

CONSTRUCTION 101



BUILDING YOUR HOME JUST GOT EASIER

About Me



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Clay Robison is a nationally recognized award-winning Mortgage Advisor, with over 30 years of Mortgage Lending experience. With his educational approach in the mortgage process, Clay has helped over 2,400 families obtain financing to secure the home of their dreams.

As a consistent Top 1% Mortgage Loan Originator who has secured more than \$1 Billion Dollars of loan volume for his clients. Clay uses his vast knowledge in the industry to guide his clients through the complexities of the lending process with easy-to-understand concepts to simplify the lending process. With his commitment to providing "World Class Service," Clay has been acknowledged as a Top "5" Star Mortgage Professional.

Clay's thoughts and insights have been featured in numerous publications such as San Diego Magazine and 5 Star Professional. He is a graduate of San Diego State University, a licensed real estate broker, and a register investment advisor. As a mortgage advisor, Clay can simplify the complexities of the mortgage process for anyone who is looking to secure their first, second or investment property.

Why Your Mortgage Sensei?

Many people have asked me what is a Mortgage Sensei? Simply put Sensei is a Japanese word for Teacher.

When you are financing the largest transaction of your life, you want to know that the person you are working with is a professional. That they can guide you through the mortgage process. You want someone who can be your "guide" or "sensei".

Most of my life, I have been involved in Japanese Karate and Martial Arts. I have been blessed and fortunate to have been trained, taught, and guided by some of the most accomplished and amazing Sensei's in the World. They have helped me become an accomplished martial artist.

With over 30 years of Mortgage Lending, Real Estate and Financial Experience, I share my knowledge with my clients to teach and guide them through the sometime complex environment of Mortgage Lending. After you do something repeatedly through repetition you become a Master.

By being a Sensei, I am a guide to assist you in the intricate, complex, and volatile world of Mortgages. I am here to be Your Mortgage Sensei, to guide you through your journey.

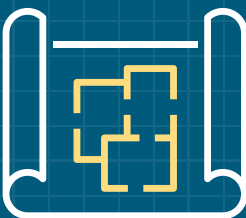
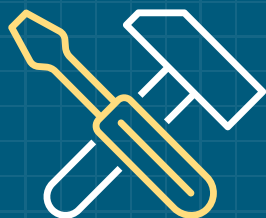


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You're ready to start fresh and new construction comes with lots of decisions but understanding the basics and getting your financing in order shouldn't be a cause for stress. Luckily, we have a dedicated construction team that will make your loan process simple, and this booklet will help you understand the ins and outs of the process.

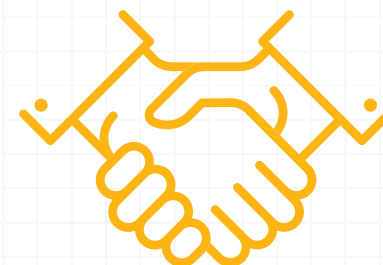
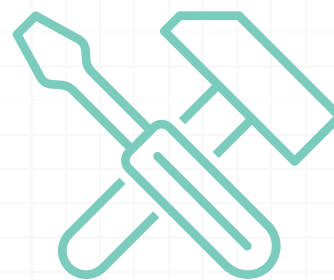
Our core values are **respect,**
transparency, and scrappiness.

All things you need when handling the ins and outs of new construction and our team will make sure financing your new home goes smoothly.



THE CONSTRUCTION LOAN PROCESS:

Here's a general idea of what to expect when buying a new home.



1

APPLY FOR A LOAN (about 20 minutes)

Like with any mortgage, you will need to apply and qualify for a loan with one of our Loan Officers. We will ask you for documents, pull your credit, go over your financial qualifications, and talk about loan options.

2

LOOK & CHOOSE (as much time as you need)

Now it's time to pick a builder/contractor, home design, and lot based on your budget and needs. The process varies based on the type of construction, but generally, you will choose a lot, finalize design choices, get a cost breakdown, set a timeline, and sign a contract with your builder.

3

LOAN APPROVAL (about two weeks)

Once you have your builder and plans confirmed, we will move into the loan approval stage where we collect information from your builder, appraisal is ordered, and everything is carefully reviewed. Once fully approved, you will have a loan closing that will fund the construction project.

