



**Construction  
Loan Handbook**

**LAKE  
MICHIGAN**  
CREDIT UNION

Presented by:

# Construction Loan Handbook

Over the past few years, Lake Michigan Credit Union has helped thousands of people build the home of their dreams. The idea of building your own home can be very exciting, but can also bring many questions to mind. The Lake Michigan Credit Union team is here to help you through the process and to build the house of your dreams.

This booklet discusses the basics of the home building process. It has been designed to help you understand the construction loan process and answer commonly asked questions.



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**Lake Michigan Credit Union believes in the power of home.**  
The journey to your dream home starts here.



Home is where your story begins.



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## Builder Activation Process

- If your builder is new to Lake Michigan Credit Union (LMCU) they must complete the Builder Application form and supply copies of licenses, proof of insurance and articles of organization
- If your builder has registered with LMCU in the prior 12 months, they do not need to apply again
- Once on the active list, your builder will need to update their information annually. LMCU's Construction Administration Department will contact each builder on or around their activation anniversary date to collect updated documents such as insurances and licenses

### Q. What is Builder Activation?

- A. Builder Activation is the first step in the process for a LMCU construction-to-permanent mortgage loan and includes a review of your builder's references, credit and experience. The builder must complete a form called the Builder Application that provides LMCU with information and authorization necessary for completing the activation process. LMCU also asks for the builder to provide copies of any licenses and insurance documentation. LMCU works with many builders. Ask us if we have already added your builder to our active list!

### Q. Why does my builder need to be an active builder with LMCU?

- A. Since your loan amount is based on the improved value of the property, LMCU verifies that the builder has the financial ability and experience to complete the project on time and within budget. Builders must have sufficient credit available to them, be experienced, fully insured and licensed in the state in which the project is being built.

### Q. When we will know if my builder has been activated?

- A. Your loan officer will be advised of builder activation or denial within 7-10 business days of receipt of the completed builder application and supporting documentation.



Everyone needs a place to call home.



## Construction Loan Basics

### Q. How long is my construction term?

A. Your construction term, or the length of time allowed between closing and completion of your home, is 12 months.

### Q. What kind of communication will I have with LMCU during the construction period?

A. Soon after the construction loan closing takes place, you and your builder will each receive a “welcome” email from the LMCU Construction Loan Administrator assigned to their project.

Your welcome email includes:

- LMCU's Construction Loan Servicing Guide explaining what to expect during construction
- Your Construction Administrator's name and contact information

Your builder's welcome email includes an outline of the following LMCU draw processes in addition to your Construction Loan Administrator's name and contact information:

- First draw request after closing
- Interim draws
- Final Construction draw

### Loan Approval Details

- ▶ Once appraisal is complete and all pertinent financial information is received, your application will be reviewed
- ▶ Upon approval of your loan request, you will be sent a loan approval letter
- ▶ Shortly after, LMCU will contact you to schedule an appointment for the signing of the final papers
- ▶ Signed documents will be sent to the county courthouse for recording
- ▶ Your builder should not start construction of your home until after your loan has closed
- ▶ The mortgage must be recorded and a notice of commencement filed before any work can be started
- ▶ The start of construction prior to our notification may result in the cancellation of the loan commitment

### Extensions

If the completion of your project runs longer than originally anticipated, your builder will be asked to provide us with a written reason for the delay as well as an estimated completion date.

### Early Completion

If construction is completed earlier than anticipated, you will move into your principal and interest payments early. In the case of early conversion, you will be sent a loan modification document which must be signed in front of a Notary. This process is easily handled by mail, saving you additional trips to our office.



## Construction Documents

A fully executed, all-inclusive construction contract must be received and accepted by LMCU's underwriter prior to final loan approval. The building contract is to include, but is not limited to the following:

- Builder's company name, address and phone number
- Borrower's name(s)
- Construction property address (permanent parcel number or actual street address)
- Firm contract price (no cost plus contracts)
- Total contract price must be for a complete house including allowances for well/sewer/septic tap-in fees and lines to the dwelling
- Contract must be signed and dated by both you and your builder

## Required Documentation Provided By Builder

### 1. Builders Sworn Statement

Fully executed, signed and notarized sworn statement. Any deposits accepted by the builder must be reflected in the "Already Paid" column of the builders sworn statement and reduce the total of the "Balance To Complete" column.

### 2. Plans and specifications detailing the home to be built

The builder must be prepared to supply fully developed plans and specifications of the house to be built.

### 3. Course of Construction or Builders Risk Insurance

This policy must be in place during the course of construction to insure the project against hazards such as fire, vandalism and theft. Once construction is complete and the Certificate of Occupancy has been issued, a homeowner's insurance policy must replace it. Builders Risk may be purchased by the builder or the homeowner.



