



How A Construction Loan Works

Have you ever thought about building the home of your dreams? Most people have. And, maybe like most people, that was as far as you got. The number one reason people don't follow through with building their dream home is because they are overwhelmed with tackling such a large project.

Although there are a lot of details to handle, building a home can be a wonderful experience. Because the secret to a positive experience understands the construction process and how a construction loan works, we are sharing the key steps to the building and financing process.

Select a House Plan and Specifications with All American Dream Homes

Choosing your house plan and specifications is one of the most important steps in building the home of your dreams. There is a lot to consider when making your selections. It is important that the plans and specs reflect your current lifestyle needs, as well as your needs 5 to 10 years from now. Be sure the plans and specs have the details you are looking for.

Now is the time to consider all of the details All American Dream Homes and their experienced team will guide you through every step of the way.

Loan Application:

Documents Needed for Pre-Qualification

At this point, you need to complete a residential loan application. List of documents needed to complete the application process.

- ☐ Long Form Application (1003)
- ☐ 2 Years of W2's
- ☐ 2 Years of Tax Returns (Self Employed)
- ☐ 2 Most Recent Pay Stubs
- ☐ 2 Months of Current Savings Account Statements
- ☐ 2 Months of Current Checking Account Statements
- ☐ 401K Statements, Stocks and/or Bond Statements
- ☐ Offer to Purchase (If Applicable)
- ☐ Legal Description of Property
- ☐ Current Homeowners Insurance Binder/Builders Risk Needed for Construction

If Applicable:

- ☐ If on Fixed Income (Social Security or Disability)- Copy of Award Letter
- ☐ Copies of Child Support/Maintenance- Received or Paid Out
- ☐ A Copy of All Bankruptcy Paperwork- including Discharge Paperwork
- ☐ A Copy of Divorce Decree
- ☐ If in a Trust
 - ☐ Need Certificate of Trust Existence
 - ☐ Copy of Trust Agreement
 - ☐ Affidavit of Trust Status

Countdown to Closing

Once you have submitted the application and all the required paperwork, your application will be processed to verify the information you've submitted. We will confirm that you are capable of repaying the mortgage; that you actually own (or are arranging to buy) the land. There is a lot of work behind the scenes that is necessary to get your home built. We will then order the necessary appraisal and title work for the property and submit the loan for approval. Once you have loan approval and the property are approved they will close the construction loan. If there is a lot loan, it will be paid off at this time.

Special Risks in Construction Financing

Your financing "package" will most likely be compromised of a separate construction and permanent loan. This type of financing poses a unique risk due the time you are initially qualified for financing, and when you must be re-qualified before the permanent loan can be closed. It may seem obvious, but don't ever make changes or add any "extras" without presenting written cost estimates. Prior approval is often mandatory, so be sure we authorize all changes. Remember, any changes to the value of the home **ADDING ANY ADDITIONAL DEBT** or loss of income, could jeopardize your end loan/permanent loan pre-approval.

Finally! Construction Can Begin

After the loan closing, the builder can begin construction. This is typically done in various stages which follow a logical progression: the land is cleared and excavated, the foundation poured, the framework is built, etc. six months is a common time-frame to complete the home and close on your new permanent loan. At this stage, your home should be in move-in condition.

Preparing for Permanent Financing

During the building process, you are only required to pay interest on the amount of money advanced. Typically, you have six months to complete the home and close on the permanent

loan. At this stage, your home should be in move-in condition.

It will be required to provide a few more documents to complete your file to update current information for your permanent loan:

- ✓ A final inspection report from the appraiser (Lender will order this)
- ✓ An updated Title on Your Property (Lender will order this)
- ✓ An update credit report (Lender will order this)
- ☐ New Loan Application Signed
- ☐ current pay stubs
- ☐ 2 Months of Current Savings Account Statements
- ☐ 2 Months of Current Checking Account Statements
- ☐ 401K Statements, Stocks and/or Bond Statements
- ☐ Updated Insurance Binder

Your new permanent loan will get started. Finally, you're finished. The home is built, everything is installed and inspected, the trucks and trailers have moved, and you receive the keys to the front door. And, as the saying goes, "there's no place like home!"

The entire "Dream Team" thanks you for giving us the opportunity to assist you with your building and financing needs!

