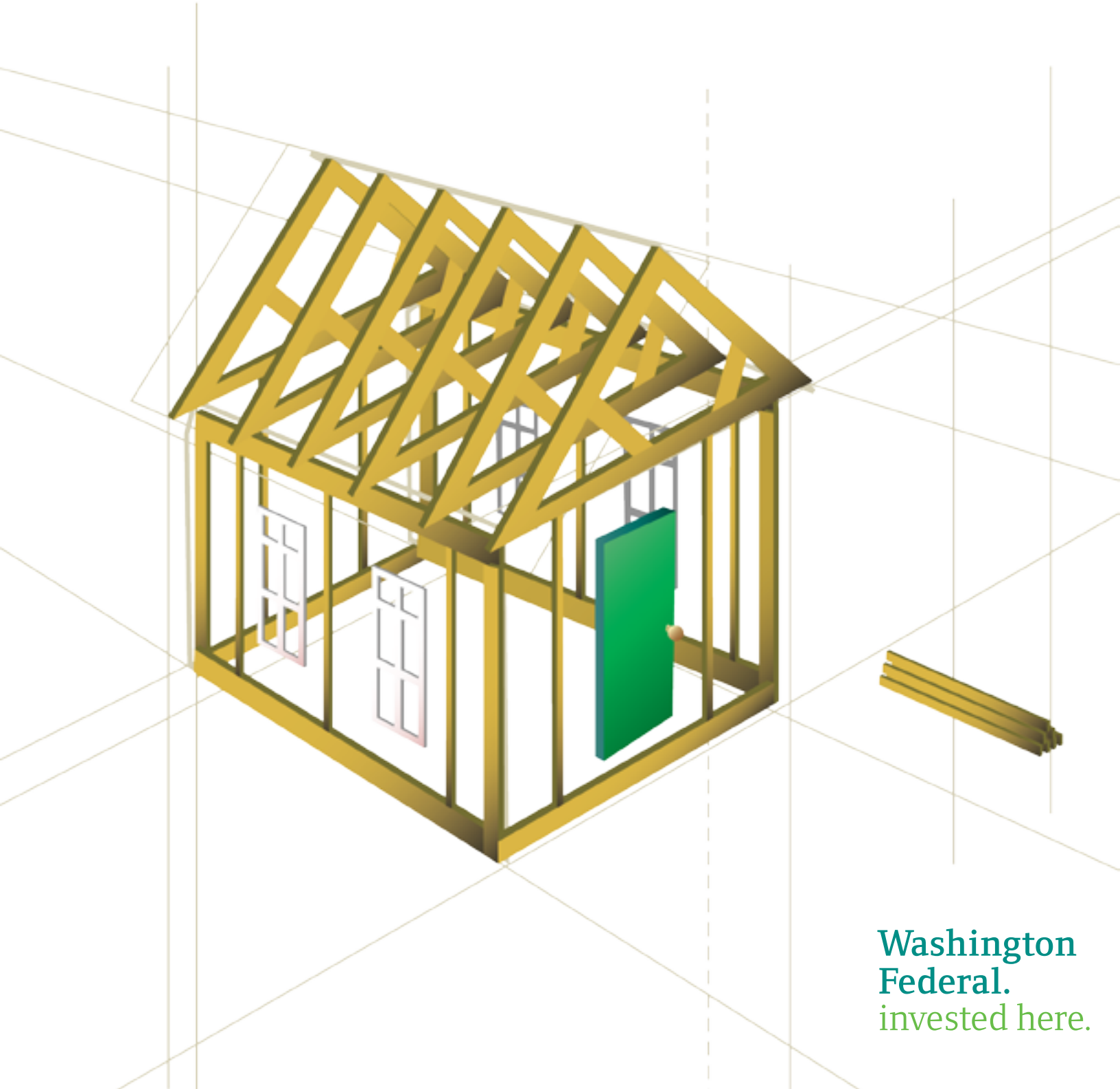
Building a Custom Home

# What you need to know about custom construction financing.



Washington Federal.
invested here.

## Building a Custom Home

# What you need to know about custom construction financing.

Congratulations! You've been thinking about it for a long time and have decided that you want to build a custom home. Building custom can be a fun and exciting experience. However, it can also seem daunting and overly complicated.

