

Construction Loan Guide



Peoples Bank
A higher level of service



Introduction

Our Construction Loan Guide provides valuable information that will help you become more informed about construction financing and the loan options available to you. Our team of local home loan specialists are available to walk you through the process from start to finish, just as soon as you are ready to begin.

About Peoples Bank

Peoples Bank has been financing home loans for over 100 years and our home loan specialists are backed by local, experienced underwriters and processors. Add that level of service to extremely competitive rates and you have a bank with the right home loan for your unique situation.

Table of Contents

■ Getting Started	4
■ Build vs. Buy	5
■ Tips for Building your Home	6
■ Types of Financing	9
■ Draw Request	10
■ Required Documentation	11
■ Our Last Bit of Advice	12



Getting Started

Your Peoples Bank Home Loan Specialist can help you determine how much you can qualify for based on current rates, credit history, income, expenses, and funds available for a down payment and closing costs. Getting a general idea of how much you can afford is an essential part of a successful construction loan journey. Do this before spending time and money on building plans and selecting a contractor.

Useful Information to Know

Before coming in to meet with a Home Loan Specialist, be sure to have a good understanding of the following to help your Specialist provide the most accurate estimate.

- Current income
- Current assets (savings, retirement, investments, etc.)
- Current expenses
- Purchase price and/or current value of the land (if applicable)
- Your estimate or general thinking on the cost of building your future home

Meet with your Home Loan Specialist 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. Your Home Loan Specialist can help you assess your personal situation.

Consider all the costs. Building your home is not an inexpensive route to take. Your Home Loan Specialist will review costs like site prep, utility connections, permits, closing costs, points to buydown the rate, homeowners insurance, and taxes. If there is anything you don't understand, please ask. We are here to ensure you fully understand the terms and conditions of your loan.



Build vs. Buy

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 or your timeline in which you have to move. Only you can decide which option will work best 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 home or you can choose from a range of pre-existing floor plans and features. The home-building process can take as little as nine 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 days, 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. Choose Your Home Site

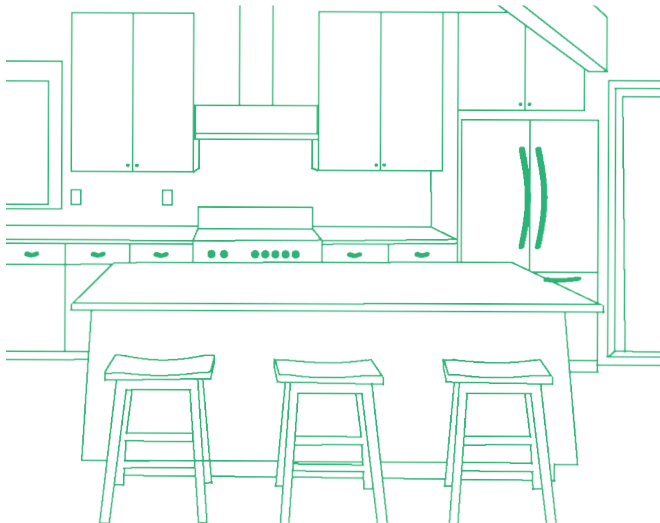
Whether you are building your home in a suburban development or a site with sweeping mountain views, you'll almost always need to choose the land before you begin the design phase. Be advised: the more complex the building site (Steep terrain, remote location, raw or undeveloped land, etc.), the more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

2. Line Up Your Team

First you should begin by meeting your Home Loan Specialist 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 research. You want to ensure you find a good fit.

3. Plan Your Budget

Now you can begin to think about how much you can afford to spend when building your new home. Don't overestimate your borrowing power and your availability of reserve funds. Leave yourself some financial breathing room. New construction projects almost always cost more than expected.



Selecting a Builder

Before hiring a contractor, industry experts 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.
- Contact your local home builder's association for the names of their member builders.
- Request a written bid from at least 3 contractors and compare them carefully. Be cautious of unusually low bids, since this could be cause for potential problems if the builder is unable to pay for labor or materials. Lower bids do not always indicate a better home for you.
- Evaluate all the aspects of the bids, including scope of work, warranties, references, time frames, and price.
- Ask for references from the builder's previous or current customers and then check them out. If possible, view the work and interview the homeowner(s). Find out if the projects were completed on time and on budget.
- Make sure your contractor meets state requirements by going to bbb.org and secure.ini.wa.gov/verify. Verify that the contractor has an active license, ensure the contractor is bonded and insured for damages that may occur, has sufficient workers compensation and general liability insurance, check that they maintain a safe job site or have corrected any violations, review the contractor's license history for previous lawsuits or license violations.
- Ask for references of suppliers that the contractor works with and check out their payment record.
- Verify that the builder has a permanent business location and how long they have been doing business. It generally takes 3-5 years to establish a financially sound business and you want them to be around after the home construction is complete to service any warranties.
- 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.
- Try to anticipate problems and inconveniences, such as overruns and clean up. Also, come to an agreement with your contractor on how these possible problems and inconveniences will be handled prior to the work beginning.



