

Construction & Renovation Finance Guide



Building the Way to Your Dream Home



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First Heritage Mortgage, LLC | Company NMLS ID #86548 | (www.nmlsconsumeraccess.org)

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About First Heritage Mortgage



Founded in 1996, First Heritage Mortgage, LLC (FHM) was designed to be the premier source of mortgage financing in the Washington DC metro area for customers of the builder and realtor community. From the outset, FHM's blend of best in class service, combined with competitive rates and products has won the confidence of the company's partners and legions of satisfied borrowers.

FHM is a direct lender, meaning our borrowers' loans are processed, underwritten, and closed locally. This enables a speedy, accurate delivery of services, and removes much of the stress from the financing process.

FHM has a committed staff of experts who are specially trained in construction and renovation financing. We fully understand the renovation loan process and make every effort to ensure a positive, stress-free outcome for your project.



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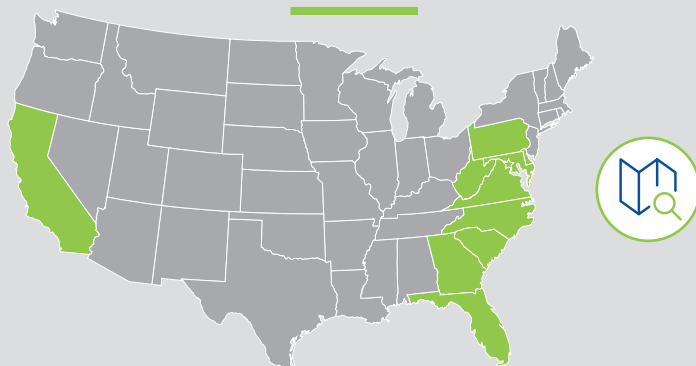
TOP 100

Largest Mortgage Companies

in the United States

According to Mortgage Executive Magazine

Where We Lend



VA | MD | DC | DE | WV | PA | NC | SC | GA | FL | CA

Office Locations

Headquarters

Fairfax, VA

Branches

Blacksburg, VA

Charlottesville, VA

Richmond, VA

Woodbridge, VA

Bethesda, MD

Prince Frederick, MD

Raleigh, NC

Construction & Renovation Financing



If you are purchasing or refinancing a home that needs renovation, it doesn't have to be a complex process. Whether you are building your dream home, second/vacation home, or remodeling your existing home, we are here to guide you through every step along the way.

Benefits of Our Construction & Renovation Loan Programs:

- Eliminate the need to acquire multiple loans to finance your home construction or renovation
- Avoid interest rate risk and fluctuations by closing your loan and locking in your rate before construction starts
- An upfront appraisal process provides peace of mind that your renovation investment will increase the after-improved value of your home
- One loan closing means one set of closing costs
- Choose from a wider selection of properties during your home search, including fixer-uppers and homes listed in "as-is" condition
- Affordable payment options during the Construction & Renovation Phase based on funds drawn
- Work with trained specialists in your local market for assistance in picking the right options for your personal Construction or Renovation Loan

Common Types of Improvements

Renovation financing can be used for many types of projects* ranging from cosmetic updates to major additions. Below are some of the more common types of improvements homeowners and homebuyers choose.

- Remodel the kitchen or bathrooms
- Install new flooring
- Fresh paint
- Finish the basement
- Address health and safety concerns, e.g. mold or pest remediation
- Replace the roof, gutters, or down spouts
- Replace siding and windows
- Create handicap access, including handrails and ramps
- Add a bedroom, bathroom, or family room
- Upgrade electrical, plumbing, or HVAC
- Install new kitchen appliances
- Additions

*Each loan program has certain criteria and limitations for particular improvements. The above list contains common improvements many homeowners will choose but it is not limited to these items. If you have a specific repair or improvement in mind please check with your First Heritage Mortgage Renovation Specialist before proceeding.

Select the Right Loan: Construction & Renovation Loan Options



Whether the home you're looking to buy or currently own needs major repairs like a new roof, additions, fixes to the foundation, or smaller changes like a kitchen update, new floors, or a fresh coat of paint, First Heritage Mortgage can help make the process simple and affordable.

