

# Northway Bank Construction Loan Program – At A Glance

## INTRODUCTION

The purpose of this *Construction Loan Program - At A Glance* is to provide you with information about construction lending along with the construction products offered by Northway Bank. It will also include contractor, project approval requirements, and information about how to obtain disbursements to pay for construction costs. Should you have questions that are not answered by this Guide, please direct them to your loan originator who will be more than happy to assist you.

Construction lending consists of providing financing for the construction of a new residential structure on property either already owned by the borrower or purchased concurrently with the loan closing. Northway Bank lends for construction loans only for properties located in New Hampshire and are either primary or secondary homes.

### Northway Bank offers a 'One Closing'

A one-closing construction loan combines the construction financing into the same loan as the permanent mortgage financing. The term of the loan is set at this point, from three fixed rate options, and there is a single closing transaction before construction begins where a single set of fees and closing costs are collected from the borrower. During construction, borrowers pay a monthly interest payment based on the amount of construction funds used to-date (construction funds are accessed through "disbursements" that will be explained later in this Guide) along with an escrow payment for real estate taxes, homeowners, flood insurance and private mortgage insurance (if applicable). Once construction is complete, the loan will convert to the permanent phase and the borrower will begin making a traditional principal and interest payment to include an escrow payment for taxes, homeowners, flood insurance and private mortgage insurance (if applicable), for the remaining years.

## CONSTRUCTION MANAGEMENT VENDOR

Northway Bank will employ a construction management company ("Vendor") to assist us with contractor approval, project approval, and inspections of completed work for your loan. The Vendor has specialized knowledge of the building requirements and lien laws in New Hampshire. Please note that Northway Bank will not release funds until the Vendor has inspected the finished work and notified Northway Bank of the completion.

It is important for you to know that your construction financing relationship is with us, Northway Bank, and not with the Vendor. The Vendor's role is to assist us. While you and your contractor may speak with or submit documents to our Vendor throughout the construction or renovation process, you should feel free to reach out to us at any time should you have questions or concerns. We want to make sure your construction loan proceeds as smoothly as possible for you, your contractor and us. You may direct questions to the Northway Bank Construction Administration Department at (800) 442-6666 Ext. x4533 or by email to [mortgageoriginators@northwaybank.com](mailto:mortgageoriginators@northwaybank.com).

## THE LENDING PROCESS

The lending process for your construction or renovation loan application approval involves essentially the following steps:

1. Contractor Approval
2. Project Approval
3. Loan Approval
4. Loan Closing
5. Documentation Requirements for Disbursements
6. Completion of Construction



## **1. Contractor Approval**

We will review a contractor's qualifications by obtaining business credit reports, building history and a reference check on projects. This review is accomplished by requesting the contractor complete the Builder Questionnaire. Builders must complete this form in its entirety as missing information will delay the processing of your package. Forward the completed Builder Questionnaire, along with all other required documentation as detailed on the Approved Builder Checklist, to your Loan Originator. Our construction administration department will continuously monitor the contractor's licenses and appropriate insurance information. Should either expire during construction, the Bank will require a renewal certificate prior to us funding any additional disbursements.

*Our approval of a Builder is not an endorsement of that builder, but rather an acknowledgement at the time of our review they met our standards for participation in our construction programs in terms of licensing, insurance coverage, timely payments to subcontractors and suppliers, etc. The choice of builder is solely yours. You should make independent inquiries into their reputation by asking friends and neighbors for recommendations, by asking for builder references of past clients, by reviewing a contractor's record with the local Better Business Bureau, etc.*

## **2. Project Approval**

Project approval involves a review of the details of the construction project to determine if it meets our loan standards and to ensure there are enough funds in the proposed budget to complete the project. To complete the project review, we require several documents, some of which you may provide but most will come from the contractor.

### **Documents required for Construction Approval:**

- Building Plans
- Building Specifications
- Signed Contractor Agreement
- Construction Project Budget
- Deed of Lot or Legal Description
- Covenants & Restrictions (if applicable)
- Subdivision Plan (if applicable)

*Once these documents are reviewed additional documentation may be required.*

## **3. Loan Approval**

After the contractor and project have been approved, or possibly simultaneously, an underwriter will review your loan application, income and asset documentation, credit report, property appraisal, etc., for approval of the loan itself. Other than the additional information regarding the contractor and construction project, this process is the same as any other home purchase or refinance credit decision we make. Your loan will be reviewed by an impartial underwriter with an eye toward ensuring the criteria for approval are met of the loan program under which your application was received. Of course, not every loan application will be approved, and sometimes additional documents are requested by the underwriter to aid in their decision making. We realize the anxiety inherent in this part of the approval process and we will make every effort to make a final decision as quickly as possible. The result of the loan approval process, we all hope, will be an approval notice outlining the conditions that must be met either prior to or at loan closing.

## **4. Loan Closing**

Loan closing is the point at which the final loan documents are signed. This appointment often takes place at a title or escrow company but can also take place elsewhere. You, the loan applicant(s), will attend as will a settlement agent. The settlement agent is the person responsible for ensuring all construction and loan documents, real estate transfer documents and other documents and disclosures are correctly completed and signed, and that any funds being disbursed at closing are appropriately handled. The settlement agent is also responsible for sending certain documents to the county recorder's office for filing in the public land records after the loan closing.

For a construction loan, if you purchased the lot separately and not from the builder as part of the construction transaction, and if you obtained lot financing when you purchased the lot, we will pay off any outstanding amount at closing. The disbursement of funds at closing for this purpose is not considered a construction disbursement.