Be Your Own Contractor

Some choose to fill the contractor role themselves, also known as owner-builder. If this is your plan, the project will become more complex and puts you in the position to identify all the components of the project. This includes finding sub-contractors and suppliers, bid the jobs and manage the project. Peoples Bank has financing options for “owner-builders”, but does require active experience in the construction industry. Ask your Home Loan Specialist about the requirements.

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 plan is typically more expensive, however, the home is uniquely your own. Whether you opt for a stock or custom home design, you’ll be wise to choose a plan that will best meet your needs for years to come.

5. Negotiate a Contract

Be sure to get a clearly written contract that has been signed and dated by both you and the contractor. A contract for new home construction will describe the project in detail and include a listing of all the materials and the quality of the finishes to be included in the house. When reviewing the contract, it is always recommended to ask for and review a copy of the home warranty and homeowner manual.

There are many different types of contracts but most common are fixed-price or cost-plus contracts. You could even end up with a contract that has a bit of both.

A fixed-price contract is where the builder guarantees the delivery of the home for a specific price regardless of the cost to them.

A cost-plus contract is where a contractor is reimbursed for expenses incurred plus a specific amount of profit. If cost of materials goes up during your build, those increases are passed along to you and vice versa. If you enter into a cost-plus contract, because it is variable, the bank will require a 15% contingency be added to your total cost to build.



Types of Financing

At Peoples Bank, we can 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 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 the monthly interest payments. The construction period may be 9 or 12 months. The permanent loan with principal and interest payments begins when the project is complete.

Financing Options

OneStep Construction Loan - Construction and permanent financing all wrapped into one loan saving you time and money.

- 15 and 30 year fixed-rate options
- 5/1 and 7/1 adjustable rate options
- LTV up to 90% (program limitations apply)
- Conventional & Jumbo options

Key Features of Peoples Bank Construction Loans

- Local 3rd party inspections
- Construction Terms: 9 or 12 months
- Local underwriting and approval
- Owner-builder financing
- On-line integrated draw disbursement system
- Interest only payments during construction
- On time closing
- Interest rate floatdown available upon completion, if applicable



Draw Request

Once a month, the builder or homeowner will submit a draw request through our online draw request system for the work completed since the last inspection.



■ Deposits

Some items may require a deposit be made upon order. Typically, funds are not disbursed until materials are on-site or completed. At Peoples Bank, we understand the need to keep the project moving and will consider issuing funds for those deposits up to 50% of the total item purchase.

■ Change Orders

Change orders are a deviation from the agreed upon cost breakdown and are a result of changes requested by the borrower. Any changes must be submitted in writing to the builder and approved and signed off by all parties including Peoples Bank before any funds can be considered. Funds for change orders would be requested following the same draw procedures but, depending on the amount and remaining budget, may be required to be paid out of pocket.

■ Inspections

Inspections are performed by a 3rd party. 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 the construction progress. Quality of the workmanship and code compliance are not the Bank's responsibility.

■ Draw Disbursements

The builder will submit a draw request each month. If the requested items are supported by the site inspection report, the requested funds will be disbursed to the builder.

■ Final Inspection/Draw

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

Required Documentation



Items Required for Builder/Contractor Approval

- Authorization to act on behalf of the entity (i.e. Corporation Resolution), if applicable.
- Signed W-9 (if non-incorporated)

Required Documentation For Construction Loan

- Building Permit - obtain prior to closing
- Complete Set of Plans (including plot plan)
- Project Specifications/Material Specifications Form - signed and dated by all parties
- Cost Breakdown - signed and dated by all parties
- Pre-Paid Construction Items Worksheet (if applicable) - signed and dated by all parties
- Construction Contract - signed and dated by all parties

Your construction journey is about to begin

The information in this document is an extension of the service we have provided our home loan clients for over 100 years.

The advice, knowledge, and insight of our local, professional Home Loan Specialists, underwriters, and processors have proven invaluable. It is 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. Your transaction and construction are in the right hands.



Peoples Bank
— A higher level of service

MEMBER
FDIC



9/2024