



CONSTRUCTION LOAN FAQs

- 1 What kind of construction financing does Achieva Credit Union offer?**

We offer financing for custom home construction with our construction to permanent program. You can also finance a remodel of your current home with our purchase renovation/refinance renovation program based what your home will be worth when the renovation is done.
- 2 What is the benefit of a single close construction loan?**

A single close construction loan reduces the cost that would be charged for closing a construction loan and a permanent loan separately, so it saves you big money in then end.
- 3 If I get a single close construction loan, do I have to sign new loan documents?**

Absolutely not! The beauty of our construction to permanent loans is that your documents are created to cover both the construction and permanent phases of your loan. If you are eligible for a conforming conventional loan, you can potentially modify it to a fixed rate when your home is complete.
- 4 Do we have to have our own lot, free and clear?**

No, we will pay off your existing land contract if you've got one.
- 5 If we own our lot, how do we determine how much we can borrow?**

The equity of the land you own can be used as the down payment on what it will cost to build your home. An appraiser will be the one to estimate the land's value.
- 6 What does an appraiser do when there is no building to appraise?**

The appraiser looks at your land as well as your building plans. They will then look at sales of similar properties in your area and appraise the value of the home that will eventually be on your lot even though it doesn't exist yet.

Continued on the next page.

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7 Can your programs be used to finance major remodels or “tear downs”?

Yes. In these cases, the amount you can borrow will be based on the future value of the house after construction is finished. This type of construction loan can be used to refinance the home you already live in or to get the funds required to purchase the property which will become your residence.

8 Are there limitations to the builder we can work with?

It is ultimately the homeowner’s responsibility to choose their builder. We strongly encourage you to get to know your builder before making your choice. In addition, we do have some minimum standards that builders must meet in order to be eligible for a loan, and your loan officer can provide you with those in detail. One of the minimum standards is five years of experience specific to building single family homes in the local area. The builder must have completed a minimum of two homes within the last two years that are similar to your building project. While we understand you’ll be trying to get the best deal, a project that’s not competitively priced could mean a project that never gets completed, so this is a big watch out for us.

9 Can I be my own general contractor?

No, we do not allow you to be both the owner and the builder.

10 Should I buy my lot first and then decide what to build?

No, that is not something we would advise. The reason why is because one of the major factors in construction lending is the appraised value of the future finished property, and that value is based on the other homes in the neighborhood. Over or under building can cost you cash and equity in the long run since a lot’s fair value can only be determined once the home is finished. Many borrowers purchase lots before knowing what they want to build for what they think is a great price only to find out that the average home in the area will cost a lot more than they have to spend.

11 Do we need to sell our current home before building a new home?

Not necessarily. You should consult with us first. We can help you determine what loan program you might qualify for. If you need the proceeds from the sale of your current home to close on the construction loan, you’ll have to sell your current home prior to, or simultaneously with, the closing of your construction loan. If you rent your home, that does not apply.

12 When does the construction loan term begin?

Construction loans typically have a 12-month term which begins the second month after closing. If the cost to build is more than \$750,000 an 18-month term may be available.

13 How do loan payments work during construction?

During construction, you only pay interest on the amount that has been disbursed. You will get a monthly statement from our mortgage servicing area.

14 How is interest calculated and paid during construction?

During construction, interest is charged only on the amount that has been disbursed, not the whole loan amount. You're billed the interest amount every month as well as monthly mortgage insurance and 1/12th flood insurance, if applicable. These statements are generated on the 19th of the month and are due the 1st of the next month. Draws will not be released on loans with a past due balance.

15 What if the appraised value of my finished home is lower than expected?

Appraisers generally do a very good job of coming up with a fair value. However, in the unlikely event the home appraises for less than was appraised, you would be responsible for paying the amount over the appraised value.

16 What if the project costs are more than estimated?

Projects going over budget are a legitimate concern, whether its caused by unforeseen circumstances or by things getting added as the project progresses. However, your loan amount can't be increased once we have closed on it. This is why we recommend you include allowances in your original plan to account for potential changes that might arise. Any change orders that result in increased cost must be approved by us.

17 What is builder's risk insurance?

You'll get hazard insurance once your home is completed. When you have a construction loan, an additional insurance policy is also required which is known as builders risk insurance. This policy "protects a person's or organization's insurable interest in materials, fixtures and/or equipment being used in the construction or renovation of a building or structure should those items sustain physical loss or damage from a covered cause."

18 What is a draw?

A draw is a request to have funds disbursed from your construction loan. Your general contractor will request a draw when a phase of work has been completed. This request comes to us, and we will then request a third-party inspector to verify that the work has been completed, providing photos of the completed work. This usually takes 2-3 days. Lien releases are executed by the general contractor. In addition, your closing agent will need to provide a title update. This confirms that there are no liens placed on the property besides your first mortgage lien with us. We will send you an email notification when the funds are scheduled to be released following a satisfactory inspection and title update.

19 How many inspections are allowed and what do they cost?

We allow the builder/contractor to request five draws. The costs associated with the draws are paid at the time of closing. Additional draws may be available in certain situations.



20 Who is my primary contact during the construction process?

Our construction administrator will be your primary contact. You will receive their information at your closing. Your mortgage loan officer will also be available to answer your questions or concerns throughout the process.

21 What is a modification?

We offer a construction product for loans within the conforming guidelines and loan amount. Loans eligible to modify their permanent loan to a fixed rate loan must meet the current guidelines at the time of modification. You must re-qualify for the loan by updating all credit, income, asset and collateral information. Your mortgage loan officer will work with you to update your information. They will contact you when your home is within 30 days of completion.

22 When can I lock my permanent rate on my modification?

You are eligible to lock your fixed rate loan when your home is within 30 days of completion.

23 Can we pay our loan balance down at the end of construction?

You can only pay the balance if the loan is not being modified to a fixed rate.

24 When is escrow collected?

If you are required to pay private mortgage insurance, it will be collected each month starting with your first construction payment. For loans requiring flood insurance, first year's premium is required once the foundation and three walls have been completed. You will then be billed 1/12th of the total premium for the next year in each of your monthly construction billings. You are responsible for paying property taxes directly during construction.

When the home is completed, our mortgage servicing department will perform an analysis on your account. This will provide you with the amount needed to set up the escrow account for your permanent loan. You will be required to obtain a hazard/homeowner's insurance policy to replace the builder's risk policy. At the time of application, your mortgage loan officer will provide you with an estimate for your final escrow account.

We hope this FAQ has answered your questions about all things construction loans. Please feel free to contact us with any additional questions. Your Achieva team is available to assist you throughout the life of the loan and is here to help you find a home you can live in and a mortgage you can live with.



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