

Understanding the Construction-Permanent Loan Process



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What you need to know about our Construction-Permanent loan



Understanding the Construction-Permanent Loans Process

If you are looking to build your dream home, our construction-permanent loan is the product for you. A construction-permanent mortgage provides you the funds to build your new home and the long-term financing to enjoy your dream home. The best thing about our construction-permanent mortgage is that it is a single closing and you lock into your permanent rate before construction even starts. This one-time closing means no need to re-qualify for your permanent loan.

During construction, disbursements are made based on a pre-determined schedule to cover the cost to build. When construction is complete, the loan converts to a permanent mortgage. With scheduled monthly payments of principal and interest plus escrows, if applicable.

Here's how it works...

Step 1: Identify the Location & Builder

During this step you will make two of the most important decisions on the path to your dream home – you will select a location and a builder.



Step 2: Application/Documentation

Next, you will work with a Loan Officer (“LO”) to discuss your financing options. The LO will guide you through the process from start to finish. He or she will gather the appropriate documentation from you and provide you with disclosures to review and sign. Terms of the permanent phase of your loan will also be reviewed.

Documentation: Like any mortgage loan, you will be required to provide the Bank with the standard documentation for consideration. This will include, but not be limited to, verification of assets, verification of income, summary of debts, credit report, etc. You will also need to provide the Bank with information relating to construction and the builder. A Construction/Builder Check List can be found at the back of this guide.

Appraisal: An appraisal will be performed by a licensed real estate appraiser selected by the Bank. After reviewing your plans, specifications and property, the appraiser will search for recent sales of comparable homes in your market to determine an estimated value of your home upon completion.

Draw schedule and builder agreements: Construction draws will be based on a schedule as agreed between you, your builder, and the Bank. Loan disbursements will be based on work completed as the home is constructed. The builder will be asked to sign our standard Construction Loan Agreement specifying Queenstown Bank’s expectations for making funds available during the construction of your new home.

Approval/Title Review/Closing: Once we have completed your credit review and a review of the builder and project, the Bank will consider the loan for approval, and your LO will communicate the Bank’s decision. If approved, we will work with your selected closing agent to ensure clear title to your property and prepare all the necessary documentation for closing.

Step 3: Building and Disbursement

Building and Disbursement involves the construction of your home and disbursement of loan funds to the builder. Loan funds are disbursed based on the terms of your Construction Loan Agreement and approved draw schedule.



Prior to each disbursement, the Bank will require an inspection to ensure that the work has been completed. Once the inspection has been completed by the Bank and you have agreed to the disbursement of funds to the builder, the Bank will release the funds for payment.

To request an inspection, you will need to contact your LO, or designee, who will arrange for the inspection of the completed work based on the draw schedule - typically broken out over 6 draws. The inspector does not provide opinions regarding quality of workmanship and will only evaluate the percentage of work completed. If you are concerned about quality of workmanship, you can contact a local inspector directly to request a quality inspection or discuss your concerns with the local building inspection department.

You will receive monthly statements beginning the month following your first disbursement indicating the amount due as required during construction. Your statement will show the interest accrued on the loan funds disbursed through that statement date. These interest-only payments are due monthly during construction.

Queenstown Bank's disbursement policy is as follows:

- Required owner funds will be contributed to the project first and then the Bank will begin disbursing loan proceeds.
- Each construction disbursement is limited to the amount that corresponds to the requested draw according to the agreed upon draw schedule.
- Funds are disbursed for labor and material that have been completed or installed.
- No disbursements are permitted if a lien has been filed against the subject property.

Step 4: Conversion

Conversion to the permanent mortgage is the final step in the process. Once the house is complete and a Use & Occupancy Permit has been issued by the county, the loan will be ready for conversion to the permanent mortgage. Prior to conversion, the Bank will require a lien release from each contractor or sub-contractor who worked on the property - this protects both you and the Bank from future issues. Once we receive all the required documentation, our loan servicing team will prepare the necessary paperwork and convert the loan to the permanent mortgage. Once this happens, you will begin to make your regular, permanent monthly principal and interest payment as agreed to at the beginning of this process.

Step 5: Enjoy!

This is the most important step in the process (and the easiest). It is now time to **enjoy your Dream Home!**

Construction/Builder Checklist

The following is a base list of the types of items you will be required to provide:

- Copy of the Deed for the land, if you already own it.
- Closing Disclosure for the purchase of the land, if purchased within the past twelve months
- Contract for the purchase of the land/lot.
- Contract with a builder (You are not permitted to serve as your own builder.)
- Complete builder information including company name, address, phone number, federal taxpayer identification number, an IRS W-9 form, certificate of liability insurance, references (2) and samples of previous work.
- Hazard insurance covering the property during construction — either in the form of a builder's risk or homeowner's insurance policy naming Bank as Loss-Payee.
- Plans and specifications for your new home.
- Detailed construction budget.
- Approved site plan for the property.
- Building permit and other approvals.

If you are interested in the Queenstown Bank "Dream Home Construction-Permanent Loan" program, contact us at:

Queenstown Bank of Maryland
Construction Loan Department
P.O. Box 120
7101 Main Street
Queenstown, Maryland 21658

410-827-8881

QueenstownBank.com



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