved?

A: The fees involved will be disclosed to you on your Loan Estimate when you submit a full application. These fees are paid in advance through your loan closing so that you do not need to budget extra money to pay them during construction. Typical fees include, but are not limited to:

- Fair lending loan fees
- Construction administration fee
- Origination fee
- Project review fee
- Builder validation fee
- Draw fees
- Inspection fees
- Final completion inspection fee
- Foundation survey fee
- Tile update fees
- Modification related fees such as title update, recording fees, modification fee



This list is not all-inclusive and some fee amounts may vary. Refer to your Loan Estimate for the exact fee amounts for your loan.

### Q: Can my builder contribute to my fees?

A: Yes. The builder can contribute up to 6% towards your fees and closing costs, and may be motivated to do this if they don't have the option to carry their own construction financing.

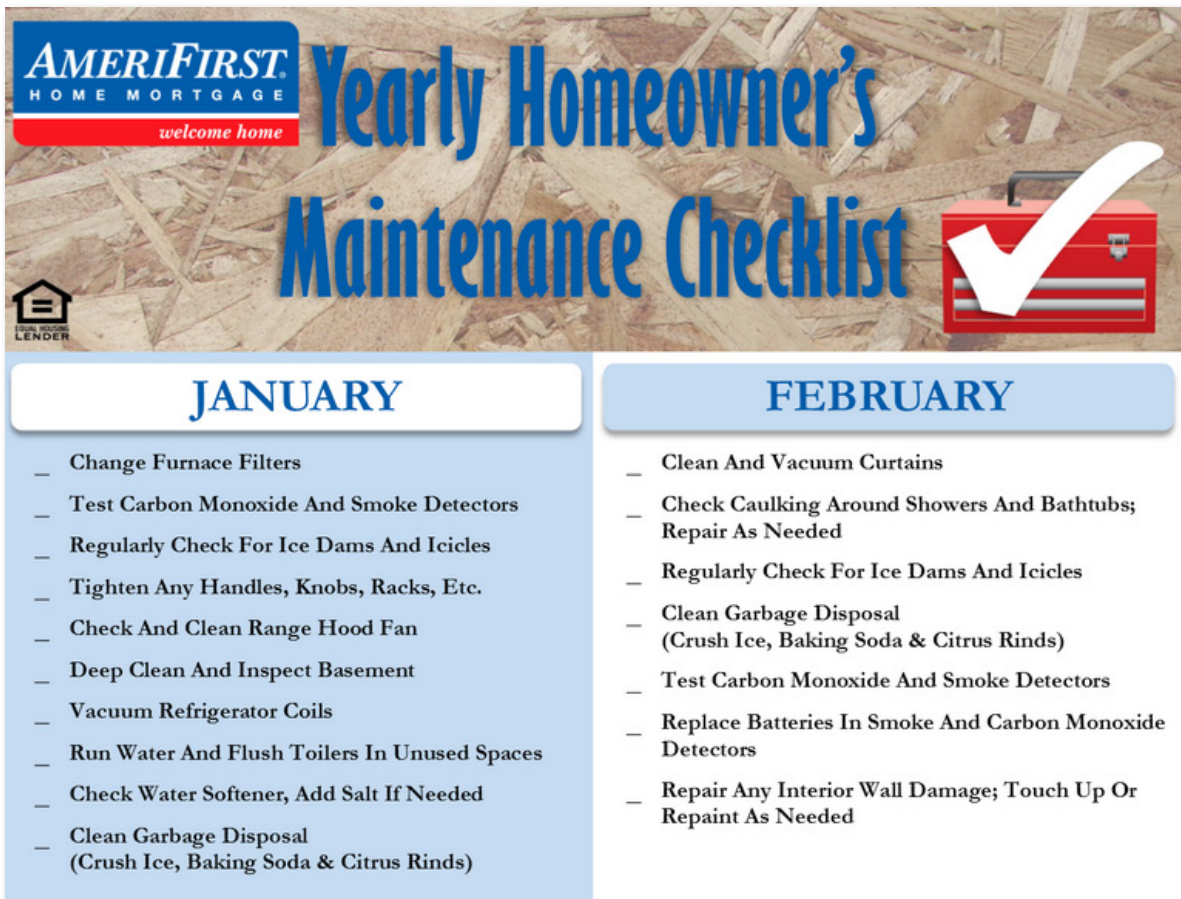


## Section 4:

### Now That You Have a New Home, Plan Out Your Yearly Maintenance!

#### Yearly Homeowner's Maintenance Checklist

Taking care of a home can be tough. There's a lot to do, and sometimes you get behind on your chores. We want to help make sure you have an organized, well-thought-out list to keep you on your maintenance. Download the AmeriFirst Home Mortgage "Yearly Homeowner's Maintenance Checklist" to keep organized!