We offer a variety of Construction and Renovation Loan options:

Fannie Mae HomeStyle® Renovation Program

Fannie Mae (FNMA) began to offer the HomeStyle® program in 1992. The HomeStyle® program allows for a wide range of improvements and features. The amount of the total renovation fund is capped at 75%* of the after-improved home value, as determined by an independent appraiser before settlement. This program is available for primary residences, second or vacation homes, and investment properties. It allows you to finance improvements plus the cost of a home purchase or refinance all in one loan with a single closing. This program is often used by home buyers and homeowners wanting to add luxury features like pools or saunas, as well as investors purchasing homes in need of renovation repairs.

Learn more about the Fannie Mae HomeStyle® Renovation Program at https://www.fanniemae.com/content/fact_sheet/homestyle-renovation-product-matrix.pdf

FHA 203(k) Program

The 203(k) program was designed by the Federal Housing Administration (FHA) for the rehabilitation and repair of single family properties and has been available for over 40 years. It is the best-known renovation program within the real estate community and offers several flexible options for qualifying and down payment requirements. It allows for most improvements, whether cosmetic or structural, and is available for primary residences only.

With the 203(k), you can finance improvements plus the cost of a home purchase or refinance all in one loan with a single closing. There are two types of 203(k) programs available:

- **FHA Limited 203(k):** Designed to finance existing homes that can be non-structurally remodeled, repaired, or updated for about \$30,000 or less. There is no minimum renovation cost requirement, so even minor home improvements can be covered.
- **FHA Standard 203(k):** Allows for major work or more complicated renovations to be made on an existing home. The minimum repair amount is \$5,000, and there is no set limit for maximum cost of repairs†. This program requires HUD-approved supervision (HUD Consultant) throughout the project.

Learn more about the 203(k) Rehabilitation Mortgage Insurance Program at https://www.hud.gov/program_offices/housing/sfh/203k/

* Effective 03/17/2018

† Total value of the property must still fall within the FHA mortgage limit for the area. The value of the property is determined by either (1) the value of the property before rehabilitation plus the costs of rehabilitation, or (2) 110 percent of the appraised value of the property after rehabilitation, whichever is less.

Select the Right Loan (CONTINUED)



Construction Loan Program

A Construction loan can be a great option for financing a new or custom home build, and for larger projects on existing homes that involve major remodeling and/or additions. This option allows you to finance a home when FHA or FNMA loan limits are not high enough for a specific geographic area. A Construction loan is generally available for primary residences and second homes, and has higher down payment or equity requirements when compared to a 203(k) or HomeStyle® loan.

First Heritage Mortgage offers two types of Construction loans:



One-Time Close Construction Loan:

An Adjustable Rate Mortgage (ARM) with the borrower making interest-only payments during the construction phase. The construction phase is for 12 months, paid extensions are available if needed up to 18 months. Once construction is complete, the loan automatically converts into a fully amortizing mortgage with periods of a stable interest rate and a variable interest rate. There is only one approval process, one closing, and one set of closing costs.



Two-Time Close Construction Loan:

Consists of two parts: an initial, short-term construction loan, and a long-term mortgage. Once construction is complete, the initial loan is refinanced into a separate, long-term mortgage – also referred to as permanent financing. Because there are two separate loans, there are also two separate approval processes and two closing periods. The borrower will have access to the full selection of loan types available at the time of conversion to permanent financing.

Select the Right Loan (CONTINUED)

Here's a more detailed summary of FHM's Construction & Renovation Financing options:

