



MAKING
Custom Homes
POSSIBLE



CONSTRUCTION LOAN HANDBOOK

Michigan First
MORTGAGE
A division of Michigan First Credit Union



A seamless and supportive experience from start to finish.

Building the home of your dreams delivers endless possibilities but the process can feel a little daunting. Our experienced, dedicated team at Michigan First Mortgage is looking forward to being there for you every step of the way.

Michigan First Mortgage offers construction loans, provided by a knowledgeable and proactive team of loan officers, processors, and underwriters. We work together to ensure the process is smooth, efficient, and enjoyable. We're part of Michigan First Credit Union, which has a 90-year history of serving members with integrity, value, and personalized attention.

This booklet will help guide you throughout the construction loan process and answer some of the questions you may have.

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Builder Activation

- o If your builder is new to Michigan First Mortgage, they'll need to complete the Builder Application process and supply copies of licenses, building contract, proof of insurance, articles of organization, and form W-9.
- o If your builder has registered with Michigan First Mortgage in the prior 12 months, they do not need to apply again.
- o Once on the active list, your builder will need to update their information annually. We proactively contact each builder on or around their activation anniversary date to collect updated documents.

Q. Why does my builder need to be an active builder with Michigan First Mortgage?

A. Since your loan amount is based on the improved value of the property, Michigan First Mortgage 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 will I 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.



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 Michigan First Mortgage 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 Michigan First Mortgage Construction Draw Administrator assigned to your project.

Your welcome email includes:

- o A Construction Loan Servicing Guide explaining what to expect during construction
- o Your Draw Administrator’s name and contact information

Your builder’s welcome email includes an outline of the following Michigan First Mortgage draw processes in addition to your Construction Draw Administrator’s name and contact information:

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



Loan Approval Details

- o Once the appraisal is complete and all pertinent financial information is received, your application will be reviewed.
- o Upon approval of your loan request, we will contact you to schedule an appointment to sign the final papers.
- o Signed documents will be sent to the county courthouse for recording.
- o Your builder should not start construction of your home until after your loan has closed.
- o The mortgage must be recorded, and a Notice of Commencement filed before any work can be started.
- o 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.



Construction Documents

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

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

Required Documentation Provided by Builder

1. Builder's 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 Builder's 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 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 Homeowners 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 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 Draw Administration Team and a member of that team will contact you using your preferred method of contact.

You will be sent the Michigan First Mortgage Construction Servicing Guide and a Construction Draw 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 drawadmin@michiganfirstmortgage.com



Once a Draw Request is received, the Draw Administrator will order all the required documents to process the draw. All 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.
- Builder's wire information.
- Builders are required to provide Michigan First Mortgage 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 mechanic's 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. Michigan First Mortgage 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 18 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 1st 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 or at a Michigan First Credit Union branch.

If you 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.

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 \$ _____

Multiply by interest rate

(Convert percentage to decimal) X _____ =

Total interest \$ _____

\$ _____ $\div 365 \times 30 =$ \$ _____ (estimated monthly payment)

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 or arrange for an ACH to be set up to automatically make payments. Your Construction Draw 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 Draw 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 Michigan First Mortgage you will be contacted by your Construction Draw 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 Draw 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:

- 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 Homeowners 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 Construction Draw 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 Homeowners Insurance Policy

Q. What documentation does Michigan First Mortgage 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 Insurance (if not received at closing)
- Construction Progress Inspection (ordered by Michigan First Mortgage's Construction Draw Administrator)
- Title Insurance Endorsement (ordered by Michigan First Mortgage's Construction Draw 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 (C of O)
- Final Construction Inspection
- Final Title Endorsement
- 100% complete letter signed by you
- Insurance and tax information including a paid Homeowners Insurance Policy

Taxes and Insurance

- o Course of Construction or Builders 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, Builders Risk will expire, and Homeowners Insurance is to be purchased by you.
- o 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).
- o Prior to the beginning of permanent mortgage payments, the Construction Draw Administrator will work with you to determine what funds need to be collected to set up escrow accounts for loans where Michigan First Mortgage will pay taxes and/insurance. An escrow analysis will be provided at this time.
- o Property taxes may be increased by the taxing authority based on improvements to the property.

Q. What is Course of Construction/Builders Risk Insurance?

- A.** Builder's Risk and Course of Construction Insurance are the same thing, but more commonly referred to as Builders Risk (refer to page 11 for more details).



Q. Who pays taxes during construction?

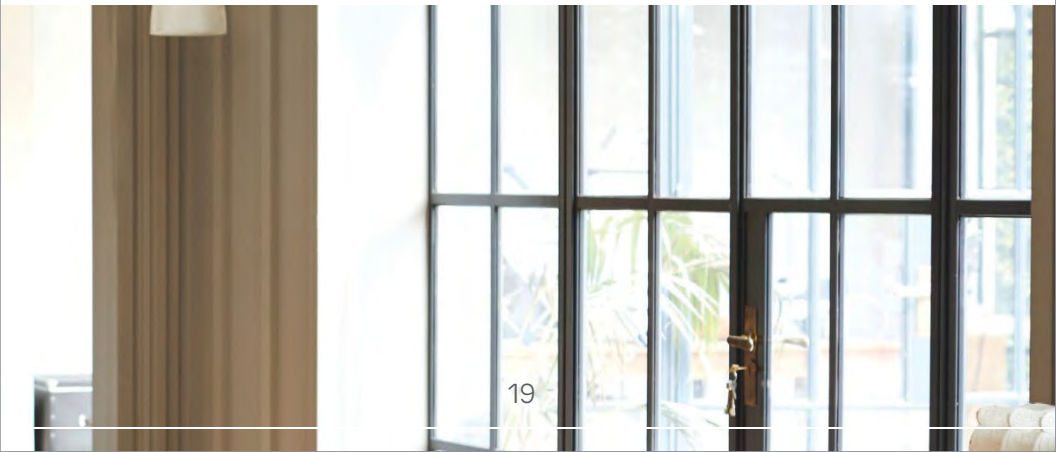
- A.** You pay taxes during construction based on the tax bill issued by the taxing authority.

Q. What is hazard insurance?

- A.** A Builders 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 Homeowners policy (i.e. hazard insurance). Many Builders Risk Insurance Policies automatically convert to a Homeowners Insurance Policy 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 Michigan First Mortgage as the mortgagee. Please have your insurance agent add the Michigan First Mortgage mortgagee clause to the policy. We can provide that information upon request.

Q. When should I obtain a Homeowners Insurance Policy?

- A.** Once construction is complete and the Certificate of Occupancy has been issued, you will need to obtain a standard Homeowners Insurance Policy. Michigan First Mortgage must be added as loss payee. You should discuss how Michigan First Mortgage 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, Homeowners Insurance and Private Mortgage Insurance (when applicable) escrow accounts. Once the final disbursement is made, a Michigan First Mortgage 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.





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