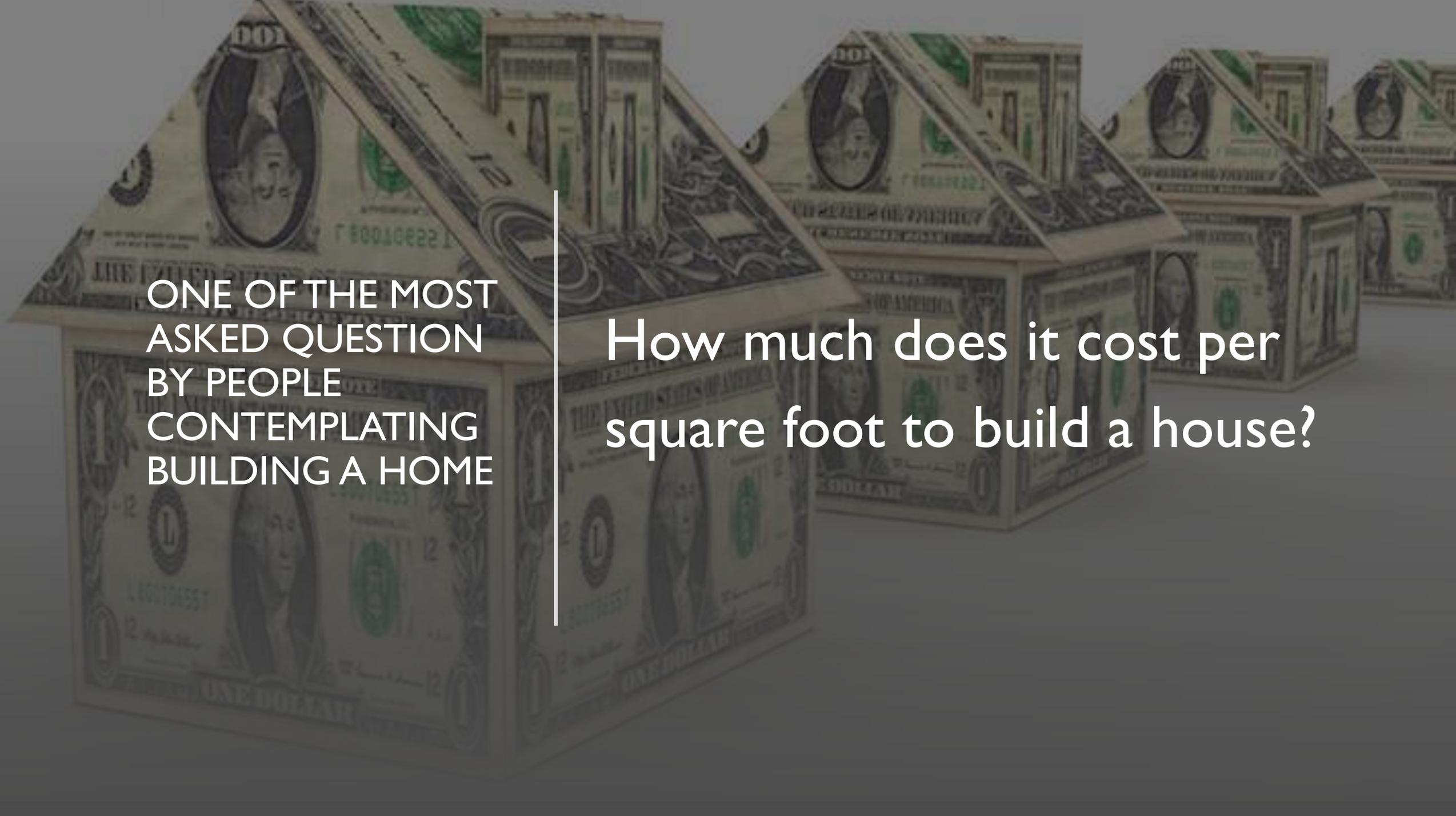


# **I WANT TO BUILD A HOUSE...NOW WHAT?**

PRESENTED BY GOLDEN SANDS HOME BUILDER ASSOCIATION



ONE OF THE MOST  
ASKED QUESTION  
BY PEOPLE  
CONTEMPLATING  
BUILDING A HOME

How much does it cost per  
square foot to build a house?

