



Peoples Bank
A higher level of service.
Construction Loan Guide

Introduction

Our Construction Loan Guide provides valuable information that will help you become more informed about the process and loan options available to you. Our team of local professional loan officers are available to assist you from start to finish, just as soon as you're ready to begin.

About Peoples Bank

Peoples Bank has been making home loans for over 90 years and our professional loan officers are backed by local, experienced underwriters and processors. Add that level of service to extremely competitive rates and you have one pretty unique bank that has the right home loan for your unique situation.

The welcome mat is always out at the Peoples Bank nearest you.

Table of Contents

| | |
|----------------------------------------------------|------|
| Getting Started in Today's Market | • 4 |
| Build vs. Buy | • 5 |
| Tips for Building Your Home | • 6 |
| Types of Financing | • 9 |
| Appendix A: Required Documentation | • 11 |
| Appendix B: Peoples Bank SAMPLE - Cost Breakdown | • 13 |
| Our Last Bit of Advice | • 15 |



Getting Started in Today's Market

High inventories, long listing times and historically low interest rates make right now one of the best times to be a homebuyer, and it is also a great time to build. Labor and material costs to build a house are at the lowest prices we have seen in the last few years.

If you're just getting started, consider the following points.

- Your Peoples Bank loan officer can help you determine how much you can afford based on current rates, your credit history, income, other expenses and available down payment, before you spend money on plans and a contractor estimate.
- Choose a trusted institution. While federally insured banks are required to operate under a high level of regulatory supervision, many other lenders do not. Choose the safety and integrity of Peoples Bank. Since 1921, Peoples Bank has been serving the needs of local customers. Peoples Bank is insured by the FDIC and consistently rated four stars by Bauer Financial. *

*Visit BauerFinancial.com to learn more.

Organize your finances before you come to the bank.

Here's what you'll need to get started:

- Most recent pay stubs covering 30 days, including year-to-date information.
- Last two years (1040) tax returns.
- Last two years W-2s.
- If self-employed, 2 years personal and business tax returns, and year-to-date profit and loss statement.
- Last 2 months of complete bank statements.
- Last 2 months or quarterly retirement statements [IRA's, 401(k)].
- Current mortgage statement.
- Copy of declaration page of homeowners insurance.
- Any other information (such a proof of additional income) that you think will help your banker to evaluate your credit.
- **If you own your lot,**
 - When did you purchase it?
 - What was the original cost?
 - How much do you owe on it?

Meet with your loan officer to evaluate your specific situation. Sometimes it will make sense to pay off some debts to help you qualify. In some situations having extra cash on hand is more important. A qualified residential construction lender can help you assess your personal situation.

Consider all the costs. Your loan officer will review costs like fees, closing costs, points, homeowners insurance, and taxes. If there is something you don't understand, don't be afraid to ask. We are here to ensure you fully understand the terms and conditions of your loan.

Build vs. Buy.

Building versus buying is a major dilemma in the new home market. The freedom to make decisions about the details of your home and watch it take shape holds undeniable appeal. But there's also something to be said for the security of comparison shopping, walking through a house and "kicking the tires" before you sign on the dotted line.