## Draws

### Q. What is the Borrower Draw Authorization on the Contractor Borrower Disclosure?

- A. The Contractor Borrower Disclosure is a form signed by both the you and your contractor. Among the information provided on this form is the option for you to authorize your contractor to receive construction draws without further consent, or to require consent from you for each draw that is disbursed. **This form and option should be discussed with your loan officer before signing.**

### Q. What happens during the draw process?

- A. ► After closing, the construction loan will be assigned to the Construction Loan Administration Department and a representative of that department will contact you using your preferred method of contact.
- You will be sent the LMCU Construction Servicing Guide and a Construction Loan Administrator's name as the primary contact for both you and your builder throughout the construction process.
- During construction, you or your builder may request up to five construction disbursements (payments) by contacting your Construction Loan Administrator directly, or by emailing **mortgageconstruction@LMCU.org**.

- Once a draw request is received, the Construction Administrator will order all of the required documents to process the draw. All of the following must be received and reviewed before a draw is disbursed:
- ☐ A Draw Request and Borrower Authorization Form will be supplied to you for your signature, authorizing each disbursement.
  - ☐ Builders are required to provide LMCU and the title company with a signed and notarized Sworn Statement Form for each draw request.
  - ☐ A foundation survey, performed by a licensed land surveyor, is required before the first draw after closing.
  - ☐ A title company Title Endorsement that includes a mechanics lien update is required before each of the five draws is released during the construction process.
  - ☐ Property tax bills that have been issued will be reported on the Title Endorsement. You are responsible for payment of your property taxes once the bill is issued and appears. LMCU does not escrow for taxes or insurance during the construction period. Payment is your responsibility.
  - ☐ At the time of each draw request, a construction inspection will be ordered from the company that completed the original appraisal of your project. The inspection reports include photos as well as a report of work that has been completed at the time of the inspection. A final inspection indicating that the home was built according to plans and specifications and that the value has not declined is required before the final draw is released.
- The final draw will be released after the above have been received, as well as the items listed on page 12 under '**Conversion To Permanent Financing**', question three.



# Construction And Permanent Loan Payments

**Q. When will my construction loan payments be due?**

A. During the construction term, payments are interest-only calculated on the outstanding balance of the loan. Payments are due by the 15th of each month.

Payments during the construction term of the loan cannot be automatically deducted from your account. You must make your interest-only payment directly through the website, a branch, or by mail.

If you have signed up for ACH, automatic deduction will not begin until the construction is complete and you begin principal and interest payments.

**Q. How is my construction payment calculated?**

A. Construction payments are calculated using the amount that has been disbursed and the interest rate shown on the member’s note. A simple interest daily calculation is used as shown in this example.

**Example:**

Loan amount: \$350,000.00  
Amount disbursed: \$ 50,000.00  
Interest rate: 4.5%  
Calculation:  $\$50,000 \times .045 = \$2,250 / 365 \text{ days} \times 30 \text{ days} = \$6.16 \text{ per day, or } \$184.93 \text{ for a 30 day month}$

\*The example above is for explanation purposes only. Each loan is reviewed and underwritten individually. The percentage used to compute your monthly payments may be different than shown in the example.

**Calculate the Numbers**

**Step: 1** Estimate your monthly construction payment by adding up the items below.

Enter amount disbursed	\$	<input type="text"/>	
Multiply by interest rate (Convert percentage to decimal)	X	<input type="text"/>	=
Total interest	\$	<input type="text"/>	
\$ <input type="text"/>	÷	365	x 30 = \$ <input type="text"/> (estimated monthly payment)
total interest		days	days

Notes: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Q. What is the timing between my last construction payment and my first permanent payment?**

- A. Your final construction loan payment will be due on the 1st of the month following completion of your home and conversion to your permanent loan. Your first permanent loan payment is due on the first of the following month.

**Example:**

Date home completed.....	October 10
Date Final Disbursement Sent .....	October 17
Conversion Date .....	October 31
Final Construction Loan Payment Due Date.....	November 1
First Permanent Loan Payment Due Date .....	December 1

**Q. How am I billed for my first permanent loan payment?**

- A. You can request that statements be mailed to you, sign up for e-statements, or arrange for an ACH to be set up to automatically make payments. Your Construction Loan Administrator can discuss the various options with you and help you make payment arrangements using the method that works best for you.

**Q. Can the principal balance of my construction loan be reduced before converting to the principal and interest permanent payment?**

- A. Yes. You should notify your Construction Loan Administrator before your loan converts and they will assist with the principal reduction and the new payment amount.