# JEFF RICE

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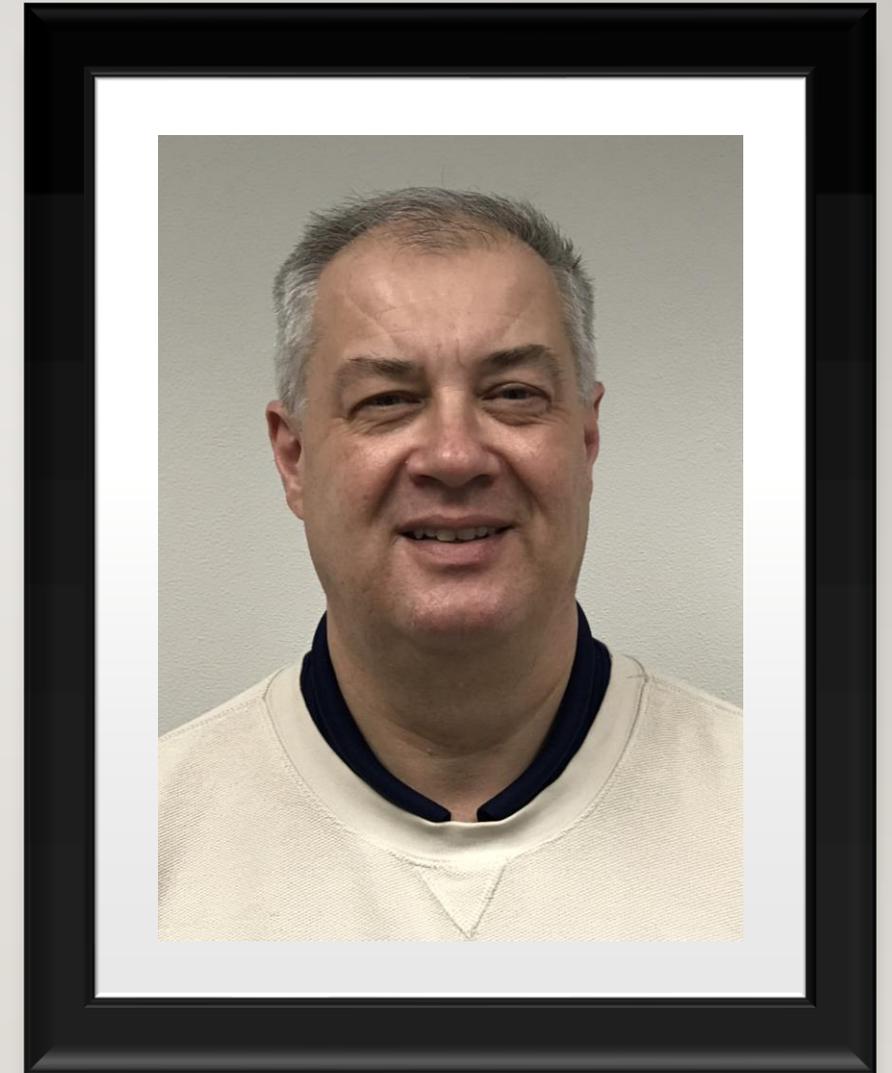
Jeff Rice is a general contractor and chief of business operations for Origin Family Homebuilders. Jeff enjoys the whole home building process, but his favorite part is helping clients translate their ideas from an image in their minds, to a plan on paper, and finally to a beautiful home they can live in. In addition to working in residential construction, Jeff also spends his time teaching marketing and project management courses at Mid-State Technical College and relaxing with his wife and little boy at their home in Custer.



# JEFF CHURAS

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Jeffrey Churas works for his hometown bank The International Bank of Amherst as an Assistant Vice President Retail lending. In this capacity he assists customers whether they are buying their first home, refinancing their existing home or building their new home. Jeffrey enjoys helping customers realize their home ownership dreams by assisting them through the home lending process. This involves listening to the customer and determining their needs then fitting them to the appropriate lending product. He has 28 years of banking experience and is a 2017 Graduate of the Graduate School of Banking Madison, WI.





## KAREN YACH

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Residential Mortgage Lender at Associated Bank with 25 years of experience in lending. She enjoys working with customers through their new construction process, land purchase or home purchase. Being available throughout the process to answer questions is her top priority during this very important time in her customer's life.

# JASON BLENKER

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Jason Blenker is the visionary leader behind Blenker Companies, Inc a mid-west provider of housing solutions designed to make the building process easier, faster, and better. Jason has one mission, to Build Something Great® – great buildings, great communities, great companies, great leaders, and great team members. By providing engaged leadership and an eye on the future, Jason focuses on leading off-site manufacturing of housing solutions to builders, developers, and owners.



