Understanding Residential Construction Financing.

A Customer Guide
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Welcome

Welcome to M&T Bank! Building your new home is an exciting adventure that will provide you and your family with many happy memories for years to come. With a dedicated team of home financing specialists, and years of experience financing homes, M&T is uniquely qualified to help make your dream of building a home a reality.

The key to making the most of your home building experience is to educate yourself on the process of financing and building a home.¹ This booklet was developed to help you do just that. We will walk you through the Seven Steps of Home Construction Financing, taking you step-by-step from loan pre-approval to final completion of your home.

Building a home can be stressful, but financing it shouldn’t be. M&T Bank has the experience you need to ensure financing your home is easy and affordable. We greatly appreciate your interest in M&T and thank you for considering us for your home financing needs.

¹ M&T does not endorse specific builders or lots, nor does M&T make representations regarding the quality of any builder’s work or materials. M&T advocates the value of homebuyers educating themselves regarding the home building process.
Why choose M&T?

Having financed the construction of thousands of homes, M&T Bank has developed unique financing solutions to meet nearly every customer need. Solutions that come with years of experience and a commitment to making home financing easy and affordable. M&T’s Residential Construction Program features:

Experts who know the process

M&T’s specialty lending focus on home construction enables its home financing specialists to take you quickly and efficiently through the home financing process. M&T’s dedicated, specialized team with in-house processing, underwriting, closing, draw administration and servicing ensures loans are well managed. This experience helps to avoid unexpected surprises and provides peace-of-mind when building your home. Our team concept with shared accountability of loans ensures customers have an exceptional experience.

A wide variety of financing options

How many times have you heard another lender say, “We only offer one type of construction financing”? M&T offers a wide range of financing solutions which include construction periods up to 12 months.


M&T Bank is among the largest banks in the nation with over $118 billion in assets. Founded more than 160 years ago, M&T Bank currently has over 750 branches located throughout New York, Maryland, New Jersey, Pennsylvania, Delaware, Connecticut, Virginia, West Virginia and the District of Columbia. M&T has billions of dollars in mortgage closings each year and has a mortgage servicing portfolio which includes hundreds of thousands of customers nationwide.
Various downpayment options
M&T loans feature many downpayment choices. And if you already own your land, you may be able to use that equity toward your downpayment.

Rate protection
With an M&T one-close construction loan you’ll have the ability to secure a single interest rate that will be protected during the construction phase through to the permanent mortgage. A two-close construction mortgage loan can be advantageous depending on your financial needs. You may have more flexibility when choosing your permanent mortgage loan and you can still take advantage of long term lock options.

Land financing options
With M&T there’s no need for a separate loan to purchase your land. We’ll provide land and construction financing all in one loan. And for borrowers who have found the perfect lot, but are still deciding on the details of their perfect home, M&T offers land loans. A land loan allows borrowers to secure their lot and provides them more time to finalize other important decisions like house plans, specifications, and choosing a builder.

A bank your builder will have confidence in
Having provided thousands of customers with their new construction financing, M&T Bank’s team of certified construction specialists has the experience you and your builder can count on.
The seven steps of residential construction financing

**STEP 1: Getting Pre-Approved**

An M&T Mortgage Pre-Approval provides you with the confidence of knowing how much you can afford before you start planning to build your new home. In most cases, you can get pre-approved in just a few minutes over the telephone with an M&T home financing specialist. We can help you determine which construction product best suits your needs, provide an estimate of your anticipated mortgage payment, and an estimate of funds needed for closing.

**STEP 2: Applying**

Once you complete a contract to purchase a home from the builder of your choice, (your builder will need to be registered with M&T) you’re ready to apply for your mortgage. An M&T home financing specialist will complete a mortgage application with you. In addition, a detailed credit report will also be obtained at this time.

**At time of application, you will be asked to provide:**

- Appraisal fee payment
- Financial documents (if/when applicable)
- Two months pay stubs
- Two years W-2s
- Two years Federal Tax Returns
- Two months bank statements
- Signed construction contract, contract of sale for the land (or recorded deed if the land is already owned), plans and specifications (including elevation of the home)
After application documents are received, an appraisal will be ordered based on the home being completed. If your builder is not already registered with M&T Bank, that process must be completed before your loan approval can be considered.

**STEP 3: Creating a Draw Disbursement Schedule**

Prior to loan approval, a disbursement or “draw” schedule will be created. This schedule is a timetable for payments to your general contractor, or builder, as construction progresses. Disbursements, or “draws,” are made as predetermined milestones in the construction of your home are completed (i.e. pouring of the foundation, etc.). While each construction project is unique, each draw schedule typically has 5-7 disbursements depending on the size and scope of your project.

**Here is what a common draw schedule looks like:**

**Draw 1:** Completion of Foundation

**Draw 2:** Rough Framing, Roof, Exterior Windows / Doors Complete

**Draw 3:** Rough Plumbing, HVAC, Electric, Drywall / Insulation Complete

**Draw 4:** Plumbing, HVAC, Electric Complete; Interior Doors Cabinets, Countertops Installed

**Draw 5:** Flooring, Exterior Finish Complete; Certificate of Occupancy Issued (where applicable)
STEP 4: Mortgage Approval

Following receipt of your signed application, required financial documents and appraisal, a mortgage underwriter will review your application. Upon approval, M&T will issue a “commitment letter” stating the loan amount you are approved for and any conditions that must be met prior to your loan closing.
STEP 5: Construction loan closing

Once the disbursement schedule is finalized with you and your builder, and all closing conditions have been met, your loan can be prepared to “close.” Commonly known as the “mortgage settlement,” this is the point at which all your construction loan documents are signed. Following settlement, the construction of your home begins.

