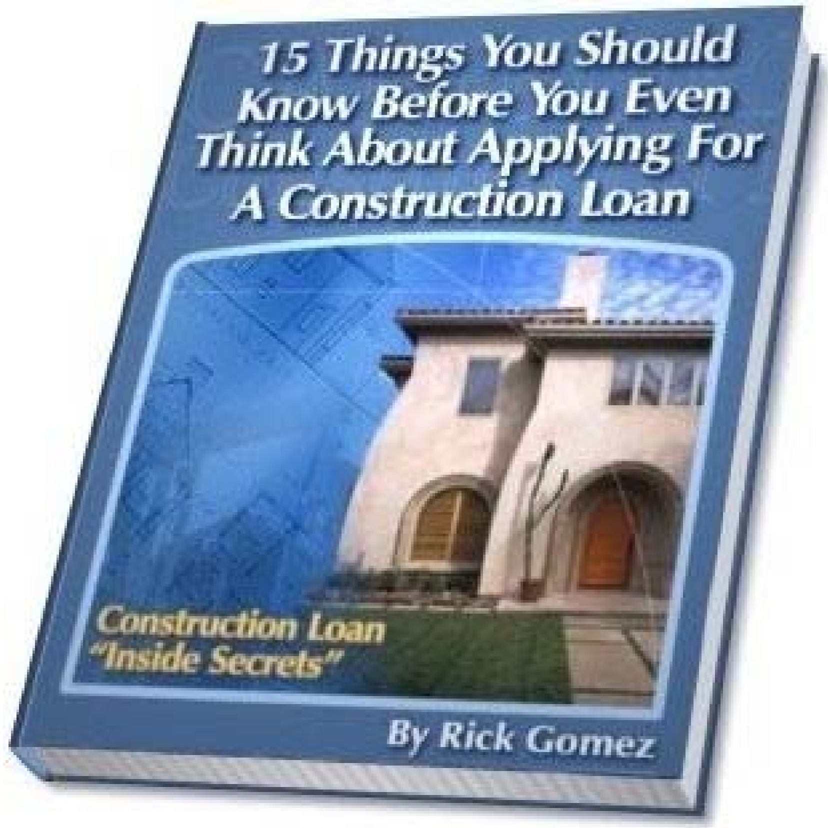

After reading the following 15 construction loan "Inside Secrets" you will know more about construction loans than most loan officers. Also, you will have information that can literally save you thousands in building your new home and in obtaining the best possible construction loan. To start off saving you money we are offering a free construction loan appraisal to any of our new customers. Also email or fax us any current quote from any other lender or broker and I personally will pick it apart and beat any rate and fee structure.

R. Gomez

(866) 211-3344

Introduction

I started out working in the construction loan business way back in 1984. It was my first real job and I was a mere 25 years old. The interest rates in 1984 were 14%, yes, you read that correctly. The crazy thing is that interest rates the year before were 17%. With interest rates that high you would think that no one would want to build but they still built. Interest rates will always go up and down because everything in life is cyclical especially the real estate market. With the many different loan products that exist in today's marketplace homeowners like never before are searching for the best loans that fit their particular needs.

Over the years I have seen a lot of changes in the construction loan industry. First of all, the only type of construction loan that existed back then was a 12 month construction loan. The banks would provide you or your builder up to 12 months to build a home and then you would have to refinance upon completion. If you couldn't refinance your new home the banks could foreclose on your loan. Today's popular construction to permanent loan solved the refinance or conversion part of the construction loan by combining the construction part of the loan with the end loan.

With today's technology in the home lending world, you can pretty much get any type of construction to perm loan almost anyway you want whether it's an arm product or a fixed product. The problem is there are hundreds of banks that simply do not offer or care to offer construction loans. Some of the best advertised construction loan lenders have below average programs and/or high interest rates.

You literally have to do your homework to find the best construction loans available in today's marketplace and the only way to do that is through a construction loan specialist. Someone who is not only experienced with construction loans but someone that can be objective and can tell you the pro's and con's of all the lenders.

I recently had a conversation with a loan officer that was bragging how they loved using a particular lender because he could extract 2 points on the back end (hidden profit). So I said that's great for you but what about the high interest rate the customer would get? He actually laughed at me because he did not care about the customer he was only concerned about his commission. What struck me even more than that was not the fact that this loan officer did not care about the customer or the fact that he wasn't truly helping the customer but that his clients actually gave this guy their business.

So I wrote this report to help you strip away all of the construction loan mysteries out there and help you find the best loans, best rates and best service. I have personally built 2 homes over the past twenty years and have funded millions of dollars of construction loans for customers just like you.

Some of the things you will learn in this report are industry secrets and most loan officers and lenders will panic at the sight of the information in this e-book such as how loan officers structure their construction loans for profit or how loan officers price out their commissions.

In exchange for this information my intention is to earn your trust and eventually your business. I believe the best way to do business today is by being honest and upfront with every aspect of the home lending industry. I have discovered a business secret in that the more we help people with our upfront honesty and service the more business we earn.

