CONSTRUCTION LOANS
1 CREDIT HOUR

Construction to Permanent Financing ("CPF")

- **Introduction (15 MINUTES)**
  - CPF allows an individual that currently owns a home, or one who is looking to buy one, to secure a construction loan to remodel or renovate an existing home or to build a new one.
  - Upon paying off the construction loan, it converts to a traditional home mortgage.
  - This benefits the homeowner because it combines what are typically two separate loans—and loan application processes—into one.
- **Process (45 MINUTES)**
  - The homeowner or prospective purchaser meets with a loan officer to find the proper CPF product.
  - The homeowner also provides the bank with the necessary financial documentation. After a loan processor is assigned and an appraisal ordered, the Bank will pass on the loan approval.
  - If the loan is approved, a closing will occur.
  - After the closing, the bank will set up the loan to make progress payments to the builder or contractor. The homeowner pays interest on the monies disbursed to the builder or contractor during the construction loan phase of the loan.
  - Once construction is complete and the bank makes the final progress payment, the loan transitions to a traditional mortgage with regular monthly payments, whether it is a fixed rate mortgage or an ARM.
    - Citizens Bank allows the homeowner to lock in permanent mortgage interest rate up to a year in advance. If the homeowner does not use the full amount of the loan for construction, the note will be modified to a lower amount.
  - Once construction is complete, a homeowner may do a cash out refinance (a "COR"). A COR allows a homeowner to take out the money that you have put in. The work that gets done increases the market value and therefore the sales price increases.
    - Specifically, a COR is a mortgage refinancing option in which the new mortgage is for a larger amount than the existing loan amount in order to convert home equity into cash.
    - In a COR, a new mortgage is for more than a previous mortgage balance, and the difference is paid in cash. However, the homeowner usually pays a higher interest rate or more points on a COR mortgage, compared to a rate-and-term refinance, in which your mortgage amount stays the same.
    - An example of how a COR works is the following:
      - A homeowner took out a $200,000 mortgage to buy a property and, after many years, still owes $100,000. This means that the owner has built up at least $100,000 in home equity (assuming the property value has not dropped below $200,000). To convert a portion of that equity into cash, the owner could opt for a COR.
      - If they wanted to convert $50,000 of their equity, they could refinance by taking out a new loan for a total of $150,000. The new mortgage would consist of the $100,000 remaining balance from the original loan plus the desired $50,000 that could be taken out in cash. In other

words, they can assume a $150,000 new mortgage, pay back the $100,000 owed on the first mortgage and have $50,000 remaining.

SKHHeiberger LLP