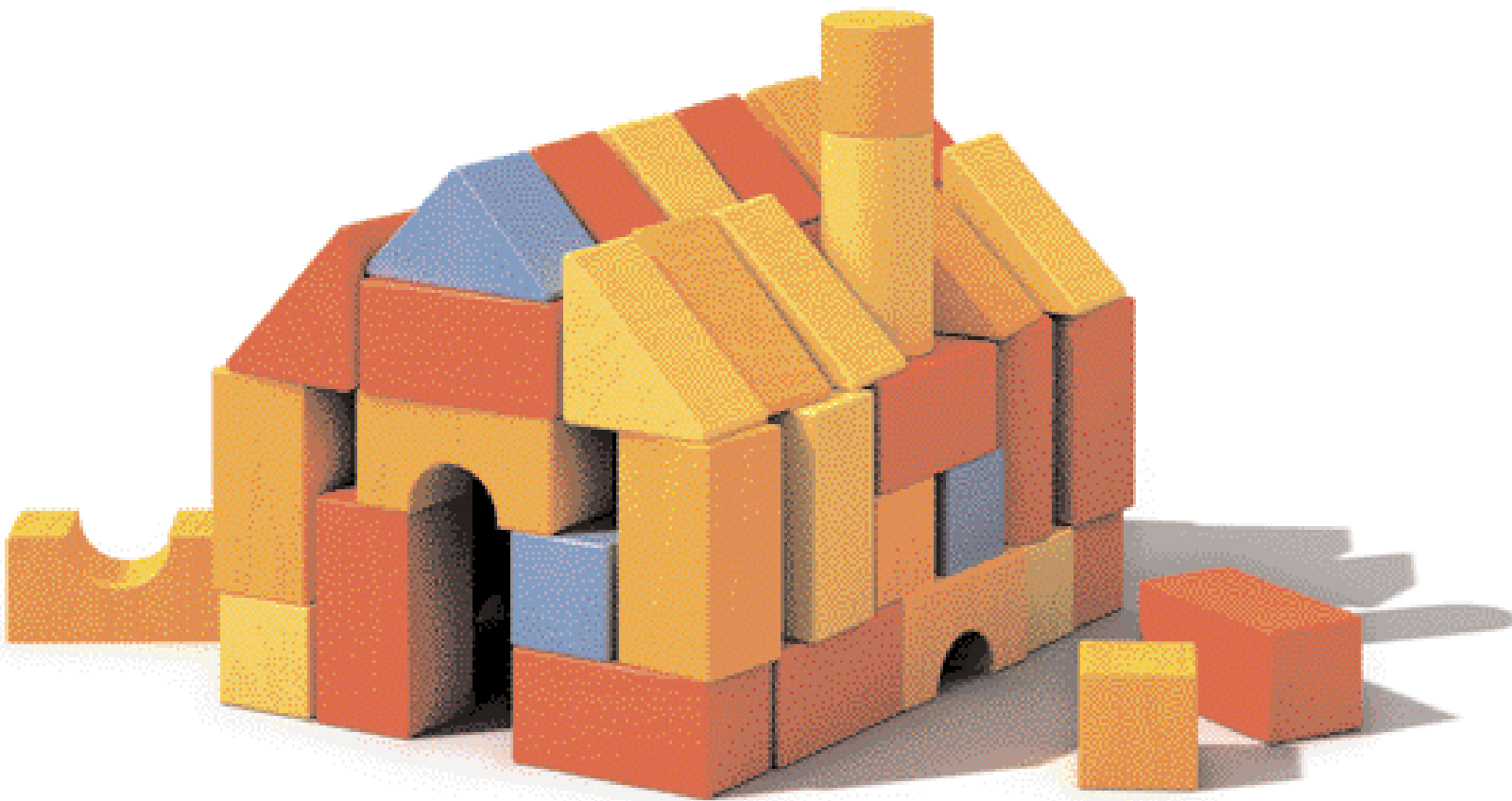




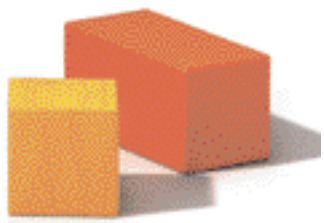
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A CONSUMER'S GUIDE TO CONSTRUCTION FINANCING



# ARE YOU BUILDING A CUSTOM HOME?

This guide is a valuable resource for anyone planning to build a custom home. It provides information on the financing process, a helpful glossary and a timeline to help you plan your project.

How you finance the construction of your new home is one of the most important things to consider. Colonial National Mortgage is a leader in home construction lending, specializing in Single Close Construction Loans. We are known for our exceptional customer service, and we understand the needs of both the home buyer and the builder.

