

SINGLE CLOSE CONSTRUCTION LOANS



 **COLONIAL**
NATIONAL MORTGAGE

A DIVISION OF COLONIAL SAVINGS, F.A.

January, 2010

COLONIAL NATIONAL MORTGAGE

A DIVISION OF COLONIAL SAVINGS, F.A.
Construction Lending Department

www.colonialsingleclose.com

Jay Tadlock Builder/Borrower Relations (817) 390-2083 jayt@colonialsavings.com	
Leslie Jean Builder Approval, Interest Payments Builder Coordinator/Draws (817) 877-9504 lesliej@colonialsavings.com	
Brenda McLeod Closing and Final Documentation (817) 665-9309 brendamc@colonialsavings.com	
Diana Ward Modification Coordinator (817) 877-9078 dianaw@colonialsavings.com	
Barbara Moffett Manager Construction Lending (817) 390-2246 barbaras@colonialsavings.com	
IMPORTANT NUMBERS	ADDRESS
TOLL FREE LINE: (800) 937-8949 FAX: Modifications/Draws (817) 877-9506 FAX: Coordinators/Closers (817) 877-9037	Colonial Savings, F.A 2570 West Freeway Fort Worth, TX 76102

Contact Info	2	Pricing Guidelines	
<u>ORIGINATION</u>		▪ Rate Sheet	17
Matrix / Products		▪ Yield Spread Premium	17
▪ Program Specifications	4	▪ Rate Adjustments	17
▪ FULL Doc Matrix	5	<u>LOAN SUBMISSION</u>	
▪ 1-Yr.	6	Document and File Submission	
▪ 5 Year ARM	7	▪ Single Close Workflow	18
▪ Conforming Fixed Rate Cap	8	▪ Turn Around Time	19
LTV Calculation	9	▪ Exceptions	19
Fees		<u>SINGLE CLOSE WORKBOOK</u>	
▪ Closing Fees	9	Required Workbook / Questionnaire	
▪ Modification Fees	9	▪ Single Close Workbook	20
<u>UNDERWRITING</u>		▪ Questionnaire	20
Property Qualification		<u>CLOSING REQUIREMENTS</u>	
▪ Property Notes	10	Closing Information Sheet	21
▪ Appraisal / Appraiser Requirements	10	Survey Requirements	21
Borrower Qualification		Insurance Requirements	21
▪ Reserve Requirements	11	<u>DRAWS & BUILDER INFORMATION</u>	
▪ DTI / Ratios	11	Builder Profile & Questionnaire	22
▪ Income Verification	11	Residential Construction Loan Affidavit	22
▪ Credit Verification	12	Draw Disbursements	23
▪ Asset Verification	12	Draw Request to Owner & Lender	24
▪ Gift Funds / Gifted Lots	12	Request for Taxpayer ID	24
Miscellaneous		Bank Wiring Instructions	24
▪ Investment Property	13	Builder / Job Site Info	24
▪ Pre-payment penalties	13	Hold Harmless	24
▪ Existing Residence	14	Contract Types	25
▪ Automated UW	15	<u>MODIFICATION / COMPLETION</u>	
▪ Interest Reserve	16	Agreed Completion Date	26
▪ Contingency	16	Modification requirements	26
<u>PRICING & LOCKS</u>		Delay payment fees	26
Rate lock procedures		Escrows	27
▪ Lock extensions	17		

PROGRAM SPECIFICATIONS:

Purpose: Single Close construction loans are for the purpose of new construction or rehab construction of a primary residence.

Ineligible transactions: Cash-out loans; owner/builder construction; builder speculative homes; second homes; investment property; STATED Income

Construction Term ¹: 12 and 18 month interest only construction period, payable monthly.

Eligible Occupancy: Primary Residence

Eligible Properties: Single family detached property only.

Builder: All loans must have a Colonial National Mortgage accepted builder. See DRAWS & BUILDER INFORMATION for the builder forms and approval process.

Interest Rates: Rates are listed on the construction page of the CNM rate sheet.

Allowable States: Texas, Oklahoma, Colorado, Louisiana

Declining Markets: No Declining Markets (moderately declining markets are acceptable). Refer to declining market list.

¹ Actual construction term may be less than 12 /18 months. Terms will vary based on product selected and interest rate lock expiration date.

