



# A Guide To Residential Construction Lending



**Fifth Third Bank**

Working Hard To Be The Only Bank You'll Ever Need.®

# A Guide to Residential Construction Lending

At Fifth Third, we offer loans to builders and homeowners for construction of residential dwelling units. The purpose of this guide is to share some information about our procedures, and hopefully make the construction process clearer and more comfortable for our customers. The scope of this writing is limited to residential construction loans to individual borrowers. The guide is presented in a question and answer format. We have tried to address the questions most often asked of our loan officers.

---

## **What is a construction loan?**

A construction loan is a loan made to a builder or individual to facilitate construction of a dwelling.

At Fifth Third, we make construction-permanent loans on a fixed or adjustable rate basis. To determine the plan best for you, we recommend that you talk to one of our loan officers.

## **How does a construction loan differ from a mortgage loan?**

Both loans are actually mortgage loans. The term “mortgage” applies to a loan on real estate. The primary difference in terms of lending is that the term “mortgage loan” most often is used in connection with an existing dwelling. A “construction” loan is made with the expectation that a dwelling will be built on a lot.

## **How does a Fifth Third construction loan work?**

Our residential construction loans are made as “construction-permanent” loans. Maximum loan to value ratio is 90% of appraised value as determined by an independent fee appraiser chosen by Fifth Third. The appraised value represents a combined value of the building lot plus dwelling.

“Construction-permanent” means only one closing, whereby the rate and term are set at time of application and carry through to completion of the dwelling and then on to the permanent amortizing mortgage.

## **How long is the construction loan period?**

Our construction loan period ranges from 6-12 months. In the majority of cases, this is sufficient time to build a house. If a longer term is needed due to extenuating circumstances, this should be discussed with your loan officer at the time of application.

---

**Do I need a builder?** Yes. At Fifth Third, we require the use of a licensed, bonded general contractor. Further, as a safeguard to you, if the builder of choice has not worked with Fifth Third in the past, we require completion of our Builder Reference Form (See Forms Appendix) and submission of financial data prior to the borrower's application. The builder is then personally interviewed and his work inspected to ascertain his experience and to reinforce Fifth Third's way of doing business.

Fifth Third cannot accept responsibility for choice of contractor, nor do we make recommendations for a particular contractor. The local Home Builders Association (HBA) office would be happy to provide a list of builder members upon request.

**Do I have to own a lot before I get a construction loan? Can I use my lot as equity?** Yes, however, the building lot must be titled to the borrower before a construction loan can be filed. Fifth Third's construction loan must be the first and best lien on the property. The building lot equity can be used to meet Fifth Third's 10% equity requirement.

In some cases, depending on the value of the lot and cost of the dwelling, a borrower may be able to borrow a portion of the lot cost and include it in the construction loan. This should be discussed with your loan officer prior to time of application.

**How do I apply for a construction loan?** The construction loan application, in most respects, mirrors the application for a loan on an existing dwelling, with one important exception. Since no house exists at the time of application, a set of detailed blueprints (plans) must be provided by the builder. The loan is based on the appraised value of the building lot, plus the home to be constructed.

**What do I need to bring with me at time of application?** Following is a list of items which should be brought to Fifth Third at the time of application:

- Detailed and accurate building plans (one set)
- Specification list
- Builder's cost breakdown
- Executed building contract
- Copy of deed, if lot is titled to borrower. If borrower is purchasing lot in conjunction with the construction loan, a copy of the purchase agreement will be required.

**What do I need to bring with me at time of application? (continued)**

- ❑ Map or drawing of lot location, especially if in a new subdivision or rural area.
- ❑ Income, assets and liability information as requested by your loan originator.
- ❑ Application fee. At closing, application fee may be refunded or credited toward loan amount.
- ❑ Personal information and employment history:
  - Two (2) years complete Federal Income Tax returns for all borrowers
  - If self-employed, Year To Date profit-and-loss statement
  - Two (2) years Federal Income Tax returns for partnership/corporation with all supporting schedules
  - Current pay stubs (to substantiate current pay levels)
  - Employment history for past two (2) years, including name and address of current and past employers for that period of time, position, and length of time employed
  - Current rate of base earnings and average of overtime, commissions, bonuses, etc.
  - If you choose to include income for child support and/or alimony, provide documentation evidencing receipt of said income for the past six (6) month period along with a copy of recorded Separation Agreement and Divorce Decree
  - Other income (i.e., Social Security, pension, rental, stock, interest, dividends, etc.) requires documentation evidencing receipt as consistent income
- ❑ Information regarding assets
  - List of depositories, including name, address, account numbers and balances
  - Copy of most recent statement for mutual fund and brokerage accounts, including retirement accounts
  - Documentation for any other source of funds to be used as down payment and/or closing costs (i.e., gift letters, savings bonds)
- ❑ Information regarding liabilities
  - Name and address of all creditors, account numbers, balances, and monthly payments
  - If child support or alimony payments are made, we will require a copy of recorded Separation Agreement and Divorce Decree