4

BUILDING YOUR HOME (about 6–12 months)

Now construction can start! We will monitor progress on your project with regular inspections and pay the builder according to our agreed draw schedule.

5

FINALIZE & MOVE IN (About 45 days)

Once your home is about 45 days from completion, we will prepare your permanent loan. Generally, this involves updating your income and asset documentation and getting a final appraisal on the home. You will go through another loan approval and be given new loan terms. After you close on this loan, you can move in!



TIPS:

EXPECT THE UNEXPECTED

Often builders plan for what they are hoping to achieve. They usually aren't including a buffer for delays like bad weather or large cost hikes on raw materials. Be prepared for the unexpected. Typically, the more custom your home is the more likely it is to go over time or budget.

PLAN FOR THE FUTURE

You likely plan on staying in this home for a while. Think about the next 10 years, do you think you will want kids, or a dog that needs a yard?

MORE STORAGE PLEASE

Storage doesn't seem like the most exciting thing, but many homeowners wish they had added more store space once they moved in.

CLEAR THE AIR

Blow out the HVAC system before you move in. A lot of dust can build up while in construction. Imagine moving everything in then turning on your AC only to have that dust blown all over your new home. Better yet, if you have an air purifier take it to the new house before moving in so it can remove the fumes from construction and painting.





APPLYING FOR YOUR LOAN

HOW DO CONSTRUCTION LOANS WORK?

We offer what is known as a two-time close construction loan. As you can probably guess, that means you will close on two separate loans. Your first loan funds your construction. The second loan comes into play once your home is ready to move in. This loan pays off your construction loan and works like a traditional mortgage refinance.

We will process and underwrite both loans from the beginning so you can get approved for your construction loan and conditional approval for your final loan. In a traditional loan, once you close the funds are released in a lump sum, but funds from the construction loan are used to pay for materials and labor as the home gets built.

In a traditional loan, you make both principal and interest payments each month, but during construction, you only need to pay for interest each month. You can choose to pay it off monthly or upfront in a lump sum.

Your loan officer will go over these requirements for a construction loan:



680 minimum
FICO score



45% max debt-
to-income ratio



3 months loan
payment reserve



Must be a single
family home



GETTING STARTED:

You will start out the same way you would with any other mortgage, by applying with a loan officer. Your Loan Officer will need to learn more about you and what you are looking for in your new home so they can get you qualified and set up a budget for your loan. Here are some questions that might come up:



WHAT IS YOUR BUDGET?

Your loan officer will look at your financials to see about monthly payments, down payments, and cash reserves. We will also give you a list of expected fees and payments for both loans.

WHAT TYPE OF CONSTRUCTION ARE YOU INTERESTED IN?

You can generally choose to create a custom home or use a builder with pre-planned designs. If you already know you want a custom home let the loan officer know.

DO YOU ALREADY HAVE A BUILDER OR LOT PICKED OUT?

If you don't know this yet - don't worry. We will consult on the process and all the things you need to consider. Keep in mind, you must have a licensed general contractor before we'll approve the loan.

HOW QUICKLY WOULD YOU LIKE TO START CONSTRUCTION?

This will let us know if you are ready to start soon or just started looking. The builder/contractor will be able to give us details on construction timelines.

WHAT TYPE OF PERMANENT LOAN ARE YOU INTERESTED IN?

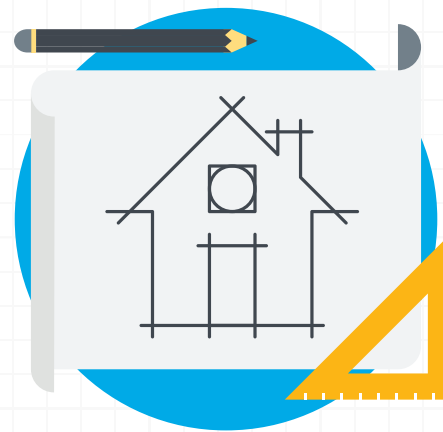
We offer Conventional, FHA, and VA construction loans so we will go over options and make recommendations based on your unique needs.