Full Doc Matrix

The following LTV's and loan amounts are applicable for all fully documented Single Close loan programs. DU is the primary automated underwriting engine for all loans. A pattern of significant adverse credit may be unacceptable even if the minimum credit score requirement is met.

Product	Occupancy	FICO/LTV		Max. Loan Amount
		FICO	LTV/CLTV	
1-Yr. and 5 Year ARM	Primary Residence			
		720	80%	\$ 750,000
5 Year Premier ARM	Primary Residence	720	75%	\$750,000
Fixed Rate	Primary Residence	700	70%	\$417,000

LTV Calculation:

- LTV is calculated from the lesser of acquisition costs or appraised value (Refi-rehabs can be calculated from appraised value when the existing property has been owned over 12 months).
- Appreciated lot value will be considered only if the lot has been owned for twelve (12) months or more at the time of application. Otherwise, the documented purchase price of the lot will be used in the LTV calculation.

RESERVES REQUIRED: 6 months PITI

One-year ARM

Product Description:	<p>Adjustable Rate Mortgage with an initial fixed period of one year.</p> <p>Initial rate is fixed for the first year, and then adjusts annually to the relevant index plus margin, if not modified at completion.</p> <p>The index is the 1 yr LIBOR.</p> <p>The margin is 2.25%</p> <p>Amortization term is 30 years</p> <p>Interest rate caps: 2% first yr; 2% subsequent yrs ; 6% lifetime</p> <p>Interest only during construction based on draws.</p> <p>No pre-payment penalty</p>
Loan Amounts:	Refer to Full Doc Matrix, Loan Programs, for LTVs and loan amounts.
Modification:	<p>Generally available, but not a guaranteed feature. Available modification options may or may not include fixed products or other ARM loan programs.</p> <p>\$350 fee to modify at completion of construction.</p>
Ratios:	<p>Conforming - 45%, DU may return an "Eligible" recommendation up to 50% with strong compensating factors</p> <p>Non-conforming – 45%</p>
Qualifying Rate:	Qualify borrower at 2% over start rate. Loan Committee review required for exception if cannot qualify at 2% over start rate.
Occupancy:	Owner Occupied
Property Type:	Single Family / Detached
Construction Rate:	Start Rate.
Construction Period:	12 month construction period. Construction loans are subject to a Delayed Payment Fee if construction is not completed by the original completion date.

Five-year ARM

Product Description:	<p>Intermediate Fixed Term ARM with an initial fixed period of five years.</p> <p>Initial rate is fixed for five years, and then adjusts annually to the relevant index plus margin, if not modified at completion.</p> <p>The index is the 1 yr LIBOR.</p> <p>The margin is 2.25%</p> <p>Amortization terms is 30 years</p> <p>Interest rate caps: 5% first yr; 2% subsequent yrs ; 5% lifetime</p> <p>Interest only during construction based on draws.</p> <p>No pre-payment penalty</p>
Loan Amounts:	Refer to Full Doc Matrix, Loan Programs, for LTVs and loan amounts.
Modification:	<p>Borrower may float down to a lower interest rate upon availability and qualification according to current program guidelines at time of modification. Other options may or may not include modification to fixed or other ARM products, but is not a guarantee feature.</p> <p>\$350 fee to modify at completion of construction.</p>
Ratios:	<p>Conforming - 45%, DU may return an "Eligible" recommendation up to 50% with strong compensating factors</p> <p>Non-conforming – 45%</p>
Qualifying Rate:	Qualify borrower at 2% over start rate. Loan Committee review for exception required if cannot qualify at 2% over start rate
Occupancy:	Owner Occupied
Property Type:	Single Family / Detached
Construction Rate:	Start Rate.
Construction Period:	12 or 18 month construction period available. Construction loans are subject to a Delayed Payment Fee if construction is not completed by the original completion date.
Product Code:	NCARM5SC

Conforming Fixed (Fixed Rate w/ Float Down)

