

# Understanding the Stages of Construction-to-Permanent Loans

A Construction-to-Permanent mortgage (CP loan) is a mortgage that allows you to finance the construction of your new home. A CP loan allows you to lock in your interest rate and close your loan before construction begins. Plus, there is only one closing with no need to re-qualify for the permanent phase of the loan.

During construction, disbursement is made to cover the cost to build and interest is paid only on the outstanding balance. When construction is complete, the loan converts to a permanent mortgage. At this point, scheduled monthly payments of principal and interest plus escrows, if applicable, will take effect.

## Stage 1: Application/Decision

During the application/decision stage, a Construction-to-Permanent Mortgage Loan Officer (MLO) will help you understand the different CP loan options, gather the appropriate documentation, submit your application, and notify you of the bank's decision. Several important aspects of Stage 1 include the following:

**Builder Review:** Bring your own builder. This is one of the most important decisions in the home-building process. Lender reserves the right to review the builder and the contract when determining whether to issue the loan.

**Appraisal:** A licensed real estate appraiser will review your plans, specifications, property, and recent sales of comparable homes in your market to determine an estimated value of your home upon completion.

**Draw Schedule:** As part of Stage 1, you, your builder, and Lender will need to agree upon how and when loan disbursements and draws will be made.

**Builder Agreement:** The builder will be asked to sign Construction Loan Agreement, which specifies Lender expectations for making funds available during the construction of your new home.

**Title Review:** Lender will work with your selected closing agent to ensure clear title to your property, which is required for your loan to close.

Once Lender have completed the credit approval and the builder and project review is finished, underwriter will issue a final approval and the loan will be ready to close.



## Stage 2: Building and Disbursement

The building and disbursement stage coincides with the construction of your home. Loan funds are disbursed based on the terms of your Construction Loan Agreement and draw schedule.

**Disbursements:** Prior to each disbursement, Lender requires an inspection to determine that the requisite work has been completed. Borrower funds will be used first and then Lender will begin disbursing loan proceeds. Each construction disbursement is limited to the amount that corresponds to the percentage of completion according to the disbursement schedule. Funds are disbursed for labor and material that is completed or installed. No disbursements are permitted if a lien has been filed against the subject property.

**Inspections:** To order an inspection, you will need to contact your Lender's Paralender, who will arrange for a local inspector to inspect the percentage of completed work based on the draw schedule. If you are concerned about quality of workmanship, you can contact a local inspector to request a quality inspection or discuss your concerns with the local building inspection department.

**Draws:** Draws are typically released within 2–3 business days of Lender receipt of your draw request.

**Statements:** You will receive monthly statements the month following your first disbursement. Your statement will include interest accrued on the loan funds disbursed through that statement date.

## Stage 3: Conversion

Conversion is the final stage in which your loan is converted from the construction phase to the permanent phase. Be sure to speak with your Lender about the fees that will be due in advance of your conversion.

### Costs due from you at conversion may include:

- Initial escrow of pre-paid items (such as homeowners insurance and taxes, if applicable)
- Prepaid interest for permanent phase
- Unpaid construction phase interest
- Additional title insurance fees, if required

Conversion marks the completion of the CP loan process and the beginning of your permanent loan. Your mortgage will then be transferred to our loan servicing team. You can begin your regular mortgage payments as structured in your permanent loan.

**Not all Construction-to-Permanent loans are the same. Ask your MLO about what sets our products apart from the rest.**