**How do I qualify for a construction loan?**

Qualifying for a construction loan is done on the same manner as for any of our other mortgage loan applications.

### How long does it take to find out if my loan has been approved?

It normally takes about 14-21 working days after application to learn if the loan has been approved.

Assuming a loan is approved, the next step is the issuance of a Commitment Letter. Upon receipt, the borrower is required to execute and return to the lender a copy of the Commitment Letter, which serves as a formal acceptance of the loan's terms and conditions offered by Fifth Third. In most cases, a nonrefundable commitment fee (1% of the amount borrowed) must be forwarded to Fifth Third within 7 days of loan approval. If the loan is made, this fee is typically applied against closing costs, unless otherwise stated in the Commitment Letter. Upon approval of the loan, Fifth Third will also order all necessary title work required in connection with the loan.

When the Commitment Letter is received, the borrower is asked to contact the escrow agent (Title Company) to coordinate an appointment to sign the final loan documents, which include the Note, Mortgage Deed, Construction Loan Agreement, etc. Any funds needed to purchase the lot, close the deal, meet full contract price or pay closing costs should be deposited with the Title Company at the time of signing.

### What happens after the loan closes?

After papers have been executed, all documents which must be filed of record with the County Recorder are forwarded by the Title Company. Title Companies work directly with our Closing Department in the transferring of title, filing of the mortgage and disbursing funds for payment of title charges, lot purchase price, etc.

Once the transaction has been filed, or "closed", a mechanics' lien survey (also known as the "first picture") is taken by the survey company. After this picture is taken, work can begin on the dwelling.

**Please Note:** No clearing, digging, mowing or construction work of any nature can begin prior to closing and the taking of the first picture.

At this time, your file is transferred to the Construction Loan Department, where it will remain until the home is completed. You will be assigned a representative, who will assist you throughout the construction period, answer your questions, and address any concerns you may have. You will be notified by letter as to any additional items needed for your file and given the name of your construction representative.

**Who pays for insurance during construction?**

This should be discussed directly with your builder. In most cases, insurance is the responsibility of the homeowner. The builder will, of course, carry workmen’s compensation and liability coverage, but the actual insuring of the property is normally paid by the borrower. We require that a Builders’ Risk or Homeowners’ Policy with theft coverage (for building materials left on the lot and not attached to the dwelling) be obtained. Fifth Third will require evidence of insurance prior to disbursing construction loan funds.

**How does my builder get paid?**

Prior to disbursement of funds, the foundation must be installed and a foundation survey must be done. The purpose of this picture and survey is to make certain that placement of the foundation complies with all applicable building and lot line requirements. Either the builder or borrower should call Fifth Third when the foundation is in so survey can be ordered and to avoid any delay in payment of bills.

At Fifth Third, we pay the builder on a “draw” basis. Bills are paid on a monthly basis, based on percentage of completion as determined by an independent inspector chosen by Fifth Third.

A properly completed, executed sworn statement must accompany each request for payment. Payment to the General Contractor for work done directly by him/her should be invoiced as for any other payee and included on this statement.

**When do inspections occur?**

Inspections will begin upon notification that the foundation is in and will continue throughout construction. These inspections are made for the purpose of determining percentage of completion of the property and that the home is being built in conformance with the plans and specifications submitted. We do not inspect for quality of workmanship or materials. Once the property is under lock and key, please notify the Bank so arrangements can be made for access to the property by our inspectors.

**When do my payments start?**

During construction, interest is billed monthly based on funds disbursed from the loan. Borrower-contributed funds are generally used first, since no interest is owed on these funds. A detailed billing is prepared 10 days before the end of each month. This statement assumes interest to the end of the month. Disbursements made from a construction loan after the cut-off date will be included in the following month's billing. Payment of construction loan interest must be received prior to the 15th of the following month.

