

Construction Financing



The Financial Path To Home Completion

by Michael May, Lic. Mortgage Broker

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Why Take This Course:



- ◆ **Southwest Florida construction is at an all-time high.**
- ◆ **Offering home construction in your menu of services will increase your income.**
- ◆ **Product understanding is critical to any successful sales effort.**

Who Can Benefit From This Course:

- ◆ **Real Estate Brokers & Agents**
- ◆ **Construction Foremen & Supervisors**

What To Expect From This Course:

- ◆ **By the end of this course you will have a working knowledge of -**
 - **The differences between an existing-home loan & a construction loan**
 - **How to calculate Total Sales Price and Mortgage Loan Amount**
 - **Stages Of Construction & The Draw System**

Course Events & Schedule



0900-0945

**Existing-homes and new homes financing:
Similarities & Differences**

0945-1030

**Calculation Method for Sales Price &
Mortgage Loan Amount**

1030-1045

Break

1045-1200

**Stages of Construction
& The Draw System**

Overview



- ◆ **Construction Financing is an indispensable component of our area's growth. Florida is one of the fastest-growing states in the United States, and that growth is being led by the activity of the construction sector.**
- ◆ **There is more new home construction sales activity than existing-home sales.**
- ◆ **The majority of new home buyers will NOT be paying cash, and as such, an understanding of construction financing is needed.**

Overview, cont'd.

- ◆ **How It All Fits Together - Your income in sales is affected in-part by the depth and diversity of your product knowledge. Knowledge is Power. A working knowledge of construction financing will help you in attaining your economic objectives.**

Glossary Of Terms



- ◆ **Specifications or Specs.** - A narrative list of materials, methods, model numbers, colors, allowances, and other details which supplement the information contained in the blue prints.
- ◆ **Blue Print(s)** - A type of copying method often used for architectural drawings. Usually used to describe the drawing of a structure which is prepared by an architect or designer for the purpose of design and planning, estimating, securing permits and actual construction.

Glossary, cont'd.

- ◆ **Notice Of Commencement** - Issued by Lee County Dept. of Community Development, allows construction to begin. Identifies buyer, lender, phases of construction completed.
- ◆ **Draw Schedule** - Agreement between lender and builder as to the sequence of construction and inspections, and receipt of building funds.
- ◆ **Mechanics Lien Release** - Affidavit certifying work completed as agreed and all “mechanics” have been paid in full for services rendered for this particular phase of the construction.

Glossary, cont'd.


- ◆ **Cost Breakdown Sheet** - Itemizes labor and materials costs for determining “wholesale” Vs. “retail” costs of home construction. Required by lender to establish accuracy of the transaction.
- ◆ **Construction loan** - A loan product where the buyer “floats” their end loan until they near completion of the home.
- ◆ **Construction-to-Perm loan** - A loan product where the buyer’s end loan is locked at application, protecting them from rate increases during construction.

