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CONSTRUCTION HOME LOANS BUILT FOR YOU

ONE-TIME CLOSE/CONSTRUCTION TO PERMANENT LOAN

Fidelity
BANK



YOUR GUIDE FOR ONE-TIME CLOSE/ CONSTRUCTION TO PERMANENT LOANS

At Fidelity Bank, we offer loans to builders and homeowners for construction of residential dwellings. The purpose of this guide is to share important information about our procedures and the construction process. This guide is focused on residential construction lending to individual borrowers and is presented in a question and answer format.

THE BASICS

What is a construction loan, and how does it differ from a mortgage loan?

A construction loan is a loan to a builder or individual to facilitate construction of a dwelling. Fidelity Bank makes construction-permanent loans on a fixed or adjustable rate basis. To determine the plan best for you, we recommend that you talk to one of our loan officers.

Both loans are actually mortgage loans. The primary difference in terms of lending is that the term “mortgage loan” most often is used in connection with a dwelling. A “construction loan” is made with the expectation that a dwelling will be built on a lot.

How does a Fidelity Bank construction loan work?

Our residential construction loans to individuals are made as “construction-permanent” loans. The maximum loan to value ratio is 80% of the lesser value between the purchase price and appraised value as determined by an independent fee appraiser chosen by Fidelity Bank. The appraised value represents a combined value of the building lot plus dwelling.

“Construction-permanent” means only one closing, whereby the rate and term are set during the application process, assuming a contract is in place, and carry through to completion of the dwelling and then on to the permanent amortizing mortgage.

How long is the construction period?

Our construction loan period is 12 months. In the majority of cases, this is sufficient time to build a house. If a longer term is needed due to extenuating circumstances, this should be discussed with your loan officer at the time of application.

THE PROCESS

How do I apply for a construction to permanent loan?

The construction to permanent loan application, in most respects, mirrors the application for a loan on an existing dwelling. The main difference is that a set of detailed blueprints (plans), builder's cost breakdown and specification list must be provided by the builder, since no house exists at the time of application.

How do I qualify for a construction to permanent loan?

Qualifying for a construction to permanent loan, for the most part, is done in the same manner as for any other mortgage loan applications.

How long does it take to find out if my construction loan has been approved?

It normally takes about 15 business days after the application has been submitted to Fidelity Bank with the required income and asset documentation to learn if the loan has been approved.

What happens after approval?

The next step is the issuance of a commitment letter. Upon receipt, the borrower is required to execute and return to the lender a copy of the commitment letter, which serves as a formal acceptance of the loan terms and conditions offered by Fidelity Bank. A non-refundable commitment fee equal to 1% of the loan amount borrowed must be paid to Fidelity Bank. Upon approval, we will order all necessary title work, appraisals and other requirements in connection with the loan.

THE PROCESS

What is the closing process?

At the closing, a settlement agent from the title company will bring all the necessary documentation, explain it to the parties, collect any funds needed to satisfy the equity requirement and distribute monies. The title company will also ensure that the new titles, deeds and other documents are filed with the appropriate entities.

What happens after the loan closes?

Once the transaction has been filed, the loan is considered “closed”. Please Note: No clearing, digging, mowing or construction work of any nature can begin prior to closing. At this time, your file is transferred to the construction loan department, where it will remain until the home is completed. You will be assigned a representative who will assist you throughout the construction period, answer your questions and address any concerns you may have.

APPLICATION CHECKLIST

In order to determine your ability to obtain a construction to permanent loan, you will be asked to provide the following information after completing the application and signing loan disclosure documents.

Personal information and employment history:

- ☐ Two (2) years complete federal income tax returns for all borrowers
- ☐ If self-employed, year-to-date profit and loss statement
- ☐ Two (2) years federal income tax returns for partnership/corporation with all supporting schedules
- ☐ Current pay stubs for a full 30 days to substantiate current pay levels
- ☐ Employment history for past two (2) years, including name and address of current and past employers for that period of time, position and length of time employed
- ☐ Current rate of base earnings and average overtime, commissions, bonuses, etc.
- ☐ If you choose to include income for child support and/or alimony, provide documentation evidencing receipt of said income for the past six (6) months along with a copy of recorded separation agreement and divorce decree
- ☐ Other income (i.e. Social Security, pension, rental, stock, interest, dividends, etc.) requires documentation evidencing receipt as consistent income

Information regarding assets:

- ☐ List of depositories, including name, address, account numbers and balances

- ☐ Copy of most recent statement for mutual funds and brokerage accounts, including retirement accounts
- ☐ Documentation for any other source of funds to be used as down payment and/or closing costs

Information regarding liabilities:

- ☐ Name and address of all creditors, account numbers, balances, and monthly payments

After you are pre-approved, copies of the following documents will need to be sent to your Loan Officer for the approval of the construction loan.