Upon completion of the property, the loan is transferred to a permanent status and regular monthly payments begin. At this time a coupon book will be generated, or if the borrower wishes, payment can be deducted automatically from his/her Fifth Third Bank account through the BillPayer 2000® Program. An escrow account will be established and Private Mortgage Insurance (PMI) will be included in this monthly payment, if required.

**When construction is done, how do I get my loan transferred to permanent status?**

Upon completion of construction, the loan is automatically transferred to permanent status. This arrangement can be made by calling your construction loan representative in advance of the expected completion date and reviewing Fifth Third's requirements at that time. We will require:

- A copy of the occupancy permit
- Final Affidavit from General Contractor
- Written instructions regarding disbursement of any remaining construction funds
- Final inspection report (ordered by Fifth Third)
- Hazard Insurance Policy

For fixed rate loans, we may also require a Loan Modification Agreement, which sets forth the actual beginning payment date, the revised maturity date, and the actual loan amount and monthly payments. In most cases, this form can be mailed to you for signature.

**Can I pay my real estate taxes and insurance with my loan payments?**

We do not escrow funds for payment of real estate taxes and insurance on our construction loans. These are paid directly by the borrower during the construction period. Once a full tax bill (land and dwelling) has been received, you may make arrangements directly with our Mortgage Servicing Department at 1-800-972-3030 to escrow funds for payment of real estate taxes and insurance.

Having your “dream home” built can be an exciting experience. The success of any construction project depends a great deal on your choice of contractor and on good communication. Before signing a contract with a builder, we recommend that you go out and look at the builder’s work, ask for references, and ask questions. A good builder is proud of his or her work and will be pleased to show it off. We also recommend that you discuss your potential contract with an experienced real estate attorney.

In this guide, we have tried to answer the most frequently asked construction loan questions and give an overview of Fifth Third’s construction lending procedures. If you have further questions or concerns, please take the time to call any of our Mortgage Loan Originators.

THIS GUIDE IS PROVIDED FOR  
INFORMATIONAL PURPOSES AND IS  
SUBJECT TO CHANGE WITHOUT NOTICE.

**FORMS APPENDIX**

# BUILDER REFERENCES

Names Under Which You Do Business \_\_\_\_\_

Legal Name \_\_\_\_\_ Tax ID# \_\_\_\_\_

Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_

Phone (office) \_\_\_\_\_ (home) \_\_\_\_\_

( ) Corporation IRS 1120 (s) ( ) Partner IRS 1065 ( ) Proprietorship IRS 1040

Names of Officers/Owners

\_\_\_\_\_ Title \_\_\_\_\_

\_\_\_\_\_ Title \_\_\_\_\_

\_\_\_\_\_ Title \_\_\_\_\_

Current Projects

Address	Customer Name	Phone	Price
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Previous Projects

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Number of homes delivered in last three calendar years

Year \_\_\_\_\_, No. \_\_\_\_\_ Year \_\_\_\_\_, No. \_\_\_\_\_ Year \_\_\_\_\_, No. \_\_\_\_\_

Trade References

Company	Type of Work	Phone	Contact
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Supplier References

Company	Service	Phone	Contact
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

