



Ready to Build Your Dream Home?

Your Complete Guide to
Construction Financing



Building the home of your dreams is exciting. The thought of creating a new space designed to your exact specifications – from the size of the rooms to the color of the walls – is thrilling. It’s yours in more than name; it’s a complete reflection of your preferences and personality. Yet, just as a solid foundation is important to any well-constructed house, financing is a critical component of the construction process.



Before you build your new home, take time to review what you will need to get started and financing options to consider. Using the following guide, you can be empowered to make the right decisions for you, your lifestyle, family and personal goals.

Getting Started

The Importance of a Pre-Approval

A pre-approval will determine if you can realistically afford to make your dream come true based on your current assets and existing debt. (The last thing you want is to sell your current home or be in the middle of drawing up plans before learning that you don’t qualify for the loan.) A pre-approval also provides the opportunity to ask questions about the construction process: what’s involved, what you are responsible for and what to expect of the builder.

Our Johnson Financial Group mortgage loan officers will assist you with your loan application from start to finish. Together with your dedicated mortgage loan officer, you will review your goals and develop a personalized plan to finance your dream home.

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DOCUMENTS AND INFORMATION YOU’LL NEED

Gather your documents using the checklist below to make the pre-approval process quick and easy.



- Your Social Security number to obtain your credit report
- Pay stubs, W-2s and possibly full tax returns for income documentation
- Bank and asset statements for verification of liquid and retirement savings
- Any other necessary information based on your individual situation like business tax returns, current real estate holdings, etc.
- A lot loan closing statement, if you already own your lot

Additional documents and information (when available)

- Accepted offer to purchase – if purchasing the lot at the time of closing on your construction loan
- Construction plans
- Builder cost breakdown and specs
- Complete signed builder contract
- Insurance coverage, including builder’s risk insurance – prior to closing

Build vs. Buy

When it comes to building versus buying a new home, is one option better than the other? It all comes down to your unique preferences and what you can afford. Only you can decide which option will work best for you.

 Building a New Home	 Buying a New Home
Partner with a builder and design professional to map out a home according to your exact specifications.	Keep an eye on real estate listings with a real estate professional to find a home in a location that suits your needs.
Customize every aspect of your new home or choose from an assortment of already existing floor plans, materials and features.	Comparison shop to find a home that aligns with your budget, location and must-have features. (It could be challenging to find a house that meets all your criteria, so you may need to compromise or consider future renovations.)
The process typically takes 6 – 12 months.	The process can take just days or months, depending on the availability of homes.
Enjoy total control without competition from other buyers.	Depending on the market and housing supply, you may face competition from multiple other buyers.

Tips for Building Your Home

Building a new home is likely to be a rewarding and satisfying experience, but it's an endeavor requiring careful planning and preparation. To set your plans up for success, consider these important steps.

1. Planning your budget

Be proactive in creating a budget to ensure you don't overspend. Leave yourself some "financial breathing room" as new construction projects can often cost more than expected. Savings reserves are helpful should you encounter cost overages during the build process.

2. Choosing Your Lot or Building Site

Make sure the lot you plan to purchase can accommodate your new home. The dimensions, pitch and location can all factor into the size and type of home you want to build. Regardless of the location you desire, you'll almost always need to choose the land before you begin the design phase. In some cases, the complexity of the building site (steep terrain, remote locations, undeveloped land, etc.) may directly impact the cost of the project.

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3. Financing Your Lot

A lot loan allows you to purchase land before you start construction. Once you're ready to build, your lot loan can often be rolled into the financing of the construction loan. You may need to plan for 60 to 70 days for closing. This gives you time to review the contract and develop plans, and ensures you have enough time to complete an appraisal.

Already own your lot?

If you already own the land, you may be able to use the existing equity in your lot toward the down payment required on the construction loan.

Selecting a Builder

Learn about the builders and contractors in your area by reviewing local builders associations, attending home builder shows, talking to vendors, reading online reviews and participating in seminars.

- Ask for references from family and friends.
- Ask for references of sub-contractors or suppliers the contractor works with and review their payment record.
- Request a copy of the contractor's insurance policy to understand the unique coverage.
- Review the construction bids, including the scope of the project, references, time frames and price.

Itemized Cost Breakdown

An itemized list of costs associated with the construction of your new home are necessary to manage the budget and draw process. Not all costs are fixed, and it is common for a contract to include allowances.

For example, a custom dollar amount for carpeting may be determined, giving you more control over cost. If you chose a type of carpet that exceeds the itemized costs, it is considered a change order, or a cost overrun. Homeowners are responsible for a cost overrun.

Start with a realistic budget for each item and do your best to stay on track. Consider a savings reserve in case costs go beyond what you expected.

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Types of Construction Financing

Once approved, your home must be completed within a designated time line and will be financed on a schedule based upon completion of each stage of building. During construction, you'll make interest only payments based on how much of the construction loan funds have been drawn to date. The construction period may take 11 months.

We can help you choose from a variety of financing options to help you build your dream home.

One-time Close Construction Loans

This is a combined construction and permanent loan financing option to save you time and money. You'll enjoy the convenience of one loan, one application and one closing date.

- Interest only payment during construction based on the funds drawn
- Low down payment options
- Maximum loan amount up to conforming loan guidelines of \$806,500
- Option to lock your rate up to 180 days prior to the final draw being made

Portfolio Jumbo Construction Loans

Our portfolio construction loans provide financing options for homeowners that have high value construction projects that exceed conforming loan amounts.