Feel free to ask lots of questions! We will provide you a pre-approved budget and the options for all your lending needs. We'll be ready to start once you finalize your builder selection.



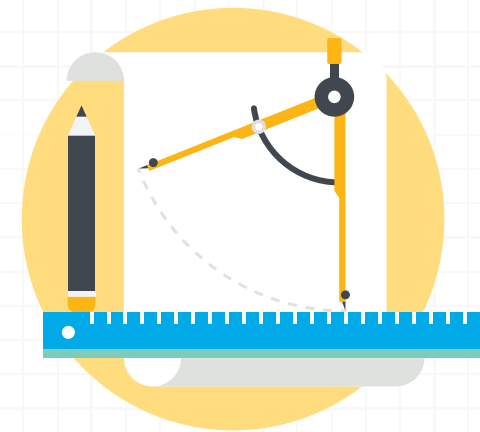
TYPES OF NEW CONSTRUCTION:

You will need an idea of your wants and needs and decide on the type of construction you would like. Think about location, size, design features, style. A Realtor specializing in new construction is not necessary but could help you search, give you contacts, or help you negotiate with builders or contractors.



CUSTOM

If you want to make all the choices and turn your dreams into reality, this may be for you. Custom means just that, it's your choice on lot, builder, architect and all the details. The project can take a lot of time and a larger budget to accomplish your goals but could be worth it in the end.



PRE-PLANNED DESIGN

These homes are by builders with pre-designed layouts and features that you can choose from. They are often less expensive than a custom home and can be a good option for someone wanting some control over the look, but not wanting to design every aspect of the home.

FINDING A BUILDER

Most semi-custom and spec builders often have model homes you can tour. Each builder has their own style, they may not have a model for every home they offer, but tours can give you real-life examples of their work and it is often a good place to get started.

PLAN AHEAD

1. Get pre-approved and know your budget.
2. Schedule an appointment to tour each home, don't just drop-in.
3. Anticipate at least 20 minutes at each location
4. Have a list of questions ready. Such as what upgrades are being shown vs. what is standard. What are the timelines and associated costs. (For additional questions, we have a handy checklist)

WHAT TO BRING

1. Bring a notebook and pen to take notes - after looking at a few homes they will start to blend together.
2. Have a wants vs. needs list started.
3. Bring your phone or camera, you'll want to take some pictures during your tours.
4. Ask someone to join you - often two people see different features and have a different experience. Another perspective may be good for your research.

 **TIP:** SHOP AROUND TO FIND THE HOME, NEIGHBORHOOD AND BUILDER YOU LOVE!

If you go custom, your research and vetting is more important than ever. Remember there are lots of choices to be made and you'll want a builder you can trust.



THE APPROVAL PROCESS

The construction loan approval process includes 3 parts. Here is a breakdown of the process:



BUDGET APPROVAL

Builders want to know you will qualify for a loan before they sign anything with you, so this step comes first. Many of the loan qualifications will be based on the type of permanent financing you plan on getting, so we'll make sure you can get approved for both loans from the beginning.



PROJECT AND LOAN APPROVAL

We will order an appraisal (which calculates the value of the home) and complete a collateral assessment (which makes sure building costs are in line with the market value). Once this is done, we will take everything to our underwriting department for loan approval.



BUILDER APPROVAL

You'll pick your builder/Contractors, but we'll need to make sure they are reliable. You won't need to do anything for this process, but we suggest doing your own research and getting references before choosing a builder. We'll contact them to get the information we need.

DOCUMENTS NEEDED

The below documents if needed from you and/or your builder

- Builder contract
- Cost breakdown
- Architectural plans (blueprints)
- Lot ownership (if applicable)
- Permits, if available
- Builder Registration Package





FINALIZING YOUR LOAN

Once we have everything we need and your loan has been approved by our underwriting team, you will have a closing where you pay any upfront costs and sign all your loan documents so construction can begin. If you have had a mortgage before, this will be a very similar process. We will have documents a few days before closing (these are known as disclosures) so make sure to get those back to us quickly. You will also need a valid license or proof of identity at your closing, but we will let you know everything you will need.



