



# CONSTRUCTION LOAN

# PROCESS

We appreciate you considering Village Bank for your lending needs. The illustration below outlines the phases of the construction loan process. Providing this information to you upfront ensures that we are communicating appropriately - so we can close on your loan faster!

**Phase 1 is the most important factor** in determining your closing date. Our expectation is to close within 30-45 days and this should be accomplished if we receive all of the requested documents at the time of application. A delay in gathering these documents will likely extend the timeline beyond the 45 days.

## 1

### PHASE 1 | BORROWER GATHERS DOCUMENTS / LENDER REVIEWS DOCUMENTS

- Return all documents to the loan officer. (See last page for the full list of required documents.)
- Lender reviews documents.
- Initial disclosures to be sent via Docu-Sign within 3 days of completed application.
- Loan is prepared for underwriting.
- Gather missing or additional documents.
- Obtain borrower(s) intent to proceed and collect \$500 for appraisal payment.
- Determine if closing costs will come out of the construction loan or will be out of pocket.

## 2

### PHASE 2 | FINAL APPROVAL PROCESS

- Inspections, title work, surveys, and appraisals ordered and reviewed.  
(Appraisal based on "future value" from your contract, sworn construction statement and plans & specs.)
- Lender/customer & contractor meeting to go over construction loan process.
- If applicable, Mortgage Insurance quotes gathered if LTV exceeds 80%.  
(Stays on loan until LTV falls below 75%.)
- Gather missing or additional documents requested from the underwriter.

## 3

### PHASE 3 | PREPARE FOR CONSTRUCTION LOAN CLOSING (1X CLOSE)

- When investor provides final loan approval the Lender or Title Company schedules a closing.
- Mortgage department prepares loan documents.
- Closing costs for the construction loan and loan modification are collected at this closing.
- Loan documents are signed, construction can begin after the title company takes priority.  
pictures and files the mortgage. (No work can be performed prior to Lender taking priority lien position.)

# 4

## PHASE 4 | CONSTRUCTION PROCESS BEGINS

- Construction phase is up to 12 months at a fixed “interim rate” and monthly interest only payments are required during this phase based on total funds advanced.
- Builder and borrower(s) request draw requests periodically. (Must be signed by all parties & approved.)
- Draw requests are submitted to the title company and bank for approval.  
(Monthly basis preferred) (Title company runs a tract check & the bank or appraiser does periodic site inspections.)
- Bank wires funds to title company once the tract check comes back all clear & lien waivers from the previous draw request have been collected.
- **Change Orders impact the cost of your construction loan.** The bank requires copies of all change orders completed with the contractor immediately. All change orders must be paid in cash unless otherwise approved by the bank. No subordinate financing allowed and you cannot change the plans and specs once the loan is submitted for approval.

# 5

## PHASE 5 | LOAN MODIFICATION PROCESS

(REQUIRED WITHIN 12 MONTHS OF CONSTRUCTION LOAN CLOSING DATE)

- Construction phase is complete and you are ready to modify your loan into your permanent financing and lock in your rate.
- Must obtain a certificate of occupancy from the county/city.
- Final appraisal inspection must be completed to certify all work is complete.
- If work is not complete due to weather you must complete an escrow agreement. An escrow agreement requires an “all in bid” from a disinterested third party. Total bid for all services is multiplied by 1.5x the total amount and the money is held in escrow until the work is completed. Additional fees for this service applies. (Escrow & another final inspection.)
- Must pay a full year of homeowners insurance and provide the bank a copy of your paid receipt & policy.
- The Investor may require that you escrow for real estate taxes and insurance at the completed tax value. If escrows are waived it may affect your final interest rate and fees may apply.
- All closing costs are paid upfront at the Construction Loan closing however at Loan Modification we must collect for:
  - Real estate taxes and home owners insurance. (Escrowed based on completed home value.)
  - Prepaid interest on the loan for the remainder of the month.
  - Any cost overage on the Construction Loan.
  - Any delinquent taxes or taxes that are due within 60 days of the modification date.

### **See Loan Modification Example for Further Details.**

- Once all outstanding underwriting conditions by the investor are approved, the loan modification closing can be scheduled. The closing can take place a minimum of 1 week after the final loan approval at the location of your choice.

# HERE'S WHAT WE NEED

## FINANCIAL DOCUMENTS

- Previous 2 years' W-2's, 1099's
- Previous 2 years' tax returns (Personal & business, include all schedules.)
- K-1's for any corporate ownership  
(If you own 25% or more of the business, please provide business taxes for the past 2 years with all schedules.)
- 30 days most recent paystubs for each borrower (Please include job title and length of employment.)
- Additional income verification (Previous 12 months of child support payments, SSN award letters, alimony.)
- Previous 2 months checking and savings account statements  
(All pages are required, large deposits will need to be documented with a copy of the deposit and a letter of explanation.)
- Most recent retirement statement(s)
- Most recent mortgage statement for all properties owned
- \$500 payable to Village Bank for appraisal fee collected after expressing intent to proceed with application

## GENERAL DOCUMENTS

- Copy of a driver's license for each borrower
- Current phone number and email address
- A complete address of the previous 2 years and length of time at each residence  
(If not included with application.)

## SPECIAL DOCUMENTS

### PURCHASE

- Purchase agreement
- Copy of Earnest Money Check and proof it cleared the bank account

### REFINANCING

- Signed and dated letter of explanation noting reason for cash out and use of funds, if applicable
- Current insurance declaration page for the home to be refinanced and any additional property you own

### CONSTRUCTION

- Sworn Construction Statement and Plans, if building

### OTHER

- Divorce decree
- Most recent child support order/payment agreement, along with proof of 12 months payments made or received

# SUGGESTIONS

## DO'S

- Get fully pre-approved, including credit and income.
- Avoid credit inquiries – check with lender before applying for, or opening, any new debts.
- Pay all bills on time – credit update will be pulled, prior to modification.
- Get proper homeowners insurance lined up – Builders Risk Policy will cover during construction period, however, you will want your own policy ready and waiting for project completion.
- Budget a contingency fund – either personal savings, 401k loan options, or added loan funds.
- Consult the lender before any design changes – when in doubt, please call to discuss.
- Research your prices, and get multiple bids – this will help with any surprise expenses during the construction process
- Consult a design book/online for all finishes – have pictures and examples for your builder on every finish you are looking for (floors, cabinets, layout, windows, exterior, bannisters, lights, appliances, etc).

## DON'TS

- Make any payments late, especially your construction loan – if there is a 30 day late payment during your construction process, the investor will not purchase your loan on modification.
- Change your floorplan, or home style, after your appraisal and approval – Your construction loan financing is approved based on the plan provided at application.
- Have any changes to your employment, if possible. Changing your job, hours per week, an unpaid vacation, all could possibly affect your approval.
- Make any large deposits into down payment account(s).
- Close any credit accounts, unless you have planned with your lender – closing accounts, and reducing your amount of credit available to you can have a negative impact on your credit score.

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## WE LOOK FORWARD TO WORKING WITH YOU