Why? You're starting from scratch. You pick the land, the builder, the plan, the materials and the financing. That's a lot of choices and a lot of "i's" that need to be dotted and "t's" that need to be crossed. Don't worry; we're here to help. That's why we say Washington Federal is "invested here."

We've done our best to map out the custom construction process here, but remember that everyone's situation is slightly different. Depending on your circumstances, you may need to switch around the sequence of steps described below.

The goal of this eBook is to give you the tools and information you need to feel confident and to help you along the process. We hope you find it useful.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# Chapter 1: How to begin.

## Make your wish list.

If you've decided to build a custom home, it's probably because there are things about your current home that you would want to change if you could.

The first thing to do is list the features you'd desire in an ideal home. What daily frustrations do you encounter in your current house? Make a list of features or issues and don't hold back. Involve everyone that lives in your house or visits you regularly. There are no bad ideas at this stage, so write down all suggestions.

Here are a few common features you might find inspirational as you put your list together:

### Proximity to your family.

Do you want to be close to your siblings or aging parents? How often do you see your extended family? Would you want your custom home to be the family gathering spot?

### Kid-friendly neighborhoods.

Review the schools, parks and safety statistics of the neighborhoods you're considering. Are you looking for a quiet spot at the end of a cul-de-sac? Or do you want the sidewalks and bus lines of a more urban setting? Do you want a fenced back yard? Or open acreage so the kids or grandkids can explore?

### Exterior Appearance

Do you value a unique design for your home? Or are you looking for a traditional design? Think about adding detailed molding or other exterior add-ons to create your home's one-of-a-kind look.

### Amount of storage

Does your current home feel cramped? Do you have special hobbies that require storage or workspace? Consider adding closets, casework or even extra storage space in your new home's garage and attic.

### Space to entertain.

Do you entertain guests frequently? Do you love to cook or hold dinner parties? If your current kitchen doesn't provide you the space you need, consider adding a bigger kitchen to your wish list. Larger kitchens include multiple sinks, an island, double ovens, more cabinet or counter space and room for bar stools so your guests can hang out while you play chef.


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## Take time to set priorities.

While it's fun to imagine the perfect home with every feature you can dream up, real life involves compromise. We know some things are just more important than others. Think about what will make the most impact on your family's quality of life. These are your primary features. Other things may be nice to have, but won't have a major impact on your quality of life. These become lower priorities.

Again, making a simple list is one of the best ways to organize your thoughts. Try to rank order the items in each column, because you likely will need to trim here and there. Here is an example of how you could prioritize a wish list:

### Primary Needs

- Deck and connecting patio
- Spare bedroom
- Home office
- Family game or theater room
- Three bathrooms
- Three-car garage
- Double sinks in the master bath
- Master suite on the main floor

### Secondary Needs

- Granite countertops in the kitchen
- Heated slate floors in the kitchen
- Soaking tub
- Walk-in shower
- Gas fireplace in the living room
- BBQ pit or outdoor cooking area

## Determine a rough budget.

At this stage, you aren't going to have a firm idea of what everything will cost. However, it is important to get a general idea of what you are willing and/or able to spend on your new home. To get started, you may want to ask yourself a few key questions:

- What have you saved?
- How much can you afford to borrow? Consider taxes and insurance as well.
- What are the maintenance or up-keep costs associated with your future home?
- How much do you want to spend on the lot? Will you want a view? Waterfront?
- What will you clear from selling your current home?
- Where will you want to splurge on top-line materials?