Colonial National Mortgage's Single Close Construction Loan takes you from groundbreaking to move-in, in one easy process. At Colonial National Mortgage, you will be working with construction loan specialists who are able to answer your questions and the questions of your builder/contractor so that your home construction keeps moving smoothly with no surprises along the way.

## A LOAN PROGRAM TO MEET YOUR NEEDS-THE COLONIAL SINGLE CLOSE LOAN

Colonial National Mortgage has a Single Close Loan designed to build or rehabilitate a primary residence or second home. Single Close means one loan - start to finish. You sign one set of loan documents that covers both the interim construction phase and the permanent loan. This eliminates the need for multiple loans to get you into your new home. With this single loan, you can purchase the land for your home and complete the construction. When the construction is complete, the loan automatically converts to a permanent mortgage loan without another application or additional closing fees, saving considerable time and money. You may choose from several loan products, including Fixed and Adjustable Rate Mortgages (ARMs). The construction period is 12 months to allow time to build the new home

and sell the existing home. Construction periods of 18 months are also available.

## LOT/LAND LOANS

This is the perfect loan program to finance the purchase of a residential lot for future construction of your dream home. This loan allows you one year to design your home and choose a builder.

## REFINANCE REHABILITATION AND PURCHASE REHABILITATION LOANS

These loans allow you to make major renovations to your existing home, or purchase a home with plans for improvements and remodeling. Need a new kitchen, bigger bathroom or family room addition? Our unique loan calculates the loan amount by using the future value of the planned improvements. Choose from several flexible loan programs.

### Loan Programs

Choose from several loan programs, many at rates below what is normally charged for interim construction financing.

### Financing

Finance up to 95% of appraised value. Finance closing costs for a zero or minimal down payment.

### Flexible

Pay interest monthly or finance it into the loan balance during the interest-only phase.

### Lot Equity

Lot equity or items paid in advance may be used as a credit toward the down payment.

### Convenient

Twelve months of interest-only payments, with time to build your new home and sell your current one. No need to move twice.

## HOW DOES THE CONSTRUCTION LOAN PROCESS WORK?

The Single Close Loan process is very similar to a standard purchase or refinance transaction. But unlike a purchase transaction for an existing home, the Single Close Loan involves determining the value of a home that is not yet completed. To assist the appraiser and the lender in determining future value, information must be provided on the planned home or improvements, what materials will be used, and the total cost to complete the project.

**Final Plans and Specifications.** These consist of a legible set of architectural drawings (building plans). They must include a floor plan showing all dimensions and outside elevations (drawing of exterior). In addition, the builder should provide a description of the materials used in the construction of the home; for example, wood shingle roofs or lightweight tile; brick or siding. This information will be provided to the appraiser who will give value, subject to completion per plans and specifications.

**Construction Contract.** This is the agreement between you and the builder/contractor that details the planned construction project, the agreed upon cost and the construction term to complete the project. The final plans and specifications should be an attachment to the construction contract.

**Detailed Line Item Cost Breakdown/Draw Schedule.** This schedule should be prepared by the builder/contractor and should include the hard costs (direct costs) and the soft costs (indirect costs). The total should match the Construction Contract total. This Draw Schedule will be used to advance funds to the builder as work is completed.

**Single Close Worksheet.** This form is used to bring all the costs together, along with the items you have pre-paid. By using this form, you are able to determine the maximum loan amount and funds needed for closing, if any. Your Colonial Construction Specialist will prepare the Single Close Worksheet.

**Builder Profile.** This form is completed by the builder for reference checks on the builder by Colonial National Mortgage.

## HOW ARE DRAWS DISBURSED FROM MY CONSTRUCTION LOAN?

Disbursements or draws are made on a work-completed basis. Disbursements will occur over a period of time based upon the percentage of work completed.



Work completed will be determined by a third-party inspection service.

Your builder will designate a construction bank account at a Federal or State chartered financial institution. Your disbursement funds will be wired directly to this account.

The builder will submit draw requests directly to Colonial National Mortgage's Construction Department. As an added convenience, a copy of the disbursement statements may be sent to you via email each time your builder makes a draw.

**Initial Disbursement.** The initial disbursement at closing includes the payoff of the lot or existing mortgage (if applicable) and related closing costs, less your down payment, if any. The initial disbursement will not exceed the amount allocated in the draw schedule for closing costs, lot payoff and the builder's start-up draw.

**Deposits.** The cost for special order items may also be funded up to 50% of the line item on the draw schedule, when accompanied by an invoice.