## DESCRIPTION OF MATERIALS

OWNER \_\_\_\_\_ PHONE \_\_\_\_\_

GENERAL CONTRACTOR \_\_\_\_\_ PHONE \_\_\_\_\_  CONTRACT

1. EXCAVATION: Bearing Soil, Type \_\_\_\_\_

2. FOUNDATIONS: Footings Concrete Mix \_\_\_\_\_

Foundation Wall Material \_\_\_\_\_

Girder Material and Sizes \_\_\_\_\_

Party Foundation Wall \_\_\_\_\_

Sill Material \_\_\_\_\_

Waterproofing \_\_\_\_\_

Crawl Space \_\_\_\_\_

Ground Cover \_\_\_\_\_

Footing Drains \_\_\_\_\_

3. CHIMNEY(S): Material \_\_\_\_\_ Flue Size \_\_\_\_\_

Prefabricated (make and size) \_\_\_\_\_

Fireplace Flue Size \_\_\_\_\_

4. FIREPLACE(S):  Solid Fuel  Gas-burning

5. EXTERIOR WALLS: Wood Frame \_\_\_\_\_

Corner Bracing \_\_\_\_\_

Sheathing  Composition  Wood  Plywood: Thickness \_\_\_\_\_

Siding Type \_\_\_\_\_ Material \_\_\_\_\_

Masonry Veneer \_\_\_\_\_

Sills: Size \_\_\_\_\_ Material \_\_\_\_\_

Lintels \_\_\_\_\_

6. FLOOR FRAMING: Joists: Wood, Grade and Species \_\_\_\_\_

Size \_\_\_\_\_ Spacing \_\_\_\_\_

Concrete Slab  Basement Floor  First Floor  Ground Supported

Mix \_\_\_\_\_ Fill Under Slab Material \_\_\_\_\_ Thickness \_\_\_\_\_

7. SUBFLOORING: Material: Grade and Species \_\_\_\_\_

Size \_\_\_\_\_ Type \_\_\_\_\_

8. FINISH FLOORING: First Floor: Material and Finish \_\_\_\_\_

Second Floor: Material and Finish \_\_\_\_\_

Kitchen: Material and Base \_\_\_\_\_

Baths Material \_\_\_\_\_

Wainscoting \_\_\_\_\_

9. **PARTITION FRAMING:** Size and Spacing \_\_\_\_\_
10. **CEILING FRAMING:** Joist Size and Spacing \_\_\_\_\_
11. **ROOF FRAMING:** Rafter Size and Spacing \_\_\_\_\_  
 Roof Trusses Size and Spacing \_\_\_\_\_
12. **ROOFING:** Sheathing: Material and Thickness \_\_\_\_\_  
 Roofing Material \_\_\_\_\_ Weight \_\_\_\_\_  
 Flashing Material \_\_\_\_\_ Gauge or Weight \_\_\_\_\_
13. **GUTTERS AND DOWNSPOUTS:** Gutter Material \_\_\_\_\_  
 Gauge or Weight \_\_\_\_\_ Size and Shape \_\_\_\_\_  
 Downspout Material \_\_\_\_\_  
 Gauge or Weight \_\_\_\_\_ Size and Shape \_\_\_\_\_  
 Downspouts connected to:  Storm Sewer  Sanitary Sewer  Sump Pump  Splashblock
14. **LATH AND PLASTER:** Lath Material \_\_\_\_\_ Thickness \_\_\_\_\_  
 Plaster: Coats \_\_\_\_\_ Finish \_\_\_\_\_  
 Drywall Material \_\_\_\_\_ Thickness \_\_\_\_\_  
 Joint Treatment \_\_\_\_\_
15. **DECORATING:** Wall Finish Material \_\_\_\_\_ Ceiling Finish Material \_\_\_\_\_  
 Kitchen \_\_\_\_\_  
 Baths \_\_\_\_\_  
 Bedrooms \_\_\_\_\_  
 Living Room \_\_\_\_\_  
 Other \_\_\_\_\_
16. **INTERIOR DOORS AND TRIM:** Doors: Type \_\_\_\_\_  
 Material and Thickness \_\_\_\_\_  
 Door Trim: Type \_\_\_\_\_ Material \_\_\_\_\_  
 Base: Type \_\_\_\_\_ Material and Size \_\_\_\_\_
17. **WINDOWS:** Type \_\_\_\_\_ Material \_\_\_\_\_  
 Glass: Grade \_\_\_\_\_  
 Trim: Type \_\_\_\_\_ Material \_\_\_\_\_  
 Basement Windows: Type \_\_\_\_\_ Material \_\_\_\_\_  
 Special Windows \_\_\_\_\_

