

# A Guide to Construction Lending



Lake City Federal Bank

*Working with you... living beside you.*

201 East Marion Street · Lake City, MN 55041

651-345-3373 · 866-345-3373

[www.lcfederal.com](http://www.lcfederal.com)



Thank you for your inquiry about Lake City Federal Bank's construction loan process. We have provided home construction loans in the Lake City area since our founding in 1934. We are unique in that we combine the construction loan and the permanent financing in one loan. This process saves in loan fees, allows for one loan closing, and takes away the risk of interest rates increasing during the months needed to build your new home.

Key players in this process, in addition to you and the bank, are your contractor, sub-contractors and materials providers. Our common goal is to build your quality home on time and with sufficient funds to pay everyone along the way. As such, we have developed the process described in this packet to help us work together to achieve that goal. Building a home and working with contractors and bankers is a stressful process. Being proactive, we can reduce the stresses and issues along the way.

We look forward to working with you. Please know that communication between you, your contractor and the bank is most important. So feel free to contact us along the way with any questions and inform us of any changes you have made or are considering with your project.

Lending Staff of Lake City Federal Bank – NMLS #402919

Carol Hoops – Vice President  
NMLS #408953

Elizabeth Wolf – Loan Officer  
NMLS #1104975

Mara Sorenson – Loan Processor  
NMLS #1444217

James Mack – President  
NMLS #697979

Lake City Federal Bank  
120 2nd Street  
Lake City, MN 55551

## Things You Need to Know

**Loan amount** – Your loan amount is based on a maximum percentage of the lesser of your lot value and construction costs, or your appraised value of the home to be constructed.

**Loan Term** – Your 2-phase loan will begin with a 6-month construction phase. Your home construction should be completed or substantially completed by the end of the construction phase. The second phase is your permanent loan. You will choose the permanent loan phase term when you apply for your loan.

**Down-payment and closing costs** – You will be required to pay to the bank on the day of closing the difference between the lot, construction costs and closing fees, and your loan amount. Your funds are used first. By using your funds first, you delay drawing the loan funds and reduce the interest you will pay.

**Construction Loan Disbursement/Inspection Fee** - The bank charges a one-time fee as part of your loan closing costs for doing inspections, making disbursements, securing lien waivers and tax reporting related to payments made to contractors related to your construction. Keep in mind that with a combination construction and permanent loan, you avoid the second set of loan closing costs once your home has been completed.

**Interest Rate** – You may lock your interest rate shortly after you apply for your loan or you can choose to float your interest rate. If you choose to float your interest rate, you should understand that if interest rates go up between the date you apply and the date you lock your rate, you will receive the higher rate. Your interest rate must be locked at least 20 days prior to closing. Your locked interest rate will be in effect for both phases of the loan.

**Interest Charges and Loan Payments** - You will be charged interest during the construction phase of your loan based on the loan funds actually used. You will receive a monthly billing for the interest charges during the construction phase. Once your permanent loan phase begins, you will pay principal and interest payments in accordance with the terms of your promissory note.

**Early work-starts** – The Minnesota mechanics lien statute gives a priority lien to anyone providing labor or delivering materials to a property ahead of the mortgage lender's lien, even if the work was performed by the owner. **Do not cut or trim trees, dig any holes, or clear any brush until you receive approval from the bank to do so.**

**Construction Invoice Payment Process** – Your contractor should provide you a detailed listing and copies of all invoices to be paid for labor and materials. You should review the list with your contractor and, when satisfied, provide the list to the bank with your request to authorize direct payment to the contractor, sub-contractors and suppliers. The bank will review the draw request and compare the invoice amounts to the Sworn Construction Statement. Bank personnel will inspect the construction site to determine the appropriateness of payment of the invoices. This process assures that payments made are consistent with the work in progress and materials provided and that funds remaining will be sufficient to complete the home construction. No payment will be made to individuals. You have the option of paying them out of pocket and the bank will reimburse you for the funds. The bank requires tax identification numbers and lien waivers from all payees.