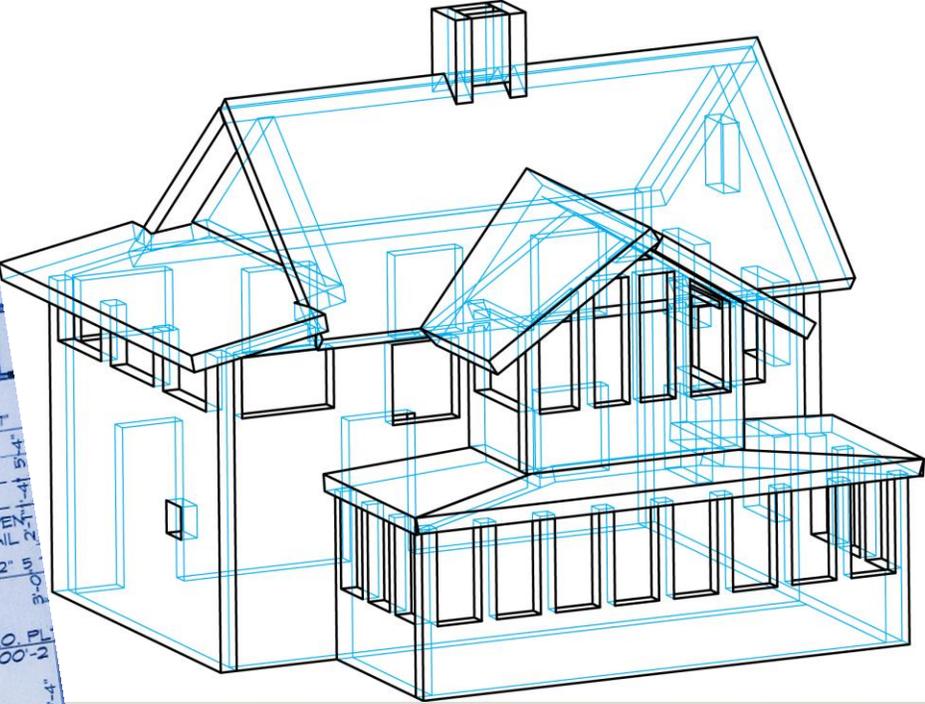
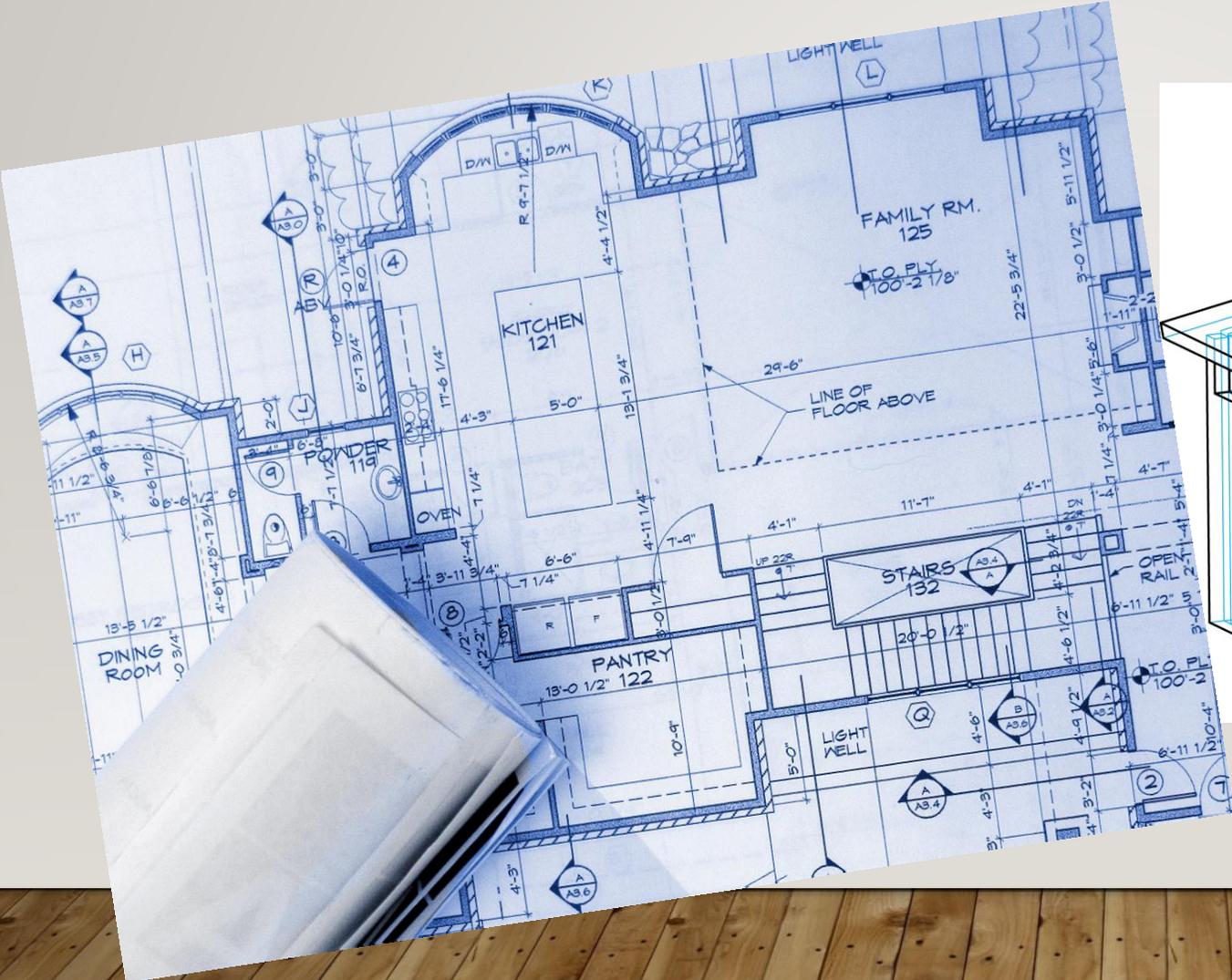
# Finding a builder