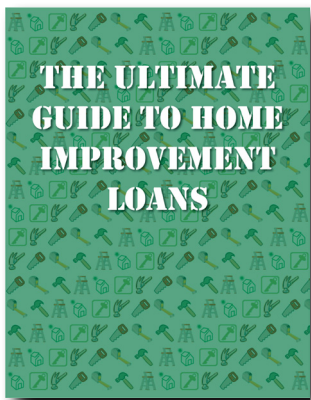
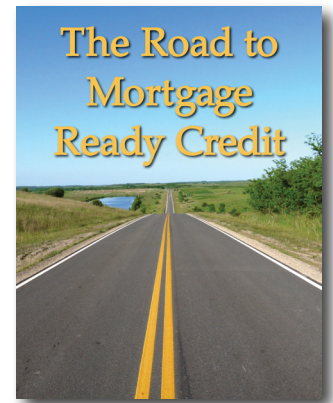
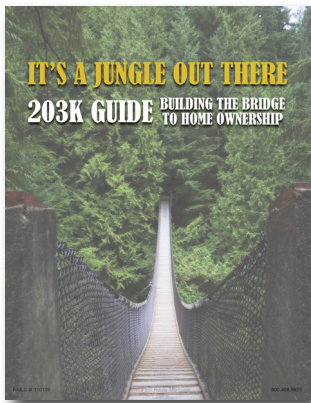
The graphic features the AmeriFirst Home Mortgage logo with the tagline "welcome home" and a "LENDER" icon. The title "Yearly Homeowner's Maintenance Checklist" is prominently displayed in blue text over a background of wood paneling. A red toolbox with a white checkmark is also visible.

JANUARY	FEBRUARY
<ul style="list-style-type: none"> <li>- Change Furnace Filters</li> <li>- Test Carbon Monoxide And Smoke Detectors</li> <li>- Regularly Check For Ice Dams And Icicles</li> <li>- Tighten Any Handles, Knobs, Racks, Etc.</li> <li>- Check And Clean Range Hood Fan</li> <li>- Deep Clean And Inspect Basement</li> <li>- Vacuum Refrigerator Coils</li> <li>- Run Water And Flush Toilers In Unused Spaces</li> <li>- Check Water Softener, Add Salt If Needed</li> <li>- Clean Garbage Disposal (Crush Ice, Baking Soda &amp; Citrus Rinds)</li> </ul>	<ul style="list-style-type: none"> <li>- Clean And Vacuum Curtains</li> <li>- Check Caulking Around Showers And Bathtubs; Repair As Needed</li> <li>- Regularly Check For Ice Dams And Icicles</li> <li>- Clean Garbage Disposal (Crush Ice, Baking Soda &amp; Citrus Rinds)</li> <li>- Test Carbon Monoxide And Smoke Detectors</li> <li>- Replace Batteries In Smoke And Carbon Monoxide Detectors</li> <li>- Repair Any Interior Wall Damage; Touch Up Or Repaint As Needed</li> </ul>

[Download the Home Maintenance Checklist](#)

## More Home Buyer & Home Owner Resources to Download

At AmeriFirst Home Mortgage we believe in [educating home buyers](#) and homeowners. Whether it's home improvement loans like the FHA 203k or a first home buyer's guide, we offer several eBooks. You can click one of the pictures below to find the eBook that's right for you!



## About AmeriFirst Home Mortgage

Since 1983, AmeriFirst Home Mortgage has helped first time home buyers realize the dream of leaving that rental behind, and owning a house. Whether it's conventional lending, an FHA program, VA loan, USDA Rural Development or an FHA 203k renovation loan, the team at AmeriFirst is here to find the right mortgage for you. AmeriFirst is licensed for mortgage lending in several states. There is sure to be an office near you. You can find the [AmeriFirst office locator here](#).

### We're easy to find.

The website: [AmeriFirst.com](http://AmeriFirst.com)

We're on other social media sites as well.



Visit the Learning Center and keep up with the industry so you can be an informed borrower.

### Home Buyer Resource Blog



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