Last but not least I have learned that no matter how much value I put in this e-book I still will not obtain every construction loan. I recently received a phone call from someone that read my e-book took all the valuable information and still went to his local broker. He called me to tell me that his broker is not able to get him his construction loan and wanted me to help. I asked him what lender did his broker take the loan to and when he told me who it was I said that would have been the last lender we would have taken the loan to. Now he wants me to save the day and provide him with a construction loan but I had one more question. I asked why he did not use our services in the first place after he read my e-book. He couldn't come up with a good answer but I can only speculate that most customers sometimes feel obligated to work with someone they know or get sold by good sounding sales people.

Just remember no matter who you decide to work with if you want the best service or product of any kind you need to always work with a specialist instead of a jack of all trades. That small bit of advice is worth its weight in gold, for some reason including myself at times people are drawn to jacks of all trades.

Table of Contents

1. What comes first the land purchase (chicken) or the construction loan (egg)?

This Chapter is only meant for non-land owners if you own land please skip.

I get calls every single day from people wanting to build a new home but have yet to purchase land, obtain house plans, figure out the construction costs and most importantly have yet to submit house plans for approval and a building permit.

The phone calls I get are from individuals wanting to combine the land purchase and construction loan into one loan. Obtaining an all in one construction loan with the purchase of the land is possible and does happen but rarely works out, here's why.

1. Rarely will a land seller and realtor wait around a couple of months for you to obtain house plans, find a builder, obtain costs and submit plans to the county planning department for approval. All of the above items are required if you want to combine the land purchase and construction in one loan.

You only can combine the land with your construction loan if;

1. Currently own land with or without a land balance to pay off. In fact most lenders usually require that the land is paid and combined into the construction loan. The only time the bank will not require the payoff is if you are applying for a remodeling second.

2. If the seller and realtor are both willing to wait a couple of months or longer for you to obtain house plans, costs and permits.

3. A friend or relative is either gifting or selling you the land and is willing to wait for you to gather all of the above lender requirements.

4. If you are buying the land that happens to come with house plans and permits.

Banks are only willing to combine the construction loan if you are prepared to provide the lenders requirements and are pretty much ready to start building the home.

So what's the solution? The solution is to buy the land first either by obtaining a land loan, owner financing or paying cash for the land. Once you own the land and everyone's happy now you can take your time and obtain house plans, find a builder, obtain construction costs, submit your plans to the county building department. Then you can obtain plan approval and a building permit. This is the time to apply for the all in one construction loan. This is when you can combine the land loan/balance into the construction loan.

Call me and I show you how to obtain the best land loan with one lender and when you're ready to build convert that land loan to the best construction loan lender without a penalty.

2. Which lenders/banks have the best construction loans?

There are plenty of banks willing to lend money for mortgages, refinancing, home equity loans and every other type of loan. But if you're planning on building a new home, where can you obtain the best construction loan with the most competitive rates and pricing?

More importantly what are the characteristics of a good construction loan?

The next time you have some spare time, pull out the yellow pages and start calling your local banks and ask for the construction loan department or a construction loan officer.

99.9% of the time the person on the other end of the phone (assuming you actually get a human being) will rarely be able to direct you. If you do find a bank that provides construction loans, they usually only offer one product line that may or may not be competitive in today's marketplace.

Below are the various ways lenders/banks offer construction loans. It is very important to note that construction loans are very different than conventional home loans in that there is a construction period at the start of the loan, usually between (6 and 18 months).

The reason that understanding this important part of the construction loan (build time) is because there is always a cost to the lender/bank for providing this phase of the loan along with the rate lock. This cost assuming if you want to lock your long term rate upfront will be passed onto you, the consumer, in one way or another.

Below are the various types of construction loans.

Lock into today's interest rate upfront construction loans; some lenders/banks can offer you today's construction loan rates upfront. This loan in my opinion is the best way to go. Sort of like the infomercial, "set it and forget". The rate during the construction period is going to be the same interest rate (or close it) into the permanent part of the loan. An example would work like this. Let's say you wanted a thirty year construction to perm loan. The first 12 or 18 months would be the construction loan period and once the home is completed this loan would automatically convert into the permanent part of the loan at the same rate you locked into upfront. If rates go through the roof you will not have to worry because you would have locked in your interest rate in advance. The cost for locking the interest rate upfront can range in the form of higher lock in rates, fees or a combination of both. Call me and I will tell you who has the lowest lock in fees and rates.

Treasury adjustable rate construction loans; some lenders/banks rates are not worth locking in upfront because the conversion interest rates offered upfront are simply too high. The loan officer will usually try and sell you on the **float down option**. It's like a magic trick. You know how magicians will have looking here while the trick is happening elsewhere. You are sold on not locking the interest rate upfront but the possibility of a lower interest rate once your home is built assuming interest rates go down. The only real benefit with this type of lender/loan is that when it’s time to covert to the permanent part of the loan you can usually pick any type of permanent loan without paying another set of closing costs. Some other benefits of these types of lenders/banks are that they allow owner builders or licensed supervisors as bonuses.

