HOME CONSTRUCTION

5 Steps to Planning & Financing Your Project

FARM CREDIT
OF CENTRAL FLORIDA

Financing for Farms, Homes & Land

Build Your Country Living Dreams

Living in the country provides endless opportunities. You can purchase livestock, plant crops or just sit outside on a cool summer night and hear the crickets chirp.

If you're ready to start building a country life with a new construction project, we can help. This guide will walk you through the five most important steps to planning and financing your home construction.

Our local experts understand the unique lending needs associated with country properties, including non-conforming properties, extra acreage and additional buildings.

Farm Credit Loans offer:

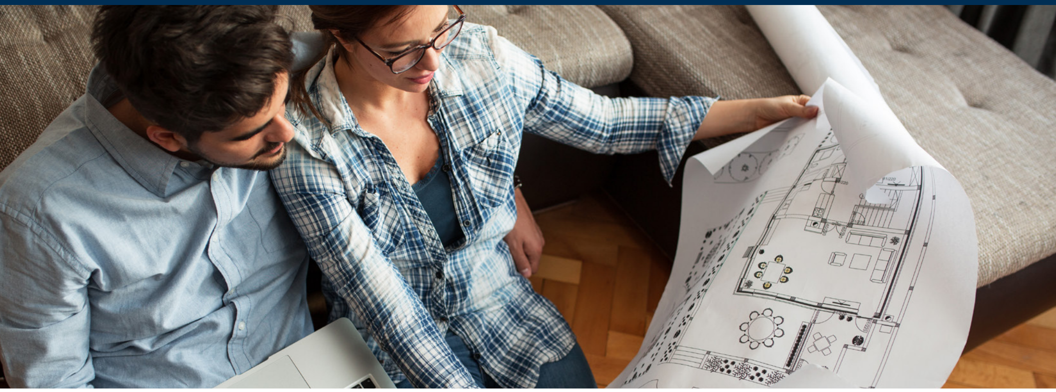
- Construction financing for homes (including stick built, modular or barndominium) and additions or renovations to an existing residence.
- 12-month interest-only construction periods with timely disbursements and inspections.
- Modified construction loans to permanent, fixed rate loans, up to 30 years, after completed construction. No additional costs or fees.
- No acreage limits and every acre is fully valued.
- Favorable fixed rate long term interest rates.
- Financing available for unique properties with an unconventional heat and water source or outbuildings.

1. Location

It's the most important factor whenever you buy real estate. Consider what your needs are now and what they will be 10 years from now. As your family grows, will the location help or hinder your family's ability to enjoy the property? If you choose a rural location, how much infrastructure might you require to meet your needs (access to major interstates, schools, shopping, healthcare, etc.)?

Other location factors to consider when choosing a home site:

- Available amenities: Consider availability and cost to add required utilities such as sewer/septic, gas, well, water, etc.
- Perc test results: If you intend to use a septic system, the soil at the home site must have a suitable absorption rate to support a septic system.
- Special assessments: Be aware of charges levied against certain home sites, such as installation of water or sewer lines, street lighting, police and fire protection or other special services.
- Zoning limitations: Research zoning restrictions on minimum setbacks, limits on size or existence of accessory buildings, home size or usage.
- Noise concerns: Identify any source of potentially undesirable noise, such as a train track, busy freeway, concert venue, fire department, etc.
- Surveys: If you're not sure about the property's boundaries or access, spend the money for a survey. It's the only way to be sure of exactly what you own.
- Flood zone: Is the property in a flood zone? A flood zone will determine how much flood insurance will cost and whether or not it is mandatory to carry flood insurance.



2. Planning

Once you've found the ideal site for your future home, the next step is planning the construction.

Choose a reputable builder.

There are many options for home construction and many different builders. Some builders offer turnkey contracts, while others offer contracts that are more open to interpretation. Contracts that don't address all aspects of construction can create additional costs and headaches during construction, especially if some items weren't considered upfront.

Ask questions.

- How many years have you been in business?
- Are you a licensed contractor?
- May I see a copy of your insurance certificate?
- How long do you expect the construction process to take?
- How many different jobs do you typically work on at the same time?
- Who will be responsible for securing the required permits?
- Who will be in charge of clean up at the end of each day?
- How do you typically structure your draw schedule?
- How do you handle any construction contract changes?
- What is included in the base cost of my construction contract? What is considered an upgrade?
- Can you share references with me? Can I tour a few of your completed homes?
- Do you have worker's compensation insurance?

