ED CURRIE
Purchase | Refinance | Construction

WELCOME

Construction **Loans** Made Easy

With Ed Currie

EQUAL HOUSING LENDER

www.edcurrie.com

THE PLAN

THE BIG PICTURE

Our construction program is a "one close", "construction to permanent" loan used to build or improve a single family home that will be your primary residence or vacation home. Investment properties, specs or flips are not eligible. It's like a regular mortgage in every way except the payments are interest only during construction.

There is only one closing and it's before construction begins (not when the house is complete). So any down payment that is needed is required upfront. During construction, as long as you stay on budget, you will not need any additional funds.

You do not need to own the property already. You can use the loan to acquire the property or land you will be building on or improving.

TYPICAL PROJECT TYPES

• Build a new home on raw land
• Build a new home on the site of a home you will tear down
• Build an addition on an existing home
• Do minor or major rehab on an existing home
• Convert a 2-4 unit property to a single family property
• Gut rehab a home

ED AND HIS TEAM

Working with clients who are building a new home or doing major rehab is one of Ed Currie's specialties. Currie is the #1 new construction loan officer in the United States, and on average closes 20-30 construction loans each month! That success is due to a superior loan program. great rates. and most importantly the knowledge, staff, and systems in place to successfully guide clients through a challenging loan process. You can expect when working with Ed and his team:

• A top ranked loan officer since 1994, Ed Currie has closed over $3 billion in loans over his career.

Payments

The payments are interest only on the balance that you owe. So you will start out with a relatively small balance and as you draw funds to complete your home, the balance and interest only payment will increase. Once your home is complete, the payment will switch to a principal and interest payment at the same rate.

Programs

There are a number of loan program options to choose from including ARM and Fixed Rate options. All options carry a 30 year term.

Appraised Value

This is the huge benefit of the construction loan. The appraised value is based on the completed project after completion of the improvements. There is only one appraisal that is done and it's done prior to closing. Keep in mind this also means the appraiser needs the completed plans, budget, and signed construction contract for the project to do the appraisal. This can be challenging when using a construction loan to purchase a property and close within a typical contract close timeframe (eg 45-60 days}. It's very important to note that the appraiser needs to have the final plans and budget at least 30 days prior to the expected closing date to allow time for the appraisal to be completed, reviewed and signed off in underwriting.

PROGRAM DETAILS | CONTINUED

Down Payment

The down payment you will need will depend on many factors including loan size, credit scores, project cost and appraised value. The land value may even matter at times. The down payment (or equity) can be as little as 20% on loans up to $2,000,000 with larger equity positions needed as the loan amount increases.

Your final down payment will be heavily impacted on the appraised value. That number will impact the maximum loan you can get. For a purchase, your down payment will be the difference of the purchase price plus the cost of construction, minus the max loan.

For a property you already own, the max loan needs to cover the mortgage pay-off(s) plus the construction costs. If the max loan covers that amount, you can do

your construction loan with NO down payment. If it doesn't cover mortgage pay-off(s) plus the construction costs, that is your down payment. It is possible to only

need to pay closing costs at closing on a construction loan for property you already own and already have equity. If you give a deposit to the builder. this will be applied toward the down payment needed. If no down payment is needed, you may be able to be reimbursed with a check at closing for some or all of the deposits already made.

Credit

Solid credit is important. The specific requirements will be different depending on your down payment and property type. Minimum credit scores are generally 680-720.

Project Size

There is no minimum or maximum project size or loan request. However, we do require that borrowers hire a general contractor for their project.

Permits

These are not required to close but you must have them by the time you take your first draw after closing.

YOUR BUILDER

Your builder, or general contractor, is a very important decision. The person or company you choose to build with will dictate how successful your project will be and what type of experience you will have. The builder selection is all yours. We will do some background on them but there is no formal approval process that your builder must go through. Since we work with so many builders (good and bad) if you would like a name or two of companies that clients have had good experiences with, let us know. There's a very good chance they work in your community.

PROGRAM DETAILS | CONTINUED

Current Loans

If you already own the property and have a mortgage on it (including a HELOC), the construction loan will roll your current loan(s) into the construction loan.