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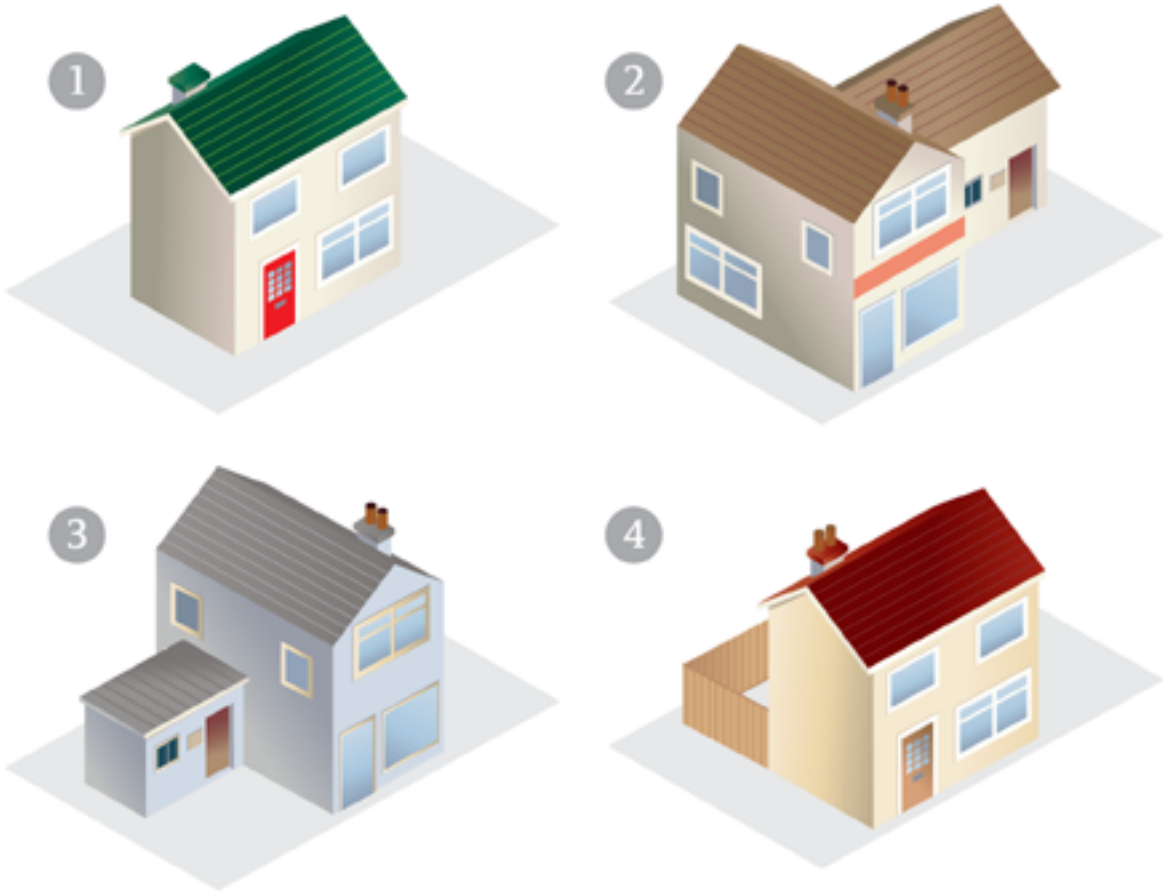


## Get pre-approved.

A pre-approval means that a lender is approving your ability to borrow up to a certain amount depending on factors such as your credit history and debt-to-income ratio. It is a good idea to get pre-approved for a loan as early into the process as realistically possible. Make an appointment with a loan officer to go over your rough budget and ask preliminary questions about the construction process. Getting your loan officer involved early may prove to be one of the best things you can do to solidify your budget.

At Washington Federal, our loan officers specialize in custom construction financing and will help to guide you before you start drawing up plans so you know exactly the budget you have to work with.

Once you're pre-approved you can move forward confidently, knowing what you can realistically afford.


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# Chapter 2: The Fun Part.

## Choose your homesite.

"Location, location, location." We've heard it time and time again. Do you want to be close to shopping and dining or would you prefer more privacy or even acreage? Do you have children? If so, the quality of the neighborhood amenities like parks and schools will also affect your decision. In general, the closer you get to cities, the more expensive the land becomes. If possible, try to find a lot that meets your immediate needs and has potential to increase in value over time.

Geography will be another factor in your decision. Living in the hills or on a bluff may appeal to you, but you will pay for that view. If the land is particularly steep, you may incur additional costs in the planning or construction of your home in order to hire engineers. You may also want to build near water or other recreation, which will impact your costs. And consider how you will commute to work and whether transportation alternatives are available.

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## Financing the purchase of your lot.

