



Construction Loan Financing Guide

Building ease and efficiency into your borrowing experience





Tell us about your project

Washington Trust welcomes the opportunity to help you build or renovate your home.

To provide you with a loan, we will need to gather information about your project, including your home size, the materials being used, and the contractors and subcontractors who will complete the work. Your general contractor should have all this information in their contract estimate and proposal. All contracts must be signed by both you and your contractor.

We will also review your credit history, assets, income, and debt-to-income ratio.



Make life easy with one-close financing

Washington Trust's construction-to-permanent-loan financing is a convenient one-close option. Here's how it works:

- Borrow to pay for the construction or renovations
- Pay interest on the outstanding loan balance during your construction phase
- Convert your loan balance into a permanent mortgage upon completion of construction
- Lock in your mortgage rate at the beginning of construction
- Receive a maximum of 80% loan-to-value (LTV) to the lesser of the cost to build or the as-completed value
- Apply the value of your land toward down-payment requirements
- Simplify and save with one set of closing costs and fees

Applying for building permits

It is essential that you get the right building permits and approvals for your project. This protects you from fines, work delays, and costly modifications after construction has been completed if you are not in compliance with local codes. It also ensures that safety standards are met.

Visit your city or town's website to determine the process for applying for building and construction permits. We require a copy of all permits before we can close your loan, so be sure to leave ample time to secure them.



Appraisal and basis values

Washington Trust requires an appraisal to be completed to process your loan. A construction appraisal will consider the current value of the property plus the cost to complete the construction, which is called the “cost-to-construct value.” It will also consider the value of the completed project based on the current market, which is considered the “as-completed value.” We will use the lesser of these two values when determining the LTV of your project.

Scenario 1

Land value – \$100,000
Cost of construction – \$400,000
Cost to construct value = \$500,000

As-completed value \$525,000

Lowest Basis of value = \$500,000
An 80% LTV loan would be \$400,000

Scenario 2

Land value – \$100,000
Cost of construction – \$400,000
Cost to construct value = \$500,000

As-completed value \$475,000

Lowest Basis of value = \$475,000
An 80% LTV loan would be \$380,000

Required funds to close

At the time of your closing, Washington Trust will create a construction holdback from your new construction loan. The construction holdback represents the funds to be used to pay for the construction. No interest is charged on these funds until they have been disbursed to you to pay contractor invoices. Prior to their disbursement, we use any and all funds that you have already committed to your project.

Purchasing building lot

Cost of the Land: \$100,000
Cost to Build: \$300,000
Assumed Basis of value: \$400,000
Maximum Loan Amount: \$320,000
Your funds: \$80,000 are required at closing along with any settlement expenses.

Already own building lot

Current value of Owned Building Lot: \$100,000
Cost to Build: \$300,000
Assumed Basis of value: \$400,000
Requested Loan Amount: \$310,000 (At or below 80% of value)
Your funds: Potentially zero. Your building lot can be used as required equity into the project. If there is sufficient land equity, the requested loan amount can be used for both construction costs and settlement expenses.





Construction loan document checklist

In addition to your standard income, asset, and liability documentation, you will need to provide information specific to the scope of your construction project to qualify for your loan, including:

- 🏠 A copy of the general contractor's (GC) construction contract, which must be fully executed prior to closing
- 🏠 Completed construction budget/detailed cost estimates
- 🏠 Building specifications
- 🏠 Survey or plot plan, including approved septic design, when needed
- 🏠 Copy of the digital building plans
- 🏠 Copies of all required building/zoning permits
- 🏠 Builder's risk insurance
- 🏠 Contractor license
- 🏠 Builder's liability insurance
- 🏠 Proof of payment made to builder, if applicable

Building progress inspections/draws

During the construction loan draw period, you will receive a builder's invoice for their "draw request." If you agree the work has been completed and approve the invoice to be paid, you must submit the draw request to Washington Trust through a construction loan software program called *Built* (see below).

- Draw requests are only allowed once work is completed and often require an appraiser or inspector to ensure that construction proceeds as planned, which helps keep the construction draw amount and completion percentage in line.
- Once Washington Trust has approved the draw request amount, all funds are disbursed to you to pay the builder's invoice directly. Washington Trust will allocate and collect inspection fees for 6-10 draws per loan, which is included in the closing costs.
- A Washington Trust checking account is mandatory for construction loans, and construction funds disbursed to you will be deposited into this account.

