

Construction & Renovation Lending

Understanding your Construction or Renovation Loan

This pamphlet includes helpful information about the types of construction and renovation loans offered by Flagstar Bank, as well as the construction and renovation lending process, builder and project approval requirements, construction/renovation loan fees, obtaining draws and permanent financing solutions.



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INTRODUCTION

Thank you for considering a construction or renovation loan from Flagstar Bank, N.A.! Flagstar Bank has a mortgage lending business that spans the entire country making Flagstar Bank one of the top mortgage lenders in the nation.

The purpose of this *Construction & Renovation Lending* guide (the “Guide”) is to provide you with information about construction and renovation lending along with the construction and renovation products offered by Flagstar Bank, contractor and project approval requirements, and information about how to obtain draws to pay for construction or renovation costs. Should you have questions that are not answered by this Guide, please direct them to your loan originator who will be more than happy to assist you.

Building or renovating a home can be a daunting challenge, but for those who have successfully completed a project they’ll tell you the results can be incredibly rewarding. This Guide will take you step-by-step through the process from choosing a contractor to moving into your new or newly renovated home. Our goal is to make the financing process as smooth and straightforward as possible.

CONSTRUCTION LENDING

Construction lending consists of providing financing for the construction of a new residential structure on property either already owned by the borrower or purchased concurrently with the loan closing. Construction lending takes two primary forms: one closing or two closings.

One Closing

A one-closing construction loan combines the construction financing into the same loan as the permanent mortgage financing. There is a single closing transaction before construction begins where a single set of fees and closing costs are collected from the borrower. During construction, borrowers pay a monthly interest payment based on the amount of construction funds used to-date (construction funds are accessed through “draws” that will be explained later in this Guide) along with an escrow payment for real estate taxes and insurance, if required. Once construction is complete, the loan will convert to the permanent phase and the borrower will begin making a traditional principal and interest payment to include an escrow payment for taxes and insurance, if required.

Two Closings

A two-closing construction loan involves two separate loans: one used only to fund the construction of the residence and associated costs (and possibly lot acquisition) and one for the permanent mortgage financing. The construction loan closes before construction begins while the permanent loan closes after

construction is finished. Because two-closing transactions involve two separate loans there are two sets of fees and closing costs collected from the borrower, one set at each closing. Once construction is complete, the permanent loan will close to pay off the construction loan.

RENOVATION LENDING

Renovation lending consists of providing financing for the purchase or refinancing of an existing residential structure along with funds for renovation, rehabilitation, repairs, remodeling or energy improvements to the residence to meet the needs of the borrower or to bring the home up to minimum property standards. This is accomplished with a single closing transaction prior to the start of renovation work and involves a single set of fees and closing costs.

A renovation loan is different from construction financing in that the loan is fully disbursed at closing with renovation funds held in a renovation escrow account. The borrower pays a standard principal and interest payment (plus escrows for real estate taxes, hazard insurance and mortgage insurance, if required) beginning with the first payment.

PRODUCTS OFFERED

CONSTRUCTION PRODUCTS

Flagstar Bank, N.A. offers the following construction products:

One Closing Products

- Conforming One-Close Construction

Offers construction periods of 9 or 12 months, depending on how long it will take the builder to complete construction. The loan will convert to a full 15- or 30-year term upon completion of construction.

The interest rate is locked prior to closing at the rate that will apply for the permanent phase of the loan, for example 5.00%. During the construction phase the interest rate is 0.75% higher than the permanent interest rate, or 5.75% based on the example above.

During the construction phase you are responsible for payment of the interest accrued on the amount disbursed to-date, billed on a monthly basis. If an escrow account is established for taxes and insurance, the monthly billing will include these deposits.

When your home is nearing completion, we will ask that you update your credit profile with current income, assets, and credit report.

After the completion of construction, the loan converts to the permanent phase and you will begin making traditional principal and interest payments based on the locked interest rate, for example 5.00%, and the selected term of 15- or 30-years. If an escrow account is established for taxes and insurance, the monthly billing will include these deposits.