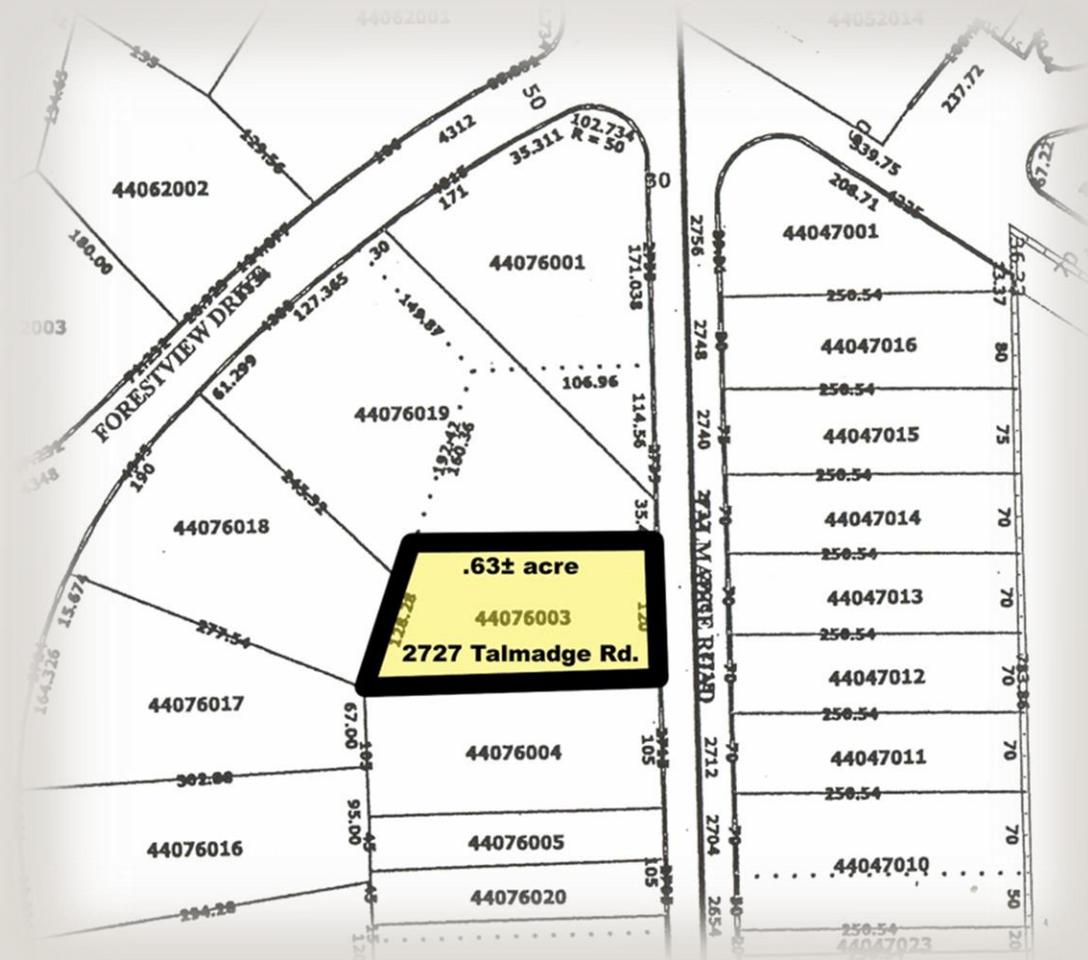
**Before you start reaching out...**



# Do I need a house plan?



# Do I need a lot?



**Do I need a budget?**



# How to know if a builder is a good fit?

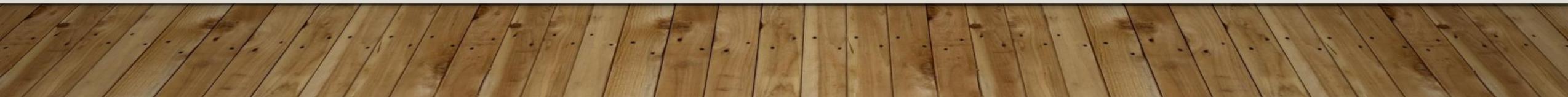


# Why get a preapproval?

- Determines Feasibility.
- Solid document review of your income, credit and funds vs a prequalification which is just a conversation.
- Saves time later.
- Reduces stress.
- Preapproval process flushes out any issues; credit for example.

# What is needed to do a preapproval?

- Recent computer generated paystub within the last 30 days.
- Last two years federal tax returns and w-2s at this time 2016 and 2017 with 2018 w-2s.
- Recent 2 months bank statements verifying funds that will be used for down payment and closing costs.
- If lot already owned then a copy of the deed to the lot and a copy of a recent real estate property tax bill. If purchased within the last 12 months, a copy of the offer to purchase on the lot.
- Your driver's license.
- General list of debts to include minimum payments, outstanding balance and account number and depository accounts to include name and address of institution along with account numbers.



# What happens during the preapproval process?

- Credit application is completed.
- Credit bureau is pulled with a risk based pricing notice.
- Income and deposit information and credit information is gathered.
- Lender analyzes all of the information and determines qualification.
- Preapproval letter is created and delivered to the customer.



# The Construction Process

## **The Construction Contract**

Initially, you will be required to execute an agreement with a builder to construct your home. This is one of the most important documents you will sign because all other construction terms (e.g. contract amounts, payment terms, completion date, etc.) will likely depend upon, and be resolved by, the contents of that agreement. Payment (funds disbursed) for progress will be dependent upon work completed. Pay-by-Contracts, a contract that spells out when payments are to be made to the contractor could result in a large percentage of funds being paid for work not yet completed. For this reason, to protect you and Associated Bank, the payment schedule of Associated Bank will be followed. The Pay-by-Contract payment schedule will only be allowed to the extent it is consistent with Associated Bank's payment schedule requirements.

## **Owner-Paid Items**

Any items reflected in the construction contract as "owner to supply" or "owner's responsibility" require a bid or quote and must be added to the total construction budget.

## **Title Insurance**

If you don't already own your lot, you will be purchasing it when you close on your construction loan. In either case, you will have an owner's title insurance policy. You will likely have insurance only for the price of your lot, but you may elect to purchase additional insurance. Associated Bank requires a mortgagee's title insurance policy in the full amount of the mortgage loan, in part to protect against claims of contractors and suppliers. You should work with the title company to protect yourself against any claims of contractors or suppliers and also understand all matters concerning easements and restrictions on building and usage.