The Prime Rate adjustable construction loan, Some lenders/banks offer an adjustable Prime Rate based construction loan while building. This is actually a great way to go if the prime rate is low or heading downward. Another advantage is that most lenders will provide up to a percentage point below prime since the lender does not have to worry about the cost of locking in the rate a year in advance. So for example the lender will offer 1 point below the prime rate during construction. So if the prime rate is 7.5%, 1 point below prime would be the construction loan rate of 6.5%. Since the prime rates can go up or down your construction loan rate would adjust accordingly. There are two reasons you would want this type of construction loan.

1. If rates are expected to improve over the next year or

2. If the prime rate is expected to go lower.

Currently both conditions are expected for the next 12 months into the year end of 2008. So this is currently the best construction loan to obtain versus locking in the long term interest rate upfront. I must say that in today’s crazy financial marketplace conforming loans (loan amounts below 417k) you may want to still consider locking in the long term rate upfront since these rates in particular are very good.

The 12 month construction only loan, some banks offer a 6 to 12 month construction only loan and you will need to refinance this construction loan once the home is completed. This type of construction loan is offered to people planning on paying off the construction loan once the home is completed with their own source. This construction only loan can be great when interest rates are high and are projected to go down a year from now when the home is completed. Remember if you need to refinance you will end up paying 2 sets of closing costs.

The short term owner builder and speculation construction loan (6 to 9 months) It’s not always easy to find a lender that offers construction loans for other important needs like owner builders. I have one lender that provides construction loans if you have a fico credit score of 600 and above. This lender is not a Fannie Mae lender so they cannot offer a one time close loan. This type of lender offers true owner builder, speculation and stated income construction loans. With today’s credit lending crunch I’ve noticed that these types of lenders want to see the basic lending requirements such as average to good credit scores or better. These lenders now want to make sure that you will be able to obtain an end loan so they are making sure you have low to moderate debts, liquid assets, land equity and the application needs to make financial sense. A year ago these type of lenders were not so concerned with these basic requirements

The speculation, investor or commercial construction loan, Some lenders provide construction loans to investors or speculators. If you are a builder and want to build on speculation (sell for profit) I would need a loan application from the investor and builder along with a description of the project in order to apply.

The most important thing when searching for a good construction loan is to find an experienced construction loan specialist that knows which banks offer the best loans to fit your exact needs.

Today's construction loan choices include the 30 year fixed, 15 year fixed, 1 year ARM, 3/1 ARM, 5/1 ARM, 7/1 ARM, 10/1 ARM and don't forget the popular interest only loans.

By the way, whenever you see 3/1. 5/1, 7/1, 10/1 it just simply means the first part of the equation is for a fixed period of time. So a 5/1 ARM is fixed for 5 years and then converts to the adjustable after the 5th year for the balance of the 30 year period.

The most popular construction loan today is the "One Time Close" but not all are created equal. Just like any product there are the best loans, good loans and downright bad loans.

Call me on my direct line (866) 211-3344 and I will tell you who the good the bad and the ugly are.

With today's technology you now have the ability to obtain a construction loan from the best banks in the country and sign your loan documents at your local title company or escrow office. This benefit allows you to have the most competitive construction loan available.

The graph below shows the type of loan you should apply for depending on your needs.

Which loan is right for me?	
Years you plan on staying in the house	**Recommended Program**
1-3	3/1 ARM, 1 year ARM or 6 month ARM
3-5	5/1 ARM
5-7	7/1 ARM
7-10	10/1 ARM, 30 year fixed or 15 year fixed

3. Should you go directly to your local bank or to a loan broker for your loan?

Most banks offer loans, and going to them is like shopping at a Ford dealer. The only thing you can get at the Ford dealer is a Ford. But what if you want choices?

One way to get different choices is to go shopping to every bank in town but with the advent of the Internet who doing that anymore? Or you can call an experienced construction loan broker who has done all of your homework for you and has direct access to hundreds of banks nationwide.

A broker is a representative for hundreds of banks. Although the broker serves as middle-man, his or her services will not cost you anything extra. That's because brokers obtain loans at <u>through wholesale channels</u>, and provide their clients the loan at retail prices, just like any other business. If you walk directly into a bank that provides construction loan financing the loan is already adjusted at retail pricing.

The difference between wholesale and retail is how brokers make money. Therefore, you get the same rate from a broker as if you went directly to the lender yourself.

In Fact, because or their volume, many brokers are able to offer their clients better deals than you can get by talking to the banks on you own.

Did you know most banks charge the exact same fees that brokers do by building the fees into the interest rate? This means the rate has been increased in exchange for the reduction in fees. Bottom line is there in no free lunch anywhere so you want to focus on obtaining the best lunch you can get for your money.