UNDERSTANDING THE PARTS OF YOUR LOAN:



YOUR RATE

It's important to understand you'll have a rate on your construction loan and one on your permanent. They are not the same. The construction will be higher due to the risks involved. You will have the option to lock your permanent rate anytime during the construction process. Our Secure Lock program allows up to 12 months in advance with one float down. This means if rates are lower once construction is done you can grab that new rate.



APPRAISAL

We need to verify that the builder is putting a realistic value on the home so an Appraiser (an unbiased third party) will calculate the value of the future home and lot based on similar homes in the area and/or expected construction costs and plans. The loan amount cannot exceed 90% of this value.



DRAW SCHEDULE

This determines when the builder gets paid based on work they have completed. Your builder will submit a draw request during the process and we'll approve and disburse accordingly.



UNDERSTANDING THE PARTS OF YOUR LOAN CONT:



INTEREST RESERVE

All construction loans require interest payments during the course of construction. You can choose to pay all interest upfront in what is called an Interest Reserve or pay it monthly as you go. Your choice.



CONTINGENCY FUND

We require up to a 10% contingency fund and it is financed into the loan and exists to pay for any increased or unexpected expenses that may happen while building. Any amount that is not used during construction will be subtracted from the construction loan payoff.



INSURANCE

There are various types of insurance to help if something unexpected happens while the home is being built. Your builder is required to get Builder's Risk Insurance which protects construction companies, contractors, and subcontractors from losses caused while building. (ie: fire, theft, or weather). Also, talk to your current homeowner's insurance company about covering your new home while it is under construction, it would be money that could go to you if something happens. If the area is in a flood zone you will also be required to pay for flood insurance at the closing.



CONSTRUCTION STARTS

We will have a meeting with your builder, Loan Officer and our Construction Department to go over instructions on how to request funds for completed work (aka draws) and answer any questions that might come up.

DRAWS

Draws are requested by builders and are submitted based on completed work. Draw requests might include verification documents like invoices or receipts for building materials and subcontractor agreements. You will just need to sign off, but we do suggest keeping track of what is going into each draw.

We will send out an inspector within 3 business days and if everything is done as requested, we will send the requested money. If only parts are completed, then we will let you and the builder know, but we can only send part of the draw, based on items that were completed correctly.

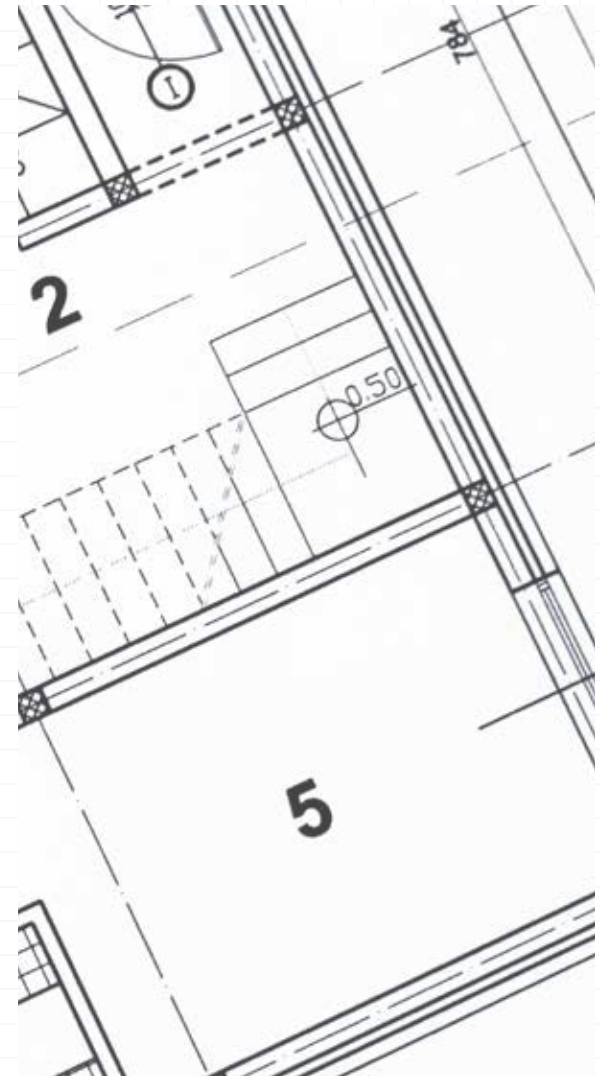
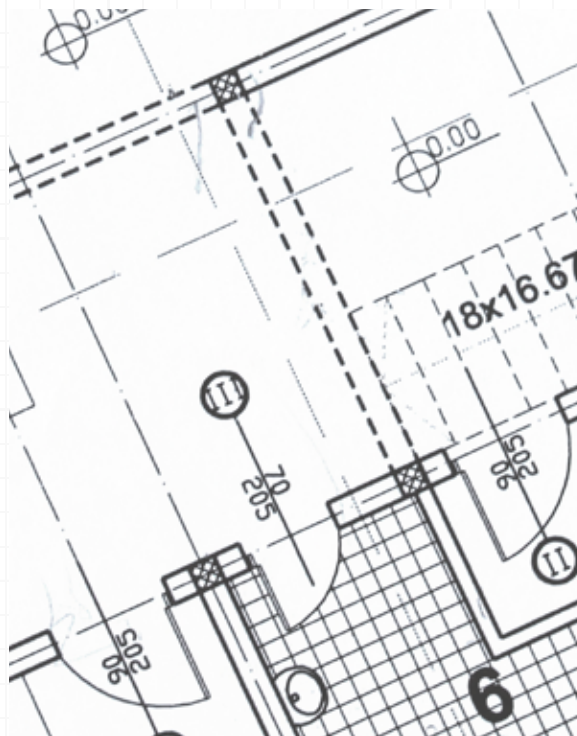
The average number of inspections on a project is eight, and they happen every one to two months.