Differences Between Existing -Home & New Construction Mortgages

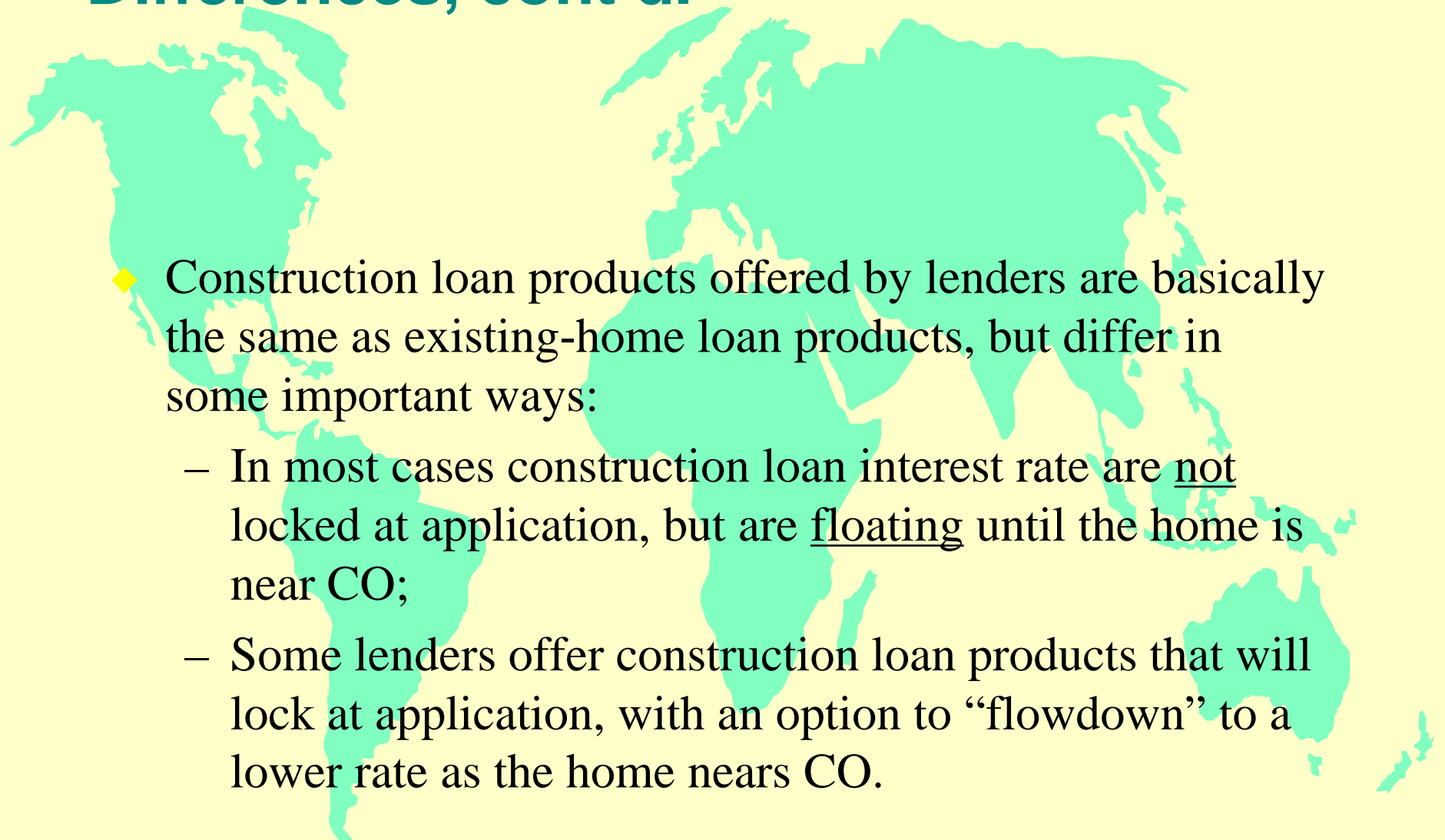
New construction exposes a Lender to many risks:

- The loan can not be sold until the home is completed, and a Certificate of Occupancy (CO) is issued;
- The builder may not abide by their commitment to their “mechanics”, causing a lien to be placed on the property;
- Availability of materials and/or labor may delay CO;
- Environmental conditions may delay CO.

Differences, cont'd.

- 
- ♦ As opposed to Existing-Home mortgage loans, New construction loan considerations place emphasis on issues in addition to/other than the BUYER qualifications:
 - Builder qualification review and approval;
 - House Plans & Specifications
 - ♦ Blueprints of the house
 - ♦ Cost Breakdown Sheet of the house

Differences, cont'd.

- 
- ◆ Construction loan products offered by lenders are basically the same as existing-home loan products, but differ in some important ways:
 - In most cases construction loan interest rate are not locked at application, but are floating until the home is near CO;
 - Some lenders offer construction loan products that will lock at application, with an option to “flowdown” to a lower rate as the home nears CO.

Differences, cont'd.

- ◆ During construction, the borrower makes **INTEREST-ONLY** payments to the lender, based upon the dollar amount of the draws the builder has taken:

BUILDER'S 1st DRAW = \$25,000

Construction Loan Rate = x 8.25%

Interest/year on \$25,000 = \$2,062.50

Interest payment/month = \$171.88

How To Calculate Construction Sales Price & Loan Amount

- ◆ In order to structure a construction Sales Contract, you must add -

– Home Sales Price -----	\$100,000
– Lot Sales Price -----	<u>\$ 50,000</u>
– TOTAL SALES PRICE -----	\$150,000
– Builder Concessions -----	\$(3,000) **
– Downpayment -----	\$ (15,000)
– Mortgage Loan Amount -----	\$135,000

** = **Builder contribution towards Buyer's closing costs**

Calculating Loan Amount

Factoring Land Equity

- ◆ In come cases, the buyer already owns their land. In their negotiations, if the buyer's Purchase Price is less than the Land Value, they have **“free” equity** to reduce the cash down required by the lender -
 - Some lenders will allow you to use this “free” equity immediately;
 - Some lenders require a 12 - 36 month Seasoning period before this equity can be used.