**Final Draw.** The final draw to the builder will be paid upon completion of construction. Colonial National Mortgage will also receive a final appraisal, a "Final Down Date Endorsement" from the title company, and a final survey if required.

## WHAT MAKES UP THE CONSTRUCTION LOAN COSTS?

There are a number of costs that go into building a new home:

**Land Value.** You may purchase the land you have under contract at closing with proceeds from the Single Close Loan, or you may have purchased the land and have a loan to be paid off with proceeds from the Single Close Loan. Or, you may own the land free and clear.

**Soft Costs.** Permit fees, engineering fees, architectural fees and other costs associated with building the home, but not directly part of the actual construction costs. Many times, you may have already paid some of these costs upfront. If so, these paid items may be considered “equity” if you can document the cost with a bill and a canceled check.

**Hard Costs.** The actual costs associated with the closing of the loan, such as title costs, loan fees, discount fees, inspection fees and appraisals. You may choose to finance the closing costs.

**Contingency Reserve.** A reserve account covers unforeseen cost overruns in the construction of the home. An additional 10% of the hard costs will be established in a Contingency Account for cost-plus contracts. A Contingency Account is recommended on all contracts to cover change orders or upgrades.

**Interest Reserve.** You may establish an interest reserve account to pay the estimated interest cost during the construction of the home so you do not have to make out-of-pocket payments during construction.

**Total Costs.** The total cost consists of all of the above, as shown in the example below.

**Maximum Loan Amount.** You may borrow up to the maximum loan amount as figured from the appraisal.

**Lot Equity.** In all transactions, the land value is taken from the appraisal. The difference between the appraised land value and the loan to be paid off on the land, if any, will be the lot equity. The lot equity will be a credit toward the required down payment, if any. For example:

Land Value	\$50,000
Minus Pay Off	- \$40,000
LOT EQUITY	= \$10,000

Item	Expense \$
Land Value	50,000
Hard & Soft Construction Costs	240,000
Closing Costs Financed	10,009
Contingency Reserve	18,000
Interest Reserve	10,312
<b>TOTAL COST</b>	<b>328,321</b>
Maximum Loan Amount (Appraised value of \$335,000 x 95%)	<b>-318,250</b>
Lot Equity	<b>-10,000</b>
<b>Down Payment Required</b>	<b>\$71</b>

The down payment in the example was figured at the minimum down payment required. The Single Close program allows you to make the minimum down payment at closing and pay additional down at loan modification. Many home buyers are surprised to see how small their down payment will be, if any.



# CONSTRUCTION TIME LINE

**1. Site Selection.** Location is one of the most important factors to consider. There are realtors who specialize in finished lots as well as developers who sell finished lots. Many builders also have lots in inventory. You should have a current survey of the property indicating all easements and rights-of-way. If you find your lot but aren't ready to build, you may obtain a Lot Loan. This is short-term financing for the purchase of a residential lot suitable for future construction.

**2. Planning meeting with Builder and Architect.** Building the custom home begins several months before you break ground. You may start by meeting with a builder or architect. Many builders have architects on staff or certain architects they regularly work with. Keep in mind that each plays an integral role in the process and will work together to help make your vision a reality.

**3. Meet with the Lender.** It's never too early to meet with your construction lender. A construction lending specialist can help in planning for your future investment.

**4. Loan Closing.** You must have an adequate down payment or equity at the time of closing. Equity is defined as cash paid toward the lot or construction improvements, both hard and soft. In many cases, because of equity or equity from future appraised value, you will make little or no down payment. You may pay the loan down at modification to lower payments or to avoid mortgage insurance.

## 5. 12 Month Construction Phase

Enjoy a construction phase of up to 12 full months with interest-only payments while you complete your new home. You will be charged interest only on the funds disbursed. You can pay this interest monthly or set up an interest reserve account.

The construction phase of your financing may continue past your home's completion and your move-in, up to 12 months from loan closing.

### *Take 12 Months to Sell or Lease Your Current Home*

If you currently own a home, you do not have to sell it before you start a new one. Close on the Single Close Loan and have a full 12 months to sell or lease your current home prior to loan modification. No need to move twice!

### *Loan Modification*

The Single Close Loan allows for a modification option, which is available upon completion of construction of your home, or up to 12 months after loan closing.

**6. Move in!** You may move in ANY TIME after construction is complete. In some cases, payments after move-in (but within the 12 month construction phase) are paid from your Interest Reserve account. This gives you the convenience of delaying payments until after loan modification.

# READY TO GET STARTED?

The Single Close Loan from Colonial National Mortgage is a better way to build your home. For detailed information on your home construction or rehabilitation project, contact your Loan Officer or call 1-800-937-8949.



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