	FNMA HomeStyle®	FHA Standard 203(k)	FHA Limited 203(k)	Construction
Transaction Types	Purchase, Refinance	Purchase, Refinance	Purchase, Refinance	Purchase, Refinance
MAX Loan Amount	FNMA Local Loan Limits	FHA Local Loan Limits	FHA Local Loan Limits	\$3,000,000
No. of Settlements	1	1	1	2
Occupancy Types	Primary Residence Second Home Investment Property	Primary Residence	Primary Residence	Primary Residence Second Home
MIN Down Payment for Primary Residences	3%*	3.5%	3.5%	20%
Payment Type	Fully Amortized	Fully Amortized	Fully Amortized	Interest Only during construction and then balloon payment
TERMS Available	15, 30 Year Fixed 10-1, 7-1, 5-1 & 3-1 ARM	15, 30 Year Fixed 10-1, 7-1, 5-1 & 3-1 ARM	15, 30 Year Fixed 7-1 & 5-1 ARM	One-Time Close: 10, 7, 5-1 ARM, Two-Time Close: Any FHM program available
Property Types	Single Family Detached, Condo, Townhomes, PUDS	Single Family Detached, Townhomes, 1 to 4 Unit Single Family	Single Family Detached, Townhomes, 1 to 4 Unit Single Family	Single Family Detached, Townhomes, PUDS
MAX Improvement Amt.	75% of the after-improved appraised value*	No max limit†	\$35,000 (includes all fees and contingency)	No max limit
MIN Improvement Amt.	No minimum	\$5,000	No minimum	No minimum
Improvement Allowed§	Any repairs that add value to the home and are permanently attached/affixed to the property (includes built-in kitchen appliances)	Updates, Replacements, Cosmetic Plumbing, Electrical, HVAC, Additions/ Structural repairs	Updates, Replacements, Cosmetic Plumbing, Electrical, HVAC	Any repairs that add value to the home and are attached/affixed to the home
Improvements Not Allowed§	No Clothes Washers or Dryers	No Jacuzzi Tubs, No BBQ Grills, No Decks, Patios unless they add dollar for-dollar value	No Structural Repairs (load bearing walls, joints, etc.), No Repairs Involving Plans/ Drawings, No Jacuzzi Tubs, No BBQ Grills, No New Swimming Pools, No Decks, Patios unless they add dollar-for-dollar-value	None
Time to Complete Improvements	9 months	6 months	6 months	12 months
MAX No. of Draws	5	5	2	7
Contractor Type	1 Licensed General Contractor	1 Licensed General Contractor	1 Licensed General Contractor	1 Licensed General Contractor
Down Payment Protection Coverage**	Qualifying borrowers may opt-in	Included at no additional cost to the borrower	Included at no additional cost to the borrower	Qualifying borrowers may opt-in
Geographic Areas	VA, MD, DC, DE, WV, PA, NC, SC, GA, FL, CA	VA, MD, DC, DE, WV, PA, NC, SC, GA, FL, CA	VA, MD, DC, DE, WV, PA, NC, SC, GA, FL, CA	VA, MD, DC, NC

† Total value of the property must still fall within the FHA mortgage limit for the area. The value of the property is determined by either (1) the value of the property before rehabilitation plus the costs of rehabilitation, or (2) 110 percent of the appraised value of the property after rehabilitation, whichever is less.

§ For complete program details, including a list of allowable and unallowable improvements, please consult with your First Heritage Mortgage loan expert or visit the corresponding website for your selected loan program.

* Effective 03/17/2018

** Coverage restrictions apply. Ask your Loan Officer for details or visit www.fhmtgplus.com to learn more about down payment protection coverage and how it works.

Fannie Mae HomeStyle®: https://www.fanniemae.com/content/fact_sheet/homestyle-renovation-product-matrix.pdf

FHA 203(k): https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/203k--df

The Process



How Do I Get Started?

Get started by making an appointment with a First Heritage Mortgage loan officer to get pre-qualified.

We'll review your credit and financial information to help determine how much you can afford to spend on your new home build or renovation project. With these initial figures in hand, you'll have everything you need to make a confident, well-informed decision about moving forward.

At your initial consultation, our loan experts will help you:

- ✓ Understand the different Construction & Renovation loan programs available
- ✓ Determine the best financing options for your unique situation and goals
- ✓ Complete and submit a loan application
- ✓ Complete and submit a sales contract
- ✓ Obtain names of HUD-approved Consultants, if required by your selected loan program



Get in Touch Today!



Visit Us In-Person

3201 Jermantown Road, Suite 800
Fairfax, VA 22030



Over the Phone

866.833.LOAN
or 703.352.0721



Get Started Online

www.fhmtg.com



Loan Application Process

When you meet with a First Heritage Mortgage loan expert, we will walk you through the process of submitting a loan application in order to get pre-qualified. Once complete, you will know how much you qualify to borrow, and how big the project will be.

Pre-qualification for a Construction or Renovation loan is based on several factors, including:

1. **Your overall financial situation**, based on the initial financial documents you'll share with your loan officer.
2. **A rough estimate of the construction/renovation costs.** This ballpark figure is provided by you, your Realtor, or a contractor.

Initial Financial Documentation

Your loan officer will request standard supporting third party documentation such as tax returns, paystubs, and bank statements.