Construction Costs

You can include additional costs on top of the builder's contract price. "Soft costs" or items outside of the builder's contract can generally be included in the total construction budget. You can even add a contingency to the budget to cover any overruns.

Closing Costs

Specific costs for you will vary depending on a lot of factors. Is it a purchase? Do you own the property already? The title company and project size will also have a big impact. Broadly the closing costs are pretty similar to a regular loan with the addition of inspection fees. Every time your builder requests a draw. an inspector will check to see if the work is done. Check with your potential builder on how many draws they will take on your project. This will help in understanding your closing costs.

Draw Period

We set up the draw period for 12, 18, or 24 months depending on the size of your project and your builder's anticipated completion date. If you need less time. your payments will change from interest only to principal and interest when your project is complete. If you need more time, extensions are reviewed on a case-by-case basis.

The loan payments are interest only during the construction phase based on the loan balance (not the entire loan). As draws for the project are taken, the loan balance increases and the interest only payment will increase based on the loan balance. Once the construction phase is over and the final draw is taken, the only change to the loan is from interest only payments to principle and interest at the same rate. We don't require that the loan be paid off and a balloon payment does not come due. Once the construction project is complete we will do a courtesy review of your current program and other current market options for a possible modification to the rate.

THE LOAN PROCESS

For a construction loan is not much different than a "regular loan". There are a few additional items that are needed that relate to the construction project & appraisal, but the process and qualifications are very similar.

Application

We can start the application with the initial financial items we need and the completed mortgage worksheet.

Documentation

You may have noticed we stated "initial" items above. Yes, we will need more stuff than just the initial items. As much as we try to limit what we ask you for, the regulators who monitor banks require that we fully verify your "ability to repay" your loan. Even if we think there's no chance you would default on your mortgage, we have to ask you for a lot of things that seem to be pointless items to fully document your file so we will apologize for that upfront. We can guarantee you thatwe will never ask for anything that we won't need to ensure we get the loan you want approved. Another reason we sometimes have to ask you for more stuff is because the initial documents you provide us contain something (like a large deposit) that we have to further document. The more complex your financials are will also impact what we will need. If you own a business or businesses (in part or in whole). or if you own investment prop erty, we will need to document those in different ways. Generally speaking, we need to document your income, your assets, your liabilities, and the details of your construction project.

THE LOAN PROCESS | CONTINUED

Processing

Once we have the items underwriting we'll need for a loan decision. we submit it to processing who then submits to underwriting.

Conditional Loan Approval

In most cases the initial loan approval will come back before the appraisal. We will receive a conditional loan approval subject to the appraisal. We will generally not submit the construction items with the underwriting package in case you want to make some changes once the appraisal is back.

Order Appraisal

Once the plans, budget, and signed construction contract are complete we can order the appraisal. Plans can come in different forms depending on the project. A well defined budget and specifications will provide the appraiser with the detail needed to complete the appraisal.

Appraisal Received

The appraisal will generally take 2-3 weeks. The value will dictate the final loan options including max loan amount. Clients may also make small changes to the budget as well by adding a contingency or making small reductions in the budget to reduce the cash to close needed. While it is OK to make changes once the appraisal comes back. any changes may need to be reviewed by the appraiser. Large changes to the budget or project scope may require a new appraisal.

Final Loan Amount

Now that the appraisal is back and any revisions have been made to the budget.
we can make any final changes to the loan amount.

Firm Up Loan Program And Lock

In most cases. once the appraisal is in we need to just send in the appraisal and contract you have with your builder. In some cases we may still have some other items or conditions that need to be satisfied.

Close

Once we have final conditions, title and homeowner's insurance we can schedule closing.

THE LOAN PROCESS | CONTINUED

Timing

Timing for the construction loan process often depends on when the plans, specs, budget, and signed construction contract are available for the appraiser. The general guidance is that once we receive these items to be able to order the appraisal, we should be able to close in 30 days or less.