## **Builder's Risk Insurance**

You will be required to provide Associated Bank with Builder's Risk Insurance coverage until construction is completed, and a homeowner's policy obtained, with a mortgagee's endorsement. The amount and extent of your coverage under the Builder's Risk policy is a decision you will have to make. Associated Bank requires coverage based on either equal to or the lesser of:

1. The principal balance of the loan (including the amount of subordinate financing) as long as it equals the minimum amount – 80% of the insurable value of the improvements.
2. 100% of the insurable value of the improvements, as established by the property insurer.

## **Zoning Laws, Licenses and Permits**

You will be required to comply with local and state building laws, codes, ordinances and restrictions. Licenses and permits are your responsibility, but most builders agree to obtain them on your behalf. At various states of construction, you will need to have inspections by the local building inspector before construction may proceed. After construction is completed, an occupancy permit must be issued by the local community before you can move into the house.

## **Changes to the Construction Contract**

It is quite common for the builder and the homeowner to change the contract during construction. This is usually accomplished by “change orders”. Each such change should be well-documented in the change order and the cost known and clearly defined.

# The Loan Process

The house being built will become your home. You will live in it, enjoy it and make all decisions regarding it. Associated Bank will not interfere with, or be responsible for those decisions. To protect our lien interest in your home, Associated Bank has processes and usual and customary requirements to which you need to be aware of and comply. The following is a brief overview of those processes and requirements.

## **Loan Application**

You will be required to complete a loan application. All loans will be permanent loans, continuing after construction is complete, unless special arrangements are made to provide financing only until construction is completed.

## **Credit Information**

In addition to the application, you will be required to provide information about yourself and any co-borrowers. In order to determine your credit worthiness, you will be required to disclose credit history, income, financial status, sources of down payment, etc.

## **Insurance Coverage**

The following insurance coverages are required:

1. Title Insurance.
2. Builder's Risk Insurance – during construction.
3. Fire and Extended Coverage (homeowners) Insurance after construction.
4. Flood Insurance - if your house is located in a flood plain.
5. Private Mortgage Insurance - if you have less than 20% equity in your transaction.

### **Other Documents**

Lastly, you will need to provide Associated Bank with the following:

1. A fully executed construction contract, prior to closing.
2. A fully executed Offer to Purchase, if the lot is being purchased separately.

## **Servicing of the Loan**

When draws are requested by your builder, an inspection of the property will be done to verify the work has been completed. Servicing will review and compare the sworn statement provided by the builder to the inspection report and fund the amount for work that has been completed and does not exceed the line item on the original cost breakdown. If the draw request includes overages, they will need to be paid by you, the homeowner, as they occur.

## Construction Loan Worksheet

Borrower(s) Name: \_\_\_\_\_ Karen Yach \_\_\_\_\_ Date \_\_\_\_\_ 1/28/19 \_\_\_\_\_

Property Address: XYZ New Home Ln \_\_\_\_\_

Stevens Point, WI \_\_\_\_\_

Builder: ABC Contractors \_\_\_\_\_

Lot Cost or Value (1) \$ 10,000 \_\_\_\_\_

Building Contract (2) \$300,000 \_\_\_\_\_

Change Order(s) (3) \$ na \_\_\_\_\_

Sub Total (1+2+3) (4) \$310,000 \_\_\_\_\_

Lot Loan Balance \$ Ø - owns

Lot Discount \$ \_\_\_\_\_

Other Charges \$ \_\_\_\_\_

Lot Close Date (If Owned) \_\_\_\_\_

### Additional Escrows

\*\*Anything not accounted for in Contract \_\_\_\_\_ \$ \_\_\_\_\_

(would need bids and proof of funds) \_\_\_\_\_ \$ \_\_\_\_\_

Sub Total (5) \$ \_\_\_\_\_

Total Cost (4+5) \$310,000 \_\_\_\_\_

Less Mortgage Amount \$294,500 \_\_\_\_\_ (LTV = 95%)

Down Payment Required \$15,500 (\$10,000 Lot value + \$5,500 from cust) \_\_\_\_\_

### • Amount To Be Held In Escrow

Building Contract (2) \$300,000 \_\_\_\_\_

Change Order(s) (3) \$ na \_\_\_\_\_

Additional Escrows (5) \$ na \_\_\_\_\_

Sub Total \$300,000 \_\_\_\_\_

### Less: Down Payment To Builder Per Contract:

(Paid) \$3000 (Down pmt) \_\_\_\_\_ + (Draw Paid At Close) \$30,000 \_\_\_\_\_ May not exceed 10%

Of Construction Cost (Can add in 50% of any special orders in this disbursement)

**Total Amount To Be Held For Construction**

**\$267,000** \_\_\_\_\_

# Frequently Asked Questions

## **What do I need prior to closing?**

You will need to obtain a builder's risk insurance policy. An Associated Bank representative will call you prior to closing to verify the final construction costs, down payment and other funds needed from you at closing.

## **When do I have to account for funds needed for construction?**

All funds for construction must be secured at the time of loan closing. If the cost of construction is not fully covered by borrowed funds, an owner's deposit is necessary. The owner's deposit is the difference between the cost of construction and the principal sum of the mortgage(s). This amount will be held by the bank until such funds are needed.