**Change Orders** – It is common for the owner and builder to make changes during the construction process. The bank must be informed of any change orders. If a change order increases the amount of money needed to complete the home, the borrower should provide funds to cover the additional expenses. If a change order, in the opinion of the bank, would cause a reduction of the value of the completed home, the bank may require a review by the appraiser to determine a reduction in the total loan amount is warranted.

## **Lake City Federal Bank Construction Loan Checklist**

**Blueprints or building plans** – Used by appraiser and bank (please provide two copies).

**Sworn Construction Agreement** – This document details costs associated with construction by contractors, sub-contractors and material providers. The Bank will provide this form in paper and electronic format for you and you contractor to complete.

**New Construction Materials Form** – Provides details on construction materials. It is used by the appraiser along with the Sworn Construction Statement and the blueprints (plans).

**Home Owners Insurance Policy** - Your insurance company will most likely provide you with an insurance policy for risks unique to home construction. Evidence of insurance must be provided to the bank no less than 20 days prior to your loan closing.

Attachments:

Sworn Construction Statement  
New Construction Information Form  
Sample Construction Loan Agreement

**LAKE CITY FEDERAL BANK  
SWORN CONSTRUCTION STATEMENT**

| <u>ITEMS</u>                   | <u>FURNISHED BY<br/>LABOR/MATERIALS</u> | <u>TOTAL<br/>COST EST</u> | <u>TOTAL OF<br/>PAYMENTS</u> | <u>REMAINING</u> |
|--------------------------------|---|---------------------------|------------------------------|------------------|
| 1. General Requirements        |   |                           |                              |                  |
| a. Plans/Spec/Arch. Fees       |   |                           | \$0.00                       | \$0.00           |
| b. Building Permit, Fees, etc. |   |                           | \$0.00                       | \$0.00           |
| c. Survey                      |   |                           | \$0.00                       | \$0.00           |
| d. Misc Fees                   |   |                           | \$0.00                       | \$0.00           |
| 2. Site Work                   |   |                           | \$0.00                       | \$0.00           |
| a. Cleaning Bldg Site          |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| b. Excavating, Filling         |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| c. Grading, Backfill           |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| d. Driveway, road              |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| e. Utilities Connections       |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| f. Blacktopping                |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| g. Seed/Sodding/Sod            |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| h. Landscaping                 |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| i. Sprinkler System            |   |                           | \$0.00                       | \$0.00           |
| 3. Concrete                    |   |                           | \$0.00                       | \$0.00           |
| a. Foundation                  |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| b. Concrete                    |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| c. Blocks                      |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| d. Concrete Labor              |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| e. Pre-strssd Conc Units       |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| 4. Masonry                     |   |                           | \$0.00                       | \$0.00           |
| a. Brickwork, Fireplace        |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| b. Stonework, Stone            |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| 5. Metals                      |   |                           | \$0.00                       | \$0.00           |
| a. Structural Steel            |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| b. Ornamental Iron             |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| 6a. Material                   |   |                           | \$0.00                       | \$0.00           |
| a. Framing Material            |   |                           | \$0.00                       | \$0.00           |
| b. Trusses                     |   |                           | \$0.00                       | \$0.00           |
| c. Siding Material             |   |                           | \$0.00                       | \$0.00           |
| d. Fireplace/Chimney           |   |                           | \$0.00                       | \$0.00           |
| e. Roofing Materials           |   |                           | \$0.00                       | \$0.00           |
| f. Gutter, Downsprouts         |   |                           | \$0.00                       | \$0.00           |
| g. Deck Material               |   |                           | \$0.00                       | \$0.00           |
| h. Misc Material               |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |
| 6b. Carpentry Labor            |   |                           | \$0.00                       | \$0.00           |
| a. Framing Labor               |   |                           | \$0.00                       | \$0.00           |
| b. Siding Labor                |   |                           | \$0.00                       | \$0.00           |
| c. Shingle Labor               |   |                           | \$0.00                       | \$0.00           |
| e. Deck Labor                  |   |                           | \$0.00                       | \$0.00           |
| f. Finish Labor                |   |                           | \$0.00                       | \$0.00           |
| h. Misc Labor                  |   |                           | \$0.00                       | \$0.00           |
|                                |   |                           | \$0.00                       | \$0.00           |

