



Custom Construction Loan Frequently Asked Questions

Enclosed is information regarding a custom construction loan. Please contact your loan officer or our Custom Construction Lending Team should you have any questions. We look forward to working with you.

What is the Construction Contract?

The construction contract is an agreement exclusively between you and the general contractor. By accepting the contract, Umpqua Bank makes no representation regarding the contractor's experience, capabilities or financial condition. The contract must contain the following criteria:

- Dated and signed by all parties prior to closing your loan
- A fixed contract price
- Estimated construction start and completion dates
- Acknowledgement that all change orders will be agreed to in writing
- Acknowledgement that the Builder accepts Umpqua Bank's line item disbursement schedule

What are Hard Costs and Soft Costs?

Hard Costs are direct costs associated with the labor and materials used for the actual construction of the home. Hard costs are disbursed based on a percentage of the overall completion of line item and the project as it relates to the draw schedule.

Soft costs are indirect costs not directly related to labor or materials for construction and include items such as plans, architectural fees and permits.

What are the disbursement schedules and procedures?

Disbursements (draws) on a construction loan are made periodically as the construction of the home progresses. Umpqua Bank will disburse construction proceeds based on the percentage of work that has been completed per the draw disbursement schedule.

Disbursements for hard cost expenses must be verified by an inspection and/or invoices supporting the draw amount requested, along with the required unconditional lien releases. A date down lien free endorsement will be requested and obtained by the title company once a month. Please note that a copy of the building permit is required prior to disbursement of any "hard costs."

Once your loan is closed, responsibility for the administration of construction funds will be transferred to the Custom Construction Team who will provide you with draw request forms and instructions. You can also request a conference call to review the disbursement process. Our **Custom Construction Team** can be reached at:

Toll Free: 1-888-622-9220
Toll Free Fax: 1-866-856-2799
Email: CustomConstruction@umpquabank.com

What are Deposits?

Vendors for specialty or custom craftsmanship items may require a deposit. Umpqua Bank will release up to 50% of the cost budgeted in the specific line item upon receipt of the invoice requesting the deposit. These items may include, but are not limited to:

- Custom cabinets
- Special order appliances
- Custom window packages
- Custom flooring
- Specialty surfaces

How are change orders processed?

A Change Order signed by both the builder and borrower must immediately be submitted to the Custom Construction Team for any changes to the original plans and building specifications. The Change Order must be submitted even if the change represents an upgrade to the original plans and specs, and it must include the change in costs to the original contract and identify the specific budget line items that are affected.

Umpqua Bank must review and accept the Change Order before work can begin on any changes. The borrower is responsible for the payment of any costs resulting from an approved Change Order that is greater than the original budgeted line item.

What is the Contingency Fund?

The contingency fund is money set aside for unforeseen circumstances on originally budgeted items that may occur during construction. Disbursement of these funds must be approved and authorized by the Custom Construction Team. Contingency funds would typically be disbursed in proportion to the completion of the home.

For example, if the home is 50% complete then 50% of the contingency funds may be available. Please remember that a Draw Request is required for disbursement of all funds. In addition, proof of the cost overrun such as receipts or paid invoices is required.

If there is a balance left in the contingency fund at the end of construction, the borrower may request reimbursement for payment of any upgrades made during construction. Invoices or receipts will be required when requesting monies from the contingency fund.

How do I pay my monthly interest payments?

During the construction project, you will be required to make monthly interest-only payments on the outstanding principle balance of your loan, until construction is complete and either the loan is paid off or it transitions to the permanent phase of the mortgage.

Interest payments are due on the 1st of the month. If the interest payment is not received by the 15th of the month, a late charge will be assessed. Please note that any past-due interest payments will result in the suspension of draws until all outstanding interest is paid. You will receive a monthly billing statement approximately 10 days prior to the due date. If you do not receive the statement prior to the due date, please write the loan number on your check and submit your payment at any of our store locations or mail to:

Umpqua Bank
P.O. Box 2928
Portland, OR 97208

Construction Draws through your Umpqua Bank Checking Account

Prior to loan closing, an Umpqua Bank checking account should be opened in your name to be used to deposit the loan draws during construction. Disbursements will be deposited into this account after the required draw documentation has been received and the request has been approved. Once a disbursement is made, then you will be able to provide funds to your contractor. We strive to complete the inspection process and have funds available within 3-5 business days of the request.