Product Description:	Fixed rate cap with float down option. Interest only during construction based on construction draws. Fully amortizing at completion for 15 or 30 years.
Loan Amounts:	Maximum \$417,000
Modification:	Not later than 60 days prior to the Agreed Completion Date, borrower must either exercise the one-time option to float down or confirm the permanent rate by contacting the modification desk (800-937-8949). Borrower must complete construction by original completion date or float down option may no longer be available. \$350 fee to modify at completion of construction.
Loan Lock:	Loan rate cannot be locked in until final loan approval is received.
Ratios:	Maximum DTI 45% DU may return an "Eligible" recommendation up to 50% with strong compensating factors
Qualifying Rate:	Cap rate. It is recommended, but not mandatory, that the borrower be qualified at higher rate than the cap rate in order to allow for market changes that may occur during the construction period. If modification rates are higher than the maximum qualifying rate, no float down may be offered.
Occupancy:	Owner occupied
Property Type:	Single Family Detached
Construction Rate:	Note Rate
Construction Period:	Construction period starts from the day of closing and ends the month prior to rate lock expiration (agreed completion

LTV Calculation

LTV is calculated from the lesser of acquisition costs or appraised value. (Refi-rehabs can be calculated from appraised value when the existing property has been owned over twelve (12) months).

Appreciated lot value will be considered only if the lot has been owned for twelve (12) months or more at the time of application. Otherwise, the documented purchase price of the lot will be used in the LTV calculation.

FEES

Closing Fees

<u>Construction Fee</u>	.50% (12 month construction period) or .75% (18 month construction period)
<u>Administration Fee</u>	\$500 (Closing and Underwriting)
<u>Doc Prep Fee</u>	\$275
** <u>Final Appraisal (Inspection)</u>	\$200
** <u>Inspections</u>	\$600 (\$800 outside Texas)
** <u>Survey</u>	
Non-acreage	\$700 or actual cost per surveyor for all required surveys
1-10 acres	\$1,000 or actual cost per surveyor for all required surveys
Over 10 acres	\$1,400 or actual cost per surveyor for all required surveys
** <u>Fees exceeding amounts collected at closing will be billed to the borrower.</u>	

Fees at modification

Modification Fee (if exercised)	\$350
Taxes / Insurance	actual to establish escrow account
Any unpaid items	actual amounts due including all construction interest

Property Qualification

Single Family detached property only.

The location and type of construction must be acceptable to applicable local and state building codes and Loan Committee. Certain types of projects may require the addition of a contingency; i.e. metal frame, ICF Walls.

All loans, regardless of LTV, on properties with land greater than 10 acres require a loan level exception from Loan Committee. Pricing adjustments may apply.

Ineligible properties include (but may not be limited to):

Co-ops; Commercial property; condos; condo-hotels; 2-4 unit; mobile or manufactured housing; geodesic homes; certain declining markets as identified from time to time.

Property notes

Insurance

Hazard insurance is required at completion. If any portion of the improvements is located in a flood zone, flood insurance must be provided no later than after the foundation has been completed. For all loans proof of one year paid hazard insurance must be provided in order to modify the construction loan to the permanent loan. For builder's risk and additional insurance requirements, see "Closing Requirements".

Purchase Contract

Lot contract must be provided along with the construction contract if the lot is being purchased at closing. The estimated site value on the 6th page of the appraisal should be equal to or greater than the lot contract price. The lesser of the purchase price or appraised value will be used to calculate LTV. Any overage must be paid by the borrower at closing.

Lot Owned by Borrower

As proof of ownership, borrower will need to provide HUD-1 on lot purchase, Deed showing borrowers in title or title policy/commitment showing borrowers in title. Appreciation on lots owned less than 12 months will not be considered for LTV purposes. Acquisition cost will be used to determine LTV.

Appraisal and Appraiser Requirements

Full Appraisal "As Completed" required for all loans. Final to Appraisal (442) required at completion on all loans. A re-certification of value may be required in some cases.

A new appraisal may NOT be obtained for modification purposes. If the appraised value is adjusted after underwriting review, then the adjusted value will be used for calculating LTV on the original transaction and any subsequent modification thereof.

Borrower Qualification

Underwriting Guidelines:

Conforming loans: Loans must be submitted through DU. Only DU "Approve / Eligible" is acceptable. Income must be fully documented according to documentation requirements in this guide. Refer to the FNMA U/W guide for other guidelines not covered herein.

Non-Conforming: Loans must be submitted through DU. "Approve / Ineligible" findings acceptable when ineligibility is due to loan size only.

Two month's bank statements, all pages. NO VODs.