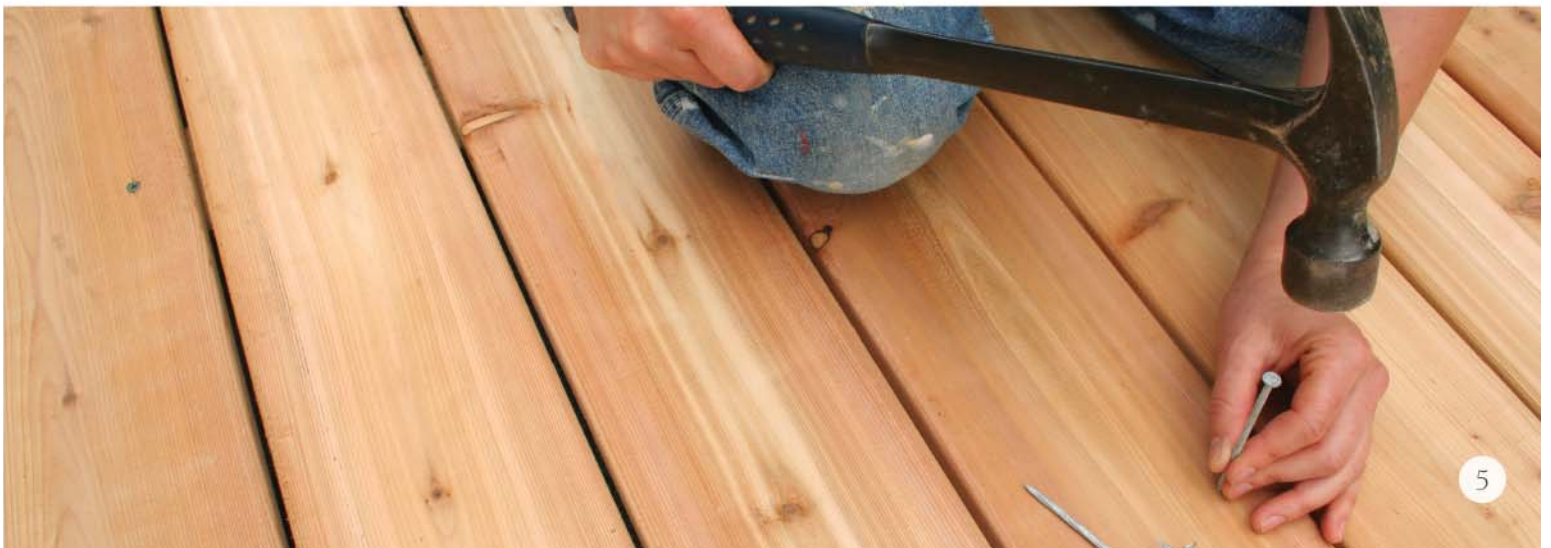
When it comes to building a new home versus buying a new home, is one option really better than the other? Not necessarily. It all comes down to preference and what you can afford. Only you can decide which option will work better for you.

Building a New Home.

When you build a new home, you'll work with a builder and design professional to create a custom home that has all the features you want. Depending on your budget, you can customize every aspect of your new home down to a T or you can choose from a range of already-existing floor plans and features. The home building process can take as little as six months to over a year.

Buying a New Home.

Buying a new home involves scouring real estate listings with an agent to find a home that suits your needs. The process can take just days or months or years, depending on how fast you want to move and the availability of homes that meet your criteria.



Tips for Building Your Home

Planning and building a new home can be one of the most rewarding and satisfying experiences of a lifetime. It can also be frustrating without careful planning and preparation. To avoid costly missteps during the construction process, start with these important steps:

1. Plan Your Budget

Begin now to think about how much you can afford to spend when building your new home. Don't over estimate your borrowing power and your availability of reserve funds. Leave yourself some financial breathing room. New construction projects almost always cost more than expected. The sample cost breakdown (Appendix B) in this guide can be a helpful starting point in planning your budget.

2. Choose Your Home Site

Whether you're building your home in a suburban development or a site with sweeping ocean views, you'll almost always need to choose the land before you begin the design phase. Be advised; the more complex the building site (Steep terrain, remote locations, raw or undeveloped land, etc.), the more costly the project.

3. Line Up Your Team

First, you should begin with meeting your Loan Officer to go over financing options. Then you will need a team of experts to design and construct your home. Key players will include a home designer or architect, and a licensed and insured homebuilder. Many homeowners begin by selecting the builder or contractor. That professional then selects other members of the team. However, you may also opt to hire an architect or designer first. In either scenario, select your team carefully; the best method is to be referred to a builder or architect by someone who has used their services in the past. Go see the builder's and architect's work, get additional references and follow through with your investigation. You want to ensure you find a good fit.

Selecting a Builder

Before hiring a contractor Labor & Industries suggest you do the following:

- Plan your project carefully. If you know what you want done and can clearly explain it, you're less likely to miscommunicate or encounter cost overruns.
- Interview several qualified registered contractors and solicit written bids.
- Verify that the contractors you are considering are registered by looking them up online at www.Contractors.Lni.wa.gov, by phone at 1-800-647-0982 or by contacting a local L&I office.

- Ask for references and then check them out. If possible, view the work and interview the homeowner. Find out if the projects are completed on time and on budget.
- Ask for references of suppliers that the contractor works with and check out his or her payment record.
- Request a copy of the contractor's insurance policy to verify what is covered.
- Do a web search on the owner's name to look for general comments that might be posted.
- Evaluate all the aspects of the bids, including the scope of work, warranties, references, time frames and price.
- Request that the contractor post a performance bond for the entire cost of the project if it is more than \$6,000.
- Try to anticipate problems and inconveniences, such as cost overruns or cleanup, and come to an agreement with your contractor on how they will be handled before the work begins.