## **How many months do I have to complete my house?**

You will have 12 months to complete the construction of the house. If you are unable to complete the house by the target date, you should contact Associated Bank to request an extension. Please note, extensions will be granted at the discretion of Loan Servicing and are not guaranteed.

## **Who is responsible for collecting lien waivers, licenses, or permits of any kind?**

You are responsible for protecting yourself. Of course, the title company will collect lien waivers before any funds are disbursed for work completed. This includes payment for overruns. However, you will have to work with the title company and provide them with the names of contractors, suppliers, and other workmen who may give you notice of their services. The contractor is usually responsible for obtaining any licenses or permits required by the local municipality.

## **How does the builder get paid for work completed?**

At the time your builder makes a written request to the title company to draw funds for payment, there will be an inspection to determine if sufficient work has been completed. Written approval by you, authorizing payment, is required. If everything is satisfactory, Associated Bank will disburse loan funds to the title company for payment upon approval of the draw request. Any deposits paid to the builder prior to loan closing will be used first and then the proceeds from the loan. At the time of the first draw request, the builder must specify the items to which the deposit funds were allocated.

## **Who monitors my account to ensure I have adequate funds to complete my house?**

At loan closing, Associated Bank will require adequate construction funds available based on the estimated construction cost. If you make changes to the contract that affect the cost, you will be responsible to pay the difference at the time the change order is requested. You may be required to deposit additional funds with Associated Bank. Your loan amount cannot be increased to cover these changes.

**What happens if my builder under estimates the cost to build the house?**

You are responsible for selecting a builder who will provide an accurate estimate of the cost to ensure completion of construction as provided for in the construction contract. If your builder under estimates the cost to build or complete the house, you will be responsible for the additional costs.

**What happens when I finish construction?**

Three major things happen:

1. The appraiser will be contacted to inspect the property and issue a completion certificate that verifies the house has been completed per the original plans/specs.
2. The local building inspector's office must issue an occupancy permit.
3. If the house is finished within the time allotted for construction, you will have a minimum of one more interest only payment. A letter will be sent to you advising of the date your first regular principal and interest payment will begin.

**During construction, when and how am I billed for interest and any escrow due each month?**

You will receive a bill by mail each month. You are responsible for notifying Associated Bank if your mailing address changes. The billing statement will include interest on only the amount disbursed through the statement date, and any applicable escrows, such as Property Taxes, Hazard Insurance, Flood Insurance and Mortgage Insurance. Transactions on your account from the day after the statement date to your next statement date will be reflected on the new statement. Late fees will be assessed if payment is not received by the end of 15 calendar days after the date it is due. Payments can be made over the phone by contacting Customer Care at 800-236-8866. Payments can also be made at any Associated Bank location or mailed to Associated Bank, Attn: Cashiering Dept., 1305 Main St., Stevens Point, WI 54481. If you make a payment without your statement, please include your loan number on the check.

**What happens if I get in a dispute with my builder?**

Please contact your loan officer to discuss options at that time. Please note, Associated Bank reserves the right to take appropriate measures to protect its interest in the lien, which could include, but is not limited to, prohibiting loan draws until the dispute is resolved.

**What if I have additional funds that I would like to apply towards construction?**

You may apply additional funds against your outstanding principal balance. This will reduce your monthly interest payment. These funds may NOT be withdrawn at a later date.

**What happens to any loan funds that were not used during construction?**

Funds not used during construction will be applied to the loan as a principal reduction upon completion of the house unless receipts are provided to the title company for upgrades made during the construction period for which you would like to be reimbursed. Any reimbursements may be remitted after project completion.

**How are property taxes handled during and after construction completion?**

Your local property taxes are currently imposed on the Property based on its present "unimproved" condition. Upon completion of construction, your property taxes will be based on the "improved" condition of the Property, which will substantially increase amount of your annual property taxes.

# Definitions

## **Builder's Risk Insurance**

This insurance coverage term is often misunderstood. The name implies the builder carries this insurance. Although the builder typically carries this type of coverage on their business, coverage does not include the buyer or the buyer's lender. You will need to obtain a Homeowner's Insurance Policy along with a Builder's Risk Insurance Rider during construction. Typically, once your home is completed, your insurance agent will allow you to remove the Builder's Risk Rider leaving your Homeowner's Insurance Policy intact.

## **Cost Breakdown**

This is a detailed listing of construction costs broken into categories and provided to the bank and the title company by the builder. A monetary value is given to specific "segments" of the construction project. The cost breakdown is critical in "matching" a draw request from the builder with the value of work that has been completed at the time of the draw request.

## **Cost Overruns**

These expenses occur when the actual cost of an item exceeds the original budgeted amount, usually creating a shortage in the construction escrow account.

## **Lien Waiver**

This is a document that is signed by a contractor/builder or subcontractor who provides labor and/or materials for your construction project. The document certifies to the customer that the contractor/builder has been paid in full and will not place a lien on the property. During the construction process, you may receive notice of a potential lien. Please forward any and all notices to your lender.

## **Completion Certificate**

This document certifies that construction has been completed per the plans and specifications as originally submitted to Associated Bank.

## THE CONSTRUCTION PERMANENT LOAN PROCESS

Ready to start building your dream home? Associated Bank is here to help. Begin by reviewing the steps and processes you'll need to consider along the way.