Mortgage / Rental pay history:

Verify previous 12 month pay history with either a credit report or VOM/VOR. If lien holder or landlord is an individual, cancelled checks are required. Mortgage or rental lates in the past 12 months are unacceptable.

Credit:

Each borrower must have at least 24-month credit history and a minimum of 4 trade lines.: No collections, judgements, tax liens. No bankruptcies or foreclosures in the last seven years.

Non-traditional credit documentation is not acceptable.

Follow Fannie Mae manual underwriting guidelines on all other aspects not addressed.

Liquidity Reserve Requirements

The following reserve requirements apply. Must be verified assets remaining AFTER closing on the subject transaction.

- 6 months PITI

Qualifying Ratios:

Conforming loans: 45%. DU may return an "Eligible" recommendation up to 50% with strong compensating factors

Non-conforming: 45%

Income Verification

Conforming Loans: Fully Documented. Limited documentation through DU is ineligible.

Self-Employed: Two years personal and two years business tax returns and a signed 4506T.

Salaried: Pay stub within 30 days of application, most recent W2, and a verbal VOE.

Non-conforming: Self-Employed: Two years personal and two years business tax returns and a signed 4506T.

Salaried: Pay stub within 30 days of application, two years' W2's, and a verbal VOE.

Other taxable and non-taxable income: Document to Fannie Mae's guidelines.

A written Verification of Employment is not acceptable unless supported by the required alternative documentation.

Trailing spouse income will not be considered according to Fannie Mae guidelines.

Credit Verification

A tri-merged credit report will be required. The lowest middle score of all borrowers will be used for qualifying purposes. See Full Doc Matrix for minimum credit score requirements.

Asset Verification

Two months current (all pages) bank or VOD (not eligible for Jumbo loans).

If lot is owned by borrower, borrower will need to provide HUD-1 on lot purchase, together with Deed showing borrowers in title or title policy/commitment showing borrowers in title.

Gift Funds / Gifted Lots

As proof of ownership, borrower must provide Deed showing borrowers in title or title policy/commitment showing borrowers in title.

Gifted lots require a gift letter.

Miscellaneous

Investment Property

Not allowed on Single Close Construction loan.

Allowed on FNMA REHAB program to 70% LTV based on the lesser of cost or appraised value.
(see FNMB REHAB specs)

Pre-payment penalties

None

Existing Residence

Requirements for Qualifying Borrower's with Existing Homes	
Current principal residence is pending sale or sale of the current home is contemplated, but the transaction will not be closed (with title transfer to a new owner) prior to closing the Single Close Construction loan.	<u>Both</u> the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction, unless the borrower has documented six (6) months PITI for <u>both</u> properties in reserve. A reduction to two (2) months reserves if 30% equity in the existing principal residence is documented by a current appraisal. A fully executed contract of sale and confirmation that any financing contingencies have been cleared will be required as documentation of the pending sale.
Conversion to a Second Home – property must meet requirements: 1) located within a reasonable distance from the borrower's principal residence; 2) the borrower occupies for some portion of the year; 3) borrower may not enter into any rental agreements or give anyone else control over the occupancy of the property. Rental income may not be used to qualify the borrower.	<ul style="list-style-type: none"> ▪ <u>Both</u> the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction; and ▪ Up to 6 months PITI for <u>both</u> properties are required to be in reserves. However, no less than 3 months for both properties may be considered if there is documented equity of at least 30 percent in the existing property, as supported by a current appraisal* minus any outstanding lien(s).
Conversion to an Investment Property – Offset mortgage payment on current residence with anticipated future rents.	<p>Colonial will continue to permit up to 75 percent of rental income (documented by Comparable Rent Schedule) to be used to offset the mortgage payment in qualifying if there is documented equity of at least 30 percent in the existing property as supported by a current appraisal* minus any outstanding liens(s).</p> <p>At modification, the rental income must be documented with:</p> <ul style="list-style-type: none"> ▪ A copy of the fully executed lease agreement for one year; and ▪ The receipt of a security deposit from the tenant and evidence of deposit into the borrower's account. <p>If the 30 percent equity in the property cannot be documented, rental income <u>may not be used</u> to offset the mortgage payment.</p> <ul style="list-style-type: none"> ▪ Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction; and ▪ 6 months PITI for <u>both</u> properties is required to be in reserves.