Be Your Own Contractor

Some choose to fill the contractor role, also known as owner-builder. If this is your plan, the project becomes far more complex and puts you in the position to identify all of the components of the project, find the sub-contractors and suppliers, bid the job and manage the process. Peoples Bank has financing options for "owner-builders".

4. Pick a Plan

Stock plan: Choose from a catalog of proven designs. In this case, the builder or a home designer may make minor modifications to suit your needs or unique local or regional code requirements.

Custom Home: A custom-designed home, on the other hand, is created specifically for the family who will live there. In most cases, custom-designed homes require the services of a licensed architect. This route is typically more expensive, however the home is uniquely your own. Whether you opt for a stock or a custom design, you'll be wise to choose a plan that will meet your needs for years to come.

5. Negotiate a Contract

Be sure to get a written contract that has been signed and dated by both the contractor and the architect or designer. A contract for new home construction will describe the project in detail and include a listing of all the parts and the quality of the finishes to be included in the house.

Negotiate a Contract continued...

Most lenders will require a fixed-price contract, where the builder guarantees the delivery of the home as planned and specified for a specific price, regardless of the cost to him. Not all costs will be fixed however; it is common for contracts to include “Allowance Items”. Such as a custom dollar amount for carpeting. If you choose a type of carpet that exceeds the allowance, you will be responsible for the excess amount.

One more point about allowance items, this is the area where you, as the homeowner, have control over cost. Start with realistic budgets for those items and stick with them, avoid “budget creep”! Insist on establishing a contingency budget of no less than 10% of the contract or budget amount. This will either alter the size of the loan you will need or the amount of cash you contribute. This is an essential ingredient for minimizing the risk of financial shortfall and project failure.



Types of Financing

General Information

At Peoples Bank, we want to help you build your dream home and our wide variety of construction financing options makes it easy.

Our residential construction loans finance the construction of owner or non-owner occupied dwellings from single family homes up to four units.

The Bank will make residential construction loans for projects within our defined market areas. Once approved, your project must be completed within a specified period of time and will be financed on a schedule based upon completion of phases of building. The project is to be completed within a specified period of time and is controlled by supervised disbursements. During the construction period, interest is charged only on Bank funds that have been disbursed and the borrower is responsible for monthly interest payments. The construction period may be 6, 9 or 12 months. If applicable, the permanent loan begins when the project is complete.

Financing Options

Conforming OneStep Construction - This is combined construction and permanent financing with the option to reduce the rate to current market rates when construction is complete.

- Interest only during construction.
- Loan-to-value (LTV) up to 80%. Borrowers with an initial LTV less than 70% are eligible for preferred pricing and reduced underwriting requirements at time of float down.
- Maximum loan amount not to exceed Fannie Mae conforming guidelines, currently \$417,000.

Portfolio One-Step Jumbo Financing - Our portfolio program provides financing options to borrowers that do not meet traditional conforming guidelines or exceed conforming loan limits.

- Interest only during construction; no float down option.
- LTVs up to 80%.
- Fixed (15, 30 years) and adjustable rates (3/1, 5/1 ARMs) available.
- Loan amounts above \$417,000.

Here are just a few of the features:

- Local draws, disbursements and inspections.
- Construction Terms: 6, 9 or 12 Months.
- Local underwriting and approval.
- Owner-builder financing.



Draw Process

The Bank monitors and tracks the progress of a construction project in order to approve draws at designated times during the course of construction.

- *Inspections*

Inspections are performed by a Bank representative. During the first week of each month, an on-site inspection of the project will occur and be documented. The on-site inspection only monitors progress of the construction project. Quality of workmanship and code compliance are not the Bank's responsibility.

- *Draw Disbursements*

Once a month, the builder or homeowner will submit a draw request for the work completed since the last inspection. Change orders must be recorded in writing, signed by all parties, and submitted to the Construction Loan Department for approval.

- *Final Inspection/Draw*

The final draw will be available upon receipt of the occupancy permit from local government building official and the appraiser's final completion certificate.