It’s amazing how often prospects want to know which lenders/banks I broker too so that they can go directly to bank and “cut out the middleman”. This is probably the biggest misconception in our industry.

A broker can charge whatever you negotiate. I once traded a set of Callaway golf clubs with an executive of Callaway and if you went directly to the bank they would have told you to hit the road. By the way my client also provided 4 dozen golf balls and a Callaway golf bag. My golf game is still average but it was fun to make this deal.

With an experienced construction loan broker you can shop dozens of the most competitive banks nationwide, work with wholesale pricing and can negotiate on rates and pricing.

To prove it to you please send me a copy of any quote/good faith estimate from any lender and I will pick it apart for you. I will show you how the loan officer and bank is getting paid. I will also show you how I can beat their pricing and offer a better interest rate and program.

4. Should you lock in your construction loan before you start building or let the interest rate float?

If the rates are heading upward, lock. If the rates are stable, relax. If the rates are headed downward, float. I think the most important thing to remember when you are actually applying for a construction loan is that interest rates usually do not fluctuate too much <u>during the loan process</u>. The average time is takes from beginning to the close of a construction loan is a 30 to 45 days process.

When applying for a construction loan, focus on the entire package including the direction of the financial markets. For example the prime rate is currently heading downward so the prime rate construction loans are a better program currently.

Over the last few years interest rates were at an all time low and have continued to go up in 2006 and 2007. If you've been watching the financial news in the latter half of 2007, you most likely noticed that the fed raised the interest rates to a point that almost shut down the markets. That was only half of the story, what actually was happening was all the easy, stated income financing was finally catching up to the families that bought a home with a short term low interest rate and when the rates started going up these same families could no longer afford their mortgage payment. Everyone wants to blame the sub-prime market and higher interest rates but no one is focusing on what the real problem was and that is all of the following variables, easy money, easy financing, liberal underwriting guidelines, consumers applying for loan programs with out factoring in rising interest rates and loan officers selling programs without helping the customer think ahead.

Inexperienced loan officers will usually offer their customers an adjustable rate during construction <u>without</u> an upfront lock-in and the customer can end up having to lock into higher interest rates when the home is completed.

Or the customer is sold on a higher rate during construction with a float down option after the home is built. Again, the rate could be much higher when the home is completed.

With the changing financial marketplace you now have to pick programs that protect you before during and after construction.

Most loan officers do not explain this to their customers until it's too late (Closing). Or worse, the customer does not figure this one out until they notice their loan has no protection at all.

<u>Always ask the following questions when applying for a construction loan. 1. Is the rate locked or floating during construction? 2. If the rate isn't locked can I lock into a rate during the construction loan period? 3. Is there a float down option available?</u>

5. What experience does your construction loan officer have and does it matter?

When it comes to money its amazing how fast any loan officer becomes an instant expert at construction loans. You must keep in mind that all loan officers are salespeople. Yes, I know they have fancy titles like loan officer or vice president but the title is nothing but a fancy name for salesperson.

Salespeople usually have one main goal in mind when helping you with your loan request and that is their commission. By the way, the fancy name for commission in the loan business is called a loan fee, origination fee, broker fee, points or yield spread premium (YSP). But no matter what you call it it's still a commission. Whether you go directly to a bank or utilize the services of a broker the name of the commission is usually called one of the above.

Now don't get me wrong, there are a lot of good honest sales people (loan officers) that work very hard at providing you the best service and rates. What's important is distinguishing the good from the bad.

The following questions allow you to quickly find out if your loan officer is experienced at construction loans.

1. How long have you been doing construction loans? 5 years or more is best.
2. What is the cash equity required for construction loans? This is the amount of cash equity or down payment needed to qualify for the construction loan. Cash equity requirements can range anywhere from 5 to 20%. Cash equity within a construction loan is usually in the form of pre-pays such as down payments on the land purchase, if land is paid than the land is the equity. All costs paid in advance such as house plans and permits are considered cash equity, etc.

3. What is better? The voucher or draw disbursement system and why? Draw is now the most popular because the customer has the control of the money and the builder can take as many draws as possible assuming the particular line item on the cost breakdown is completed.

4. Does the bank require a contingency and an interest reserve account? This is a choice but most banks automatically add both to the loan amount.

I will explain the above questions in more detail throughout this e-book.

If the loan officer (sales person) can answer these questions with no problem then they have passed a pretty good litmus test. But the best and most important indicator is how helpful is the loan officer? Is the loan officer more interested in helping you obtain the best construction loan? Or is the loan officer more interested in helping you obtain the most profitable loan their sake.

If you really want to throw a curve at them, ask the loan officer if they have ever built a home themselves and what type of construction loan did they get.

If you find a loan officer that has gone through the experience of building a home themselves then the odds are you have found an experienced loan officer. There is no better experience than actual experience.

A loan officer with no actual home building experience is like a car salesperson that has never driven a car.