This timing is very important to understand for construction loans in which you will purchase the property at the same time. Since there is only one closing on the loan and only one appraisal on the loan, the plans and budget need to be complete at least 30 days prior to closing. This can be difficult to get done in the typical 45-60 day timeframe. In many cases people will purchase the property first and close on the construction loan a few months later.

TIP

You may want to consider putting the minimum down that is required for the size of project. Often times there are cost overruns during the construction phase and you will be required to pay for those costs. So if you hold on to as much of your cash as possible, you can be prepared for any expected or unexpected cost overruns. You can always pay down the loan at the end of the project before the permanent phase kicks in to keep the loan payment down. Also remember, you are only paying interest on the outstanding loan balance during the construction phase so funds not yet used do not accrue interest to be paid. Funds not used by the end of construction will reduce your final principal loan balance going forward.

THE APPRAISAL PROCESS

The appraisal process is a little different than a "normal loan". Because the appraiser is appraising the home based on the plans and specs, it's important that the appraiser has the best and most complete information available to ensure the best possible appraisal.

To ensure the best possible appraisal, the appraiser should be provided with:

Floor Plans And Elevation

The appraiser needs to understand what the home will look like after construction. The plans and elevations allow the appraiser to understand how many rooms, bedroom, and baths the home will contain. It will allow him or her to understand what the completed project will look like so he or she can compile the best comparable home sales for the appraisal. If the project includes just rehabbing the existing floor plan and there will be no change to the structure, floor plans are not required.

Specifications

Specs tell the appraiser what will be included in the project, the extent of the work and the quality of the materials that will be included.

Budget

Although the appraiser will ultimately be rendering his or her opinion of value based on the details of the construction project and similar comparable home sales, having a budget available for the appraiser is required and also gives him or her additional insight into the extent of the project and quality of construction.

Signed Construction Contract

The appraiser will need to review the signed contract with your builder to confirm the terms of the contract.

THE APPRAISAL PROCESS | CONTINUED

A Good Conversation

A lot has changed in the mortgage world over the past several years. One big change has been how appraisals are ordered and the inability of a loan officer or processor to speak directly with an appraiser. This indirect communication with the appraiser can sometimes leave some of the details of the construction project left out even with the best of efforts. So to ensure that the appraiser understands the construction project, it's vitally important that the primary contact for the appraiser be able to explain the project. The best contact is the contractor or the homeowner.

Q What happens if the appraisal comes in lower than anticipated?

A If the appraisal comes in lower there are a number of easy and not so easy options.

- Structure the loan at a higher loan to value. If the client is not already putting the minimum amount down, our higher LTVs may already allow the loan to proceed with no additional funds needed.
- Reduce the construction budget. In cases where the budget was padded with allowances and/or contingencies, the budget could be reduced to get in line with the appraised value. Keep in mind if the costs come in higher than the budget cost during the construction phase, you will need to pay for that during the construction phase.
- Put more money down on the project
- Dispute the appraisal. We can dispute the appraisal if it's not a fair value. A successful dispute will generally be the result of factual errors on the appraisal and providing superior comps to what the appraiser used.

THE APPRAISAL PROCESS | CONTINUED

How The Home Design Affects The Appraised Value

The design of the new home or home remodel will be based on what is most important for the client. However, it's best to know and understand the things that will help you get the best possible appraised value. While some things may be very important to you, they may add very little value to the appraised value. There's nothing wrong with this, of course, as long you understand that they may be required to put down a larger down payment.

First and foremost, it's very important the client do as much due diligence upfront on what the potential appraised value may be on their home after completion. Sources like Redfin, Zillow, and others have a lot of data of homes sold that should give a pretty good idea the range of the appraised value.

The appraiser should be selecting comparable homes that are newly built or recently rehabbed like the subject property. By doing this, there should be few adjustments for differences in condition of the comparable.

Below are the items, when compared with comparable sales, the appraiser will make the biggest adjustments for.

BIGGEST ADJUSTMENTS

Location

In most cases, the location of the home has already been selected. So there's not much that can be done to change the location. However. the subject properties location relative to the comps chosen for the appraisal will have an impact. Factors relating to how busy the street is to what the property backs up to all have an impact.