You can also have a draw at your construction loan closing. It can also reimburse you for any prepaid expenses like permits or architect fees.



LIEN WAIVER

With the draw request, we will also need a Lien Waiver from the contractor/service provider. This is a guarantee that they won't put a Mechanic Lien on the home. Mechanic Liens are legal claims put against the property if construction service providers are not paid for completed work. Any disagreements will need to be resolved between the borrower and builder and could halt or reduce the draw amount.



DOS



DON'TS



Pay attention to the draw process



Keep detailed records of each invoice and payment made out-of-pocket



Keep your loan qualification documents handy



Pay your bills (late payments affect your credit)



Use your Credit Cards as normal, keep balances low



Let us know if there are any unexpected/increased costs, issues, or delays



Make any changes to construction plans



Do not take out any other loans or open new credit cards



Consolidate your debt or close existing account



Make unverified deposits into your bank



Make major purchases



Do not change jobs (promotions are ok)



LOAN OPTIONS

When the home is about 45-60 days from completion, we will begin updating your permanent loan file for approval. We will pull credit again and you will need to give us some updated documents, like bank statements and pay stubs. Your loan officer will also go over the final terms of loan your permanent loan.

THE FINAL PROCESS



APPRAISAL

The home will need to be 100% complete before we have the final closing. Once we get close, we will send out an Appraiser to conduct the final review and report. A final valuation will be determined which may improve the loan-to-value for your loan.



CERTIFICATE OF OCCUPANCY

This is the last piece that comes into place, a certificate is provided by the local governing agency that states your home is approved for occupancy and follows all the required building codes. We will need a copy of this before we can fund on your loan.



YOUR CLOSING

Our goal is to have your final closing right after your final inspection, but the process can vary based on the builder and local requirements. You will need to have your closing costs ready, and you will sign the final paperwork. This will likely happen at a title company, and you want to be sure you have some up-to-date proof of identity with you like your driver's license. Your loan usually funds the next day, and the waiting game is finally over, you can move in!



ABOUT APM

APM is a top 10 Independent Mortgage Banker with more than 1,700 licensed loan advisors and over 200 branches, serving home buyers across the United States. We're known for Creating Experiences That Matter™, and serve our communities, referral partners, and borrowers through our local retail branches with a personal touch and attention to detail.

As a company, we embrace the concept of homeownership with enthusiasm and optimism for America. Every employee at APM knows that every transaction represents a family, a home, and a life decision, and we understand that our participation is a privilege and that our job in the end is to delight everyone involved in the loan process... because, after all, there's not much more that matters than the human connection and home.

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Let us finance your home!

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