6. Qualifying for your construction loan, exactly how is it done?

The first thing your loan officer wants to see is your completed loan application. The loan application called the (1003) will tell a story of your financial picture. The completed loan application will tell the loan officer many things including,

1. What type of loan you want.
2. How much money you need.
3. Where you currently live.
4. If you rent or own.
5. Your social security number.
6. Your current employers.
7. A list of all your assets (money) and liabilities (bills).
8. How much money you make.
9. How much real estate you own.
10. Some declarations along with some government questions.

Once the loan officer has your loan application in hand they can determine whether you can qualify for a loan.

One of the first items pulled in this determination is your credit report. The credit report is going to tell 3 main important things.

1. Show your current credit score. The credit score can range from 500 to 800.

2. Show a complete list of all your monthly liabilities (bills).

3. Show all past credit problems including bankruptcies, foreclosures and late payments.

With this information the loan officer will do an analysis to determine if you can qualify for the loan amount that you’re looking for.

This analysis determines a ratio called the (income to debt ratio) and depending on the banks underwriting guidelines this ratio will usually range from 36% to 45%.

The income to debt ratio is the percentage of monthly debt payments (including your new mortgage payment, taxes and insurance). This ratio should not exceed 36% to 45% of your monthly income.

Some banks will allow you to exceed this ratio if you have an excellent credit history and excellent credit score.

The current and the most popular method of qualifying for a loan today is the stated income loan. Stated income allows you to qualify without verifying your income on your tax returns, W 2's or pay stubs. Now that foreclosures are on the rise because of this guideline banks are taking extra strides in making sure the stated income makes sense. One way to make sure stated income makes sense is to cross reference the income with how much cash is sitting in your bank accounts. Another way is to raise the rates for stated income loans to discourage stated income loans and the last way is to verify the income range on salary.com for the income stated on the application.

If you would like to find out how much of a home you qualify for please call my office and I will provide you a same day pre-approval.

7. How not to be taken by the oldest trick in the book "Bait and Switch"?

The mortgage lending business is notorious for baiting and switching. Baiting and Switching is when a loan officer or advertisement offers you one thing and then tries to sells you something else.

Typical signs of baiting and switching are obvious, some basic examples are:

1. Over the phone, you are offered a much lower rate than any other quote and once you've sent in your application the rate you were quoted has all of a sudden vanished.

2. You are offered a construction loan with no points and no loan fee's. What you are not told is that you are paying for it with a higher interest rate and the costs are built into the loan.

3. You are told that you will not have any payments while you're building. What you're not told is that all construction loans have this option and it's called "interest reserves" and the payments are added to the loan amount.

Remember three important facts and you will always be in good shape.

1. If it sounds too good to be true there's usually a very good reason.
2. Always get your quote in writing, (ask for a good faith estimate).
3. If you are satisfied with the rate and construction loan program that you are quoted, ask if it’s currently better to lock it in upfront for float.

On the flipside of bait and switching, it is very important to realize that most loan products typically go hand in hand with banking guidelines. These guidelines are provided to loan officers to coincide with the customer's qualifications.

For example, if you have an excellent (FICO) credit score with land free and clear, you have more loan options available to you than the person with a poor (FICO) score, low assets and no land equity.

8. Has your loan officer structured your construction loan properly and why it's so important to obtaining an approval?

I get loans all the time from customers that went to another lender or broker and were either turned down or were offered a below average construction loan.

The reason was because the loan was not structured properly before it was sent into the bank. Structuring a loan properly is simply making sure that you match the customer’s loan request to the banks underwriting guidelines.

Recently I received a construction loan request from a customer that was turned down by a large national bank. The loan officer had calculated the income incorrectly and submitted the loan as full documentation.

The customer owned his own business and had a lot of tax deductions on his tax returns. The way banks qualify customers as full documentation is very conservative and the loan was turned down. We took the loan, found the problems upfront and submitted the loan for approval on an asset based construction loan. The customer was approved and built a beautiful home

Structuring construction loans for approval is vitally important and is the last thing on most customers’ minds. Each and every time I receive a loan from a customer with a bad loan experience it is always because the loan officer did not specialize in construction loans and did not structure the loan accordingly.

Other common mis-structured loan scenarios include:

1. Low cash equity.
2. Improperly completed appraisal.
3. Unexplained credit derogatory.
4. Income incorrectly calculated.
5. Mismatch of customer loan request to the correct lender.
6. Plain and simple incompetence

The old saying “you get what you pay for” is especially true when obtaining financing in building your new home.

9. Now for the biggest secret of all, ready? All banks have access to the same rates and the only reason everyone ends up with a different rate is directly related to how much your loan officer and bank is going to profit from you.

You should probably read that one again.

Your loan officer gets paid like all sales people either by:

1. Salary plus commission
2. Commission only.

It doesn't matter if you walk directly into a bank or work with a broker, basically everyone gets paid the same.

If you walk directly into a bank the loan officer most likely gets a basic salary and a percentage of the loan origination fee (points and yield spread premiums). If you work with a broker the broker usually works on a straight commission (points and yield spread premiums).