* Fannie Mae Form 2055 Desktop Underwriter Quantitative Analysis Appraisal Report is required on Single Close loans. AVMS's and BPO's will not be accepted for Single Close loan transactions.

DESKTOP UNDEWRITER Automated Underwriting

ARMS and Fixed Rate Loans

- DU must be run as Borrowers already occupying the subject property.

Conforming ARM loans should be run first as an "ARM" and a FINAL run as "Fixed Rate". File should be submitted with both findings. Jumbo loans should be run as an "ARM" only. The qualifying rate for either should be at least 2% over the start rate. However, Loan Committee Exception required if cannot qualify at 2% over start.

Fixed rate loans should be run only as fixed.

- **Set up and run in DU 8.0 as "Construction"**

SEE DATA ENTRY INSTRUCTIONS FOR SINGLE CLOSE TRANSACTIONS IN DESKTOP UNDERWRITER

- Check your Cash to close – this amount must match the cash to close on your Single Close Worksheet.

FYI : Automated Underwriting on Single Close loans is for the permanent loan transaction. NEW FINDINGS WILL NOT BE RUN AT COMPLETION OF CONSTRUCTION.

Interest Reserve Account

On loan amounts with an LTV/CLTV of 60% or less, an interest reserve account may be established at closing to pay the estimated interest cost during the construction of the home so the borrower does not have to make out-of-pocket payments during construction.

Contingency Reserve

A contingency account covers unforeseen cost overruns in the construction of the home. An additional 10% of the hard cost will be established in a contingency account for Cost-Plus contracts. A contingency account is recommended on all contracts to cover change orders or upgrades and may be required by Loan Committee as a condition of approval.

PRICING & LOCKS

This section applies to lock extensions requested prior to closing only.

Rate lock procedures

Lock loans in Empower just as you would any other loan.

ARM loans may be locked in as early as file submission. The loan must be locked by the time the file is sent to closing. Loans may be locked according to rate sheet pricing for 15, 30, or 60 days.

Fixed rate loans must have underwriting approval to lock.

Lock Extensions

The following only applies to ARM loans and pre-closing extensions.

Locks may be extended out to 30 days from the original lock expiration date. The extension must be requested before the existing lock expires. The extension schedule is shown on the daily rate sheet. Extensions of greater than 30 days will be treated as exceptions. Once a lock expires it can be relocked or extended using the following formula:

- a. Take the original lock and extend the expiration out to the new desired expiration date at the price of .125% in discount for every 10 days of extension (the "extended price").
- b. Compare that price to the current rate sheet quote for a lock of the same duration as the original lock (the "relock price").
- c. You will get the worse case of those two options. If worse case is the "extended price" your expiration date will be extended to the date you calculated your extension pricing to. If worse case is the "relock price" your expiration date will be for the entire new lock period (30 days, 60 days, etc.)

Pricing Procedures

Single Close rates and products can be found on the daily Rate Sheet. All rate / discount adjustments are listed therein.

Loan exceptions may require additional adjustments not found on rate sheet. Call for pricing.

Rate Sheet

See the Construction section of the daily rate sheet for Single Close rates.

Maximum Yield Spread to Loan Officers

On all construction products, the maximum yield spread premium to a loan officer is: .50% maximum after applicable adjustments.

Rate Adjustments

Rate adjustments will apply on loan amounts greater than \$650,000. Please see rate sheet for details.

Loan exceptions may require additional rate adjustments.

Single Close Workflow

Once you have interviewed your client and taken a loan application, here is a suggested workflow to follow on a Single Close loan.

	<i>Collected or Completed by:</i> <u>Loan Officer</u>	<u>Processor</u>	<u>Construction Lending</u>
PRIOR TO DISCLOSURE			
Loan application and authorization form	X		
Single close workbook	X		
Credit report	X		
Run DU	X		
Fax completed "Builder Profile & Questionnaire" to CL	X		
Mail Disclosures		X	
PROCESSING (File Requirements)			
Builder Profile & Questionnaire is processed			X
Construction contract	X		
Cost breakdown	X		
Plans & specs	X		
Lot documentation (contract or proof of ownership)	X		
Copies invoices and receipts for items paid in advance	X		
Asset verification docs	X		
Income verification docs	X		
Order "subject to completion" appraisal		X	
Order title commitment		X	
Rework File upon receipt of Appraisal		X	
Send CL contract, cost breakdown & appraisal		X	
Submit file to UW		X	
POST-UNDERWRITING			
Collect outstanding conditions as required by UW	X	X	
Resub file to UW		X	
Once approved, lock loan	X		
Once approved, submit to Loan Committee		X	
Draw scheduled finalized			X
Loan committee			X
ITEMS NEEDED FOR CLOSING			
Closing information sheet		X	
Lock confirmation form		X	
Preliminary HUD-1 with title company fees		X	
Wiring instructions / Tax cert.		X	
Existing or new lot survey		X	
Closing docs ordered			X