- You'll need to eventually provide additional information about the project, once details are confirmed with your Builder or Contractor.
- See the Documentation Checklist for Application on page 15, which contains a complete outline of everything you'll typically need to provide during the application process.

Loan Estimate

Once your loan application is submitted, you will receive an initial Loan Estimate, which includes the estimated interest rate, monthly payments, costs of taxes and insurance, and cash required to close. It will also share information on any special loan features and how payments and/or interest rates may change in the future.

- **Thoroughly review your Loan Estimate** and ask your First Heritage Mortgage loan officer to clarify anything you don't understand.
- **Now is also a great time to discuss locking in an interest rate with First Heritage Mortgage.** Locking in a rate can help ensure you take advantage of the lowest interest rates after the project is complete and you transition into permanent financing.

Referral to HUD Consultant

If needed, FHM will refer a HUD Consultant to inspect your home. The fee for this inspection will be paid directly by the borrower. You will set up an appointment with the inspector and your real estate agent.

Did You Know?

Except for a few additional pieces of information, applying for a construction or renovation loan is similar to applying for any other mortgage.

Select a Builder or Contractor

Selecting the right Builder or Contractor is a key factor in the success of your home construction or renovation project. As the customer, you are responsible for exercising due diligence in choosing a Builder or Contractor to complete the work.

Here are a few recommendations to consider when choosing a Builder or Contractor for your project:

- ✓ **Get Recommendations.** Talk to family, friends, and neighbors who may have recommendations.
- ✓ **Talk to Your Realtor or HUD Consultant.** If you are using a 203(k) or HomeStyle® loan, your Consultant or Realtor is allowed to refer you to a contractor.
- ✓ **Check Online Resources.** Research licensed contractors in your area with positive online ratings and reviews. Check the local Home Contractor's Association or Home Builders Association sites, the local Better Business Bureau listings, and www.contractors-license.org.
- ✓ **Request and compare written estimates.** Get at least three estimates from three different contractors. Make sure they're all for the same exact work.
- ✓ **Ask if they are licensed.** This will mean they've passed a test or are certified to perform the work they do.
- ✓ **Use contractors who are insured and bonded:** This protects you if something goes wrong during the project or if they don't complete the work.
- ✓ **Ask to see their work and referrals:** Request to see some of their past or current work, and to interview their customers.
- ✓ **Pay attention to their attitude and professionalism:** Don't hire anyone who refuses to answer any of the above questions or doesn't meet the above conditions. Legitimate, reputable contractors will be happy to provide all this information.

Builder & Contractor Review

Let your First Heritage Mortgage loan officer know once you have selected a Builder or Contractor who is properly licensed and insured.

Your loan officer will provide the Builder or Contractor with the necessary renovation paperwork and a request to provide additional documentation.

All paperwork and additional documentation will be reviewed by First Heritage Mortgage to ensure the Builder or Contractor meets stated lender criteria.

Note: FHM's review of your Builder or Contractor is not an endorsement nor does it in any way guarantee the quality of work performed.

Next Steps:

- The Builder or Contractor will prepare and provide FHM with project specifications, floor plans and elevations, and an itemized estimate of construction and renovation costs.
- For a Standard 203(k) or HomeStyle® loan, the HUD Consultant will provide a Work Write-Up Report, or a written estimate of itemized costs for labor and materials. The work write-up needs to be signed by you and the Contractor before submitting to FHM.
- At this time, the Builder or Contractor will also begin to determine what permits are required by the municipality, as confirmed by the FHM Renovation Lending Specialist.



Builder & Contractor Documentation

- Insurance Forms and Disclosures
- Copy of License
- Copy of Bond
- W-9
- 2 Years Financial Statements/Tax Returns
(for certain construction loans)

The Process (CONTINUED)



Project Review

Construction Loans

Your loan officer will request Project Documentation from the Builder or Contractor.

- Purchase Contract** - Signed copy including all addenda for acquisition of lot
- Building Contract** - Signed copy including all addenda for building project
- Floor Plans and Elevations** (drawings of exterior)
- Specs** - If not included in an allowance section of building contract
- Builders Risk Insurance Provider** - Name and phone number
- Building Permits** - for refinances required before closing for purchase required before the first draw
- Contractor Insurance Forms**
- State and Local Licensure Documentation**
- 2 years financial Statements/Tax Returns** (required for certain construction loans)

203(k) or HomeStyle® Loans

Your loan officer will request Project Documentation from the Builder or Contractor.