18. **ENTRANCE AND EXTERIOR DETAIL:** Main Entrance Door;  
 Material and Width \_\_\_\_\_  
 Shutters: Material \_\_\_\_\_  Hinged  Fixed  
 Railings: Material \_\_\_\_\_  
 Other Entrance Doors: Materials and Width \_\_\_\_\_  
 Exterior Millwork: Grand and Species \_\_\_\_\_
19. **CABINETS AND INTERIOR DETAIL:** Kitchen Cabinets, Wall Units;  
 Material \_\_\_\_\_  
 Counter Top \_\_\_\_\_ Edging \_\_\_\_\_  
 Other Cabinets and Built-in Furniture \_\_\_\_\_
20. **STAIRS:**  Main  Basement  Attic  Disappearing: Make and Model No. \_\_\_\_\_
21. **PAINTING:** Exterior: Number of Coats \_\_\_\_\_ Interior: Number of Coats \_\_\_\_\_
22. **ELECTRIC WIRING AND FIXTURES:** Service:  Overhead  Underground Panel  Fuse Box  Circuit-breaker  
 Wiring:  Conduit  Armored Cable  Nonmetallic Cable  
 Knob and Tube  Other  
 Special Outlets:  Range  Water Heater  Dryer  Other \_\_\_\_\_  
 Fixture Allowance \_\_\_\_\_
23. **PLUMBING:** Kitchen Fixture \_\_\_\_\_ Sink Size and Color \_\_\_\_\_  
 Half Bath:  Washstand Size \_\_\_\_\_ Water Closet \_\_\_\_\_  
 Bath #1:  Wash Basin Size \_\_\_\_\_  Water Closet  Stall Shower  Tub \_\_\_\_\_  
 Bath #2:  Wash Basin Size \_\_\_\_\_  Water Closet  Stall Shower  Tub \_\_\_\_\_  
 Bath #3:  Wash Basin Size \_\_\_\_\_  Water Closet  Stall Shower  Tub \_\_\_\_\_  
 Laundry \_\_\_\_\_ Laundry Tray Size \_\_\_\_\_ Material \_\_\_\_\_  
 Water Supply:  Public  Community System  Individual (private) System  
 Sewage Disposal:  Public  Community System  Individual (private) System  
 Septic Tank Size: \_\_\_\_\_  Gallons Water piping:  Galvanized Steel  Copper Tubing  Other  
 Domestic Water Heater: Type \_\_\_\_\_ Make and Model \_\_\_\_\_  
 Capacity \_\_\_\_\_ Gallons \_\_\_\_\_  
 Gas Service:  Utility Company  Liquid Petroleum Gas  Other  Cooking  Househeating  
 Footing Drains Connection to:  Storm Sewer  Sanitary Sewer  Sump Pump
24. **HEATING:**  Hot Water  Steam  Radiators  Convectors  Baseboard  
 Warm Air:  Gravity  Forced  Duct Material Supply \_\_\_\_\_  Return \_\_\_\_\_  
 Furnace Make and Model \_\_\_\_\_ Output \_\_\_\_\_ BTUH \_\_\_\_\_  
 Electric Heat:  Panel  Baseboard  Other Manufacturer \_\_\_\_\_  
 Fuel:  Oil  Gas  Liquid Petroleum Gas  Electric  Oil Storage Capacity \_\_\_\_\_ Gallons  
 Controls:  Thermostat  Attic Fan  Kitchen Exhaust  Bathroom Fan \_\_\_\_\_  Utility Fan \_\_\_\_\_



# COST ESTIMATES

BUILDER \_\_\_\_\_ ADDRESS \_\_\_\_\_ PHONE \_\_\_\_\_

OWNER \_\_\_\_\_ ADDRESS \_\_\_\_\_ PHONE \_\_\_\_\_

ITEM	BUILDER		OWNER	
Architect				
Survey				
Building Permits				
Insurance				
Excavating and Back Fill				
Trucking and Hauling				
Mason – Material				
Mason – Labor				
Lumber – Rough Material				
Carpentry – Rough Labor				
Roofing				
Siding				
Paint – Exterior				
Plumbing - Rough and Finish				
Electric Wiring – Rough and Finish				
Floors – Concrete				
Heating – Rough and Finish				
Air Conditioning/Humidifier				
Insulation				
Doors				
Windows				
Garage Door				
Weather-stripping and Caulking				
Gutters and Downspouts				
Drywall or Plaster				
Septic System/Sewer				
Water/Well				
Utilities				
Appliances (Built-in)				
Cabinets – Kitchen				
Bath Fixtures (Cabinets, Shower Doors, Mirrors)				
Bath Fixtures (Toilet, Sink, Shower, Tub)				
Fireplace				
Security System				
Vacuum System				
Lumber – Finish Material				
Carpentry – Finish Labor				
Electric Fixtures				
Hardware – Finish Materials				
Paint – Interior				
Wall Paper/Decorating				
Flooring – Carpet, Linoleum, Tile				
Finish Grade/Landscaping				
Walks and Drives				
Miscellaneous				
<b>COST OF CONSTRUCTION</b>				
Lot Cost				
Financing				
Supervision/Overhead				
Profit				
Sales Commission				
<b>TOTAL SALES PRICE</b>				

# ***NOTES***

*Working Hard To Be The Only Bank You'll Ever Need*

**WALK IN** one of our Banking Centers  
and ask to speak to a Loan Officer

**VISIT** [www.53.com](http://www.53.com)