The least experienced loan officers usually start off working for a local bank and if they are successful and survive in the business climb up the corporate ladder or eventually move on their own by becoming a broker. Becoming a broker allows the loan officer the ability to offer their customers the best loans with the most options.

It always amazes me when I see TV commercials or hear radio commercials advertising $395, zero closing costs. I always wonder if people understand how they can do that.

Ok, here is how it is done.

The inside secret is that in exchange for these low or zero closing costs the lenders will make their profits and cover the costs of the loan by charging you a higher interest rate.

This higher interest rate pays what they call in our industry a (YSP) yield spread premium.

By charging you a higher interest rate over the life of the loan the bank can *easily* afford the commercials, commissions, payroll, and cover the costs of the loan while still making a profit.

Notice the chart below. The chart is what loan officer's use (rate sheet) to determine the amount of profit or commission they will try and make off of you.

Product	Base Rate	Price	Today's Mod Rate*
30 Year FIXED	7.125	(2.968)	
	7.000	(2.645)	Modification Rate uses
	6.875	(2.353)	
	6.750	(2.076)	lesser of Capped Rate or
<u>Note:</u> Interest Rate is	6.625	(1.773)	
capped .250 higher than	6.500	(1.423)	the THEN current Base
	6.375	(0.990)	Rate MINUS .125%
Base Rate shown here.	6.250	(0.632)	
YSP paid on Base Rate.	6.125	(0.242)	(closest match in Price to
	6.000	0.226	original lock)
	5.875	0.757	

The type of product in this example is a 30 year fixed loan below $417,000 (conforming). The base rates are the rates I can offer the consumer depending in my sales ability. The price is either a cost to you or a profit to me.

Now, look at the chart and notice the numbers in the brackets. This is how the loan officer can make a bundle. If your loan officer <u>sells</u> you a 30 year fixed rate at 7.125% your loan officer would make an <u>additional</u> 2.968% points (yield spread premium).

2.968% points on a $417,000 dollar loan is $12,376.56 dollars and that's just the backend profits. If the loan officer also charges you an upfront origination fee or broker fee (points) they can make an additional 1 or 2 points ($4000 to $8,000).

So the next time you see advertising with no closing costs you will know exactly how they are doing it.

So please remember that there is no such thing as a free lunch in any business. Business wouldn't be business if there were no profits. <u>The most important thing is that you want the best loan available at a fair price/fee with an experienced construction loan officer that will look out for you and provide you with excellent service for their fee.</u>

Call me and I will show you how you can guarantee the best possible rate and at the same time make sure your loan officer does not have any back end profits called (yield spread premiums). ***<u>Brokers and loan officers are going to hate me for exposing this secret.</u>***

The best rate on the above rate sheet with out paying back end point is called par pricing.

Ask for par pricing and that will be your best rate for that day's rate sheet. The best way to find par pricing is to look for the 3 zero's (000's) on the rate sheet or closest number to (000). Loan officers are not allowed to hand customers the rate sheet but call me and I will send you a good faith estimate with par pricing.

10. Why are interest reserves and contingency funds being added to my requested loan amount into the budget?

The two items most customers do not factor into the cost of the building their new home are interest reserves and contingency funds.

Interest reserves are added to your loan amount to make the monthly payment on your loan. Yes, you read that correctly, you will not have to make a monthly construction loan payment while your home is being built. The payments are made from this interest reserve account and no, it's not free. This reserve is added to your construction loan amount.

Interest reserves were designed for the benefit of the customer. Most people building a new home are either paying rent or have an existing mortgage payment while their home is being built.

The last thing a customer needs is another monthly payment while building. So, banks created the interest reserve account by adding up the estimated interest payments over a 12 month period and add this to the loan amount.

If you do not want interest reserves added to your construction loan amount you can ask to make your own monthly construction loan payment.

Contingency funds are added to the loan amount just in case you need more money to finish building your new home. With all good intentions construction loans tend to have cost over runs. The bank adds 5% to 10% of the cost breakdown and adds this amount to the loan amount just in case you have cost over runs or need better appliances. If you don't need or use this extra contingency fund then it will not be added to your mortgage upon completion of your new home.

So when you apply for a construction loan ask your loan officer to provide you a copy of the estimated construction loan budget. This budget is not usually meant for the customer but an experience construction loan should not have a problem providing this to you.

The budget is created from your costs and includes every cost within the loan including land balances, closing costs, interest reserves, contingency and bank fees.

Call me and I will provide one to you via email.

11. What is loan to value (LTV) and loan to cost (LTC)? Why it's probably the most important factor in getting approved for a construction loan besides your income and credit.

Initially most banks are concerned with the loan to appraised value (LTV) but banks are really more concerned with how much cash you have in the project (LTC).

If you were buying a home instead of building you would normally have to put up to 20% of the purchase price as a down payment. Since you're building a home your cash equity usually comes in the form of how much cash you put down on your land or any pre-pays.