The Size Of The Box

How big is the home? How many square feet (or gross living area as it's called) does it contain? The gross living area (or GLA) of the home is the most important determining factor of value. That's because the appraiser will start with the size of the home and look for similar size homes to develop an appraised value. Also, the GLA is calculated using "above grade" square footage or above ground. So basement square footage is not counted in the GLA for the home. Basements are counted but not in the home GLA. This can make it difficult for ranch homes with finished lower levels or split level homes to get the desired appraised value since the square footage below grade is not calculated in the total home GLA.

Beds And Baths

Of the two of these, bathrooms have a bigger impact on value. An additional bathroom will add more value than an additional bedroom. In fact, appraisers in most cases will not add value for the home having one more bedroom than a comparable home.

THE APPRAISAL PROCESS | CONTINUED

Smallest Adjustments

Quality of materials: Appraisers very rarely have personally inspected the comparable homes that they use in an appraisal report. They, of course, can't ask the owner of a comparable to walk through their home. Because of this, they need to rely on descriptions in an MLS listing or a conversation with an agent. They are able to understand the general quality of materials used in a new build or rehab, but not enough to make adjustments for higher end materials.

Exterior Items

Patios, porches, and decks will have a positive impact on value.

Finished Basement

The square footage in a basement is not counted in the overall square footage of the home. However, if the home contains a finished basement. there will be a positive value adjustment compared to a home that does not. Additionally, having bedroom and bathrooms will add value as well.

Other items that will have small adjustments:

- Size of garage
- Fireplaces

Little if any adjustments:

- Energy efficiency
- Maintenance items like fresh paint and a new roof

THE APPRAISAL PROCESS | CONTINUED

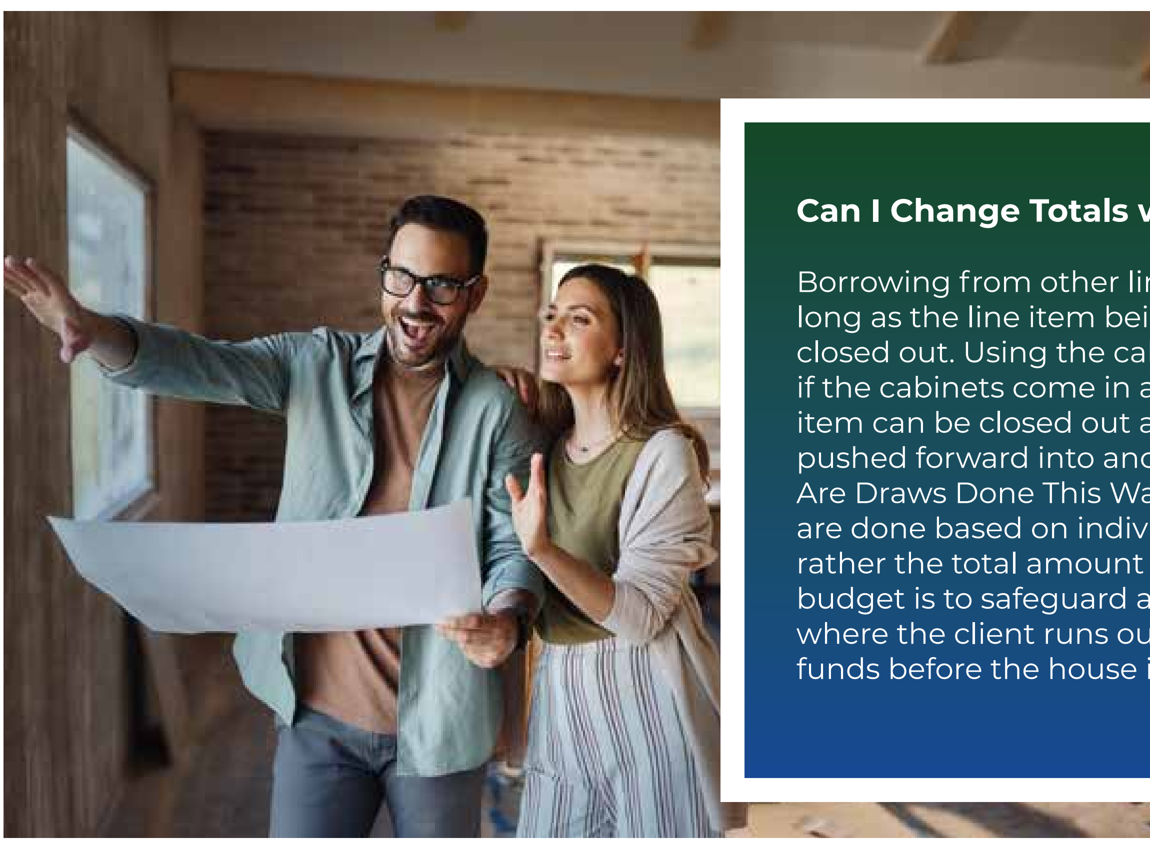
The Construction Budget

The construction budget is important for a few reasons, It's important for the loan process to calculate the cost of the construction project. It's important for the appraiser so he or she can understand the cost of the project. And it's also very important because it will drive how draws are handled during the construction phase of the project. So understanding how the funds are distributed during the draw process is critically important when constructing the budget.

How The Budget Is Used During Construction

The budget is used during construction as a guide to how much gets paid out for a particular line item. It's important to understand that the construction loan is not paid out based on the entire loan amount or construction budget, but individually based on each line item.

For example, if the construction budget is $400,000 the client can't simply take draws on the project for any amount on any item until the $400,000 runs out. Draws get paid out for a specific line item up to the amount that it was budgeted for. So if the $400,000 construction budget has $20,000 budgeted for cabinets and the final costs comes in at $21,000, the client will be responsible for coming up with the additional $1,000 at the time the draw is taken for the $20,000. This is the case even if the client has not used the entire $400,000 construction budget.



Can I Change Totals within Line Items?

Borrowing from other line items is allowed as long as the line item being borrowed from is closed out. Using the cabinet example above, if the cabinets come in at $19,000, that line item can be closed out and the $1,000 can be pushed forward into another line item. Why Are Draws Done This Way? The reason draws are done based on individual line items rather the total amount of the construction budget is to safeguard against a situation where the client runs out of construction funds before the house is complete

THE APPRAISAL PROCESS | CONTINUED

How To Put Together A Budget

Knowing that the draws are done based on individual line items. it's important to put together the budget with care to avoid unexpectedly needing additional funds during the construction phase.