## Conversion To Permanent Financing

**Q. What is conversion?**

- A. This is the process of moving from the construction loan payment to the permanent principal and interest payment.

When a builder requests the final construction draw from LMCU, you will be contacted by your Construction Loan Administrator regarding conversion. The one-time close construction permanent loan will automatically convert into a permanent mortgage and your principal and interest payments will begin. The Construction Loan Administrator will also discuss an escrow account with you if your loan exceeds an 80% loan to value.

**Q. When do I convert to my permanent loan?**

- A. Construction loans are converted to principal and interest payments based on original note date and the construction complete date on the Construction Loan Agreement form, provided no extensions have been granted.

**Q. Is there any documentation I need to supply when converting to principal and interest payments?**

- A. Yes. You may need to provide some or all of the following items when your loan converts to permanent payments. If required,



Welcome home.

Home is my happy place.



the Construction Loan Administrator will explain these requirements when the builder requests their final construction draw.

- ☐ Certificate of Occupancy
- ☐ 100% complete letter signed by the member
- ☐ Proof of the source of any funds paid out of pocket for project change orders
- ☐ Proof of one year paid Home Owner's Insurance Policy

Some loans might require you to submit updated income and employment documentation at the time the loan converts to permanent financing. You should discuss this with your loan officer when working on the construction loan's terms.

**Q. When do I finalize the terms of my permanent loan?**

A. At the time the builder requests their final construction draw, your LMCU construction administrator will contact you to discuss finalizing the permanent phase of your construction to permanent loan.

**Q. How do I convert to my permanent loan?**

A. If the home is completed by the original completion date, once the final disbursement for the construction loan has been made and all conditions below have been satisfied, principal and interest payments will begin.

- ☐ Certificate of Occupancy
- ☐ 100% complete letter signed by you
- ☐ Proof of the source of any funds paid out of pocket for project change orders
- ☐ Proof of one year paid Home Owner's Insurance Policy

**Q. What documentation does LMCU need prior to the first construction disbursement after closing?**

- ☐ A copy of the Building Permit
- ☐ Signed, notarized builder's sworn statement
- ☐ Foundation survey
- ☐ Proof of Builders Risk (if not received at closing)
- ☐ Construction Progress Inspection (ordered by LMCU's construction loan administrator)
- ☐ Title Insurance Endorsement (ordered by LMCU's construction loan administrator)
- ☐ Borrower's Authorization

**Q. What documentation is needed for interim draws?**

- ☐ Signed, notarized Builder's Sworn Statement
- ☐ Lien waivers from the previous draw
- ☐ Title Insurance Endorsement
- ☐ Construction Progress Inspection
- ☐ Labor costs paid when work is complete
- ☐ Payments made for materials on site

**Q. What documentation is required prior to the final disbursement?**

- ☐ Final signed notarized Builder's Sworn Statement
- ☐ Lien waivers from the previous draw
- ☐ Certificate of Occupancy
- ☐ Final Construction Inspection
- ☐ Final Title Endorsement
- ☐ 100% complete statement signed by you
- ☐ Insurance and tax information including a paid Home Owners Insurance Policy



## Taxes And Insurance

- Course of Construction or Builder's Risk Insurance is required for the term of the construction period. Once the Certificate of Occupancy (C of O) has been issued for the home, Builder's Risk will expire and Home Owners Insurance is to be purchased by you
- You are responsible for payment of taxes and insurance during the construction period (no escrow account is available for this purpose during the construction phase of the loan)
- Prior to the beginning of permanent mortgage payments, the construction administrator will work with you to determine what funds need to be collected to set up escrow accounts for loans where LMCU will pay taxes and/insurance. An escrow analysis will be provided at this time
- Property taxes may be increased by the taxing authority based on improvements to the property

**Q. What is Course of Construction/Builder's Risk Insurance?**

- A. Builder's Risk and Course of Construction Insurance are the same thing, but more commonly referred to as Builder's Risk (refer to page 6 for more details).

**Q. Who pays taxes during construction?**

- A. You pay taxes during construction based on the tax bill issued by the taxing authority.

**Q. What is hazard insurance?**

- A. A Builder's Risk Insurance Policy with coverage in at least the amount of the loan, along with a paid receipt for the first year's premium, will be required at the time you sign your loan documents. Coverage for theft of materials will also be required. Prior to moving into your new home, you will need a homeowner's policy (i.e. hazard insurance). Many Builder's Risk Policies automatically convert to homeowner's policies upon completion of construction. Check with your insurance agent to see what type of policy is best for you. Make certain that the insurance policy shows Lake Michigan Credit Union as the mortgagee. Please have your insurance agent add the LMCU mortgagee clause to the policy. We can provide that information upon request.