Built

Built is a centralized software platform connecting borrowers, appraisers, and Washington Trust to efficiently manage construction loan funds. Please see our *Built* step-by-step guide for more information.

Title rundowns

Title rundowns are completed during the draw request process. A title rundown requires a title examiner to review the title records and confirm no mechanic's liens have been filed against the property. A mechanic's lien can occur when a contractor or subcontractor provides material or performs work for which they have not been paid.

Final draw

As your construction project nears completion, Washington Trust will hold 5% of the cost to build until we receive the Certificate of Occupancy (CO), Final Title Rundown, and Final Inspection to confirm the home is completed according to the approved plans. Completion means that all items included within the scope of construction are 100% complete. You will also need to contact your homeowner's insurance company and flood insurance company (if applicable) to ensure your new home is properly insured. Please provide a copy of your new insurance policy to Washington Trust.

Planning for unexpected costs

Cost overruns can occur when the project scope changes during construction or for unforeseen price increases. Project scope can change from both customer change orders and site-specific issues such as if ledge is uncovered. Washington Trust requires that you have a minimum of 15% of the cost to build in liquid contingency reserves readily available to cover any potential budget overruns. Since payment for cost



overruns is due as they occur, it is important that funds are readily available and not held in retirement or 401k accounts. Contingency reserves are not factored into your construction loan, so all overruns are your responsibility to pay out of pocket.



Frequently asked questions

When do I have to make my down payment?

The timing of your down payment will vary depending on your specific loan scenario. Funds may be due at closing or as work progresses if you are purchasing the land, if there is a balance due for the land, or if you are paying off a mortgage as part of the transaction. Please consult with your loan officer for specific instructions related to your situation. All funds required for your down payment and required equity investment must be paid into your project before Washington Trust will release any funds. Please keep complete and accurate records of any funds you pay to your builder, land seller, or other parties performing work on your home prior to your closing, as we may be able to count these funds towards your required minimum investment.

When do I need building/zoning permits?

If you already own the lot or home being renovated, Washington Trust requires all building and zoning permits prior to closing your loan. In the event you are purchasing the lot or home being renovated, most local municipalities will not issue the required permits to a non-owner/builder. In these instances, Washington Trust will not fund disbursements from your construction holdback until all necessary permits are received.

What if I want to make changes during the construction project?

It is not uncommon for changes to occur during construction. Once your builder is in the field, they may suggest changes and modifications that will improve the functionality of your new home. The most cost-effective time to make changes is often at the time the home is being built. Changes can result in an increase or decrease in costs, depending on what changes. For increases, you are required to pay for the changes. Please note that material changes may result in a change in the value of your new home, which could impact the terms of your loan. Any changes should be discussed with your loan officer.



What happens if there are construction delays and construction is not complete when the loan comes due?

You have one year to complete the construction within your construction draw period. It will be important to keep in close contact with us on any delays. Construction delays can result in the need for you to make fully amortizing payments before your project is complete.

When do loan payments start?

With a construction-to-permanent loan, your interest-only payments will typically begin thirty days after your loan closing and will be based on any drawn funds. You will pay interest only on the drawn balance during the 12-month construction draw phase, and then your regular principal and interest payments will begin on month thirteen.



Can I act as my own general contractor?

If you choose to act as your own general contractor, you must be approved in advance by Washington Trust, and additional conditions will apply. Contact your loan officer for more details.

What if my property is in a flood zone?

Washington Trust requires adequate flood insurance on any existing home located on the land where you are building, including homes being torn down. This flood insurance must be in place at the time of your loan closing. Washington Trust also requires adequate flood insurance to be in place for newly constructed homes once elevation certificates are finalized, which may not happen until after your loan closes. All flood insurance premiums are to be paid in full for the first year and will be escrowed into your monthly mortgage payment even during the construction period.

Can I make principal payments during my construction loan's interest-only period?

Payments towards principal are allowed during your construction loan's interest-only period, but will not result in those funds being available for future disbursements from your construction loan. Our construction home equity lines of credit are a type of construction product that do allow for principal payments that will increase the funds available for future draw requests during the draw period. Contact your loan officer for more details.



Construction loan terms: A helpful guide

BUILDER'S LIABILITY A general liability insurance policy obtained by the builder to cover third-party claims involving bodily injuries or property damage as a result of business activity (products, services or operations).