| <u>ITEMS</u>                | <u>FURNISHED BY<br/>LABOR/MATERIALS</u> | <u>TOTAL<br/>COST EST</u> | <u>TOTAL OF<br/>PAYMENTS</u> | <u>BALANCE<br/>REMAINING</u> |
|-----------------------------|---|---------------------------|------------------------------|------------------------------|
| 7. Moisture Protection      |   |                           |                              |                              |
| a. Waterproofing            |   |                           | \$0.00                       | \$0.00                       |
|                             |   |                           | \$0.00                       | \$0.00                       |
| b. Roofing                  |   |                           | \$0.00                       | \$0.00                       |
|                             |   |                           | \$0.00                       | \$0.00                       |
| c. Insulation               |   |                           | \$0.00                       | \$0.00                       |
|                             |   |                           | \$0.00                       | \$0.00                       |
| 8. Floor & Wall Covering    |   |                           |                              |                              |
| a. Painting Interior        |   |                           | \$0.00                       | \$0.00                       |
| b. Painting exteriors       |   |                           | \$0.00                       | \$0.00                       |
| c. Wood Flooring            |   |                           | \$0.00                       | \$0.00                       |
| d. Carpet                   |   |                           | \$0.00                       | \$0.00                       |
| e. Vinyl/Linoleum           |   |                           | \$0.00                       | \$0.00                       |
| f. Misc Floor & Wall        |   |                           | \$0.00                       | \$0.00                       |
| 9. Doors, Wind. & Glass     |   |                           |                              |                              |
| a. Exterior Doors           |   |                           | \$0.00                       | \$0.00                       |
| b. Interior Doors           |   |                           | \$0.00                       | \$0.00                       |
| c. Millwork / Windows       |   |                           | \$0.00                       | \$0.00                       |
| d. Trims                    |   |                           | \$0.00                       | \$0.00                       |
| e. Shower doors             |   |                           | \$0.00                       | \$0.00                       |
| f. Mirrors                  |   |                           | \$0.00                       | \$0.00                       |
| h. Garage Doors             |   |                           | \$0.00                       | \$0.00                       |
| i. Garage Openers           |   |                           | \$0.00                       | \$0.00                       |
| j. Misc Doors, Wind & Glass |   |                           | \$0.00                       | \$0.00                       |
|                             |   |                           | \$0.00                       | \$0.00                       |
| 10. Finishes                |   |                           |                              |                              |
| a. Countertops-Kitchen      |   |                           | \$0.00                       | \$0.00                       |
| b. Countertop- Bath         |   |                           | \$0.00                       | \$0.00                       |
| c. Countertop- Misc         |   |                           | \$0.00                       | \$0.00                       |
| d. Tilework- Kitchen        |   |                           | \$0.00                       | \$0.00                       |
| e. Tilework- Bath           |   |                           | \$0.00                       | \$0.00                       |
| f. Tilework- Misc           |   |                           | \$0.00                       | \$0.00                       |
| g. Hardware- Kitchen        |   |                           | \$0.00                       | \$0.00                       |
| h. Hardware- Bath           |   |                           | \$0.00                       | \$0.00                       |
| i. Hardware- Misc           |   |                           | \$0.00                       | \$0.00                       |
|                             |   |                           | \$0.00                       | \$0.00                       |
| 11. Drywall & Plastering    |   |                           |                              |                              |
| a. Sheetrocking materials   |   |                           | \$0.00                       | \$0.00                       |
|                             |   |                           | \$0.00                       | \$0.00                       |
| b. Sheetrock Hanging        |   |                           | \$0.00                       | \$0.00                       |
|                             |   |                           | \$0.00                       | \$0.00                       |
| c. Sheetrock Taping         |   |                           | \$0.00                       | \$0.00                       |
|                             |   |                           | \$0.00                       | \$0.00                       |
| d. Stucco                   |   |                           | \$0.00                       | \$0.00                       |
|                             |   |                           | \$0.00                       | \$0.00                       |
| 12. Heating & A.C. System   |   |                           |                              |                              |
| a. Heating, Rough- In       |   |                           | \$0.00                       | \$0.00                       |
| b. Heating Materials        |   |                           | \$0.00                       | \$0.00                       |
| c. Air Conditioning         |   |                           | \$0.00                       | \$0.00                       |
| d. Thermal Heat             |   |                           | \$0.00                       | \$0.00                       |
| 13. Plumbing System         |   |                           |                              |                              |
| a. Plumbing, Rough-in       |   |                           | \$0.00                       | \$0.00                       |
| b. Plumbing Materials       |   |                           | \$0.00                       | \$0.00                       |
| c. Water hookup & meter     |   |                           | \$0.00                       | \$0.00                       |
|                             |   |                           | \$0.00                       | \$0.00                       |