M&T offers both a one-close and two-close option for construction financing. Should you choose the one-close option, this will be the only closing that occurs. At the time of closing, you will pay your down payment (including any balance associated to pay off the land) and closing costs.

Should you choose the two-close option, there are two mortgage closings that will occur. At the time of your construction loan closing, you will pay your down payment (including any balance associated to pay off the land) and closing costs. A second closing of the permanent mortgage (end loan) will occur upon completion of the home. At the time of the second closing, you will pay closing costs and escrow (property taxes and insurance).
**STEP 6: Home construction**

Now that your loan has closed, construction of your new home can begin. Upon completion of each phase of construction, you or your builder will request disbursements or “draws” as outlined in your draw disbursement schedule. The following steps will occur:

- An inspection will be ordered by M&T to ensure the work has been completed
- The inspector will conduct an inspection and complete an inspection report
- A title “bring down” and lien waiver will be performed prior to each disbursement
- Upon receipt of a satisfactory inspection report and title bring down, the draw funds will be disbursed. Payments will be provided as either a 2 party check (payable to you and your builder) or direct wire payments to the builder

Please keep in mind:

- A building permit must be received prior to construction beginning and any monies being disbursed
- An inspection must be completed prior to each disbursement to the builder
- Any required cash investment on your part must be paid to the builder before any draw disbursements will be made by M&T Bank
- During construction you will make monthly interest-only payments (including flood insurance if applicable) based on the amount of money disbursed to that point. Your monthly interest-only construction loan payment will increase from month to month as your home is built and additional draws are paid to the builder
- Please note you are responsible for any real estate taxes and insurance payments during construction. M&T does not establish an escrow account during construction
The following steps will occur at the final draw request:

• A final inspection of your home will be ordered to confirm all work has been completed and the original appraised value of the home is still accurate

• A final title search will be performed to assure no liens have been filed against the property

• For the two-close option, we will work with your settlement agent to close on the permanent mortgage once all updated documentation has been received and final draw has been released

STEP 7: Your Permanent Mortgage

With a one-close transaction, your construction loan will rollover to a permanent mortgage once your home is completed and the construction term has expired. With a two-close transaction we will update your financial information and refinance to a permanent mortgage.

IMPORTANT

At this time, M&T will collect the amounts necessary to establish an escrow account for the payment of taxes and insurance. You should be prepared to pay one full year of taxes and insurance. You will no longer pay interest only payments. Your loan will become fully amortizing and your mortgage payment will consist of principal, interest, taxes, insurance and mortgage insurance (if applicable).
FAQs

What types of construction mortgage loans does M&T Bank offer?

M&T offers several types of construction loans including fixed and adjustable rates with your choice of term and other options. It’s best to contact an M&T New Construction Specialist to review your options and determine which program is best for you.

What is the difference between a one-close and a two-close transaction?

With a two-close transaction, you actually get two loans. One is for the construction period, and the other is your permanent mortgage after the home is complete. With a one-close loan, you get both loans (the construction loan and the permanent loan) at the same time. There are advantages with each type of loan so it’s best to talk to an M&T New Construction Specialist to determine which option is best for you.

How long do I have to build my home?

M&T accommodates flexible construction timeframes to build your new home including 6-, 9- and 12-month construction periods.

What if I already own the land where my home is being built?

If you already own the land where you plan to build, you may be able to use that equity toward your downpayment.
What is a draw schedule?
A draw schedule, also known as a disbursement schedule, is the timeline that shows when construction costs are paid out for work completed during the construction period.

What happens if my construction takes longer than expected?
You are required to select a construction period when taking out a construction mortgage loan. If the construction of your home takes longer than the construction period you selected, you will need to obtain an extension and pay any additional charges and fees related to that extension.

Am I responsible for mortgage payments during the construction period?
Yes, you are responsible for making interest-only payments (including flood insurance if applicable) based on the monies disbursed. Additionally, you will be responsible for all real estate tax and insurance payments during construction.

Do I have to pay for my lot before I get my construction mortgage loan?
No, our program allows you to purchase the lot as part of your construction financing.

Visit M&T online to find out more.
Glossary of Construction Terms

Review these definitions of important terms you will hear throughout the construction process.

**Construction Loan**
Temporary, short-term financing to pay for construction costs. Interest-only payments are made only on money that has been disbursed.

**Permanent Mortgage**
Also known as the end loan, this is long-term financing used to repay the construction loan on a two-close or the rollover of a one-close. Principal, interest, property tax, insurance, and any required mortgage insurance premiums will be included in the payments.

**Disbursement Schedule**
This is also known as the draw schedule. It is a timeline that shows when construction costs are paid out for work that is completed during the construction period.

**Inspection**
An inspection by an independent third party is required after each phase of construction. Inspections do not evaluate the quality of the work performed.

**Lien Waiver**
This waiver releases a builder’s claim against a property for services rendered. It is completed by the builder, and in some instances subcontractors, prior to each disbursement.
Mechanics/Contractors Lien Search
Also known as a title bring-down, this is completed by the title company to verify that no other parties have a claim on the property. M&T will require multiple lien searches throughout the construction of your home.

Escrows
The borrower is responsible for paying all real estate taxes and insurance during construction. On a one-close transaction, property taxes and insurance are collected at time of loan rollover to establish an escrow account. With a two-close transaction, property taxes and insurance will be collected at time of closing on the permanent mortgage to establish an escrow account.

Loan Rollover
For the one-close option, this is the point at which your home is completed and your construction loan automatically becomes a permanent mortgage.