



Finance First Loan Handbook

Presented by:



Becky Sims

Mortgage Loan Officer

C: (616) 822-3058 (preferred)

O: (616) 234-6428

Becky.Sims@LMCU.org

NMLS #906566




Finance First Loan Handbook

Eastbrook Homes has partnered with Lake Michigan Credit Union because doing what's right for their members drives everything they do. From friendly, knowledgeable experts, to low rates and low down payments, our LMCU lending team will help you finance the home you'll love.

Plus, as Michigan's #1 Construction Lender,* LMCU has helped thousands finance their dream home. The idea of building your own home can be very exciting, but can also bring many questions to mind. The Lake Michigan Credit Union team and Eastbrook Homes is here to help you through the process and to build the house of your dreams.



*MarketTrac, August 2020. LMCU NMLS # 442967.  Equal Housing Lender

The journey to your dream home starts here.



Home is where your story begins.



Deciding which financing option is right for you

When you think of financing your new Eastbrook home, there are two main financing options: 1. The End Loan; and 2. The Finance First Loan. Below is a breakdown of each option to determine which is best for you.

End Loan vs. Finance First Loan

End Loan	Finance First Loan
3% down*	5% down* (combine land and home)
Lock-in interest rate 60 days prior to home completion	Lock-in interest rate before the house is built
Closing occurs once the home is complete	One-time loan closing that occurs before the home is built
No mortgage payments during construction	Interest only payments only on the cost of the lot during construction
Choose a fixed rate or an adjustable rate mortgage	Choose a fixed rate or an adjustable rate mortgage

If a Finance First Loan makes sense for you, keep reading.



*10% down required at the completion of the Home Creation studio. **For well-qualified borrowers.



Finance First Process

Capture today's rates with our Finance First Loan

With our one-time close and streamlined process, building your forever home won't take forever.

Features:

- One-time close loan will minimize closing costs and fees
- Local decision makers will work with you to find financing options that fit your budget
- As little as 5% down*
- Lock in your rate before your house is built, so no need to stress about rising rates
- Peace of mind knowing your interest rate and payment before you break ground
- Ability to add to your down payment during construction and re-amortize the payment

* Interest rates are subject to change daily. Rate and fees depicted are based upon a 720 credit score. For well-qualified borrowers.

Everyone needs a place to call home.





Construction Loan Basics

Q: When can I lock-in my interest rate?

A: When you complete the Home Creation Studio, you will want to call your Loan Officer to discuss a rate lock.

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 7 months.

Q. What kind of communication will I have with LMCU 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 LMCU Construction Loan Administrator assigned to your project.

Your welcome email includes:

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

Loan Approval Details

- Once appraisal is complete and all pertinent financial information is received, your application will be reviewed
- Upon approval of your loan request, you will be sent a loan approval letter
- Shortly after, LMCU will contact you to schedule an appointment for the signing of the final papers
- Signed documents will be sent to the county courthouse for recording
- Your builder should not start construction of your home until after your loan has closed unless approved prior by LMCU
- The mortgage must be recorded and a notice of commencement filed before any work can be started unless approved prior by LMCU

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. This process is easily handled by mail, saving you additional trips to our office.

Construction Documents

A fully executed, all-inclusive construction contract must be received and accepted by LMCU's underwriter prior to final loan approval.

The building contract is to include, but is not limited to the following:

- Builder's company name, address and phone number
- Borrower's name(s)
- Construction property address (permanent parcel number or actual street address)
- Total contract price after the completion of the home creation studio
- Contract must be signed and dated by both you and your builder



Draws

The final draw payment will be released to Eastbrook at the completion of your home.





Construction and Permanent Loan Payments

Q. When will my construction loan payments be due?

A. During the construction term, payments are interest only and are calculated on the cost of your lot. Payments are due by the 1st of each month.

Your payment statements are sent each month via mail.

If you have 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 your note. The amount disbursed is typically the cost of your lot only. Eastbrook will not take another draw until your home is complete.

A simple interest daily calculation is used as shown in this example.

Example:

Lot Cost: \$75,000.00
 Interest rate: 3.5%
 Calculation: $\$75,000 \times .035 = \$2,625$ ($\$2625/365$ days x 30 days = \$7.19 per day, or \$215.75 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.

Estimate Your Monthly Payment

Estimate your monthly construction payment by adding up the items below.