- Purchase Contract** - Signed copy including all addenda for acquisition of lot
- Building Contract** - Signed copy including all addenda for building project
- Itemized Estimate/Bid** with labor and materials for each item separated, signed by both you and the Contractor
- HUD Consultant's Work Write-Up Report**
- Drawings or Plans** for additions and/or a change in floor plans
- Builders Risk Insurance Provider** - Name and phone number
- Building Permits** - Required by settlement company
- Contractor Insurance Forms**
- State and Local Licensure Documentation**



Appraisal

Once all necessary builder and project documentation is received, FHM will order an appraisal to get an estimate of what the property value will be with completed construction and/or renovations.

- Appraisals are conducted by highly qualified, licensed appraisers who are familiar with construction financing in your area.
- Using the building contract, plans, and elevations, the appraiser will extrapolate a value based on the house once your construction or renovation project is completed. This is referred to as the “after-improved” value of the home.
- The 203(k) loan program requires an as-is appraisal if your project includes adding or replacing a deck, patio, or landscaping.
- For Construction loans, an appraisal will be required as a condition of approval for both the construction portion and the final permanent loan phases.

Loan Approval & Closing

Your financial documents and the completed appraisal are reviewed by FHM’s in-house underwriting team, and a conditional credit decision is issued. FHM’s loan processors may request additional documents from you, the Builder or Contractor, home inspector, appraiser, and/or the HUD Consultant prior to loan approval.

Once the loan is approved, your closing date is scheduled, and you will receive an initial Closing Disclosure prior to the closing date which highlights important information about your loan, including the final closing costs. FHM will prepare a Closing Package to send to your Title Company and/or Attorney. The Title Company will conduct the closing and transfer ownership.



Construction & Renovation Phase

After the loan closes, you are ready to begin construction and renovation!

As your Builder or Contractor begins work, FHM will help you understand how to request funds to pay for completed and approved renovations, as the process varies depending on the construction or renovation loan program you choose.

Please Note: Funds will not be "advanced" in order to begin work. Funds are only disbursed after work is complete and a draw inspection has taken place.

Understanding Construction Draws

Construction Draws are periodic advances taken against the credit line for the builder to pay for materials and subcontractors as work on the house goes into place. Here's a breakdown of how the process typically works:

- 1. Draw Requests: A Construction Draw Form** is submitted for each disbursement of funds (draw). This form is completed by the Contractor and includes information on project progress. The Draw Form is signed by both the Borrower and the Contractor and submitted to the FHM Lending Specialist.
- 2. Draw Inspection:** Each time FHM receives a Draw Request, FHM orders a site inspection from the Appraiser or HUD Consultant. This inspection confirms that the work reported by the Builder or Contractor has been completed. The title company will also check to make sure no Mechanic's Liens have been filed against the Builder / Contractor.
- 3. Funds Disbursed:** After everything checks out, disbursement funds are made payable to the Customer and/or the Builder or Contractor, based on your disbursement instructions.

For All Construction & Renovation Loans

- ✓ **Properly Licensed Contractors.** See page 10 for recommendations and visit www.contractors-license.org to find contractors who suit your State's requirements.
- ✓ **Required Permits.** Permits are required from the Builder or Contractor prior to closing or prior to the first draw depending on your transaction.
- ✓ **Regular Updates.** Work should begin within 30 days of the loan closing and may not stop for a period greater than 30 consecutive days.
- ✓ **Change Orders.** If the original Scope of Work needs to be changed or updated, a written Change Order Request form must be submitted to FHM for approval prior to the work being performed. Significant changes in the project may impact the appraised value and loan terms.
- ✓ **Holdbacks.** There is a standard 10% holdback on each draw, which is paid once the project and final inspection are complete.

(Applicable for the Full FHA 203(k) Program and HomeStyle programs)



Convert to Permanent Financing

For borrowers with a Construction Loan:

Once your home construction project has been completed and the Certificate of Occupancy is issued, the Construction Phase of your mortgage is now ready to convert to the Permanent Phase.

The procedure for converting your mortgage from the Construction Phase to the Permanent Phase will vary, depending on the specific loan program you've selected. Your FHM Lending Specialist will walk you through the conversion process, ensuring your individual needs are met.