If you need to purchase a plot of land, you may want to consider a lot loan. Once you own the land, you can take your time to hire an architect, firm up plans and get building permits. When you're ready to build, you can often migrate the lot loan balance over to a custom construction loan. For example, Washington Federal offers both a short-term (24 month) loan as well as a 20-year term if you don't have immediate plans to build a home.

## Create a vision for your custom home.

Designing your own home is a creative process that balances vision, function, and budget.

When you're developing a custom home plan, don't just think about how good things will look, but how you will use them. Do you want your bedroom on the main floor? How easy is it to get from the kitchen to the dining room? Will you usually be entering the house through the front door, the garage, or a side door? Where does your family normally gather in the evenings? How often do you entertain? Do you need play space, office space or hobby space? These are the kinds of questions you should be talking through with your architect or home designer. Make sure you're designing a house that functions the way you want it to.

Of course, part of the fun of building is the aesthetics. Starting now, look through home design magazines and websites to get ideas and familiarize yourself with popular styles. Colonial, Cape Cod, Ranch, Cottage and Craftsman are just a few of the most popular home styles today. The style will impact your budget. In general, the more angles a home has the more expensive it will be to build. Homes that are closer to the shape of a rectangle require less materials and lower labor costs. Intricate moldings, special features and extra trim add to the cost. Organize your ideas in a binder along with your wish list and budget and bring these with you when you meet with your architect or home designer.

## Be sure to hire respected experts.

Good builders, architects and general contractors will prove invaluable when building a custom home. If you are new to the custom construction process, hiring a well-respected expert is well worth the extra money. Depending on their individual skill-set, they can help you determine your budget, draw up your plans, make informed design decisions and oversee construction.

Make sure the experts you're hiring have all of the specialized skills and experience your project will require. Ask lots of questions, get references and verify that they have all of the necessary licenses, designations and insurance as required by your state. One of the best places to start is to ask your lender for a list of builders in your area.


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Depending on the project and the experts you choose, there may be some overlap between titles and job responsibilities. In some cases you may be able to find one company that has its own experts and can handle everything. In other instances, you may want to hire each of them yourself to pick your own individual team members.

## Architect

Architects are responsible for planning and designing buildings. A good architect will work with their client to get a good understanding of how the structure will be used and any design features the client would like to include. With this knowledge, they develop all of the structural, mechanical and electrical requirements.

They will also help oversee the process by getting frequent updates from the builder or general contractor. In addition, architects will often help you get your construction permits by helping you submit your plans to the city for approval. In most cases, architects are paid through commissions from their client based on the total project budget.

## Builder

Builders are responsible for coordinating and building your home. Some builders may design completely custom homes using in-house architects or designers while others may work with architects hired by their clients.

Builders will often have their own in-house teams that handle most aspects of construction without as much need to subcontract. In most cases, you will work with your architect and builders to determine the costs of your home. The fees you pay to the builder will cover these costs, including materials and subcontractors plus any fees the builder charges for their services.

## General Contractor

Your general contractor will be involved in all of the day-to-day management during the construction process. They are responsible for keeping the project on target, on time and on budget.

A general contractor will hire all of the subcontractors needed for your job. In most cases they are paid by charging a percentage on top of the total fees charged by the subcontractors.

## Interior Designer

Interior designers are multi-talented, artistic professionals responsible for designing and coordinating the use of interior space. This can include everything from layout and furnishings to paint and carpet colors.

Some interior designers are self-employed while others work for design firms or retail stores. There are different ways your interior designer can be paid depending on how they're employed. Self-employed designers can be paid by the hour, by the project, by the square foot or based on the cost of materials. Designers working for design firms or retail stores are usually paid yearly salaries or by the hour.


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## Soil Engineer/Geo Tech

Soil engineers are responsible for inspecting and analyzing a site's soil and geotechnical characteristics. Through observation and testing they are able to determine things like drainage, erosion patterns and weight-bearing capacity. This will help to know whether any special accommodations need to be made to the foundation or other aspects of the home.

Soil engineers can charge hourly for their services including the time they are drilling or inspecting a property, but may charge flat fees for testing or writing up reports.


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# Chapter 3: Financing Construction 101.