Enter lot price	\$	<input style="width: 95%;" type="text"/>
Multiply by interest rate <small>(Convert to decimal)</small>	X	<input style="width: 95%;" type="text"/> =
Total interest	\$	<input style="width: 95%;" type="text"/>
<hr/>		
\$ <input style="width: 80%;" type="text"/>	÷	$\frac{365}{\text{days}} \times \frac{30}{\text{days}}$
<small>total interest</small>		<small>days</small>
	=	\$ <input style="width: 80%;" type="text"/> <small>(estimated monthly payment)</small>

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, sign up for e-statements, or arrange for an ACH to be set up to automatically make payments. Your Construction Loan 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 Loan 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 LMCU, you will be contacted by your Construction Loan 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 Loan 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.



Welcome home.

Home is my happy place.



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. If required, the Construction Loan Administrator will explain these requirements when the builder requests their final construction draw.

- Certificate of Occupancy
- Substantially complete letter signed by the member
- Proof of the source of any funds paid out of pocket for project change orders
- Proof of one year paid Home Owner's 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 LMCU construction administrator will contact you to discuss finalizing the permanent phase of your construction to permanent loan.

Q. Can I make a principal reduction payment during construction of my home?

A. Yes, you may make principal reduction payments during construction. Your permanent loan payment will be based on loan amount at the time of the completion of your home and conversion of your loan.

Q. What documentation is required prior to the home turn-over closing?

- Certificate of Occupancy
 - Final Construction Inspection
 - Final Title Endorsement
 - 100% complete statement signed by you
 - Insurance and tax information including a paid Home Owners Insurance Policy
- Course of Construction or Builder's 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, Builder's Risk will expire and Home Owners Insurance is to be purchased by you
 - 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)
 - Prior to the beginning of permanent mortgage payments, the construction administrator will work with you to determine what funds need to be collected to set up escrow accounts for loans where LMCU will pay taxes and/insurance. An escrow analysis will be provided at this time
 - Property taxes may be increased by the taxing authority based on improvements to the property



Taxes And Insurance

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 Builder's 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 homeowner's policy (i.e. hazard insurance). Many Builder's Risk Policies automatically convert to homeowner's policies 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 Lake Michigan Credit Union as the mortgagee. Please have your insurance agent add the LMCU mortgagee clause to the policy. We can provide that information upon request.

Q. When should I obtain a homeowner's insurance policy?

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

Home is where your heart is.





Frequently Asked Questions

Q. What is a Construction-To-Permanent Loan?

A. A construction-to-permanent loan is a single-close loan that includes 7 months of construction financing plus up to 30 years of end financing in one loan. For example a 30 year Construction-to-Permanent Loan with LMCU includes a 7-month construction period, as well as a 30-year principal and interest period. The Construction-to-Permanent Loan has only one closing, one set of closing costs and the loan terms including the interest rate remain the same throughout the life of the loan.

Q. Do I have to sign new documents once my home is complete and I am ready to start my permanent payments?

A. Absolutely not! That's the beauty of our Construction-to-Permanent Loan. Your loan documents were created specifically to cover both the constructing and permanent phases of your loan. You can be assured that you have permanent financing when your home is complete.

Q. What is required of me before scheduling our home turn-over closing?

A. Consult the Eastbrook closing manager and the Finance First Addendum to the purchase agreement.

Q. If we already own our lot, how do we determine how much we can borrow?

A. Generally, you will be able to borrow a percentage of the future value of the house, regardless of how long you've owned the lot or the total cost of the build. Lot equity can be used as a source of down payment as long as the appraisal value is adequate.

Q. What does an appraiser appraise?

A. The appraiser uses the plans and specifications provided by the builder, along with the vacant property on which the house is to be built, to determine what the value of the property will be once construction is complete.

Q. When does the construction loan term begin?

A. LMCU Construction-to-Permanent Loans have a construction term of 7 months. The loan term begins on the date the note is signed.

Q. How do payments work during the construction phase of the loan?

A. You'll pay interest only on the principal balance disbursed when the billing is generated.

Q. What if the appraised value is lower than expected?

A. Appraisers do a very good job of determining fair value. In the event that the appraised value is lower than expected, you may be required to bring additional funds to close. This will depend upon the loan-to-value ratio that results once the appraised value has been determined. Should a low appraised value occur, your loan officer will discuss the option available with you.

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

A. Not necessarily. Consult with your loan officer. LMCU has financing options to assist, such as bridge loans.

Q. What if the project costs are more than estimated?

A. Cost overruns are a legitimate concern. Overruns can occur due to unforeseen circumstances or change orders for extras added by you as the project is built. All cost overruns and change orders that increase the overall cost of construction must be paid out of pocket by you.

LMCU is pleased that you have considered us to help you build your new home. We promise to help make the process smooth and easy. We will be with you every step of the way.

Call me with any questions!



Becky Sims

Mortgage Loan Officer

C: (616) 822-3058 (preferred)

O: (616) 234-6428

Becky.Sims@LMCU.org

NMLS #906566

Home is a place to soar.



