



**CoVantage**  
CREDIT UNION

# **CONSTRUCTION FINANCING GUIDE**



## **SECTION 1: How a CoVantage Credit Union Construction Loan Works**

This program is designed for remodel and new construction projects. This is a two-step process. Construction loan with end loan financing.

### **Program Details**

- Interest only for 18 months with a balloon payment due at the end of the term.
- Must have a licensed General Contractor oversee the project from start to finish.
- Funds used for construction/remodel will be disbursed by the title company. Work must be completed before payment will be approved.
- Draw requests are to be submitted to the title company and can take up to 7 days to process.
- If an item exceeds the amount that was allotted, title company cannot disburse any more than was on the original cost breakdown.
- Appraisal is done “subject to completion” of construction/remodel and after project is complete, appraiser will go back out to property recertifying value.
- After construction is completed member will apply for an end loan. Eligibility for the type of end loan project will be determined once construction is complete.
- It may take a year or more before your property tax bill is at full assessment. Therefore, an estimated calculation to determine annual property taxes will be generated from an online source. The estimated amount will be used for loan qualification and escrow of property taxes.

### **Borrower Requirements**

- 10% reserves for cost overruns, the amount is based on the construction costs or rehab amount.
- Borrower to approve all invoices to be paid and submit draw request to the title company.
- Borrower to cover cost overruns over the original cost breakdown.
- Borrower to obtain builder’s risk insurance policy and provide an annual paid receipt prior to closing.
- Change orders must be in writing and submitted to the title company for approval before change is granted.
- Borrower’s required funds for construction project will be deposited into a savings account at CoVantage Credit Union prior to the start of project. These funds will be used prior to disbursement of loan funds.

## **SECTION 2: Terminology**

**Allowance** – An available amount of money set aside for specific use of items not yet selected. For example, an electrical allowance sets aside funds to be spent on electrical fixtures.

**Bid/Estimate** - The approximate cost of labor, materials, and other costs that a contractor anticipates for a project as summarized in the contractor’s proposal.

**Blueprint/Floor Plan** – A drawing used to show the measurements of the outside structure and interior rooms.

**Builder's Risk Insurance** – Insurance purchased by the owner for protection coverage during the construction project. Policy will convert over to a standard policy once construction is complete.

**Certificate of Occupancy** – Certificate issued by the local municipality after all inspections have been completed that will allow owners to occupy the home.

**Change Order Request** – A document that is used when the homeowner has made a change to the original signed contract. This document needs to be approved by the Lender before the contractor makes the change; or it will need to be billed separately, increasing the cost to build the home.

**Conditions, Covenants and Restrictions** – Standards that determine how a property can be used and protections put in place by the developer for the benefit of all owners in a subdivision.

**Construction Contract** – A legal document between parties that outlines the scope of work to be completed along with the costs associated with the construction.

**Contractor** – A person or company that is licensed to perform construction duties.

**General Contractor** – A licensed person that oversees the project from start to finish.

**Sub-Contractor** – a specialty contractor who works under the General Contractor

**Draw Request** – The advancement of funds for work that has been completed by the contractor.

**Escrow Account** – An account where funds are held for the completion of the project.

**Survey** – A document showing the boundaries and measurements of a specific parcel of land.

**Zoning** – Governmental limits on the usage of a property. Example: Residential, Commercial, Agricultural

## **SECTION 3: Advantages of Having a Construction Loan with CoVantage**

- Local servicing – you can talk to our Mortgage Servicing staff or Mortgage Loan Originators at any time.
- Free pre-approvals.
- Payments are credited the same day they are received.
- No pre-payment penalties.
- Electronic payment options – Automatic transfer from savings or checking using MyCoVantage Digital and Mobile Banking.
- Loan interest rebate – A percentage of interest paid on your in-house mortgage is returned to you at the end of the year. Although not guaranteed, a loan interest rebate has been paid since 1982.
- Credit of \$1000 at end of construction loan financing if construction end loan is funded prior to 18-month term.

## **SECTION 4: Construction Loan Checklist**

When applying for a Construction Loan, please provide the following information (By providing documents early in the application process it helps keep your file moving without delays):

### **Income Verification**

- Most recent 30 days paystubs with year-to-date earnings (Three paystubs for bi-weekly or five for weekly) must include your name and company name
- Most recent two years of W2s
- Most recent two years of tax returns, including all schedules for personal and business

### **Asset Verification**

- Most recent two months savings/checking statements showing transaction history and include your name and financial institution name (Include all pages)
- Most recent statement on investment accounts - stocks, 401K and pension plans (Include all pages)
- Real estate property tax bill(s) for all property owned
- Proof of home insurance on all homes owned

### **Construction Verification**

- Construction Contract including complete bids and estimates, signed by all parties
- Current General Contractor License
- Floor plans
- Builder's Risk insurance policy with one-year paid receipt
- Copy of prior title insurance policy
- Construction Escrow Agreement signed by borrower(s) and builder (CoVantage Form)
- Tripartite Agreement signed by borrower(s) (CoVantage Form)

### **Miscellaneous**

- Complete list of residency and employment covering last two years including name, address, position and phone numbers for all employers and past/present landlords
- Most recent statements on any loans being paid off with this loan
- Divorce decree (if you receive child support, provide documentation for one year)
- Accepted offer to purchase if purchasing land

## **SECTION 5: What does it cost to borrow from CoVantage for a construction loan?**

### **Estimated Cost to Construct a Home**

<b>1.</b>	Origination Fee .....	\$2500
<b>2.</b>	Appraisal Fee .....	\$540
<b>3.</b>	Document Prep Fee .....	\$100
<b>4.</b>	Credit Bureau.....	\$55
<b>5.</b>	Wire Fee (if applicable).....	\$20
<b>6.</b>	Employment Verification (if applicable) .....	\$95.90
<b>7.</b>	Flood Search .....	\$10
<b>8.</b>	Tax Service Fees .....	\$65
<b>9.</b>	Lender Title Insurance .....	Depends on loan amount
<b>10.</b>	Owner’s Title Insurance (optional).....	Depends on value of home
<b>11.</b>	Recording Fees.....	\$30 per recorded document
<b>12.</b>	Construction Draw Fee from Title Company .....	\$500
<b>13.</b>	Closing Fee .....	\$300

## **SECTION 6: Construction Forms**

- Construction Loan Agreement
  - Borrower, Contractor and Title Company sign this form
- Draw Request for Advance Form
  - Borrower uses this form to request draws from Title Company
- Tripartite Escrow Agreement
  - Only borrower signs this form
- Construction breakdown worksheet
  - Sample of breakdown needed from contractor for estimates

**To apply, visit any of our offices, call us at 800-398-2667, or go to [www.covantagecu.org/applyonline](http://www.covantagecu.org/applyonline)**