Cash equity is king when applying for a construction loan. For example, if you bought a $200,000 piece of land and the land is owned free and clear you have a lot of cash equity.

With this much cash equity you will most likely not have to bring in any additional cash. Or if you purchased a piece of land over 12 months ago for $100,000 and its now worth $200,000, the bank will use the current seasoned value (12 months). In both cases you have brought $200,000 cash equity to the table.

Now if you just bought a piece of land for $200,000 and you only put down $20,000 most banks will want to see anywhere from 5% to 20% cash into the total project depending on the size of the loan.

Call me and I will tell you about a leading bank that only requires 5% to 8% cash equity into the loan and obtain the best interest rates at the same time. Most loan officers do not have access or know about this lender.

Other qualifying cash equity that can be counted are any pre-paid's such as plans, grading, permits etc. These pre-paid's can be used for cash equity or you can be reimbursed from the construction loan at closing.

12. Should you hire a builder or be an owner builder?

Do you really want to be an owner-builder? The goal of being an owner builder is mainly to save money. Some people can save quite a bit of money if done correctly.

Possible problems when acting as owner builder are:

1. Construction cost over runs.
2. The best banks with the best rates require a builder or management contract.
3. Managing contractors to finish on time or to show up for work.
4. Depleting your personal savings.
5. The need to borrow more money.
6. Loan extension penalties.

7. Being taken by unscrupulous contractors.
8. The need to refinance your construction loan.
9. Foreclosure.

I could go on and on about the horror stories I hear from Owner Builders that did not get a construction loan and acted as their owner builder.

If you have never built a home before and absolutely need to act as owner builder please take my advice and hire a reputable builder to supervise your project. By hiring a supervisor you can build your home for a much smaller fee than the normal builder’s fee.

The builder/supervisor will help you with the cost breakdown and manage the subcontracting on an as needed basis. If one of your contractors gets out of hand or you need help of any kind, you can call the supervisor for assistance.

Your job is to make sure you are hiring the right people to complete your home. It can make the difference between happiness and misery.

If I had a dollar for every person that called me wanting a construction loan because they ran out of money while building their new home as an owner builder I would be a wealthy man.

For those of you that have experience at building homes but do not have a license ask about our owner builder program.

If you want to act as owner builder and apply for a construction loan through me I will e-mail you a free copy of "The Owner Builder Book". This book alone will save you money and headaches.

If you decide on hiring a builder to do everything make sure you hire a reputable builder or supervisor with a good reputation and plenty of references.

Ask your friends if they know a good builder and when you start to hear the same name over and over you know you've found a good one. Ask the building inspector for a list of reputable builders.

The most important point is shop around until you find a builder with the most reputable and honest background.

If you pay a little more for an honest and reputable builder or supervisor you will be very thankful before, during and after your home is completed.

13. How does your builder determine how much your home will cost to build?

The Estimated Cost Breakdown of your home is probably one of the most important forms in the construction loan package. This is the breakdown of each particular cost of construction of the home. The foundation, lumber, framing, plumbing, heating, electrical, painting, and builder's profit, etc.

The builder usually completes this form to show you exactly what it will cost to build your new home. The most important thing to remember here is that you do not want to underbid any line item and you do not want to overbid any line item. You want accurate numbers from real bids (not guesses) and a 5% contingency for cost overruns. Most banks add a 5% contingency over and above the builder's contingency for added protection.

Good builders will send out the house plans to their contractors for specific bidding on each main item or can estimate the home themselves. The builder will send one set of plans to the foundation contractor, one set of plans to the framer, one set of plans to the plumber, etc, etc. When all the numbers come in, the builder will fill out the cost breakdown and come up with a total cost to build your new home.

Bad builders will use the WAG method of estimating the cost of building your new home. The WAG method stands for "Wild Ass Guesses". This method is the most dangerous since it can lead to under and over bidding.

The last method of bidding is simply to over inflate every single line item on the cost breakdown. This is the most profitable method for the builder and the most expensive to the customer.

This is why you want to find an honest, reputable builder with a good reputation in your community. Once the cost breakdown is completed and you plan on hiring this builder to build you new home you will need to type up a contract. The contract needs to equal the added total of the cost breakdown.

Most builders will provide the contract but make sure you read it carefully and that you add your requirements as well. There are two types of contracts

1. Fixed Contract: This contract is simple and straightforward. Take the total of the cost breakdown and put that fixed number into the contract. The builder will provide a list of responsibilities.

2. Cost plus Contract. This type of contract is usually meant for large construction loan projects. This type of contract is utilized when the customer wants to make a lot of changes to their home as its being built. With large homes the construction loan period to build the home is usually 18 months so construction costs can change drastically. Builders prefer this contract to protect the costs and profits over long periods of time.

14. How does your builder get paid while your home is being built?

There are two methods that banks use to make sure your builder gets paid while building your home.