- ☐ Detailed and accurate building plans
- ☐ Specification list
- ☐ Builder's cost breakdown
- ☐ Executed building contract
- ☐ Copy of the deed, if lot is titled to borrower. If borrower is purchasing lot in conjunction with the construction loan, a copy of the executed lot purchase contract will be required.
- ☐ Income, assets and liability information as requested by Fidelity Bank

FREQUENTLY ASKED QUESTIONS (FAQ)

Do I need a builder?

Yes. We require the use of an experienced contractor who is actively building residential dwellings (minimum five home sales during the prior 12 months). Further, as a safeguard to you, if the builder of choice has not worked with Fidelity Bank or a Fidelity Bank construction lender in the past, we require completion of our builder reference form and potential submission of financial data prior to the borrowers' application. The builder is then personally interviewed and their work inspected to ascertain experience and to reinforce Fidelity Bank's standards of conducting business.

Fidelity Bank cannot accept responsibility for the buyer's choice of a builder, nor do we make recommendations for a particular builder. The local Home Builders Association (HBA) office can provide a list of builder members upon request.

Do I have to own a lot before I get a construction to permanent loan?

No, the building lot can be purchased in conjunction with the construction to permanent loan and titled to the borrower when the loan is closed. Fidelity Bank's construction to permanent loan must be the first lien on the subject property.

Can I use my lot as equity?

The building lot equity can be used towards Fidelity Bank's equity requirement.

When do inspections occur?

Inspections will begin immediately following closing and will continue at least monthly throughout the construction period. These inspections are made for the purpose of determining the percentage of completion of the property, and that the home is being built in conformance with the plans and specifications submitted. We do not inspect for quality of workmanship or materials.

When do my payments start?

During construction, interest is billed monthly based on funds disbursed from the loan. Borrower-contributed funds are generally used first, since no interest is owed on these funds. A detailed billing is prepared monthly. This statement generally assumes interest to the end of the month. Disbursements made from a construction loan after the cut-off date will be included in the following month's billing. Payment of the interest is due on the first of the month and considered delinquent if not received prior to the 15th of the month.

Upon completion of the property, the loan is transferred to a permanent status and regular monthly payments begin. At this time, a coupon book will be generated, or if the borrower wishes, payment can be deducted automatically from his/her bank account.

When a full tax bill is available, an escrow account must be established unless the borrower pays an escrow waiver fee to Fidelity Bank at closing of the construction to permanent loan.

FAQ

Who pays for insurance during the construction period?

This should be discussed directly with your builder. In most cases, insurance is the responsibility of the homeowner. The builder will carry workers' compensation and liability coverage, but the actual insuring of the property is typically paid by the borrower. We require that a builder's risk or homeowners policy with theft coverage (for building materialmen on the lot and not attached to the dwelling) be obtained. Fidelity Bank will require evidence of insurance prior to disbursing construction loan funds.

How are change orders handled during construction?

The borrower agrees to provide Fidelity Bank with notice and a copy of any change orders, contract modifications or contract extensions. The borrower is generally required to pay the builder for a change order at the time it is executed.

How are construction funds disbursed from the construction loan for payment of sub-contractors, laborers, material suppliers, etc.?

Draw disbursements or progress payments are made on a work-completed basis and occur over a period of time as work progresses. The builder will submit draw requests directly to Fidelity Bank's construction loan department for the amount requested for payment. The percentage of work completed is determined by an inspection by an independent third party inspector or employee of

Fidelity Bank. The quickest and easiest way to pay draw requests is when your builder's construction loan bank account is at Fidelity Bank. Draw requests will be paid through any bank your builder designates as their construction loan financial institution. Certain conditions may apply.

What is the role of the builder and buyer as it pertains to the draws?

Fidelity Bank will disburse funds for construction work according to the terms directed in an mutual agreement between the borrower and builder.

How does my builder get paid?

Fidelity Bank pays the builder on a "draw" basis. Draws are typically paid on a monthly basis, based on percentage of completion as determined by an inspection by either a bank employee or third party independent inspector chosen by Fidelity Bank. A properly completed draw request form must accompany each request for payment.

FAQ

When construction is done, how do I get my loan transferred to a permanent status?

Upon completion of construction or 12 months from the date of the loan, whichever is earlier, the loan is automatically transferred to permanent status. This arrangement can be made by calling your construction loan representative in advance of the expected completion date and reviewing Fidelity Bank's requirements at that time.

We will require:

- ☐ A copy of the occupancy permit
- ☐ Final affidavit from the builder
- ☐ Written instructions regarding disbursement of any remaining construction funds
- ☐ Final inspection by Fidelity Bank
- ☐ Homeowners insurance policy

Can I pay my real estate taxes and insurance payments with my loan payments?

We do not escrow funds for payment of real estate taxes and insurance during the construction loan phase. These are paid directly by the borrower during the construction period. Once a full tax bill (land & dwelling) has been received, you must make arrangements with our mortgage servicing department at 1-800-268-1637 to establish an escrow account for payments of real estate taxes and insurance unless you paid an escrow waiver fee at closing.