



Your Guide to Construction Financing

Are you considering building a new home? If so, this guide will be a valuable resource for you. It provides information on the financing process and a timeline to help you plan your project.

How you finance the construction of your new home is one of the most important things to consider. Elements is known for our exceptional member service, and we understand the needs of our members and the builder.

Our Single-Close Construction Loan takes you from groundbreaking to move-in, in one easy process. You will work with a Mortgage Loan Originator who is able to answer your questions and the questions of your builder so that your home construction keeps moving smoothly with no surprises along the way.

THE SINGLE-CLOSE CONSTRUCTION LOAN

This program is designed to build a primary residence in Indiana and is one loan from start to finish. You sign one set of loan documents that covers both the interim construction phase and the permanent loan. This eliminates the need for multiple loans to get into your new home. With a single loan, you can purchase the land for your home and complete the construction. When construction is complete, and the 12 month construction term is up, the loan converts to a permanent mortgage loan saving considerable time and money.



What Makes Up the Construction Loan Costs?

There are a number of costs that go into building a new home:

Land/Lot

You may purchase the land or lot you have under contract at closing with proceeds from the Single-Close Construction Loan, or you may have already purchased the land and have a loan to be paid off with proceeds from the Single-Close Construction Loan. Or, you may own the land free and clear.

Soft Costs

Permit fees, engineering fees, architectural fees, and other costs associated with building the home but not directly part of the actual construction costs. You may have already paid some of these costs up front. If so, these paid items may be considered equity. Your Mortgage Loan Originator will be able to determine this with proper documentation.

Hard Costs

These are tangible costs associated with the actual construction of the home. This includes materials and labor costs.

Total Costs

The total cost consists of all of the above.

Maximum Loan Amount

You may borrow up to the maximum loan amount as figured from the lesser of the appraised value or the actual cost (lot plus construction costs).

Lot Equity

The land value is taken from the appraisal, if owned, before closing. The difference between the appraised land value and the construction costs plus land payoff, if applicable, will be the lot equity. The lot equity will be a credit toward the required down payment.



How Does the Construction Loan Process Work?

The Single-Close Construction Loan process is very similar to a standard purchase or refinance transaction. But unlike a purchase transaction for an existing home, the Single-Close Construction Loan involves determining the value of the new home upon completion, information on the planned home, and the total cost to complete the project.

Final Plans and Specifications

These consist of a legible set of architectural drawings (building plans). They must include a floor plan showing all dimensions and outside elevations (drawings of the exterior). In addition, the builder should provide a detailed description of the materials to be used in construction of the home; for example, wood shingle or lightweight tile roofing; brick or stucco exterior. This information will be provided to the appraiser who will determine the value, subject to completion per plans and specifications.

Construction Contract

This is the agreement between you and the builder that details the planned construction project, the agreed upon cost, and the construction term to complete the project. The final plans and specifications should be an attachment to the construction contract.

Detailed Line Item Cost & Draw Schedule

This schedule is prepared by the builder and should include hard costs (direct costs) and soft costs (indirect costs). The total should match the Construction Contract total. The Draw Schedule is used to advance funds to the builder as work is completed.

Builder Registration

We require our builders to be registered with Elements. Your Mortgage Loan Originator will work on this process directly with the builder.



How are Draw Funds Disbursed?

Draw disbursements or progress payments are made on a work-completed basis and occur over a period of time as the work progresses. The builder will submit draw requests directly to our Construction Department, itemizing the work completed and the amount requested for payment. The percentage of work completed is determined by an independent third-party inspection service. Your builder will designate a construction bank account at a financial institution and disbursements will be wired directly to that account after receipt of the inspection report.

Initial Disbursement

The initial disbursement at closing includes the payoff of the lot (if applicable). Also, a start-up draw may be disbursed to the builder.

Final Draw

The final draw to the builder will be paid upon completion of construction and receipt of a final appraisal inspection, a “clear endorsement” from the title company, a final survey if required, homeowner’s insurance policy, and any other documentation as may be required for our particular loan.

Construction Timeline

1 SITE SELECTION

If you have not already selected and purchased your lot, location is one of the most important factors to consider. There are realtors who specialize in finished lots as well as developers who sell finished lots. A current survey of the property indicating all easements and rights of way will be required for closing.

2 MEET WITH BUILDER AND ARCHITECT

You may start by meeting with a builder or architect. Many builders have architects on staff or certain architects they regularly work with. Keep in mind that each plays an integral role in the process and will work together to help make your vision a reality.

3 MEET WITH THE LENDER

It's never too early to meet with your construction lender. An Elements Mortgage Loan Originator can help in planning for your future investment.

4 LOAN CLOSING

You must have an adequate down payment or equity at the time of closing. Equity is defined as cash paid toward the lot or construction costs, both hard and soft.

5 CONSTRUCTION PHASE

Enjoy a construction phase of up to 12 months with interest-only payments while you complete your new home. You will be charged interest only on the funds disbursed. The interest-only construction phase of your financing may continue past your home's completion and your move-in, up to 12 months from loan closing. You will be responsible for continuing to make property tax payments to the county during this time.

6 SELL OR LEASE YOUR CURRENT HOME

If you currently own a home, your Mortgage Loan Originator will help you determine your need to sell your home first. If you do not have to sell your home, close on the Single-Close Construction Loan and have up to 12 months to sell or lease your current home prior to loan modification. No need to move twice!

7 LOAN MODIFICATION

Once construction is complete and a Certificate of Occupancy from the county has been issued, you may move in. The final draw disbursement will take place at this time. The Single-Close Construction Loan will be modified upon completion of construction of your home and 12 months after loan closing. The modification will involve setting up an escrow account for property taxes and homeowner's insurance. Certain conditions and restrictions may apply.