### 1. Meet with a loan officer.

An Associated Bank loan officer will start by introducing you to our loan programs and the required qualifications. You may be able to pre-qualify for a loan at this point, or the loan officer may start the formal approval process, in which Associated Bank will verify, in writing, everything needed for written loan approval.

### 2. Preplan with a builder.

With a firmer idea of your budget, you can now meet with a builder or architect to discuss plans for the new home. The size of the home, style, amenities and costs should be discussed at this time. You'll also agree upon starting time and completion time for the construction term.

### 3. Sign final construction contract.

All designs, specs and price for the home are finalized and the construction contract is signed. You'll meet with your Associated Bank loan officer to finalize the loan application. Once we complete the final loan processing, you will be issued a loan commitment and a date will be set for the loan closing.

### 4. Close on the construction loan.

You will meet with Associated Bank or the title company to sign the final loan papers and necessary documents. You will also purchase your lot at this time, if you haven't already done so. Associated Bank will set up a construction loan account for the amount of the construction contract (loan amount plus down payment) to ensure sufficient funds are available for completion of the home.

### 5. Builder starts construction.

Once construction on the home begins, the builder will ask for periodic or monthly draws as the construction proceeds. After you authorize a draw to the builder,

Associated Bank will disburse loan funds to the title company. The title company will then pay the builder in accordance with the terms of the disbursement agreement.

### 6. Begin paying interest as construction commences.

A 12-month construction period is set up where the borrower will pay interest only on the amount of loan funds in use during each month. Each month, an interest payment (plus escrow for real estate taxes and private mortgage insurance, if required) will be due for the number of days loan funds were used during the previous month. As the builder requires additional draws, more funds are in use and the amount of monthly interest that is due will increase. This monthly interest payment will continue throughout the construction term.

### 7. Finalize the construction phase.

Upon completion of the home, the builder will request the final draw on the construction contract. You and the builder will reconcile any overages or shortages from the contract allowances. Associated Bank will have a final inspection done showing completion of the home. With your authorization, the final draw will be made to the contractor through the title company.

Thirty days prior to completion of the home, contact your loan officer to discuss your options for converting to a fixed-rate mortgage.

### 8. Start paying the permanent mortgage.

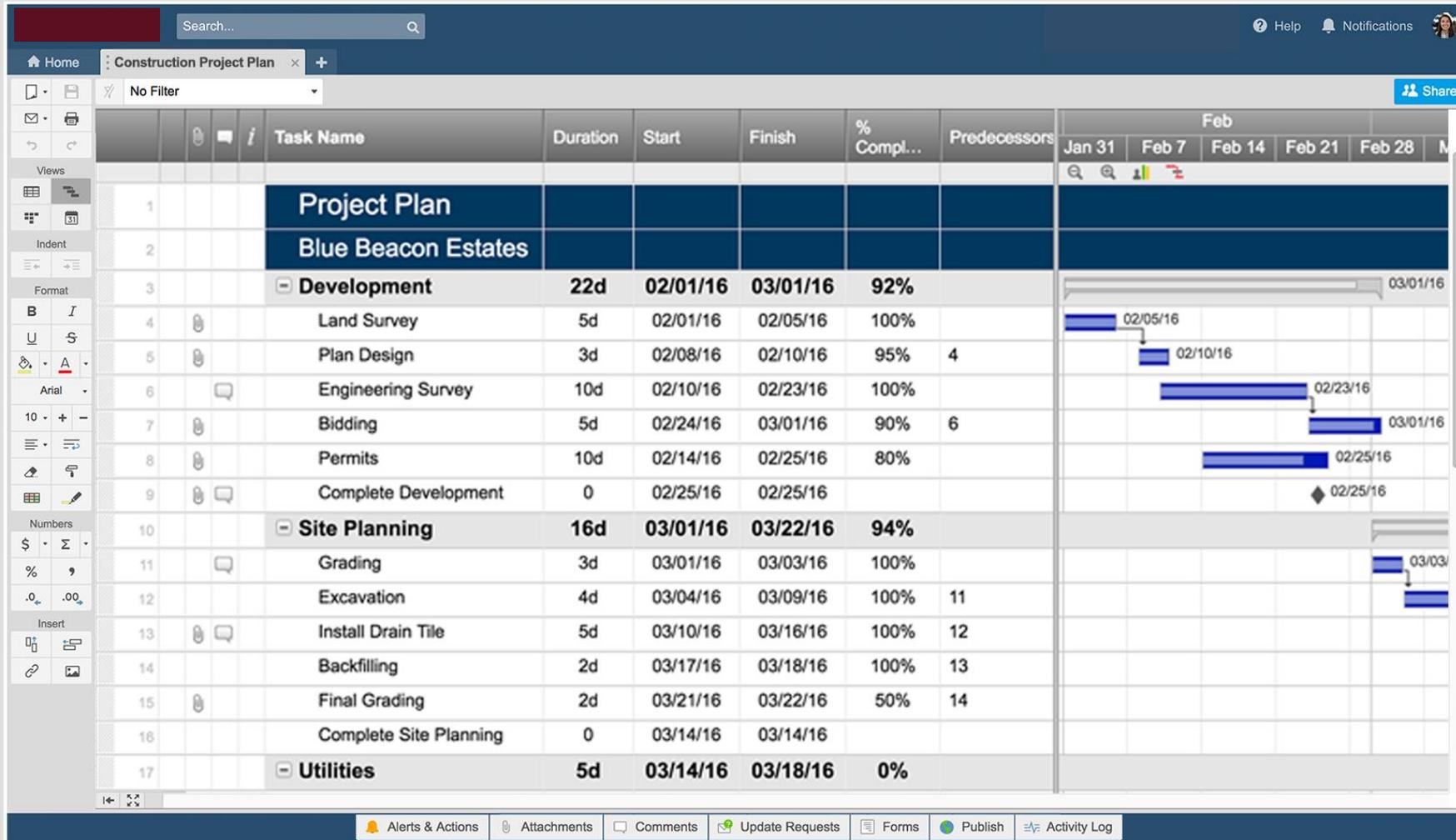
You will receive a final interest payment notice of the construction term. The following month, the loan repayment will begin with a full payment on principal and interest due. (A portion of the monthly payment will now be applied to the principal balance.)