Title updates are needed for each disbursement to ensure that no additional liens were filed on the property by anyone who completed work. The fee for the title updates will be based on the number of disbursements. Title update costs will be included in the Construction Disbursement Updates fee line. This fee is not refundable.

A final construction disbursement update fee is included on all construction loans to ensure no additional liens were filed on the property by anyone who completed work. Any unused portion of this fee will be refunded after the construction has been completed.

## **5. Documentation Requirements For All Disbursements**

Once your loan has closed and construction has commenced, you will need to submit disbursement requests to access loan funds for work completed as the project progresses. Please submit ALL required documents in a single submission so that your request can be processed, and funds released quickly. Note: 1<sup>st</sup> Inspection request – not sooner than 14 days after closing to allow for loan documentation to be processed and disbursement accounts to be set up in Loan Servicing.

- Residential Construction Disbursement Schedule
- Builders Waiver of Mechanic's Lien Affidavit (Exhibit G)
- Owners Mechanic's Lien Affidavit (Exhibit H)

In addition to these required documents, you will be required to post a Notice of Construction Lender on the property.

If the payment will be the first disbursement or the final disbursement see the 'Additional Document Requirements Throughout Construction' below.

All required forms and support documentation should be submitted via email to your mortgage loan officer.

## **Additional Document Requirements Throughout Construction**

In addition to the documents obtained in the application process the following documents may be required throughout the construction process:

- Permits, if not previously supplied and prior to first disbursement
- Foundation survey (Obtained by Northway Bank)
- Well Drillers Certificate of Completion (if applicable)
- Septic Approval for Operation (if applicable)
- Certificate of Occupancy (Needed to release final disbursement)

## **6. Completion Of Construction**

### **What Happens when Construction is completed?**

At the end of the construction phase, final funds are disbursed and any construction funds remaining (e.g., unused contingency funds, but not including any unused fees) will be either refunded to you or will be applied to the outstanding principal of the loan.

At the end of the first phase on a one-closing construction loan, it will convert to the fully amortized permanent phase and payments will include both principal and interest (as well as taxes and insurance, if applicable).

### **What Happens if Construction is Not Completed on Time?**

If construction is NOT completed within the initial time frame, the loan will convert to permanent financing and the funds will be disbursed from an escrow account until completion.

### **What if Construction is Completed Early?**

If construction is completed prior to the end of the predetermined construction phase, the same process will take place as previously outlined in the paragraph, "What Happens When Construction is Completed?"

## How We Will Respond To Your Disbursement Requests

1. Vendor will reply to any inspection request by email with a date of the inspection. Please call Vendor if you have not received notification within 24 business hours
2. Vendor will perform the inspection. For the final disbursement, Northway Bank will order a separate inspection by the property appraiser to verify the construction/renovation was completed as originally planned. The local jurisdiction may also inspect the property prior to issuing a Certificate of Occupancy, if necessary
3. Northway Bank will request and review a title search confirming the property is lien free, if applicable
4. Vendor will make a recommendation to Northway Bank for final funding disbursement upon completed inspection
5. Northway Bank will disburse funds by check, deposit to Northway Bank account or wire based upon the General Contractors preference
6. Northway Bank will send the contractor and the borrower a Funding Notification after the disbursement is funded. In most cases, the designated party will have funds within five business days of submitting a complete disbursement request

## Change Orders

A change order is an official recognition of a change to the construction plans and specifications, and to the project budget.

*It is critical for homeowners to understand that changes cannot simply be agreed to between the homeowner and contractor. **Northway must approve all change orders in writing before any work is done on the change order.** Our construction loan to you is based on an appraisal that assumes the property will be completed according to the original plans and specifications (an "as-completed" appraisal). Any later changes to those plans and specifications will make it impossible for an appraiser to validate the as-completed value of the property because they will not be able to certify the property was completed as planned. Virtually all change orders will require a new appraisal at the homeowner's expense.*

## Homeowner/Contractor Disputes

It is certainly not unheard of for homeowners and contractors to find themselves in disagreement at times during a construction or renovation project. There can be misunderstandings about the scope of work that the contractor is to perform, differences of opinion about the quality of work, complaints about the time it takes to complete a job, and many other potential disputes.

As your construction lender, our role is to provide financing for your project and to ensure the contractor meets our standards for licensing, insurance coverage, etc. However, we are not a project manager, nor are we able to act as a mediator or referee in disputes between you and your contractor, ***though we do want you to let us know about these disputes as soon as possible.***

Contact the Northway Construction Administration Department if you are experiencing a dispute with your contractor. Once notified, we will ensure that no additional funds are disbursed until the dispute is resolved. This is to protect our interest in the property but is also a safeguard for you by ensuring that funds are not released to the builder for work items subject to dispute. Please reach out to us to discuss the situation.

## Contractor Changes

Contractor changes on a new construction loan should be required only in exceptionally rare circumstances. **If a change to the contractor is needed on a construction project, the new contractor is subject to approval by us, and there may be a contractor replacement fee assessed by the Vendor and Northway Bank. If the new contractor has their own budget, the budget is subject to approval by us, and there may be an additional project review fee assessed.** Anytime, you believe a change in contractor is necessary on a new construction project, please reach out to us to discuss the situation.



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Rev. 02/2023 - Check with bank for terms and restrictions. All loans are subject to credit and property approval. Applicants must qualify.



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