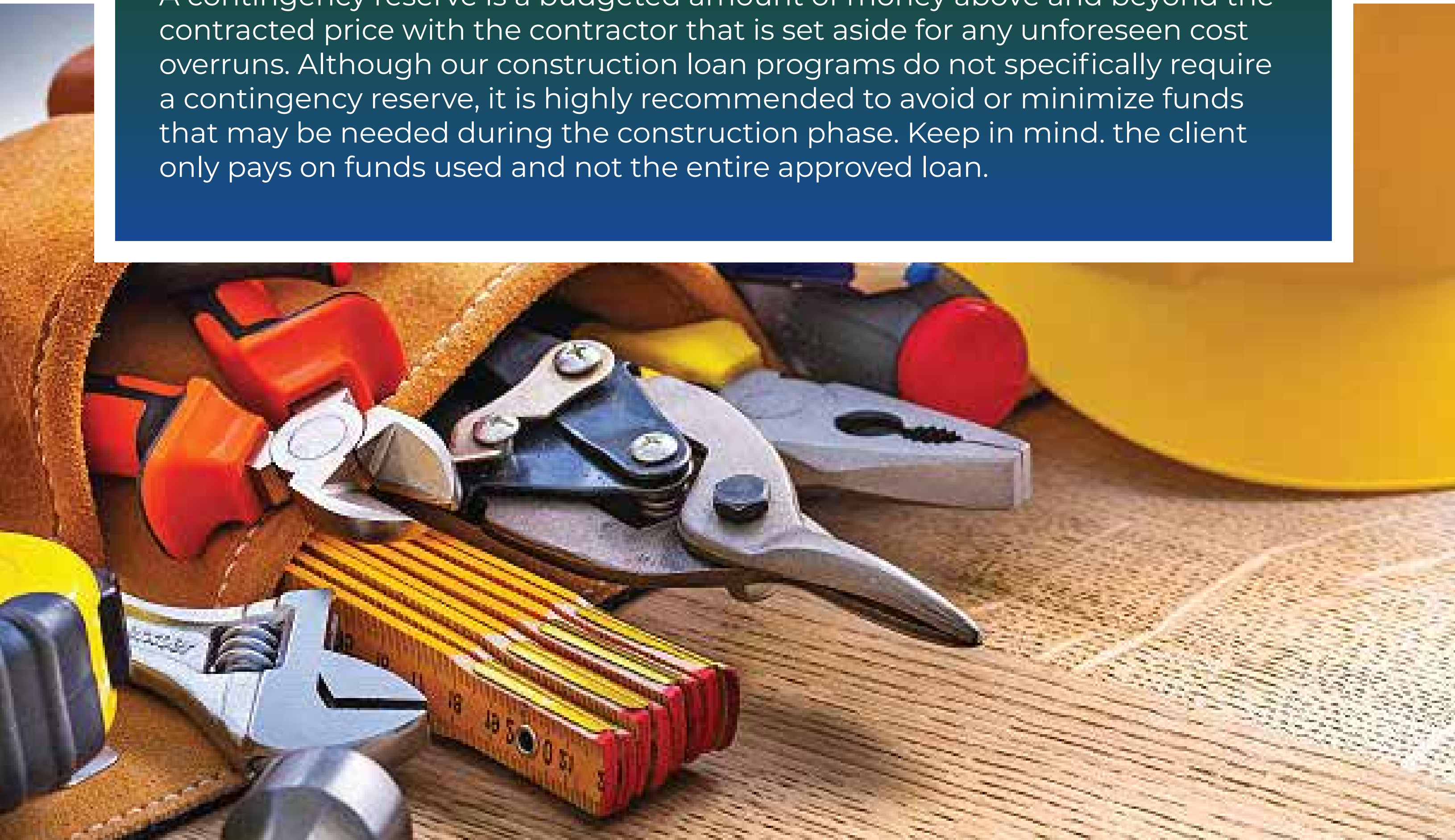
One of the ways the client can minimize needing additional funds during the construction phase (aside from staying within budget) is to build in a contingency line item (sometimes called an "upgrade allowance" or "design fee") of up to 10% of the budget. In instances where the client goes over budget on a line item, funds can be pulled from the contingency line item.

If there are funds left in the budget at the end of the project. they can be used for other items like landscaping or can simply not seduce the final loan amount.

The appraisal may also have an impact on the final budget prior to closing. If you get an appraisal with the full anticipated value. you will be able to build in the 10% contingency line item. If the appraisal comes in less than expected or hoped for. cutting back the contingency line is recommended if it affects the cash needed for closing.

TIP

A contingency reserve is a budgeted amount of money above and beyond the contracted price with the contractor that is set aside for any unforeseen cost overruns. Although our construction loan programs do not specifically require a contingency reserve, it is highly recommended to avoid or minimize funds that may be needed during the construction phase. Keep in mind. the client only pays on funds used and not the entire approved loan.



THE APPRAISAL PROCESS | CONTINUED

Types Of Contracts

We have different requirements depending on the type of contract you have with the client.

The Flat Fee Or Lump Sum Contract

If the type of contract you have is a flat fee or lump sum or stipulated value contract, we will need a signed contract with the client. We will also need a General Contractor's Sworn Statement for the appraiser and underwriting. This does not need to be signed by the client. If there is a plan to take a draw for a deposit at the time of closing that will need to be reflected on the sworn statement.

The Cost Plus Contract

If the type of contract you have is a cost plus contract, we will need a signed contract with the client as well as a signed General Contractor's Sworn Statement from the builder and the client prior to closing. If there is a plan to take a draw for a deposit at the time of closing that will need to be reflected on the sworn statement.

With this type of contract we tend to see more line item changes during the construction phase and thus the higher chance of funds needed from the homeowner during the construction phase. It is very important that the budget provided forthe loan is as firm as it can be.