Turn Around Time

Two approvals are required for all loans: underwriter approval **and** committee approval. All loans may be subject to additional conditions upon Loan Committee review.

Please submit a copy package to Construction Lending at the time of underwriting submission. This will help to expedite any issues that may arise prior to closing.

Once final approval is received, closing information will be requested. Allow for 48 hours to close upon submitting final closing information.

Exceptions

Loans with the following conditions must be granted an exception from Construction Committee before Underwriting:

1. Land greater than 10 acres
2. Non-Arms length transaction
3. Variance exceeds 20% between total cost and appraisal
4. Loan amount greater than guidelines or LTV greater than guidelines
5. DTI exceeds guidelines.
6. Borrower does not qualify at 2% over start rate.

Exceptions should be requested as early in the process as possible.

All Loan Committee Exceptions should be forwarded through the Construction Lending Department.

SINGLE CLOSE WORKBOOK

Required Workbook / Questionnaire

The Single Close workbook or questionnaire is **required** prior to sending your file to Underwriting. The workbook is an Excel spreadsheet that pulls the essential details of your deal together and will replace the details of purchase on the 1003. The Underwriter will use the workbook as the details of purchase. It is recommended that you complete this workbook as early as possible in selling to a homebuyer and builder in processing a loan file. Updates are easy to make as information becomes more certain.

Single Close Workbook

You will want to prepare the workbook by downloading the Excel spreadsheet and save it to a folder on your computer to complete.

The workbook consists of 5 worksheets entitled (Questionnaire, Closing Costs, Items Paid in Advance, Comparison, and Worksheet). By completing the items on the questionnaire, the loan information automatically updates on the subsequent pages of the workbook. Therefore, many of the later changes you may need to make should be done on the questionnaire tab. Complete each tab in order from left to right. By the time you get to the final worksheet. Your information should be complete. Review for accuracy and make changes as necessary. The workbook and completion instructions are available for download on our website. EXHIBIT A-3 is an example of the workbook.

CLOSING REQUIREMENTS

Closing Document Requirements

Upon loan and committee approval, the following are general guidelines for what will be requested in order to put a loan into closing.

1. Lock Request / Lock Confirmation
2. Closing Information Sheet (see EXHIBITS)
3. Preliminary HUD 1 or Title Company Fees on letterhead
4. Wiring Instructions / Tax Certificate
5. Survey – if applicable (provide early to avoid delays) LEGAL DESCRIPTION ON TITLE COMMITMENT MUST MATCH
6. Corrected 1008 / 1003 as requested by U/W
7. Hazard Insurance – existing structures only

All TEXAS closings: We are required by law to provide a copy of the closing documents to the borrower **AT LEAST ONE (1) DAY PRIOR TO CLOSING. THIS CANNOT BE WAIVED, NO EXCEPTION.**

Closing Information Sheet

See EXHIBIT A-8

Survey Requirements

Surveys are required as determined by Title Company requirements. In survey states, a final as-built improvements survey must be provided at completion.

Insurance Requirements

Builder's risk insurance equal at least to the cost of construction must be provided no later than after the foundation has been completed. No disbursements will be made after this stage of construction until proof of insurance coverage is provided.

If any portion of the improvements is located in a flood zone, proof of flood insurance coverage must be provided no later than after the foundation has been completed. No disbursements will be made after this stage of construction until proof of flood insurance coverage is provided. Borrowers are responsible for any re-determination request to FEMA in order to remove the requirement for flood insurance coverage.

We do not collect for taxes and insurance at closing. However, all escrow monies will be collected at time of completion. Proof of one year's paid up homeowner's or hazard insurance coverage must be provided at completion. Such insurance should be in an amount sufficient to cover the replacement cost of the improvements. Taxes must be paid current at completion.