**Q. When should I obtain a homeowner's insurance policy?**

- A. Once construction is complete and the Certificate of Occupancy has been issued, you will need to obtain a standard Home Owner's Insurance Policy. LMCU must be added as loss payee. You should discuss how LMCU is to be shown on the policy with your loan officer.

**Q. Why do I receive an escrow analysis the month prior to conversion of my loan to permanent payments?**

- A. The escrow analysis is used to determine how much is needed to fund your Property Tax, Home Owner's Insurance and Private Mortgage Insurance (when applicable) escrow accounts. Once the final disbursement is made, a LMCU construction loan administrator will contact the taxing authority directly to obtain the most up-to-date property tax information to use in the analysis. In some instances, the taxing authority may not increase the value immediately and the tax amount may still be assessed on the unimproved lot. In other cases, the tax assessment may have increased and is based on the improved value. At the time of the escrow analysis, escrow deposits are based on the amount of taxes assessed by the taxing authority at that time.

**Q. Will my taxes increase when my home is completed?**

- A. The value of your property will increase after the construction of your home is completed. Each taxing authority is different in terms of the time it takes to make this value adjustment on their books.



Home is where your heart is.



## Frequently Asked Questions

### Q. What is a Construction-To-Permanent Loan?

- A. A construction-to-permanent loan is a single-close loan that includes 12 months of construction financing plus up to 30 years of end financing in one loan. For example a 30 year Construction-to-Permanent Loan with LMCU includes a 12-month construction period, as well as a 30-year principal and interest period. The Construction-to-Permanent Loan has only one closing, one set of closing costs and the loan terms including the interest rate remain the same throughout the life of the loan.

### Q. Do we have to own the lot free and clear?

- A. No. If you do not own the lot free and clear when applying for the Construction-to-Permanent Loan, LMCU will pay the lot off at the closing.

### Q. Do I have to sign new documents once my home is complete and I am ready to start my permanent payments?

- A. Absolutely not! That's the beauty of our Construction-to-Permanent Loan. Your loan documents were created specifically to cover both the constructing and permanent phases of your loan. You can be assured that you have permanent financing when your home is complete.

### Q. If we already own our lot, how do we determine how much we can borrow?

- A. Generally, you will be able to borrow a percentage of the future value of the house, regardless of how long you've owned the lot or the total cost of the build. Lot equity can be used as a source of down payment as long as the appraisal value is adequate.

### Q. What does an appraiser appraise?

- A. The appraiser uses the plans and specifications provided by the builder, along with the vacant property on which the house is to be built, to determine what the value of the property will be once construction is complete.

### Q. Can your programs be used to finance major remodels or even a "teardown?"

- A. Yes. In this case, the amount that can be borrowed is based on the future value of the property, after the construction or remodel is complete. If you are contemplating a teardown or extensive remodel, you should discuss these plans with your loan officer.

### Q. Can I select any builder I want?

- A. Before LMCU will provide construction financing for a project, the builder/general contractor must be on the LMCU Builder Activation list. To be added, each builder is required to complete the LMCU Builder Application and complete the application process. Please refer to '**Builder Activation Process**' on page 1 for more details.

### Q. Can I act as my own builder/general contractor?

- A. LMCU offers the ability to "self-build" a personal residence to licensed general contractor/builders with current experience as a residential home builder. You should consult your LMCU loan officer for details.

### Q. When does the construction loan term begin?

- A. LMCU Construction-to-Permanent Loans have a construction term of 12 months. The loan term begins on the date the note is signed.

**Q. How do payments work during the construction phase of the loan?**

- A. You'll pay interest only on the principal balance disbursed when the billing is generated.

**Q. What if the appraised value is lower than expected?**

- A. Appraisers do a very good job of determining fair value. In the event that the appraised value is lower than expected, you may be required to bring additional funds to close. This will depend upon the loan-to-value ratio that results once the appraised value has been determined. Should a low appraised value occur, your loan officer will discuss the option available with you.

**Q. Do we need to sell our current home before building a new home?**

- A. Not necessarily. Consult with your loan officer. LMCU has financing options to assist, such as bridge loans.

**Q. What if the project costs are more than estimated?**

- A. Cost overruns are a legitimate concern. Overruns can occur due to unforeseen circumstances or change orders for extras added by you as the project is built. All cost overruns and change orders that increase the overall cost of construction must be paid out of pocket by you.

LMCU is pleased that you have considered us to help you build your new home. We promise to help make the process smooth and easy. We will be with you every step of the way.

**Call me with any questions!**

Home is a place to soar.





[LMCU.org](http://LMCU.org)

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