## Typical construction financing takes two steps.

Many banks who offer construction financing do so in two steps. The first loan covers construction only. After construction, you close on a second, permanent mortgage loan. So you'll face two closings and two sets of fees. You also need to plan for fluctuations in interest rates during the 9 – 12 month construction phase. Mortgage rates may increase before your home is finished; putting pressure on your ability to afford your payments once your home is complete.

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## Washington Federal specializes in construction financing.

We know that building a custom home may be one of the biggest financial decisions you will ever make. Since 1917, Washington Federal has been helping our community by making loans to families who wish to build or buy homes. Today, custom construction financing is a significant part of our business.

We understand that our clients are not just clients, they are our neighbors. If you choose Washington Federal for your home loan needs, you will have a dedicated branch manager who will meet with you one-on-one and face-to-face. The same person will handle your loan from start to finish. We don't pay on commission, so we're free to give you the personal attention and customized advice you deserve.

## Consider our "all-in-one" loan.

Unlike many other banks, Washington Federal offers an All-in-One Custom Construction loan. With our all-in-one loan, there is only one application, one closing and one set of fees. You will not have to get a loan for the construction of the home only to have to come back and get a second loan after the home is complete. The entire project is underwritten at the same time. And you will be locking in your permanent rate before you even break ground, giving you additional peace of mind. We even give you the option to lock in your interest rate during processing for up to 90 days (deposit required). Please note that rates can change daily.

When you are building a custom home, we allow 12 months for interest-only payments on the funds you have drawn to date as your home is being built. Upon completion, we roll your loan into a fully amortizing loan with principal and interest payments spread over 30 years. We also offer a 15-year term option. Construction of your home will be paid for by doing monthly draws from your total loan amount based on the percentage of completion. We do site inspections ourselves and handle the draws right from your neighborhood branch. By doing our own draw and inspections, we can save you both time and money. Contact your local Washington Federal branch for more information or call us at 800-324-9375.


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# Chapter 4: Getting a Construction Loan Approved.

Custom construction financing is a bit more complex than a standard mortgage. Here's a list of the items that we require at Washington Federal.

### Items required to order an appraisal:

- 2 complete sets of architectural plans, including a plot/site plan (signed/dated by builder and borrower)
- 2 copies of the description of materials and specifications (signed/dated)
- 2 copies of the cost estimate (signed/dated)
- Acknowledgement of any pre-paid construction costs, along with copies of receipts (signed by builder and borrower)
- Legal description of the property and purchase contract/details of purchase
- Septic permit (if applicable)
- Well report (if applicable)

### Documents required before loan closing:

- Contractor's license
- Building permit
- Contractor's IRS certification
- Proof of liability/hazard insurance, including course of construction coverage

For more information about the process, visit our custom construction web page.

We've broken everything down into categories, but all of these items can still be overwhelming. If you bring your lender into the mix as early as possible, he or she can help to make sure you have everything you need.

## Be sure to get your lender to approve your builder.

It's going to be your custom home, but if you're borrowing the money to build it, remember that the bank will be the lien holder. That's why your lender will need to approve on the builder you hire. So while you are gathering everything you need to complete your loan application, your builder will also have to do some leg-work. Washington Federal requires a completed Builder Package in order to evaluate your builder's experience level and financial condition.


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## Washington Federal's Builder Package includes:

- Completed current general contractor's license and insurance bond
- Completed current custom construction loan builder's resume or summary of experience
- Current personal financial statement
- Current personal tri-merge credit report(s)
- A list of the builder's major suppliers, sub-contractors and references, including all contact information
- Substitute W-9 form
- Proof of a current general liability insurance
- A signed copy of the Custom Construction Loan Guidelines and Practices

Your lender can help guide your builder through the application process.

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## Submit your plans and specifications.

The bank requires an appraisal in order to determine the exact value of the house and everything needed for the construction process. Finalized plans, cost breakdowns, and material specifications are required for this step. The total loan amount is then finalized. The appraisal value is key to determining the final loan amount. The bank won't lend more than a certain percentage of the home's completed value, usually up to 80% of the appraised value or actual the cost of construction, whichever is less.