Types Of Insurance

Just like any loan, proof of adequate homeowner's insurance is required. For a construction loan, additional insurance may be required depending on the type of construction you have and the insurance policy you currently have.

The type of insurance that is needed depends on the project

If the client will be building a whole, new home with raw land or tear down an existing home, they will need to get builder's risk insurance.

If the client is doing an addition or internal rehab on a property (whether the client will be purchasing a property or already owns the property) a standard policy with a construction endorsement will be needed. Some insurance carriers cover these types of projects in their standard homeowner's coverage, so you'll want to check with your agent and let them know what you're doing to the home to confirm you are covered.

THE CONSTRUCTION PHASE

The construction phase starts at closing. It's at that time the first disbursement occurs on the loan in most cases. Any additional funds needed in excess of any funds you will contribute, will be draw from the loan.

The Draw Process

During the construction phase your builder will request draws for work completed or items installed. Funds will not be disbursed to pay for future work or working capital. A number of things occur during this process. Ideally, if the process is smooth the only item you will be aware of is signing your owner's statement to authorize the draw once the due diligence has been completed.

While there may be slight variations depending on local processes or title company (if applicable) requirements, the general process is:

INITIATE - VERIFY - DISBURSE FUNDS

THE CONSTRUCTION PHASE | CONTINUED

Initiate

- The builder sends a sworn statement and other items to initiate the draw request.
- Bank orders an inspection to verify the items that are being requested to be paid on have been completed.

Verify

- The builder's sworn statement is reviewed for accuracy and completeness as well as other items needed from the builder such as lien waivers.
- Inspection takes place to verify that all items that are being requested to be paid have been completed or completed at the percentage requested.

Disburse Funds

- Homeowner signs an owner's statement authorizing the draw.
- With completed paperwork and inspection report showing work completed, draw is funded.
- Note: It is ultimately the homeowner's responsibility to make sure the money that is being drawn from the loan and paid to the builder and contractors is accurate and reflects work complete. The homeowner has final control over the funds being drawn by signing (or not signing) the owner's statement. Make sure you understand what funds being drawn are being used for and that the amount is reflective of the work completed.

THE CONSTRUCTION PHASE | CONTINUED

Deposits at Closing

At closing you can provide your builder a deposit or down payment. Any deposit or down payment should be spelled out in the contract. A draw of up to 20% is generally acceptable. It is best to do that at closing and not right after closing as that could be delayed until the first draw takes place. Any deposit at closing must be allocated for items completed at the time of the first draw after closing.

Deposits During The Construction Phase

Generally speaking, deposits for construction items during construction are not allowed. There are certain items where deposits can be obtained. That is typically the case with custom items like cabinets and countertops where the vendor requires a deposit to construct the item.

Changes to Budget After Closing

Any increases in the cost of individual items will need to be covered from you dollar for dollar at the time the cost is incurred. Taking from another budgeted item that has not been closed out is not acceptable. If the cost for something comes under, you can push that savings forward and use it later in the project.

THE PERMANENT PHASE

The final draw is, of course, the last draw you take on the loan during the construction phase. It's at this point the inspector will state the home is complete per the plans and specs on the final inspection. Once the final draw is taken and the final inspection is complete, the loan changes over to the permanent loan. Depending on when in the month you take the final draw, the permanent loan will start between 30-60 days from that date. The permanent loan will change the payment from interest only to principle and interest at the same interest rate. It is at this time you will want to do a quick review of your loan and if there are other options available.

While there are checks and balances in place with the title company and inspector, your money is your responsibility. On every draw, be sure you understand what money is being drawn and what it is being drawn from. If you don't understand it, contact your builder to do so. The draw request comes from your builder.

RESOURCES

Ed Currie
Certified Mortgage Planner
Construction Loan Specialist

312.242.0537

224.805.3805

855.872.6064

Ed.currie@bmo.com

#
NMLS : 523638

THE TEAM

Jennifer Cook
Senior Production Manager
jennifer1.cook@bmo.com
312.242.0539

Rebecca Minx
Transaction Coordinator
rebecca.minx@bmo.com
331.285.6591