



CONSTRUCTION
FINANCIAL SOLUTIONS

BUILDER AND HOMEOWNER CONSIDERATIONS

To protect the homeowner's interest, following is a list of items to consider before signing a contract with a builder:

CONTRACT TYPE

- **Cost Plus:** Vendors [materials] and Subcontractors [labor] are paid directly by CFS or as reimbursements to the builder or homeowner. Builder obtains Administrative Fees and Profit either based on a percentage of the home's cost or a set fee and are paid by CFS and are dependent upon the progression of construction / completion of the home. Any overages in the budgeted line items for construction are the responsibility of the homeowner and will not be funded through CFS. Any shortages in the budgeted line items can be applied to other areas of construction. The budget is shared with the homeowner.
- **Set Fee:** Vendors and Subcontractors are either paid by the builder who then submits a draw request for reimbursement, or are paid directly by CFS. Builder's Administrative Fees and Profit are included in the set fee and are paid by CFS dependent upon the progression of construction / completion of the home. Any overages in the budgeted line items for construction are the responsibility of the builder and will not be funded by CFS. Any shortages in the budgeted line items can be applied to other areas of construction or paid to the builder as project management fees. The budget is not shared with the homeowner.

DRAW FREQUENCY

Mutual agreement on the number of draws the builder will submit to CFS for payment should be included in the contract. Draws are submitted through CFS's online draw system. Delivery is free by in-person pickup or USPS mail; a wire transfer costs \$30 and FedEx \$50, deducted from the corresponding draw. Wires are sent only to the builder.

DRAW AUTHORIZATION

CFS does not require draw requests be approved by the homeowner prior to processing, as the level of homeowner involvement in the construction varies with each loan. It is an agreement between the builder and homeowner if homeowner draw authorization is required prior to processing. If the homeowner elects to approve draws, they will receive an email to review each draw and give their approval online.

BUILDER CERTIFICATIONS

CFS will require the following:

- Builder's Risk Insurance with the Homeowner and Lender listed as an additional insured for the full Price of the home
- Builder's General Liability Insurance for a minimum of \$1,000,000.00, or a General Liability Supplement to the Builder's Risk Policy
- Membership to a Warranty Program if the take-out mortgage is FHA or VA, or Waiver Verification from the borrower
- Forms Survey before the slab is poured
- Three compliance inspections: [1] before the foundation concrete is poured, [2] before insulation is installed, and [3] final. Inside city limits, the builder provides the City's inspections that go with the permits. Outside city limits, the builder orders the inspections from a Licensed Real Estate Inspector or their Engineer. The builder pays the inspector directly.
- Lien Waivers signed by sub-contractors for Workman's Compensation

It is the homeowner's responsibility to ask if the builder will obtain and show proof of Workman's Compensation Insurance.

CONSTRUCTION TIMELINE AND DELAYS

Typically all builder contracts specify the time needed to complete the home: 6 months [180 days], 9 months [270 days] or 12 months [365 days]. The time specified is for actual active construction, and does not include the time needed to obtain HOA

approvals and city permits, or delays caused by weather or unforeseeable events. The total amount of time from loan approval to mortgage refinance should be agreed upon as it will determine the term of the construction loan.

If progression of construction is delayed beyond the agreed timeline, the homeowner may incur additional costs, including Loan Modification and Extension Agreement legal fees and recording fees, as well as interest on the construction loan. In the event delays occur, the contract should detail who will be responsible for the additional costs.

BUILDER ACCEPTANCE

Builders must be accepted by Construction Financial Solutions, yet CFS does not review a builder for quality or become involved with contract negotiations. It is the homeowner's responsibility to perform due diligence on the builder to ensure they are satisfied the builder has experience, financial integrity and stability to complete the improvements agreed upon by the homeowner and builder.

COMMONLY ASKED QUESTIONS

IS THE HOMEOWNER REQUIRED TO SIGN EACH DRAW REQUEST? No. The homeowner's draw authorization is not required UNLESS it is a condition of the Builder's Contract or the homeowner elects to approve draws.

IS THE BUILDER LIMITED TO THE NUMBER OF DRAWS? No.

WILL INSPECTIONS BE PERFORMED TO ENSURE THE WORK IS COMPLETE BEFORE THE BUILDER RECEIVES FUNDS? CFS requires three compliance inspections: before the foundation concrete is poured, before insulation is installed, and final. These are performed by the City inside city limits, or by a Licensed Real Estate Inspector or the builder's Engineer outside city limits, and are ordered and paid for by the builder. For all other draws, CFS may accept builder and homeowner photos to show completion of work.

IS THERE A FEE FOR EACH DRAW? CFS does not charge an inspection fee; the builder pays the inspector directly. Delivery is free by in-person pickup or USPS mail. A wire transfer costs \$30 and FedEx costs \$50; the fee is deducted from the corresponding draw, from the budget line item the builder indicates.

WHAT IS SUBMITTED FOR A DRAW DISBURSEMENT? Draw requests are submitted through CFS's online draw system. If payment is to the builder or homeowner for reimbursement, provide vendor paid receipts showing a \$0 balance due for materials (invoices stamped or handwritten "PAID" are not accepted), and for labor the subcontractor's invoice with proof of payment: either a signed lien waiver with a copy of the signer's photo ID, or a payment record (cleared check, bank transaction screenshot, or Zelle, Venmo, Cash App or PayPal) showing the subcontractor's name, date and amount paid. If payment is directly to vendors and/or subcontractors, submit their invoices.

WHAT IS THE DRAW DISBURSEMENT TIMEFRAME? The Form Survey (pre-pour), Builder's Risk and Liability Insurance must all be on file before funding of draws may begin. Material-only draws paid directly to vendors may be disbursed the same day. Draws including labor may be paid within 2 business days upon approval of the required backup documentation and City or Inspection Reports [if applicable].

WILL FUNDS BE DISBURSED TO THE BUILDER IN LUMP SUMS? [i.e. down payments or advancements] After loan approval and closing, the builder may request an up-front deposit of up to 5% of the contract price; any deposits the homeowner paid before loan approval count toward that 5%. Otherwise, funds are paid based on materials purchased and/or labor completed, and Builder Administrative Fees are paid based on the progression of construction.

CAN VENDORS AND SUBCONTRACTORS BE PAID DIRECTLY? Yes. If the builder does not want to carry the costs, invoices can be submitted directly from vendors and subcontractors for direct payment.

CAN THE HOMEOWNER SUBMIT RECEIPTS FOR REIMBURSEMENT? Yes. If the homeowner wants to purchase materials, for example on a credit card to obtain reward points, they can in turn submit the paid receipt for reimbursement.

HOW WILL THE HOMEOWNER KNOW WHAT HAS BEEN PAID FOR? In accordance with the Texas Property Code, CFS supplies the homeowner with copies of all receipts, invoices and lien releases for each draw. Homeowners who elect to approve draws also review each draw and the funds requested online before it is paid.

CONSTRUCTION LOANS FOR CUSTOM HOMES