Construction Loan Information Packet

At Keesler Federal Credit Union, we are committed to providing you with all the information you need about your construction loan. This guide will walk you through the process from beginning to end, so you fully understand your loan and the different phases of the construction process.

Keesler Federal
CREDIT UNION

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Types of Construction Loans

One-Time Close Loans

Allows 12 months to build and automatically converts to a permanent mortgage once your new home is complete. This loan product secures your locked interest rate, construction financing and permanent financing. Keesler Federal offers conventional loan products only for construction, no government loans or military benefits allowed for a One-Time Close.

We lend up to 70% of the Appraised Value
30% Down Payment + Closing Costs

We require an additional 5% down to fund your Contingency Account
Total Down Payment = 35% + Closing Costs

Two-Time Close & Renovation Loans

Allows 12 months to build or renovate, but provides construction financing only. As you are nearing completion of your new home or planned renovations, you must begin the process of refinancing the construction loan to a permanent mortgage. When selecting this option, you can elect to use government products and/or military benefits during the second closing.

We lend up to 95% of the Appraised Value
5% Down Payment + Closing Costs

We require an additional 5% down to fund your Contingency Account
Total Down Payment = 10% + Closing Costs

Additional information may be required by Underwriting. Rate based on credit.

Frequently Asked Questions

What is a one-time close construction loan?

Keesler Federal's One-Time Close Construction Loan is a 30-year or 15-year conventional fixed rate construction-to-permanent mortgage for your primary residence (single family only) or a second/vacation home. A construction-to-permanent loan combines the features of a construction loan (a short-term interim loan for financing the cost of construction) and a traditional long-term permanent mortgage. This is achieved with a single loan closing before construction begins. Some benefits of Keesler Federal's One-Time Close Construction Loan are:

- 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.
- Because this loan is a construction-to-permanent loan, there is only one application, one closing and one loan. This means there is no need to refinance to a permanent loan after the project is complete. It also eliminates worries of another loan qualification, concern about a new appraisal, and dual fees associated with a second loan (saving you time and effort).
- The construction period can last up to 12 months.

What is a two-time close construction loan?

Keesler Federal's Two-Time Close Construction Loan is a 12-month conventional fixed rate construction loan for your primary residence (single family only) or a second/vacation home. It features a short-term interim loan for financing your construction project only. This is achieved with a single loan closing before construction begins. Some benefits of Keesler Federal's Two-Time Close Construction Loan are:

- Because this loan provides funding for the construction phase only, you will be required to refinance to a permanent loan after the project is complete. This scenario works great in the event you want to use any government entitlement, or have interest in FHA/USDA programs.
- 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.
- The construction period can last up to 12 months.

What fees are involved?

The fees involved will be disclosed 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:

- Origination fee
- Processing fee
- Inspection fees
- Survey fees
- Title update fees
- Appraisal fee

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

How much can I borrow to build my new home?

Your Construction Loan Specialist will work with you to determine how much you might qualify to borrow. The maximum mortgage amount depends on your down payment and 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. or
- 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 get cash out.

Will my interest rate adjust?

The interest rate is a fixed rate while you are in the construction phase. If you secured a One-TIme close construction loan, the interest rate will remain the same fixed rate for your permanent mortgage. The Two-Time close requires refinancing your construction loan to obtain your permanent mortgage; therefore, your interest rate will change.

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

An escrow account will be required on the permanent loan based on the loan to value; however, *during the construction phase you will be responsible for maintaining your builder risk 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. Builder's risk insurance is required on the property during the construction phase.

When construction is complete and the construction loan is converted 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 private mortgage insurance (PMI).

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

During the construction phase, you will need to make monthly interest-only payments based on the actual balance that has been drawn. As draws are processed and your principal balance increases, your interest-only payments will also increase. You will receive a monthly statement with a payment amount due each month.

When your home is completed and your construction loan is converted to a permanent loan, your new mortgage payment will include principal, interest, escrow for insurance, property taxes, and private mortgage insurance (if applicable), *and will be significantly higher than your interest only payments.*

Construction Contingency

This is the amount of money set aside to cover any cost overruns that can arise throughout a construction project. This money is on reserve and is not allocated to any specific area of work. The current amount is 5% of the contract cost and not to be used for any additions to contract.

Getting Started

To get started, talk to your Construction Loan Specialist who will explain how to begin and assist you throughout the loan origination process described below.

