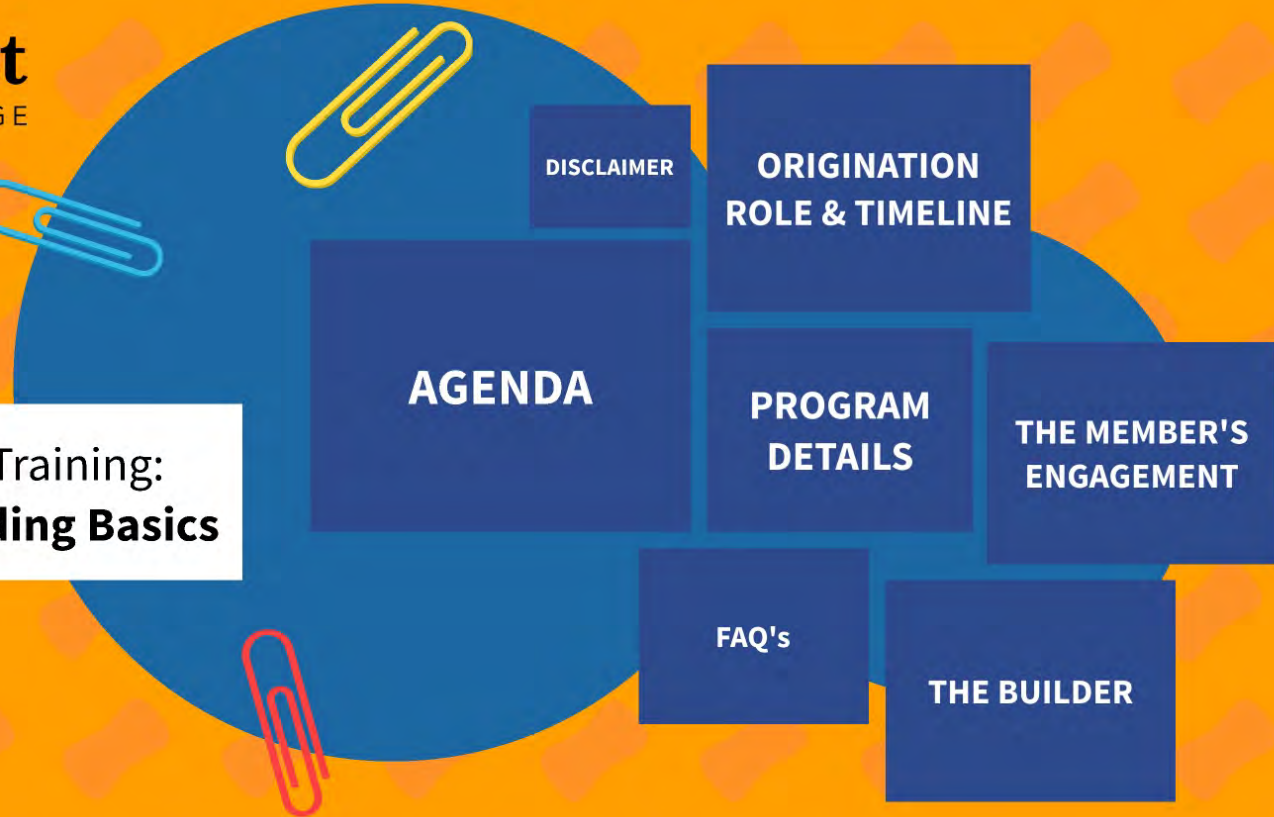




Mortgage Product Training:
Construction Lending Basics



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AGENDA

- Introduction
- Affiliate Participation
- Program Details
- Originator Role & Timeline
- Member Engagement
- Builder's Responsibilities
- FAQ



INTRODUCTION

PORTFOLIO CONSTRUCTION LOANS with MFM

Member First Mortgage offers a **one-time-close, construction-to-permanent loan product**, with a modification at the end of the process when the home is complete.

A one-time-close allows borrowers to streamline the construction financing process because it **requires just one approval process, one closing, and one set of closing costs.**

**Affiliate
Information**

Affiliate Information

How to do Construction loans with MFM:

- CU must have an executed **Addendum B Affiliate Level Services Agreement** to participate and be the investor (Portfolio Loan):
 - Affiliate 1 (MFM LO Originates the Construction loan)
 - Affiliate 2 (CU Originates the loan)
 - Affiliate 3 (CU Originates and Processes)

NOTE: *Additional training will be provided for Affiliate 2 & 3 originators. A Credit Union currently utilizing Affiliate 2 or 3 can choose to utilize Affiliate 1 for construction loans.*

CONSTRUCTION PROGRAM DETAILS



Construction is a Credit Union Portfolio Program

Your Credit Union is the
investor on the loan

**Construction
Program Details**

Construction Program Details

- **Terms: 15, 20 and 30-year Fixed Rate**
- **Occupancy: Primary and Secondary Homes**
- **Credit Score Min: 680**
- **Max LTV: 80%**
- **Max DTI: 43%**
- **2-year income history required**
- **Eligible Properties: Stick built or BOCA/Modular**
- **Ineligible Properties: Manufactured homes, attached condos, multi-unit, log homes**

Program Details Continued

- Interest only payments during the construction phase
- Interest rate on the construction loan is determined by your CU
- Interest rate for the end modification is determined by your CU
- Closing costs and pre-paid items may be rolled into the loan amount if LTV allows
- Land can be acquired at the time of closing
 - If land is already owned, the construction loan will payoff any outstanding loans at closing
 - If land is already owned, the equity in the land is contributed towards the 20% equity position
- Value is determined by the cost to construct plus the value of the land or appraised value (whichever is LESS)