Here is the information your lender will need to order a professional third-party appraisal based on your house plans:

| | |
|---|---|
| Building Plans | Includes foundation plan, floor plan and elevations. These will need to be signed and dated. |
| Site Plans | Includes lot dimensions, setbacks, easements, adjoining roads, location of house, location of garage and, if applicable, location of septic system and well. |
| Specifications & Materials | A detailed list of your materials and specifications. These will need to be signed and dated. |
| Cost Breakdown | Every cost associated with the build. |
| Fixed-Price Construction Contract | Includes state sales tax, builders profit and overhead. Should match the cost breakdown exactly. These will need to be signed and dated. |

The appraisal must be completed before your loan can close, so you should gather the documents required to order an appraisal first. They can sometimes take a few weeks to get scheduled, so you will have plenty of time to prepare the rest of the paperwork before it is time to close on the loan.


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## Obtain permits, licenses and insurance.

While you wait for the appraisal, you will need to obtain permits, licenses and special construction insurance. Here are a few of Washington Federal's commonly required documents:

| | |
|---|---|
| Course of Construction Insurance | Insurance provided by you, the borrower, to protect the dwelling while it's under construction. |
| Septic Permit (if applicable) | Public sewer must be available at lot boundary. If it's not, the property will require a septic system. An approved septic design is required prior to filing for a septic permit. |
| Well Permit (if applicable) | Public water is required to be available at the lot boundary. If a public water system is not available, then a developed well is required on the site. |
| Building Permit | The local city or county must issue this document allowing you to build on the property. They will require your building plans when you file for a permit. |

## Prepare to close on your loan.

Once your appraisal is complete and you've gathered the rest of the necessary documents, your loan is ready to be reviewed by the bank's underwriter. After you receive final approval from your lender, you will need your building permit before you're ready to close on the loan. During the closing, you and your lender will meet so you can sign documents, pay closing costs as well as your down payment, and schedule construction ground-breaking. Keep in mind; you will need to be prepared to cover certain construction costs in the beginning until you qualify for your first draw payment.


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# Chapter 5: The Build.

Everything you've done up to this point has been in preparation for starting and funding the construction of your new home. During the construction process, you make payments based on the amount you've drawn against your loan, not the whole loan amount. As we mentioned earlier, construction is funded through monthly draws.

A representative from your local Washington Federal branch will come out to the property and perform monthly inspections in order to determine how close the project is to completion.

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## How the money works.

Your monthly draws will be based on the completion percentage. For example, say that after site inspection, your local Washington Federal branch manager confirms that half of the home's windows are now installed. You are then allowed to draw 50% of the "window" line item in your construction budget. Note that draws are only permitted for work completed and items that are already "attached" to the house. So if you order special windows and the manufacturer requires a deposit, those funds will need to be paid up-front out of your own pocket. Your lender would then reimburse you once the windows are installed.

Plan to communicate daily with your contractor throughout the construction process to make sure that you stay on schedule. Keep your lender informed of any issues or delays that impact your budget or project timing. While it is their job to help you build your home on time and within budget, it is ultimately your responsibility as the borrower. If construction falls behind or you make changes mid-stream, you may find yourself out of money or cutoff from borrowing more until you set things straight.

## Enjoy your new home.

Once construction is complete and your new home passes inspection, you will receive your occupancy permit and can move in. If you've financed with Washington Federal, your "All-in-One" loan will simply convert at this time to permanent financing and you will begin to make your normal amortizing mortgage payments to Washington Federal. If you've chosen a two-step process, then you'll need to arrange for a permanent mortgage before you can move in and occupy the home.

As you begin your journey, we hope that you have found this eBook to be of value. If you're interested in getting started or learning more about the process, contact one of our neighborhood branch managers or call us at 800-324-9375. If you plan to build in an area we serve (Washington, Oregon, Idaho, Utah, Arizona, Nevada, New Mexico or Texas), we're more than happy to answer your questions and provide you with a no-obligation consultation.

We know that building a dream home is an all-consuming process, but for those who want to create a home that is truly theirs, it's also a fulfilling, creative and rewarding process. Remember that at Washington Federal, we're truly "invested here." In fact, we've been helping families build homes since 1917.

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