BUILDER'S RISK INSURANCE Also known as construction insurance, builder's risk insurance is a specialized type of property insurance that protects a person's or organization's insurable interest in materials, fixtures, and/or equipment awaiting installation during the construction or renovation of a building, should those items sustain physical loss or damage from a covered loss.

CERTIFICATE OF OCCUPANCY (CO) The local jurisdiction's certification that all construction requirements for occupancy have been met.

CHANGE ORDER Documentation of a variance from the original agreed-upon scope of construction work to be completed. Change orders are common on large construction projects and can result in amendments to prices and timelines. The change order defines the new work to be completed, and it becomes a part of the original construction contract.

COLLATERAL This is the property and/or building that you have to offer the lender in exchange for making your loan. If you default (stop paying) on your loan, the lender can take the property and/or building that you have used as collateral and sell it to pay the loan.

CONSTRUCTION BUDGET The construction budget includes a detailed breakdown of all budgeted costs necessary to build the project to completion. These costs include, but are not limited to, land costs, hard costs, and soft costs.

CONSTRUCTION CONTRACT A legal document between a borrower and a general contractor, which specifies the details and terms under which a construction project will be performed.

CONSTRUCTION PERIOD The estimated timeline to complete construction, from commencement through 100% completion of the project.

CONTINGENCY FUNDS Estimates for unknown factors that can influence the cost to complete the construction project. Contingency funds are a standard component of construction projects and may or may not be included within your construction budget.

DEBT-TO-INCOME RATIO This represents your monthly payments (including your monthly debt plus projected mortgage payment, estimated property taxes and homeowner's insurance) divided by your monthly gross income. This ratio is one factor that lenders use to measure your ability to manage your payments and repay your loan.



DRAW REQUEST A submission made by a borrower to a lender in connection with a request for loan proceeds. The draw request should include detailed documentation regarding expenses to be paid with the requested loan proceeds and estimates of total work progress.

HARD COSTS Costs related to the physical development of the project, including labor, materials, infrastructure, fixtures and equipment, site work, landscaping, and any contingency costs that have been factored into your project. These costs are addressed in a construction contract with your general contractor.

LAND COST The cost or value of the land to be developed, which can be the purchase price of the parcel or a current market valuation that must be agreed to by the lender.

LOAN-TO-VALUE (LTV) This expresses the ratio of a loan to the value of an asset purchased or constructed. The term is commonly used by banks and the building industry to represent the ratio of the first mortgage loan as a percentage of the total appraised value of real property.

PLANS AND SPECIFICATIONS Commonly referred to as “plans and specs,” these documents include all construction drawings related to the project, which cover building, mechanical, and electrical plans, as well as detailed material selections and specific installation instructions for the subcontractors.

PROGRESS INSPECTIONS When disbursement requests are submitted, progress inspections are completed by an appraiser to verify that the item(s) requested to be paid have been completed and to ensure the bank has adequate collateral. A final inspection will also be completed by the appraiser upon completion of the project. Neither Washington Trust nor the appraiser assume any responsibility for workmanship, material, costs, adherence to plans and specifications, or confirmation of code adherence.

SOFT COSTS These are the costs of development, which do not relate to the physical construction of the building but are necessary to complete the project. These may include architectural and engineering costs, third-party reports, permit/licensing/regulatory fees, developer fees, finance fees, construction interest reserves, and operating deficit reserves.

ZONING A designation made by a local zoning authority that governs land use, which must align with the proposed development plans in order for the project to proceed.





Let's get started!

Our construction loan process builds ease and efficiency into your borrowing experience. There's one application, one approval, and one closing. To get started, call Washington Trust at 800-475-2265.





WASHINGTON TRUST®

washtrust.com



WASHINGTON TRUST

Mortgage Company®

washtrustmortgage.com

The Washington Trust Company, Member FDIC, NMLS #414726, Equal Housing Lender

Washington Trust Mortgage Company, NMLS #901927, MA Mortgage Broker License #MC901927,
MA Mortgage Lender License #MC901927, RI Lender License #20122863LL, RI Loan Broker License
#20122864LB, NH Mortgage Banker License #901927MB, Equal Housing Lender

Washington Trust Mortgage Company LLC is a subsidiary of The Washington Trust Company, of Westerly

All loans are subject to credit and underwriting approval.