Qualification, Application and Processing

Qualification is the first step in the loan origination process. During this stage, the construction loan specialist will obtain an approval based on the information you provided in your application. A qualification will be issued with the maximum loan amount and we will provide you with a qualification letter you can provide to your builder.

Once you have signed a contract with a builder, you will need to provide certain documentation so the loan can be processed. General construction documentation would include the following (additional information may be required):

- Executed building contract and land contract if purchasing
- Full description of materials, if not listed on plans (interior must be included)
- Draw schedule from builder or signed copy of Keesler Federal's version
- PDF version of plans or 2 hard copies
- Recent land survey (within the last year)
- Septic/well approval from the health department
- Quote for 12-month Builder's Risk Policy
- Completed builder approval application
- Perc test

Ensure your Building Contract includes the following:

- Well/septic tank including installation, if applicable
- Appliances
- All-weather surface driveway
- Landscaping (seeding/sodding only)
- Termite soil treatment

Note: If not included in your building contract, you must obtain an outside quote for each item. It will be added to the total cost of construction.

Processing

Your loan will be submitted to the Construction Loan Processor to order the appraisal, title work and any other documentation needed at this time. Estimated time to process the file is 30-45 business days.

Underwriting

Your loan will be submitted to underwriting for a final review before closing.

Closing

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

Construction Phase

After your loan closes, an assigned construction processor will be your point of contact during the construction phase.

If you have questions about your loan that are not related to the construction process, such as questions about your bill or monthly interest payments, contact the Mortgage Servicing Department at 228-385-5500 Ext. 8600 or 1-833-385-5328, available Monday through Friday from 8:30 a.m. to 5:00 p.m. CST.

Construction Timeline

Construction must begin within 30 days of the loan closing. The expected length of the construction period varies and will be determined before closing; however, most projects will be scheduled for completion within a maximum of 12 months. It is important for the project to stay on time.

Once the building plans have been finalized and the loan is closed, changes cannot be made. Because loan terms are based on the completed home as collateral for the loan, changes to the building plans would affect the valuation of the property.

Draw Overview

For work that has been completed, disbursements are made from your loan funds to pay your builder. These disbursements are referred to as "draws." The principal balance of your loan will not start as the full loan amount for which you were approved. Instead, 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. Each draw 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 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 created to outline when each segment of work are expected to be complete and when another draw will be needed. When a specified segment of work is complete and verified, the next draw will be issued.

The draws take place as follows:

- Interim draws: Most construction projects will have up to six draws, depending on the schedule set at closing. Inspections will be completed to verify the required percentage of work is completed before draws will be issued. The draws are based on the percentage of the project completed.
- Final draw: Once the construction is 100% complete, the final draw will pay your builder's final invoice.

Note: A foundation/slab survey must take place, before the first draw can be issued after closing.

How to Request a Draw

To keep the project on track, we recommend you and/or your builder contact your construction processor at least 10 business days before the draw will be needed.

We will send you a Construction Loan Draw Disbursement request form to sign to authorize us to issue the next draw from your construction funds.

Your construction processor will order an inspection to verify the percentage of completed work. Once we have received and reviewed the completed paperwork, including an inspection report, a wire will be sent to your closing attorney to disburse.

Homeowner-Paid Property Taxes and Insurance

It is important to note there is *no escrow account* during the construction phase. This means *you will be responsible for paying taxes and builder's risk insurance out-of-pocket.*

Completing the Construction

Once construction is complete, we recommend you meet with your contractor to do a thorough walk-through of the finished home before proceeding to the last draw. It is important to make sure all work was completed as agreed. Once you have verified everything has been completed correctly, contact your construction processor to discuss any needs to begin the modification process.

Once construction is complete, a final bill for the construction period will be generated. This will cover the interest from the end of the last billing cycle through the end of the construction period. Depending on the timing of the modification and final bill, you may have a final interest-only payment due that extends beyond the modification date.

Note: Before you can move into your new home, a certificate of occupancy, or equivalent, is needed from your local authority to ensure the home is safe and habitable.

Note: Keesler Federal Credit Union is authorized to withhold future draws if the interest-only payments are not made as required, or if any other breach or default occurs per your loan documents. If you experience difficulty making your payments, please contact our Mortgage Servicing Department.

Extensions

Weather, contractor delays, materials shortages and any number of occurrences can put a home construction project behind schedule. We require a written request for an extension to be approved by management along with a fee of $1500 payable at the time of request. If you have locked in a low mortgage rate for the loan after the construction period expires, an extension may put that rate at risk. Ask your lender how an extension could affect your rate.