DRAWS and BUILDER INFORMATION

You will want to check to see if your builder is accepted. To find out, contact the Construction Lending Department. If your builder has not been accepted for our program, have the builder complete the Builder Profile and Information Questionnaire and fax it to 817-877-9506 or include it with your loan copy package. All builders and contractors MUST be properly registered or licensed in accordance with applicable state laws and such registration or license must be verified prior to final loan approval and closing.

Builder Forms and Information

All builder forms can be found in EXHIBITS at the end of this guide or on our website.

Your file will need to include all contracts for the construction and a breakdown of the construction costs. The contract amounts and the cost breakdown must balance and include all items (i.e. well, septic, swimming pool, etc) that are included in the total construction cost. The cost breakdown may also be used as a tool to customize the Draw Schedule.

You will need to verify with the builder if any items included in the contract price have been prepaid by the borrower (i.e. plans, earnest money). If so, the borrower will be credited for the amount of prepaid items with proper documentation.

Construction Lending will contact the builder prior to the loan closing and review the Draw Schedule and draw procedures. We will need accurate phone numbers, fax numbers and email addresses. Any revisions to the Draw Schedule will need to be made at this time. A copy of the Draw Schedule will be signed by the borrower and builder at closing. **Please Note: Builder must attend closing and sign appropriate documents. Samples of the builder documents are provided prior to loan closing.**

Builder Profile & Information Questionnaire

See EXHIBIT B-1. This form should be completed as early in the process as possible if your builder is not already an accepted builder. You may fax this form to 817-877-9506.

Residential Construction Loan Contractor's Affidavit

See EXHIBIT B-2

Draw Disbursements

Draw Schedule:

- Builder will be contacted by Leslie Jean, Construction Lending Builder Relations Coordinator. She will assist the builder with the draw schedule which will be part of the closing package and must be signed by all parties at closing.
- Fax wiring instructions, Job Site Information and completed W-9 to 817-877-9506 prior to requesting the first draw.
- Prior to framing draw fax copy of builder's risk insurance to 817-877-9506. Mortgagee clause to read Colonial Savings, F.A., its successors and/or assigns, P.O. Box 2988, Dept. 054, Fort Worth, TX 76113-2988

Closing Draw (Start-up)

- The closing draw may be requested for up-front start-up costs up to a maximum of 10%. For example: Closing costs paid by builder, architect fees, plans, engineering, survey, realtor fees, insurance, etc.
- These costs must be itemized on the draw schedule. This will be discussed with the Builder before the loan is closed.
- The closing draw will be wired to the Title Company for disbursement upon funding.

Interim Draws

- All draw requests must be made in writing. The Builder will be provided "Draw Request to Owner and Lender" form (available on our website) to use when requesting all draws.
- An inspector will be sent to check the completion of items requested. Upon receipt of the inspection a disbursement will be made in the method applicable. Only 72 hours from draw request to money in the bank!
- All funds will be wired directly to the builder's account unless otherwise directed by borrower or to meet title insurance disbursement requirements.

Draws for Special Orders

- If required to have a deposit in advance of work being completed, Colonial will need an invoice from the supplier, the supplier's Tax I.D. number, and draw request signed by borrower and builder.
- A check will be sent directly to the supplier for a maximum of 50% of the budget amount.
- The balance of funds remaining for line item will be disbursed to the builder upon request and verification by inspector that the work has been completed.

Final Draw

- Prior to the final disbursement and upon receipt of the final draw request signed by borrower and builder, Colonial will provide the builder "Final Bills Paid and Waiver of

Lien” and “Affidavit of Completion” forms typically required by title companies to issue the required endorsement to the title policy.

- Final funding to the builder will be wired upon completion as evidenced by final inspection from the appraiser, final survey (if applicable), copy of homeowner's insurance, title endorsement from title company, well or septic certification or Certificate of Occupancy (if applicable), and other documents as applicable. (See “Documentation Requirements”).

Draw Request to Owner and Lender

See EXHIBIT B-5

This is the Form that the builder will use to request draws during the construction period.

Request for Taxpayer Identification Number and Certification.

See EXHIBIT B-6

This form must be completed either at closing or prior to the first Interim construction draw.