- Interest-only payments during construction based on the funds drawn
- Loan to values (LTVs) vary, with loan amounts available up to \$3,000,000
- Long-term fixed rates, generally up to 30 years
- Adjustable-rate mortgages (ARMs) with various term options
- Once the final draw is made, you may have the option to relock your rate, for a fee, should the current rate be lower

Lot Loan Financing

A lot loan allows you to purchase land before you start construction. Once you're ready to build, your lot loan can be financed as part of the construction loan.

- Private Mortgage Insurance (PMI) is not required
- Finance up to 20 acres
- 1-2-3 year balloon payment options with longer amortizations

Turn-Key Mortgage Financing

In turn-key financing, the builder is responsible for the cost of construction. The homeowner finances the purchase of the new home when construction is complete and they are handed the key.

- Homeowner finances the completed project with a traditional mortgage loan
- Faster project, typically 4 – 6 months
- Less stress and money obligations while your home is being built
- Homes typically are built in subdivisions
- Flexibility to lock your rate up to 180 days prior to closing for free, should the current rate be lower
- Builder is responsible for the construction financing

Common Construction Draw Process References

Draw Process

A draw is a portion of the total cost of the construction paid to the builder at certain points during the process. Typically, a construction loan has four to five draws during the building process and can vary based on the project.

Disbursing Agent

A title company is used as the disbursing agent to administer the draw account. They are in an objective position to make sure draws are only done when certain project milestones are met.

Inspections

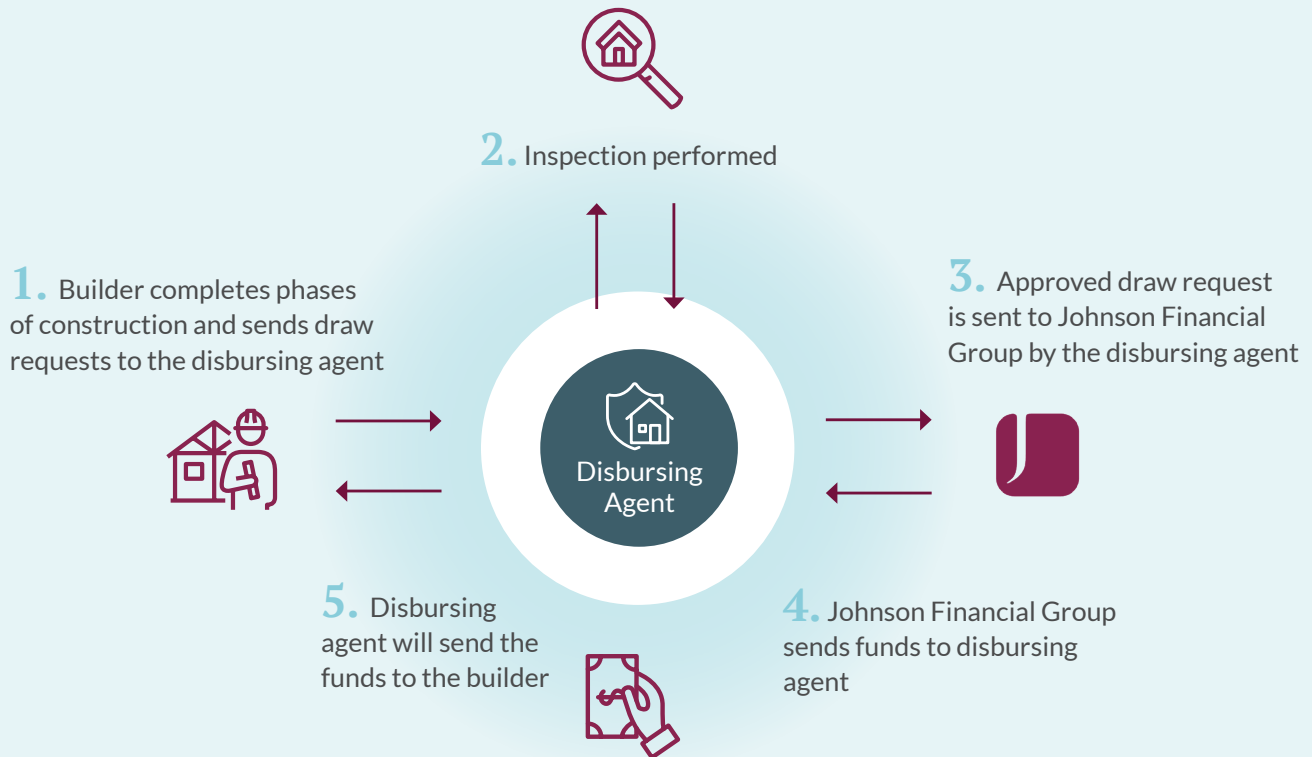
Typically, the title company's disbursing agent performs inspections of the project before each draw is distributed to the builder to ensure that part of the building project has been completed.

Draw Disbursements

During this process, you'll work with our dedicated Construction Operations team. The team is your point of contact during the draw process to answer any questions you may have. Your builder will ask you to sign a document authorizing each draw request. As the homeowner, you should carefully review each draw request before the funds are released by the disbursing agent.

The final draw will be completed upon the receipt of the Certificate of Occupancy or Final Building Inspection.

CONSTRUCTION DRAW PROCESS



Our Approach

We're focused on providing a loan option to best fit your needs so you can focus on the details of your new home. You'll have a knowledgeable partner on your side to help you navigate the construction financing process every step of the way.

After your loan is complete, you'll continue to work directly with Johnson Financial Group and your dedicated mortgage loan officer who will be available to answer any ongoing questions.

WANT TO LEARN MORE?

Visit JohnsonFinancialGroup.com/construction to find a mortgage loan officer or to learn more.

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