Note: You may elect to have the funds disbursed directly to your contractor. To choose this option, please let us know. Additional documentation may be required.

How often can I request a draw and what is the minimum draw amount?

Draws are typically limited to one draw per month and the minimum draw request is typically \$10,000. If an exception is needed, please contact the Custom Construction Team.

What do I include with each draw request?

Requirements for the draw requests will be based on the builder's acceptance, and may include but are not limited to the following:

- Completed Draw Request Form signed by the borrower and the general contractor
- Invoices supporting draw request line items
- Unconditional lien releases from the general contractor and the sub-contractor for payments made on the previous draw

How much can be requested for the initial draw?

An initial draw can be requested for site preparation expenses as itemized on the construction loan budget. We also can disburse funds for upfront expenses such as permits and utility connections upon verification. Usually the next disbursement is made only after the foundation is inspected, and Umpqua has received the 102.5 foundation endorsement from the title company and a copy of the building permit. The Custom Construction Team can process the initial draw request one business day after the loan records. The actual funding of the disbursement typically takes another 2-3 working days.

How will we know if the draw request is approved?

After we receive the Draw Request and all required documentation, we order an inspection to verify the construction status. The inspection is performed within 1-3 business days from the time we receive the Draw Request. When the inspector verifies completion of the noted items, the Draw Request will be funded and you will be notified of the amount that is deposited to the account. Please note that the funds may not be available until the next business day. It is recommended to wait for verification of receipt of funds prior to issuing checks.

Who performs the inspections?

A third party inspector will be contracted on behalf of Umpqua Bank to perform inspections.

What Title Endorsements are required?

In addition to the standard title endorsements required for real estate loans, Umpqua requires additional endorsements during the course of your custom construction:

- A foundation endorsement will be required before we will fund a draw for the foundation. The title company issuing this endorsement may complete a foundation inspection, or they may require an outside company to provide a foundation location survey. This endorsement ensures that your home is being constructed in the proper location on your property.
- During the construction phase, date down lien free endorsements will be requested monthly from the title company.
- When construction is completed, the final draw will be conditioned upon receipt of an endorsement from the title company that the property has been completed without any recorded liens for work or materials.
- Note that you will be responsible for the cost of all endorsements and the foundation inspection and/or survey.

What are the insurance requirements during construction?

Borrowers are required to maintain the following insurance during construction:

- Fire Insurance policy that contains a Course of Construction Clause and “All Risk” or “Special Form” coverage. The fire insurance policy must have a minimum amount of coverage to be the lesser of the loan amount or the “total estimated cost new” as listed on the replacement section of the appraisal unless:
 - The policy contains a “guaranteed replacement” endorsement within the dwelling coverage; or
 - The policy includes an “extended replacement” endorsement, which will extend the policy’s dwelling coverage limit to the lesser of the mortgage balance or the “total estimated cost new.”
 - This extension will be in the form of a percentage that will be added to the face value of the policy to reach the total dwelling coverage.
- Flood Insurance certificate or copy of the application with proof of payment if subject property is located in a Special Flood Hazard Area. Please note that all buildings must be separately covered by flood insurance if the property lies in a Special Flood Hazard Area.
- Insurance premiums for one year are required to be paid and confirmed at closing.

Contractors are required to maintain the following insurance during construction:

- Workers Compensation coverage when required.
- Comprehensive General Liability coverage in a minimum amount of \$500,000 for combined single limit, or under split-limit coverage of \$300,000/bodily injury, \$500,000 per accident and \$500,000/property damage.

Please contact your loan officer or the Custom Construction Team if we can be of service in any way.

Thank you again for choosing Umpqua Bank as your custom construction lender!