



CONSTRUCTION LENDING

Re-qualification

With a C to P Loan, prior to modification, the Bank will re-verify the borrowers credit and income. During the construction phase, it is important to maintain a strong credit profile, and to notify the Bank immediately if there are any changes to employment or income sources.



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First Eastern Mortgage and Randolph Savings Bank are proud of their long history of financing the construction of homes in Massachusetts, Rhode Island, and New Hampshire.

Construction to Permanent Loans

The most popular construction loan is the Construction to Permanent Loan (C to P). C to P Loans are commonly used to finance the acquisition of a lot, as well as the construction of the dwelling. Typically, the buyer(s)/borrower(s) would be required to contribute 20% of the cost of buying the lot and building the home (acquisition cost).

If a borrower already owns the lot, the lot itself can be used as equity and offset the 20% contribution from the borrower.

In some cases, borrowers may make a down payment as low as 10%, however the loan would require Mortgage Insurance (MI), an additional expense.

C to P Loans can be used for just about any type of construction, including traditional "stick built" construction, modular construction, and even log home construction.

C to P Loan Example

If the cost to purchase the lot is \$50,000 and the cost of home construction is \$250,000, the total acquisition cost would be \$300,000. In this example, the borrower's 20% contribution would be \$60,000 and the C to P Loan amount would be \$240,000.

Borrower owns a lot worth \$60,000. The cost to build a home is \$240,000 and the home when complete will be worth \$300,000. In this example, the borrower could finance the \$240,000 construction and the equity in the land would be considered as the down payment.

Rehabilitation / Renovation loans

For borrowers who would like to finance the renovation of a home a C to P Loan could be a great solution. In these cases, if there is sufficient equity in the home, the Bank finances the payoff of an existing loan as well as finances the renovation or construction and uses the "after improved" value of the home to determine the maximum amount financed. This type of loan is available for owner occupied and second homes as well as investment properties.



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Rate Locks

There are a variety of options for locking in an interest rate with a C to P Loan. Loans may be locked at the initial close or prior to modification. Your loan officer will explain the benefits of locking or floating your interest rate.

Please note:

The Bank does not escrow for taxes and insurance during construction. Often times a final tax rate will not be issued until the home is complete. Also, during construction, a construction or builder's risk insurance policy will be required.

The Mortgage Process

Applying and qualifying for a construction loan is very similar to a conventional loan, but there are a few additional steps. Just like with any loan, the Bank will review your credit profile, your qualified income sources and the liquid assets you have available for down payment and post-closing reserves. The Bank will take additional steps to review the plans and specifications for the build, the permitting, the construction contract, the contractor's licensing and credentials, as well as both the current value and "after improved" value of the property. Additionally, a construction and disbursement schedule will be established that outlines when and under what conditions funds will be distributed to you or the contractor. This additional review takes place simultaneously with the traditional underwriting. A typical construction loan approval may take a week or two longer than a standard conventional loan.

Pre-Qualification: We'll begin the process by working together to review your full financial picture to determine the type of financing that best meets your needs. Being pre-qualified ensures that when you begin shopping for a home, you're looking at the right properties.

Shopping for your home: It's time to find the home of your dreams! Your real estate agent will help you through this process – first, showing you homes and later, making an offer, and then negotiating the purchase and sales agreement.

Loan application and estimate: You've signed your purchase and sales agreement. With the property identified, we have an application and we will send you the disclosures and Loan Estimate for your review. It's time to gather and submit any outstanding information and get ready for processing.

Processing and Services: Onward to the processing department! Your processor will order the appraisal and title search while you shop for home owners insurance.

Underwriting and Loan Approval: Your application is being reviewed to ensure it meets the bank's guidelines for the program you've applied for and that all regulatory requirements are met. You're ALMOST THERE.

Pre-Closing: Your loan has been approved and you're cleared to close! It's time to schedule that closing appointment. You will now receive your closing disclosure.



Documentation Required for a Construction Loan:

- Copy of Deed or Purchase & Sale Agreement*
- Plot Plan or Site/Subdivision Plan (Septic Design Acceptable)*
- Approved Septic System Design or Health Permit (If Applicable)
- House Plans & Specifications*
- Construction Contract Between Borrower & Contractor
- Completed Estimated Cost Breakdown
- Copy of Building Permit
- Contractor's License (If Applicable)
- Contractor's Liability Policy
- Builders Risk Insurance in the amount of mortgage or replacement value (Required at close)
- Appraisal Fee (Once Intent to Proceed disclosure is signed)

*To Request Appraisal

The Closing: Your journey to home ownership has brought you here – time to finalize the process and receive the keys to your new home.

Construction Phase: During the construction phase (typically six to 12 months), you will make interest-only payments based on only the amount that has been advanced to you. You and the Bank will work together to ensure that work is progressing on schedule and that the construction work is quality and in accordance with the plans and specifications. As the work is completed, we will perform periodic inspections (according to the schedule) and as you request them. A title run down is performed prior to each inspection and disbursement. Funds can be wired to you or deposited into a Randolph Savings Bank account.

Modification: At the end of the construction period, when it is verified that the work is complete and a certificate of occupancy is issued, the loan will be modified to a permanent amortizing loan. Depending upon the type of loan you chose, the interest rate will be locked at the initial closing or at modification.

Builders / Contractors

While the Bank does not have or use a list of approved builders and contractors, we require that the builders be properly licensed and insured. The Bank will perform some due diligence to ensure builders/contractors have the proper credentials, but it is ultimately the borrower's responsibility to vet their contractors. In some cases, the Bank may insist that builders allow review of financial statements or a credit report. A bond may also be required when appropriate.