Calculating, cont'd.

EXAMPLE



◆ Home Sales Price	-----	\$100,000
◆ Lot Sales Price	-----	<u>\$ 50,000</u>
◆ TOTAL SALES PRICE	-----	\$150,000
◆ Builder Concessions	-----	\$(3,000) **
◆ Downpayment	-----	\$(5,000)
◆ LOT VALUE	-----	\$(60,000)
◆ Mortgage Loan Amount	-----	\$135,000

Stages of Construction & The Draw System

- ◆ **Sales Contract** - Between Buyer, Seller, Builder & Real Estate Agent(s);
- ◆ **Loan Application** - Review & Approve Buyer, Builder, Plans & Specs;
- ◆ **Buyer approved.** Construction loan closes. Buyer provides downpayment via cash or equity in land or both.
- ◆ **Builder records Notice of Commencement (NOC)** at courthouse and applies for building permit.
- ◆ **Lee County Community Development** receives proof of recording of NOC and **issues building permit.**
- ◆ **Builder uses buyer's funds for startup;** can take loan against value to lot for startup.

Stages, cont'd.

- ◆ Land Survey completed in preparation for floor slab pour. Foundation Survey completed.
- ◆ **1ST DRAW: (E.G. \$25,000)** Required documentation: NOC, Building Permit, Title Commitment, Slab Survey, Builder's Risk Insurance, Soil Treatment Certificate & Mechanic's Lien Releases.
- ◆ **BUYER'S MONTHLY INTEREST-ONLY PAYMENT (\$171.88)**
- ◆ Roof Dried In, Interior Framed & Furred. Req'd docs: Mechanic's Lien Releases, Flood Insurance, Draw Inspection Certification.
- ◆ **2ND DRAW: (E.G. \$50,000)** Window frames installed, rough-in electric, a/c duct work, rough-in plumbing, roof complete. Req'd docs: Mechanic's Lien Releases, Draw Inspection Certification.

Stages, cont'd.

- ◆ **BUYER'S MONTHLY INTEREST-ONLY PAYMENT (\$515.63)**, based upon the sum of the 1st & 2nd draw.
- ◆ **3RD/4TH DRAWS: (E.G. \$50,000)** Exterior/Interior wall complete, bath tile complete, cabinets & trim complete. Req'd docs: Mechanic's Lien Releases, Draw Inspection Certification.
- ◆ **BUYER'S MONTHLY INTEREST-ONLY PAYMENT (\$939.08)**, based upon the sum of draws 1 thru 4.
- ◆ **5TH & FINAL DRAW: (Builder Profit)** Home must be 100% complete. No partial payments given. Painting, plumbing, electrical w/ fixtures, driveway, screening, sprinklers landscaping, sod, appliances, floors. Docs needed. Final Release of Lien, Certificate of Occupancy (CO), Contractor's/Mortgagor's Affidavit, Proof of Insurance, title Update, Appraiser's Recertification.

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- ◆ **Vision Builders - Chris Mendrick, President - 542-7372**
- ◆ **Dove & Associates Surveying - Kim Nagle, Manager 332-7500**
- ◆ **Sage Appraisal - Anne Aubry, Lic. Real Estate Appraiser 772-4566**
- ◆ **Lee County Development Services Division, Department of Community Development - Cathy Cropper, Permit Specialist**

About Me -



- ◆ 8 years as a Licensed Mortgage Broker
- ◆ 17 years in the oil industry with 11 years in the Middle East -
 - ◆ Oil Production
 - ◆ Oil Refining and Distribution
 - ◆ Maintenance Planning & Coordination
 - ◆ Project Management
 - ◆ Technical Writing
 - ◆ Curriculum Development
 - ◆ Training Coordination