After conversion, you will pay on the loan each month as you would with any other mortgage, and refinance when appropriate.

Note: There is no conversion needed with a 203(k) or HomeStyle® loan or the construction one-time close programs.



Required Conditions

The following conditions must be met in order to convert the loan from Construction & Renovation Phase to Permanent Phase:

- ➔ Project is 100% complete
- ➔ Certificate of Occupancy has been issued
- ➔ Borrower remits payment for:
 - Any accrued unpaid interest from the Construction Phase
 - Prepaid per diem interest for the Permanent Phase
 - Amount needed to establish the escrow account for taxes and insurance
- ➔ In the case of a Construction Loan with a Two-Time Close option, the borrower may need to pay additional appraisal charges at the time of conversion

Documentation Checklist for Application



The items listed below are the standard supporting documents needed for loan approval. However, individual circumstances may dictate that additional information is required.

Income Documentation	Asset Documentation	Project Information
<ul style="list-style-type: none"><input type="checkbox"/> W2s - Copy of 2 most recent years<input type="checkbox"/> IRS 1040s - Copy of 2 most recent years, all schedules<input type="checkbox"/> IRS 1120s & K1s - For self-employed borrowers and consumers<input type="checkbox"/> YTD Profit and Loss Statement if applicable<input type="checkbox"/> Paystubs - Copy of 2 most recent for salaried employees<input type="checkbox"/> Employment Verification - Name and phone number for your employer's point of contact or CPA<input type="checkbox"/> Rental Leases - If owner of investment property	<ul style="list-style-type: none"><input type="checkbox"/> Bank Statements - All pages of 2 most recent months<input type="checkbox"/> Brokerage Statements - All pages of 2 most recent months or current quarter<input type="checkbox"/> Retirement Statements - All pages of 2 most recent months or current quarter	<ul style="list-style-type: none"><input type="checkbox"/> Purchase Contract - Signed copy including all addenda for acquisition of lot<input type="checkbox"/> Building Contract - Signed copy including all addenda for building project<input type="checkbox"/> Floor Plans and Elevations (drawings of exterior)<input type="checkbox"/> Specs - If not included in an allowance section of building contract<input type="checkbox"/> Builders Risk Insurance Provider - Name and phone number<input type="checkbox"/> Building Permits - Required by settlement company



When should I get started with the process?

Once the decision has been made to proceed with a construction project, you should get started. Submitting information helps us to determine the maximum qualifying loan amount, which in turn will help determine the construction budget.

What's the difference between a Renovation Home Loan vs. a Standard Home Loan?

See the chart below for a helpful comparison:

Renovation Home Loan	Standard Home Loan
Financing covers the sales price or refinance plus the costs of renovation	Financing only covers the sales price or refinance
Loan Amount determined by the "After-Improved" value and condition of the home	Loan Amount determined by "As-Is" value and condition of the home
Down payment based on sales price plus renovation costs	Down payment based on the sales price only
Borrower required to engage with a contractor and HUD-approved inspector (if applicable) to have them submit an estimate and paperwork in advance of ordering the appraisal	No additional steps necessary prior to ordering the appraisal

How long does the loan approval process take?

For a Construction Loan, it typically takes three to four weeks for the loan to close after all the supporting documentation (i.e. W2s, paystubs, bank statements, etc.) has been received. 203(k) and HomeStyle® loans generally require 45 to 60 days to close.

What is the role of a HUD-Approved Consultant?

The HUD-approved consultant is an independent contractor authorized to inspect properties. If the financing program you choose requires one, you will need to meet with your HUD-approved consultant at the property site to discuss all repairs and improvements and pay them directly for services at the time of the initial inspection. Your HUD-approved consultant will:

- Help you identify needed repairs/wanted improvements and obtain estimates for the work
- Prepare an itemized work write-up that includes a detailed breakdown of all work to be done and related estimated costs
- Ensure you go ahead with and complete all agreed-to work within the required timeframes

After closing, the HUD consultant will inspect the property periodically as directed by the contractor or homeowner to provide the draw paper work for each draw during the construction phase of a Fannie Mae HomeStyle or Full FHA 203(k) program.