Bank Wiring Instruction for Construction Draws

See EXHIBIT B-7

Must be completed in order for draws to be wired into Builder's bank account.

Builder / Job Site Information

See EXHIBIT B-8

This information is being requested so that we may better serve the builder throughout the construction phase of the project.

Hold Harmless Agreement

An agreement executed by the borrower(s) in which they agree to indemnify CNM from any losses, damages, claims, etc. related to some particular aspect(s) of the loan transaction. This is only available when Loan Committee deems the strength of the borrower satisfactorily mitigates such risk. Such agreements may be required for various exceptions.

Contract Types

Fixed Price Contract

A contract entered into between the builder and owner for an agreed lump sum amount for construction of a house. It embodies the terms of the agreement between the parties.

A voluntary contingency account may be added to any transaction for change orders or upgrades (not required to be 10%). However, Loan Committee may require a contingency account at its discretion.

Cost-Plus Contract

A Cost Plus contract is one where the contractor has supplied to the other party a fair and reasonable estimate of the total amount the building contractor is likely to receive under the contract. For some reason(s) the building contractor is not able to give the other party a firm price. It is therefore agreed between the parties that the building contractor's remuneration will be on the basis of the other party reimbursing the building contractor for all their cost plus an agreed percentage. Alternatively, the parties may agree that the contractor will be paid a fixed sum in lieu of a percentage of the construction cost.

A contingency account of no less than 10% of the cost of construction of the improvements is required to be added to all cost-plus contracts.

MODIFICATION / COMPLETION

Modification Options

Borrower may have the option to modify from the terms of their loan at completion for a fee of \$350. Options to modify are not guaranteed under the terms of the loan; however, we make every effort to offer such options to the borrower, provided their original qualifications meets current guidelines for available loan programs at the time of modification. **We do not re-qualify borrowers nor re-appraise properties at modification.**

Principal reductions may be made at the time of completion and the remaining balance re-amortized at modification of the loan from construction to permanent. Any unused loan funds may be applied to the principal balance at completion or used toward final payment of interest or any fees due. Such funds may NOT be used to establish escrow accounts.

Agreed Completion Date (End of Construction Term)

This is the date the construction must be completed and all required documentation received by CNM in order to effect the modification of the loan from the construction term to a permanent loan. This date always occurs on the last day of the month and is specifically set out in the borrower's closing documents. This date is very important as failure to complete the project and meet the specific documentation requirements (as set out in the loan documents) may result in Delay Payment Fees.

Items required to modify

In addition to the \$350 modification fee, the following items will be needed to modify the construction loan to the permanent loan:

1. Proof of hazard insurance;
2. Final Inspection report from an appraiser;
3. Endorsement from the title company removing any exceptions for pending disbursements or mechanic's liens and survey exceptions (as applicable).
4. Final survey (as applicable).
5. Collection of any outstanding money.
6. Escrow deposit (if applicable)
7. If original loan approval was contingent upon the sale or lease of a prior home, proof of sale **or** a copy of the fully executed lease agreement for one year, the receipt of a security deposit from the tenant and evidence of deposit into the borrower's account.
8. Discount points may be applicable at modification.

Delay Payment Fees

This fee is imposed when a project fails to complete on time. "Completion" constitutes not only the house being completed in accordance with the original plans and specification, but also that acceptable final documents and all sums due and owing have

been received by Colonial. The required documents include proof of hazard insurance; final inspection report from an appraiser, endorsement from the title company removing any exceptions for pending disbursements or mechanic's liens and survey exceptions (as applicable) and final survey (as applicable). Otherwise, Colonial may, at its discretion, extend the Construction Period for 90 days and charge the Delay Payment Fee of ½ of 1% of the loan amount. Subsequent extensions after the initial 90 days will be charged a Delay Payment Fee equal to 1% of the loan amount together with administration fees. Also, the interest rate for the Construction and Permanent Loan Periods may be subject to change and higher than the rate at which the loan was closed.

Escrows

Escrows are not collected at closing. However, the borrower must establish an escrow account at completion of the construction period, if applicable. Escrows may be waived in accordance with our standard escrow waiver policy at the initial closing or at modification. If the Borrower elects to waive escrows at modification, escrow waiver fees will apply.

During construction, the borrower is responsible for payment of taxes. Proof of payment of current taxes due and payable is required at completion.