Think about cost overruns.

Unfortunately, when it comes to constructing a home, things don't always go as planned. What happens if the excavator hits more rock than expected? What if you change your mind about the kitchen layout or decide you want to upgrade your countertops after construction has already started? Those possibilities and more speak to the importance of setting some money aside for unanticipated issues.

A lender looking out for your best interest will likely increase your loan amount as a cushion to cover unpredicted costs. A good overrun rule of thumb is adding 7-10% of the anticipated cost of construction. Planning for overruns helps the construction process continue even when the unexpected happens.

3. Financing

After selecting your contractor, the next step is securing financing for your project.

What can you afford?

When considering your construction budget, consider the following questions.

- What is the most you would be comfortable with as your monthly payment?
- If applicable, do you have the cash reserves to make two house payments?
- What will property tax and home owners insurance cost?

Back-End Ratio

The back-end ratio, also known as the debt-to-income ratio, indicates what portion of your monthly income goes toward paying debts. Total monthly debt includes expenses, such as mortgage payments (principal, interest, taxes and insurance), credit card payments, child support and other loan payments. It does not include living expenses such as monthly utility bills, groceries or travel.

Back-End Ratio = (total monthly debt expense ÷ gross monthly income) x 100

> **Example:** Borrower with monthly income of $5,000 ($60,000 annually ÷ 12) and total monthly debt payments of $2,000. This borrower's back-end ratio, then, is 40% ($2,000 ÷ $5,000 = 0.4 x 100 = 40%).

Back-end ratio standards and guidelines vary by Farm Credit Association. Contact your loan officer to learn their ideal back-end ratio.

Applying for a Loan

Personal information:

- Signed, completed application
- Authorization to release information form
- Valid photo identification
- Income verification
  - » Pay stubs for a one month period within 60 days of application
  - » Two most recent bank statements
  - » State tax returns
  - » Closing attorney name and number
  - » W-2s or Federal Tax Returns for the last two years
  - » Self-employment or commission-based jobs may require additional documentation
  - » Verification of significant assets for funds needed to cover closing costs or debts not on your credit report

Property information:

- Final construction contract, including building plans and specifications
- Bids
- Legal description of property
- Survey (if applicable)
- Name, address and phone number of seller or land contract holder
- Copy of sales agreement

4. Appraisal

An appraisal is required prior to loan closing to ensure the completed home is worth the value of the loan. Appraisals are standard practice for lenders to ensure the value of the loan's collateral (in this case, your new home). Farm Credit will order an appraisal to estimate the future value of the home once the project blueprints and building specs are finalized.

Items Needed for Appraisal

- Final construction contract
- Dwelling specifications – provides the intricate details of the home construction
- Property information – legal description, survey and/or deed

5. Closing / Draw Process

Closing

After a review of appraisal and title work, Farm Credit will schedule a closing date. Farm Credit will need evidence of Builder's Risk Insurance to cover the construction period prior to closing. Insurance protects you against theft, fire, weather damage or vandalism of materials on your property.

After closing, Farm Credit will help manage disbursements with your contractor and perform on-site inspections as needed. Fast disbursements and personal knowledge of the project help ensure construction is completed on time.

Typical Draw Schedule

- Footer and cellar walls are complete. Up to 15% of the project.
- Rough framing, roof shingled, doors and windows installed. Up to 25% of the project (inspection required).
- Interior framing, rough in plumbing and wiring. Up to 15% of the project.
- Insulation complete and drywall hung. Up to 15% of the project (inspection required).
- Kitchen installation, wiring and plumbing complete. Up to 20% of the project.
- Project complete. Retain at least 5% – 10% or more for final payment (inspection required).
- Pay smaller contractors (excavator, well-driller, etc.) via presentation of final bill.

Apopka Branch
57 E. Third St.
Apopka, FL 32703
(863) 682-4117

Brooksville Branch
31081 Cortez Blvd.
Brooksville, FL 34602
(352) 544-5553

Lakeland Branch
204 East Orange St.
Suite 200
Lakeland, FL 33801
(863) 682-4117

Plant City Branch
2301 Thonotosassa Rd.
Plant City, FL 33563
(813) 719-7341

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