Program Details Continued

- **NO self or family builds allowed, builder must be an experienced and licensed builder**
- **12-month construction period: 5 draws (inspection requirements must be met)**
- **Draws at the time of closing are permitted, but restricted to 15% of the cost to construct + soft costs (architect fees, permits, surveys, blueprints)**

The borrower's investment is subtracted from the 15%

- **Borrowers' earnest money deposits and cash investments are used first and subtracted from the 15% + soft costs (if applicable)**
- **Example: \$100,000 represents 15% of the cost to construct**
 - *Borrower's EMD/POC: \$20,000*
 - *Soft Cost Request: \$3,200*
 - *Max draw at close: \$83,200*

Program Details Continued

Construction Fees: Traditional Closing Costs are applicable, plus:

- **Origination Fee: Based on Contract Level**
- **MFM Construction Loan Fee: 0.625% (capped at \$3,500)**
- **Loan Modification Fee: \$350**
- **Appraisal Completion Updates: \$825**
- **Survey (may vary): \$400**
- **Title Draw Fee (may vary): \$350**
- **Wire Fee (if builder requests wire funds versus a check): \$15**

Program Details Continued

Exceptions: Credit Unions may customize the Construction program to their member's needs, such as:

- **Increased/Decreased Loan Limits**
- **End Modification Terms, such as ARMs**
- **Over 80% with or without MI**
- **Untraditional Home Types: Container or Barndominiums**
- **Expanded DTI ratios**

ORIGINATION ROLE & TIMELINE



- **Provide borrower with MFM construction loan packet**
 - Request/collect normal needed financial documents
 - Additional member executed forms
- **Provide Builder with MFM construction loan packet**
 - Request and Collect Builder Questionnaire, Builder License and Builder's Liability Insurance
 - Additional Builder executed forms
- **Portfolio Form completed with the end modification terms your CU has agreed to**

THE FLOW

STEP 1

- **Member Application - Provide Packet**
- **Builder Approval - Provide Packet**
- **Submit Builder Approval Docs to Underwriting**

STEP 2

STEP 2

- Disclosures are issued, reviewed and signed by the member
- Remaining member financial documents submitted (if applicable)
- Remaining builder documents submitted (if applicable)

STEP 3

STEP 3

- **Orders request is placed**
- **File is submitted to Processing & Underwriting**

STEP 4

STEP 4 & 5

- Verify any draws at closing
- Clear outstanding conditions (if applicable)
- Set Closing with Title/Attorney

STEP 6

STEP 6

- **Construction Begins**
 - **File is assigned a Servicing Construction Specialist**
 - **Welcome letters sent to borrower and builder**
-

THE MEMBER'S ENGAGEMENT

- Get Pre-Qualified
- Select a Builder & complete the Builder/buyer contract
- Builder to be approved by Member First Mortgage
- Member to submit a complete financial package

Continued

THE MEMBER'S ENGAGEMENT

- **During the process, the member is required to review and sign the following:**
 - Disclosures
 - Construction Packet Acknowledgement
 - Equity Acknowledgement
 - Draw at Closing Form
 - Builder ACH (after closing)
 - Member First Mortgage Construction Agreement (at closing)
 - Authorize all draws during the construction phase
 - Modification Agreement (after construction is complete and loan is modified to the end term)

BUILDER EXPERIENCE & REPUTATION

Underwriting Assessment:

- Not a Self/Family Build
- Builder has a minimum experience of 3 years
- Builder is actively building homes as his/her profession (3 builds in the last 3 years)
- Builder is credit worthy and has established resources to finish the project
- Average build time: 12 months or less
- No pending lawsuits/judgements/Bankruptcy history

Continued

BUILDER EXPERIENCE & REPUTATION

Reference Verification:

- Quality of Workmanship
- Completion of project in agreed time frame
- Overall satisfaction of the home

**BUILDER
RESPONSIBILITIES**

BUILDER RESPONSIBILITIES

Upfront for the Construction loan, complete/submit

For Initial Approval:

- Builder Questionnaire
- Builder's License
- Builder's Liability Insurance

Continued

BUILDER RESPONSIBILITIES

During the Construction Loan Approval Process

- Architectural Drawing (plans and specifications)
- Sworn Statements
- Builder's Risk Insurance
- Workman's Compensation Insurance (if required)
- Draw a Closing Request
- Proposed Draw Schedule
- Builder/Member Contract - fully executed (likely submitted by borrower)

Continued

BUILDER RESPONSIBILITIES

During the Construction phase

- Builder ACH Form
 - Updated Sworn Statements
 - Partial and Full Lien Waivers
 - Submit for draws requests via the Servicing Construction Loan Specialist
 - A MFM welcome letter and phone call from the Servicing Construction Loan Specialist will be issued approximately 10 business days after closing
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Frequently Asked Questions

- What if the appraised value comes in low?
- Do Builders have to be approved prior to requesting orders?
- How long does it take to have the builder approved?
- How do I move the loan forward?
- How does the rate lock work? Do I need to lock “the modification”?
- What happens if the build takes longer than 12 months?
- Once the construction loan closes, who does the member and builder contact? construction@memberfirstmortgage.com or 866-636-1052

**Thank
You!**



**THANK
YOU!**