Conversion to Permanent Loan

Once your new home has been completely built, the construction loan will be modified to a permanent, standard Conventional Mortgage Loan with a 30 or 15-year term, fixed interest rate and private mortgage insurance (PMI) if applicable.

Conversion Requirements

Before the loan can be converted, your construction processor will contact you to request final draw documents or information, which may include:

- Final inspections to verify the construction project is complete
- A final survey to verify all buildings and other improvements lie wholly within the boundary of the property
- A Certificate of Occupancy/final inspection issued by the local authority
- An updated title
- A signed and notarized lien waiver from the builder
- Insurance

The final draw will be wired to your closing attorney to disburse.

There are also several items you may need to pay out-of-pocket:

- An escrow deposit calculated from the analysis we provide prior to conversion
- A 12-month homeowner's insurance policy with Keesler Federal as lien holder
- If your property is located in a flood zone, a 12-month flood insurance policy with Keesler Federal as a lien holder
- Any late fees, returned payment fees or other fees incurred during the construction phase
- Any outstanding taxes, liens or title defects since the loan closed

Note: This list is not all-inclusive; your construction processor will let you know the exact documents and information required for your specific construction project.

Private Mortgage Insurance (PMI)

The PMI will be included in the escrow portion of your monthly mortgage payment if the home value ratio (LTV) is over 80%.

Conversion Process

Once everything is verified as complete and all of the documentation has been received, you will sign your Conversion Agreement and make the escrow deposit. The total amount you borrowed will be reduced by any unused funds remaining in the construction draw account. We will then process the conversion to convert the construction loan into a permanent loan.
Note: Two time construction loans will have a 2nd application processing phase to get to your permanent mortgage.

Permanent Loan Servicing – Mortgage Servicing Department

After the modification has been completed, the Mortgage Servicing Department will continue to handle the day-to-day administration of your loan and will be available to assist you with any questions. The Mortgage Servicing Department can be reached at 228-385-5500 Ext. 8600 or 1-833-385-5328, available Monday through Friday from 8:30 a.m. to 5:00 p.m. CST.

Full Monthly Loan Payment

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 with a 15-day grace period before a late fee is charged.

Annual Escrow Analysis

Every year, your escrow account will be analyzed for any changes. For example, if your property taxes were to increase, your escrow payment may need to increase to cover the difference. Likewise, if you switched to a less expensive insurance policy, your escrow payment may decrease. You will receive an annual Escrow Analysis Statement informing you of any changes.

EQUAL HOUSING LENDER

Keesler Federal Credit Union
2602 Pass Road, Biloxi, MS 39531
NMLS: 408911 - Phone: (228)385-5580 or 888-533-7537 Ext. 6704, www.kfcu.org
Down payment and terms shown are for informational purposes only and are not intended as an advertisement or commitment to lend. Please contact us for an exact quote and for more information on fees and terms. Not all borrowers will qualify.

NOTICE REQUIRED UNDER EQUAL CREDIT OPPORTUNITY ACT:
The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (with certain limited exceptions); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning Keesler Federal is: National Credit Union Administration (NCUA) Office of Examination and Insurance Alexandria, VA 22314-3428.

FAIR LENDING NOTICE:
It is illegal to discriminate in the provision of or in the availability of financial assistance because of the consideration of: (1) Trends, characteristics of conditions in the neighborhood or geographical area surrounding a housing accommodation, unless the financial institution can demonstrate In the particular case that such a consideration is required to avoid an unsafe and unsound business practice; or (2) Race, color, religion, sex, marital status, national origin or ancestry. It is illegal to consider the racial, ethnic, religions or national origin composition of a neighborhood or geographical area surrounding a housing accommodation or whether or not under what terms and conditions to provide financial assistance. These provisions govern financial assistance for the purpose of the purchase, construction ,rehabilitation or refinancing of one to four unit family residences occupied by the owner/borrower. If you have any questions about your rights or wish to file a complaint, contact Keesler Federal or: National Credit Union Administration (NCUA) Office of Examination and Insurance Alexandria, VA 22314-3428

NOTICE REGARDING THE FAIR AND ACCURATE CREDIT TRANSACTION ACT OF 2003 (FACT ACT)
In accordance with the Fair and Accurate Credit Transaction Act of 2003 (FACT ACT) we are advising you that we may report information about your loan account to consumer reporting agencies or credit bureaus. Late payments, missed payments, or other defaults on your account may be reflected in your credit report.