# Bids

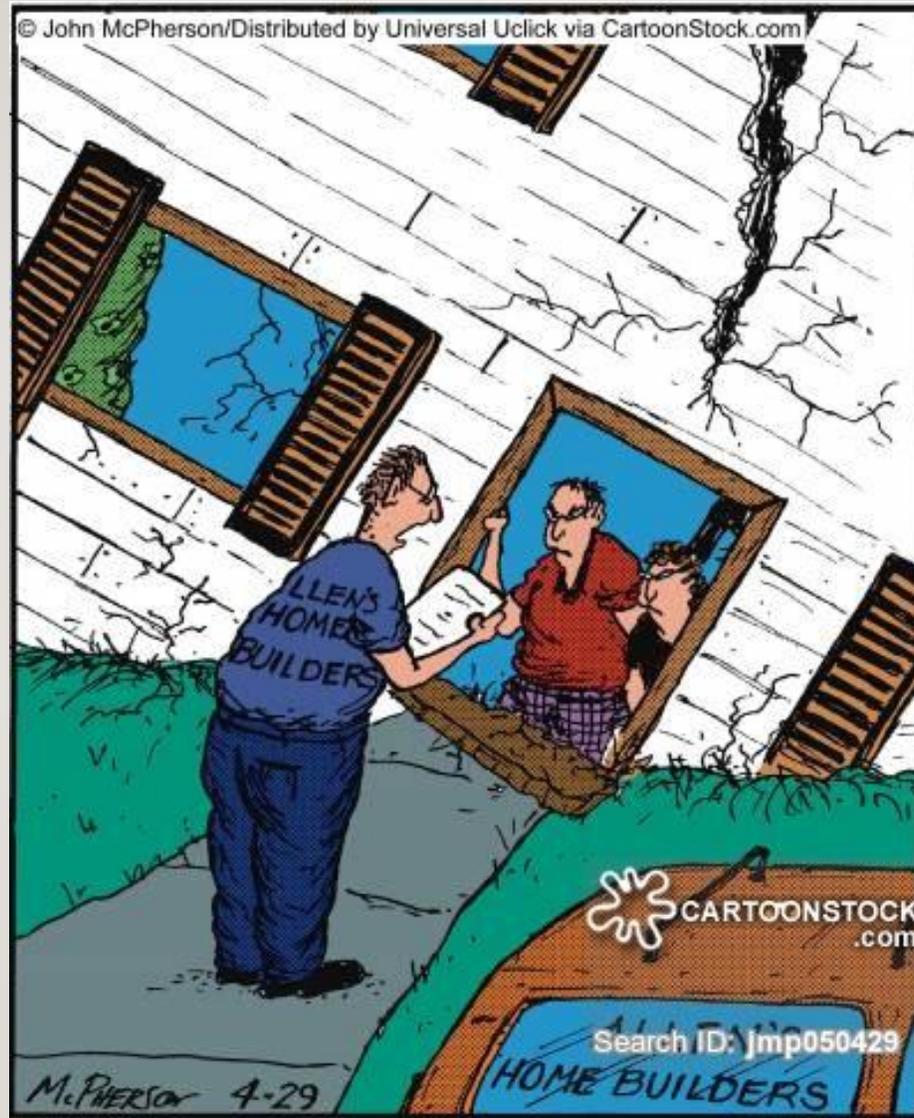
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# Schedule







**“It says right here in your contract, folks: ‘Some settling may occur during the first year.’”**



**Changes**

**NEXT EXIT** 

# The 5 things you need to have in your construction contract

## **1. Clearly defined Scope of Work**

- **Plans/specifications**
- **What is Included? Excluded? By owner?**
- **Labor, materials, both?**
- **Specifics (brand, quantity, color, size, etc.)**

## **2. Clearly defined Costs of the Work**

- **Is this a bid or an estimate?**
- **Allowances vs. Fixed Price**
- **Options**
- **Alternates**

# The **5** things you need to have in your construction contract

## **3. Schedules**

- **Construction start & completion date**
- **Project Milestones**
- **Decision Schedule**
- **Payment Schedule**

## **4. Terms & Conditions**

- **How are disputes resolved?**
  - **Change Orders**
  - **Delays**
  - **Insurance**
- 

# The 5 things you need to have in your construction contract

## **5. Warranty**

- **What is covered?**
- **How Long?**
- **Product warranties**



*“Worst-case scenario? The renovation goes three years and two million dollars over budget, one of you bludgeons me to death with my own hammer, and you both get the electric chair.”*