Appendix A: Peoples Bank Construction Loan Requirements

| Item | Items Required for Builder/Contractor Approval |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Completed <i>Contractor Resume/Authorization</i> (signed and dated). Must include a minimum of 6 Credit References. |
| 2 | Authorization to Act on Behalf of the Entity (i.e. Corporation Resolution), if applicable |
| 3 | Two years signed Tax Returns <ul style="list-style-type: none"> • Business Returns for corporations/partnerships • Personal Returns for sole proprietors Note: Obtain a copy of previous year's extension if not filed prior to April 15th. If tax returns are over 6 months old, obtain current Profit and Loss & Financial Statement. |
| 4 | Signed W-9 (if non-incorporated) |

| Item | Required Documentation for Construction Loan |
|------|------------------------------------------------------------------------------------------------|
| 1 | Building Permit - obtain prior to closing |
| 2 | Complete Set of Plans (including plot plan) - signed & initialed by all parties |
| 3 | Project Specifications/Materials Specifications Form - signed & dated by all parties |
| 4 | Cost Breakdown - signed and dated by all parties * See <i>Appendix B for a Sample</i> |
| 5 | <i>Pre-Paid Construction Items Worksheet</i> (if applicable) - signed and dated by all parties |
| 6 | Construction Contract - signed and dated by all parties |

| Item | Peoples Bank Draw Procedures |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Construction Periods offered: <ul style="list-style-type: none"> • 6 months • 9 months (standard) • 12 months |
| 2 | Extensions to the construction term are available for an additional fee. |
| 3 | Up to 90% of the hard costs can be disbursed during construction. |
| 4 | The balance of funds will be disbursed upon: <ul style="list-style-type: none"> • Completion of the House (Form 1004D) • Receipt of the Certificate of Occupancy |
| 5 | Change orders must be: <ul style="list-style-type: none"> • Recorded in writing • Signed by all parties • Submitted to Peoples Bank for approval <i>Any increase in the costs to build resulting from the change will be covered by the borrower's additional funds.</i> |

Appendix B: Peoples Bank | SAMPLE - Cost Breakdown

| | |
|--------------------|--|
| Contractor: | |
| Owner: | |
| Property: | |

| Item | Description of Work | Cost | Pre-Paid |
|------|----------------------------------|------|----------|
| 1 | All Permits & Impact Fees | | |
| 2 | Excavation/Dirt Work | | |
| 3 | Foundation Poured | | |
| 4 | Framing Material | | |
| 5 | Framing Labor | | |
| 6 | Trusses | | |
| 7 | Roof Shingled | | |
| 8 | Gutters and Downspouts | | |
| 9 | Windows Set/Sliders | | |
| 10 | Siding | | |
| 11 | Siding Labor | | |
| 12 | Masonry Material & Labor | | |
| 13 | Exterior Doors | | |
| 14 | Garage Doors | | |
| 15 | Plumbing Rough In & Tubs/Showers | | |
| 16 | Electrical Rough In | | |
| 17 | Heating | | |
| 18 | Insulation | | |
| 19 | Drywall, Tape & Texture | | |
| 20 | Ceiling Insulation | | |
| 21 | Fireplace | | |
| 22 | Paint - Exterior | | |
| 23 | Paint - Interior | | |

continued on next page

| | | | |
|--------------|------------------------------|-----------|-----------|
| 24 | Interior Trim & Doors | | |
| 25 | Interior Finish Labor | | |
| 26 | Cabinets & Hardware | | |
| 27 | Countertops | | |
| 28 | Sewer/Septic System | | |
| 29 | Water/Well | | |
| 30 | Tile/Vinyl Flooring | | |
| 31 | Hardwood/Laminate Flooring | | |
| 32 | Carpets | | |
| 33 | Decks | | |
| 34 | Concrete Flatwork/Driveway | | |
| 35 | Plumbing Finish | | |
| 36 | Electrical Finish | | |
| 37 | Light Fixtures | | |
| 38 | Appliances | | |
| 39 | Fill and Drains | | |
| 40 | Construction Utility Expense | | |
| 41 | Restroom Facility | | |
| 42 | Rental Equipment | | |
| 43 | Clean Up/Dump Fees | | |
| 44 | Contingency | | |
| | | | |
| | | | |
| | | | |
| TOTAL | | \$ | \$ |

Original Bid Amount

Borrower _____

Date _____

Borrower _____

Date _____

Contractor _____

Date _____

Our Last Bit of Advice

The information in this document is an extension of the service we have provided our home loan clients for 90 years.

The advice, knowledge and insight our local, professional loan officers, underwriters and processors have proven invaluable. It's important to know and trust that your home loan comes with more than money. It comes with the assurance that the right things will be done and your investment will be a solid one for all the years you own your home.



Put the power of Peoples Bank to
work for your next home loan.