The Voucher Reimbursement system has been around for quite a while. As usual you'll have some builders that are very familiar with this method of payment and do not like change. Most builders are really only concerned with how fast they can be paid and how often they can be paid.

Most banks find that the voucher system is simply too much paperwork to deal with anymore. The builder is given a big book of vouchers that looks like a check book and when they want to get paid or need to pay a contractor they need to fill out a voucher form. This voucher form is a request for payment and as long as the contractor has signed the lien release the bank will pay the amount requested.

The bank will also request an inspection throughout the construction loan to make sure that the work is completed.

The Draw Reimbursement system is becoming the standard for construction loan funding for most banks. The main difference is that the bank puts the accounting responsibility on you or your contractor. The bank uses your cost breakdown as the guide for the draws. Some banks use specific schedules of 4 to 7 draws based on completed construction milestones, such as foundation or framing. Builders are usually concerned about only getting 4 to 7 draws but that is only used for small loan amounts. The modern day draw system is set up for builders to requests as many draws as needed as long as the work is completed.

The draw systems also allow the choice of taking draws on a monthly basis, collecting partial payment for work and material items that have been completed.

Most customers usually prefer the draw reimbursement system because:

1. It requires less work.
2. Provides more control for both the customer and the builder.
3. The funds are wired directly into your bank account.
3. It's easier to use than the voucher system.
4. Some banks now have online draw requests. This allows you to request funds at midnight if you want.

15. What type of construction loan insurance is required and who is required to get it?

There are three types of insurance needed to build. All banks require the first two insurances, course of construction and general liability. Workman's compensation is only required if your builder has employees.

1. Course of Construction Insurance. This policy is an all risk policy to include, fire, extended coverage, builder's risk, replacement cost, vandalism and malicious mischief insurance coverage.

2. General Liability Insurance. You or your builder can provide this policy. This policy is a comprehensive general policy or a broad form liability endorsement. The minimum amount of $300,000 for each occurrence is required. If the builder provides the insurance a general policy of $1,000,000 or a broad form liability endorsement is required.

3. Workman's Compensation Insurance. If your builder owns his own company and has employees that are helping to build your home, workman's compensation is required.

If the builder simply subcontracts out the work and does not have employees per se, they will need to write a letter acknowledging that they do not have employees and are not required to have WCI.

If your builder tells you he is not required to provide any insurance whatsoever he is most likely correct because it is not a law to have insurance to build a house.

This requirement is set forth by the bank. So make sure you hire a reputable builder with insurance, it will help your construction loan close much faster.

Ask your builder upfront if they have general liability insurance. If they do not ask if they have a problem providing the insurance. Some builder's cannot afford or simply do not want to pay for the insurance and then guess who has to provide it, yes, you do. You can save yourself a lot of headaches and money if you work with a builder that has insurance.

Speculation: Are you planning on moving into your new home or selling it for profit.

If you’re an experienced builder and want to build a home to sell, banks will look at your project a little bit closer. The reason is because if you’re planning on building a home to sell you cannot sell it until it’s finished. This is called speculation. Speculation is exactly what the word implies, you're speculating that when the home is complete you will sell it and make a profit.

The problems that can occur are many, such as when the home is completed will someone buy it or will it sit on the market. To insure the home sells the builder needs to make sure all the costs stay in line and the house is what the public desires. Other concerns are location, size of home, design, price, economy etc. So banks want only experienced builders with a speculation track record, excellent credit, assets and cash equity in the project such as paid land.

If you want to apply for a speculation loan be prepared to have:

1. Experience at building and selling with a track record.
2. Description of the project to include all costs, equity, pre-paid's and profit expected.
3. Loan application. Call me and I will send you one.
4. Good credit.

Call me and I will structure your deal so it gets an excellent chance at getting an approval.

I do have a bank that provides speculation loans and is much more lenient than the standard banks but the loan amount has to be below $600,000 and requires up 20 to 30 cash equity.

About the Author

The above information is from 23 years experience in the construction lending business. If you have additional questions and or would like to apply for a construction loan to build your new home, call me on my direct line (866) 211-3344.

This e-book is worth anywhere from hundreds to thousands of dollars. One additional bonus I have for you is a free appraisal for every customer that utilizes our services. To qualify you must fund and close your construction loan with us. Call me for details.

Or visit our website and either download a complete construction loan application package or request one to be sent to you by mail.

Call me and I will let you in on the most technologically advanced home, silently being built today that was produced by the famous architect Frank Lloyd Wright many years ago. This home is the most energy efficient home being built today and no, it's not solar. The home can easily be framed up in a weekend and no, it's not panelized or modular.

I hope this information has helped you.

Any questions please call me.

http://www.CaliforniaConstructionLoans.com
http://www.NationwideConstructionLoans.com

Thank you,

Sincerely,

Rick Gomez
Branch Manager
1st Metropolitan Mortgage
Construction Loan Specialists
3940 Hancock Street, Suite 219
San Diego CA 92110