**New Construction Information Form**

Address: \_\_\_\_\_

Legal Description: \_\_\_\_\_

Buyers: \_\_\_\_\_

Total Sales Price (Including Lot): \$ \_\_\_\_\_

**Site Information**

Size \_\_\_\_\_ Buyer's Lot Cost \$ \_\_\_\_\_

Driveway Material: Asphalt / Concrete / Gravel / Other \_\_\_\_\_

Landscaping Including: \_\_\_\_\_

Sod: Yes / No \$ \_\_\_\_\_ (cost to complete)

Well: Yes / No \_\_\_\_\_ Shared \_\_\_\_\_ #Party \_\_\_\_\_

Septic: Yes / No \_\_\_\_\_

House will face: N / S / E / W \_\_\_\_\_

Heat Type: Forced Air / Other \_\_\_\_\_

Fuel: Natural Gas / Liquid Propane / Oil / Electric \_\_\_\_\_

Central Air Yes / No \_\_\_\_\_

**House Information**

Basement Finishing: Yes / No Number of Rooms \_\_\_\_\_, Baths \_\_\_\_\_

Basement: Walk-out / Daylight Windows / Neither \_\_\_\_\_

Basement Finishing: Yes / No Walls & Ceiling: Drywall / Other \_\_\_\_\_

Lower Level Flooring: \_\_\_\_\_

Foundation: Conc. Block / Poured Concrete / Wood / Other \_\_\_\_\_

Square Foot Finished (Above Grade) \_\_\_\_\_

Window Type: Double Hung / Slider / Casement / Brand \_\_\_\_\_

Insulation: R Values Ceiling \_\_\_\_\_ Walls \_\_\_\_\_ Other \_\_\_\_\_

Interior Walls: Drywall / Other \_\_\_\_\_

Floor Coverings: Hardwood/Carpet/Ceramic Tile/Vinyl/Other \_\_\_\_\_

Millwork: Flush Doors / RP Doors / Oak / Pine / Stained / Painted \_\_\_\_\_

Other \_\_\_\_\_

Appliances Included in the Sale Price \_\_\_\_\_

Electric Service: 100 / 150 / 200 Amp \_\_\_\_\_

Garage Finishing: Yes / No Heated: Yes / No \_\_\_\_\_

Special Amenities: Security System / Sprinkler System / Vaulted Ceilings \_\_\_\_\_

Built-in Cabinets / Other \_\_\_\_\_

Fireplace: Yes / No Number \_\_\_\_\_ Type: Gas / Wood / Other \_\_\_\_\_

Bath Floor: Vinyl / Ceramic Tile / Other \_\_\_\_\_

Bath Tub Surround: Fiberglass / Ceramic Tile / Other \_\_\_\_\_

Exterior Siding: Steel / Vinyl / Cedar / Other \_\_\_\_\_

Roof: Asphalt Shingles / Cedar Shakes Gutters: \_\_\_\_\_

Deck(s): \_\_\_\_\_ Porches: \_\_\_\_\_

Patio(s) \_\_\_\_\_

Sweat Equity (i.e. homeowner painting) \_\_\_\_\_

Miscellaneous: \_\_\_\_\_

\_\_\_\_\_



## CONSTRUCTION LOAN AGREEMENT

The undersigned borrower(s) covenants with Lake City Federal Bank hereinafter referred to as "Bank" or "The Bank" agrees in consideration for the granting of a loan by The Bank to do and perform the following acts and things:

1. To not begin any work yourself or permit anyone else to begin any work or deliver any material until the note and mortgage to The Bank have been signed and recorded with the County Recorder and The Bank has granted permission to start work or deliver materials.
2. To place in a construction loan account with The Bank, funds in the amount of \$\_\_\_\_\_ which, in the opinion of the owner and The Bank will be sufficient over and above the net proceeds of said mortgage loan, to complete the building or buildings in accordance with the contract price of \$\_\_\_\_\_.
3. To use such funds placed in a construction loan account, together with the net proceeds of the loan, with The Bank as hereinbefore set forth for the payment of material bills, labor, and for other uses and purposes in and for the construction of said building, and which funds are hereby assigned to The Bank for such purpose. Provided, however, that the balance of funds remaining in said construction loan account at the expiration of thirty days following the date of completion of construction, shall thereupon be released from the provisions of this agreement and returned to the borrower(s), or, at borrower's option, applied towards the reduction of borrower's loan.
4. To have erected and substantially completed a building free from all mechanic's liens, and in compliance with building restrictions and ordinances, within six months a building valued at least \$\_\_\_\_\_ in accordance with plans and specifications submitted herewith.
5. Construction Draw Disbursement Procedures:
  - A. Contractor and borrowers agree to complete, sign, and submit to Bank a "Draw Request Form" along with copies of invoices referenced within the Draw Request.
  - B. Draw Requests will be submitted no more often than biweekly.
  - C. Contractor and borrowers recognize that prior to disbursement, The Bank will need time to complete its inspection of the project, which may take several days.
  - D. Bank will make disbursements by check to contractors, subcontractors and materials providers only if The Bank has a valid tax identification number for the payee.
  - E. The Bank will not disburse funds to contractors that are sole proprietors.

- F. Bank will provide a Waiver of Mechanic's Lien statement (lien waiver) with each payment, which must be signed and returned to Bank.
- G. No additional payments will be paid by Bank to any contractor, subcontractor or material provider if a lien waiver has not been returned for a prior disbursement.
6. Change Orders/Cost Overruns Procedures:
- A. Contractor and borrowers agree with each Drawn Disbursement Request to report any change orders or cost changes which will result in a change greater than \$1,000 over the amount stated on the Sworn Construction Statement.
- B. Borrowers agree to provide with the Draw Disbursement Request the additional funds necessary to cover change orders or cost overruns.
7. To pay accrued interest monthly on disbursed loan proceeds during the construction period prior to beginning of regularly scheduled payments. Interest will accrue at an annual interest rate of \_\_\_\_%. Beginning \_\_\_\_\_ interest will accrue at the permanent loan interest rate on the total loan commitment amount whether or not all loan proceeds have been disbursed.
8. To accept the sole responsibility for the selection of borrower(s) own contractor and subcontractors, materials, supplies and equipment to be used in the construction. The Bank assumes no responsibility for the completion of said buildings, or buildings, according to the plans and specifications and for the contract price.

It is further understood:

1. That The Bank is authorized to disburse funds under its control in said construction loan account, together with the net proceeds of the loan, only in proportion to its inspector's report of progress, or by Architect's or Superintendent's Certificate accompanied by a proper affidavit from the contractor.
2. That the proceeds of this loan are to be used for the payment of material, bills, labor and for other uses and purposes in and for the construction of said building or buildings hereinbefore referred to.
3. The Bank may, at any time, without consent of the undersigned, if in its opinion it becomes necessary so to do, pay bills, and/or complete said building or buildings in accordance with plans and specifications, etc., on file with The Bank, using the unexpended net proceeds of this loan. Nothing herein contained shall be in any way construed as a covenant on The Bank's part to pay or complete said building(s).
4. The Bank may discontinue loan disbursements if, in its opinion, the undersigned has not complied the terms of this agreement.

This agreement is made for the purpose of inducing Lake City Federal Bank of Lake City, Minnesota to make a loan upon the following described property and improvements to be constructed thereon, to wit:

Sealed this \_\_\_\_ day of \_\_\_\_\_ at Lake City, Minnesota

**LAKE CITY FEDERAL BANK**

By \_\_\_\_\_  
Loan Officer

By \_\_\_\_\_  
Borrower

By \_\_\_\_\_  
Borrower

By \_\_\_\_\_  
Contractor