<p>Which type of Construction Loan is better, the One-Time Close or the Two-Time Close?</p>	<p>It is a matter of personal preference. Each loan has benefits and drawbacks, so the trick is to balance each of those factors relative to individual risk tolerance and expectations of how things will play out during the construction period.</p>
<p>Can the One-Time Close Construction to Permanent Loan be refinanced?</p>	<p>Once the construction loan has been converted to the permanent loan financing, it can be refinanced just like any other mortgage. One way to hedge interest rate risk is to go with the One-Time Close to have certainty about the rate and refinance it into longer term financing later.</p>
<p>For Construction Loans: Does the full balance on the construction loan need to be rolled to the permanent loan?</p>	<p>No. In many cases the loan amount is changed at rollover. Sometimes a current residence is sold during construction and the proceeds are used to pay down the balance when it rolls to the permanent loan. Other times, additional costs are incurred during construction and the loan is increased at rollover to cover those costs, which must be documented.</p>
<p>What's the deal with property taxes?</p>	<p>For Construction Loans: During the time the construction line is in place, the borrower will be responsible for making any property tax payments that are due. Once the loan converts to permanent 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. There may be several adjustments as it moves through the first full tax cycle.</p> <p>For Renovation Loans: The escrows for taxes are collected upfront.</p>
<p>How long should I wait to refinance my 203(K) or HomeStyle® Renovation Loan?</p>	<p>The typical recommendation is that you should wait until you have made 6 to 12 payments before refinancing your 203(K) or HomeStyle® Renovation Loan.</p>



Common Construction & Renovating Lending Terms

Settlement/Title Company

You have the option of selecting which title company you want to work with on your project. We may make recommendations based on expertise in working with this loan product. The title company will conduct the closing and transfer ownership, in the case of a purchase, or release the current mortgage if the property is already owned. During the building process, your settlement agent will provide a title bringdown in which the title to the property is checked with each draw request. The title company will serve as the Mechanics Lien Agent during construction and must be listed as such on the building permit.

Title Insurance and Mechanics Lien Coverage

Title insurance for loans issued with Mechanics Lien Coverage is required for all Construction loans. Mechanics liens occur when the builder fails to pay their subcontractors. The construction project must be insured in case this occurs.

Homeowner/Contractor Agreement

Enforceable legal agreement between Homeowner and Contractor that establishes the work to be performed, materials costs, labor costs and time period for project completion. This applies to Renovation Loans only.

Contractor Bids

An offer to perform work described in a contract at a specified cost. Usually a borrower is provided with multiple bids in order to assist in repair cost establishment.

Builder's Risk Insurance

A Builder's Risk Insurance Policy is a type of homeowner's insurance that insures the work on the house as it goes in place (i.e. in case a storm destroys the framing). It is required to be in place at the start of the construction process and can be provided by most companies that write homeowner's insurance. Just like a regular mortgage, the policy needs to be paid one year in advance and First Heritage Mortgage needs to be named as the loss payee. It will generally transition to a standard homeowner's policy when the house is completed.

Tip: Insurance companies will refer to this policy by various names, you should convey the specific construction work being performed and the amount of time the residence will be unoccupied.

Work Write-Up

HUD Consultant provides scope of work to be completed on the project and provides results of 35 areas which require inspection. This applies to Renovation Loans only.

Cost Estimate

Must state the details and nature of each improvement and/or repair, along with the cost for each work item, broken down by labor and materials. FHM can provide Cost Estimate templates for your Contractor or HUD Consultant to use.

Additional Information



Record Keeping

No one wants to pay more tax than necessary. Keep records during the Construction Phase to ensure that if and when you ever sell your home, any capital gain will be calculated on the price paid versus the sales price.

To re-establish the cost basis, the construction costs are added to the purchase price in order to shrink the spread and reduce any tax on the difference. Soft costs such as architecture fees and permits, as well as hard costs like excavation and foundation work in the building contract are all legitimate expenses that contribute towards cost basis. As always, consult a tax expert or CPA in order to get a full understanding of how best to optimize your approach to reducing the capital gain.



Design Tips

Help your builder or contractor visualize the home of your dreams!

Assemble a binder or online gallery with pictures of design elements you wish to incorporate into your home. This will make it easier to explain to your builder/architect exactly what you want.

Set up individual tabs for each room and feature, such as Kitchens and Baths, Lighting and Fixtures, or Landscaping. Websites such as Houzz (www.houzz.com) and Pinterest (www.pinterest.com) are great resources.

The bottom line is that it's much easier to show your builder/architect what you are looking for rather than telling them.



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