- Jumbo One-Close Construction

Offers construction periods of 12, 18 or 24 months, depending on the size of the project and how long it will take the builder to complete construction. You may qualify for a longer term than you are approved for. Please consult your loan officer. The loan will convert to a full 15- or 30-year term upon completion of construction.

The interest rate is locked prior to closing at the rate that will apply for the permanent phase of the loan, for example 5.00%.

During the construction phase you are responsible for payment of the interest accrued on the amount disbursed to-date, billed on a monthly basis. If an escrow account is established for taxes and insurance, the monthly billing will include these deposits.

When your home is nearing completion, we will ask that you update your credit profile with current income and asset documentation, and an updated credit report and appraisal will be ordered.

After the completion of construction, the loan converts to the permanent phase and you will begin making traditional principal and interest payments based on the locked interest rate, for example 5.00%, and the selected term of 15- or 30-years. If an escrow account is established for taxes and insurance, the monthly billing will include these deposits.

Two Closing Products

- Flagstar Bank does not currently offer any two-closing construction products

RENOVATION PRODUCTS

Flagstar Bank, N.A. offers the following renovation products:

- Fannie Mae HomeStyle Renovation

Offers renovation and permanent financing as part of a standard 15- or 30-year fixed-rate conventional loan with renovation costs allowed up to 75% of the as-completed appraised value of the home. Funds for renovations, repairs, remodeling or energy improvement can be included as part of a new purchase transaction, or with the refinance of the applicant's current mortgage loan. Renovation work must be completed within the first 12 months after closing.

THE LENDING PROCESS

The lending process for your construction or renovation loan application approval involves essentially the following steps:

1. Contractor approval
2. Project approval
3. Credit underwriting and loan approval
4. Loan closing
5. Drawing funds during construction/renovation to reimburse the builder for work as it is completed
6. When your home is nearing completion, we will ask that you update your credit profile with current income, assets and credit report (One-Close Construction loans only)
7. Completion of construction/renovation (this is the last step for renovation loans)
8. Convert to permanent loan financing (One-Close Construction loans only)

The flow charts on pages 7-10 should help to illustrate the process.

LOAN ADMINISTRATION VENDOR

Flagstar Bank will employ a construction/renovation loan administration company (“Vendor”) to assist us with contractor approval, project approval, and draw administration for your loan. The Vendor has specialized knowledge of the building requirements and lien laws in each state and will ensure, among other responsibilities, that the builder is paying their subcontractors and suppliers so the lien position of our loan to you is not jeopardized.

It is important for you to know that your construction/renovation financing relationship is with us, Flagstar Bank, and not with the Vendor. The Vendor’s role is to assist us. While you and your contractor may speak with or submit documents to our Vendor throughout the construction or renovation process, you should feel free to reach out to us at any time should you have questions or concerns. We want to make sure your construction/renovation loan proceeds as smoothly as possible for you, your contractor and us. You may direct questions to the Flagstar Bank Construction Administration Department at (800) 830-2303 or by email to drawrequests@flagstar.com.

The Vendor employed in conjunction with your loan will be the company listed below.

Granite Loan Management, Inc.

10770 E. Briarwood Avenue, Suite 280
Centennial, CO 80112

Customer Service Department

Phone: (888) 456-4888
(8 a.m. – 6 p.m., Mountain time)

Fax: (888) 456-4999

Email:

customerservice@graniteriskmanagement.com

Web: www.granite-companies.com

Other email addresses for specific questions

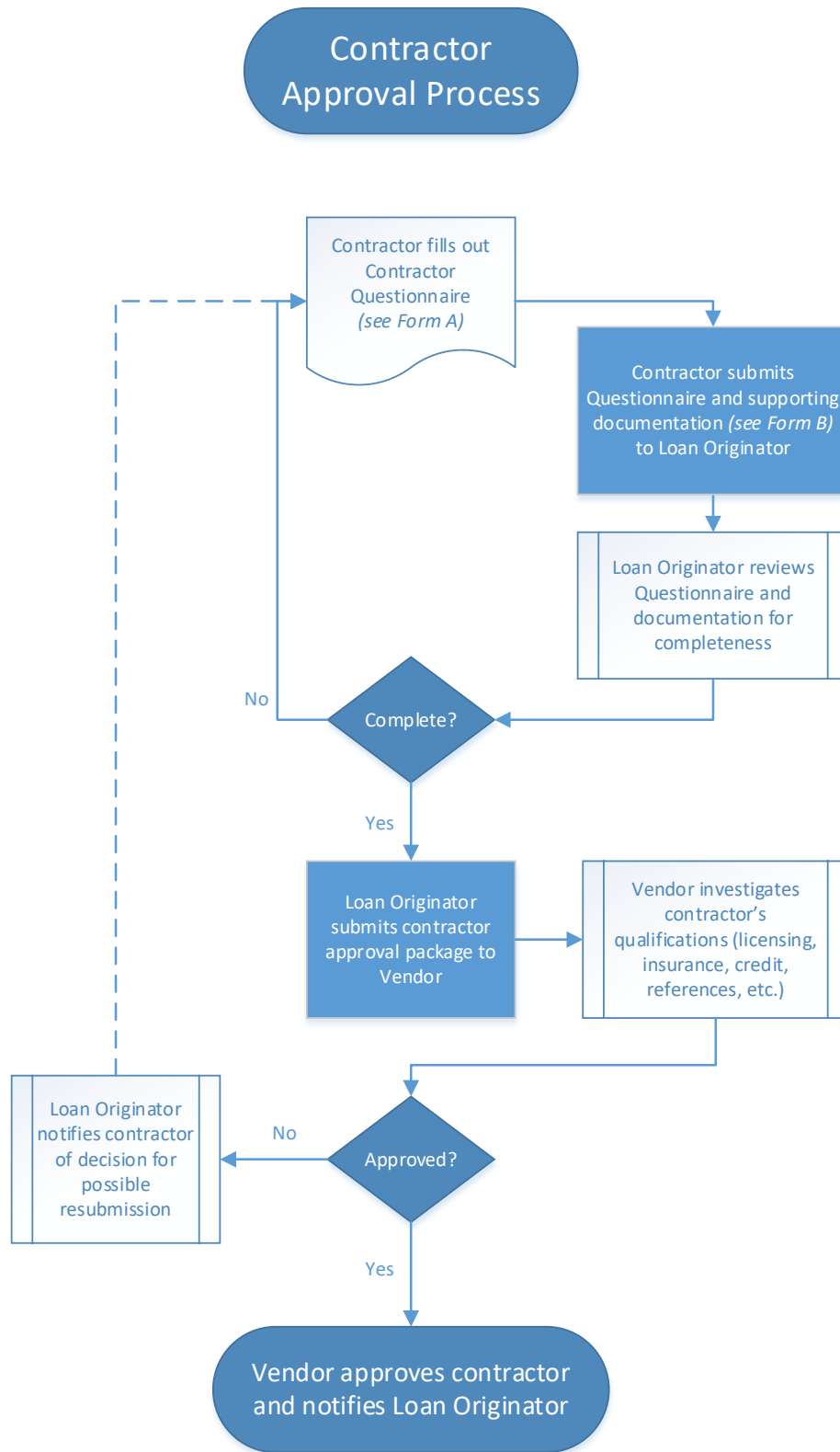
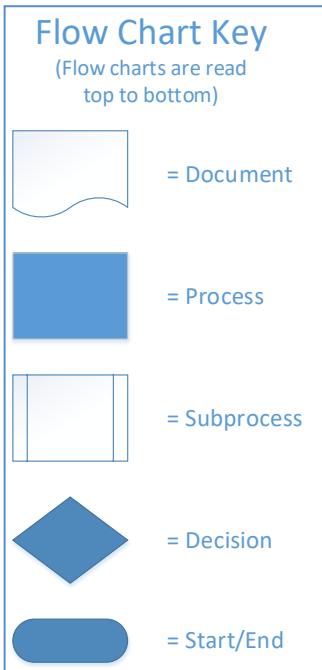
For contractor or project review questions:

projects@graniteriskmanagement.com

For draw-related questions:

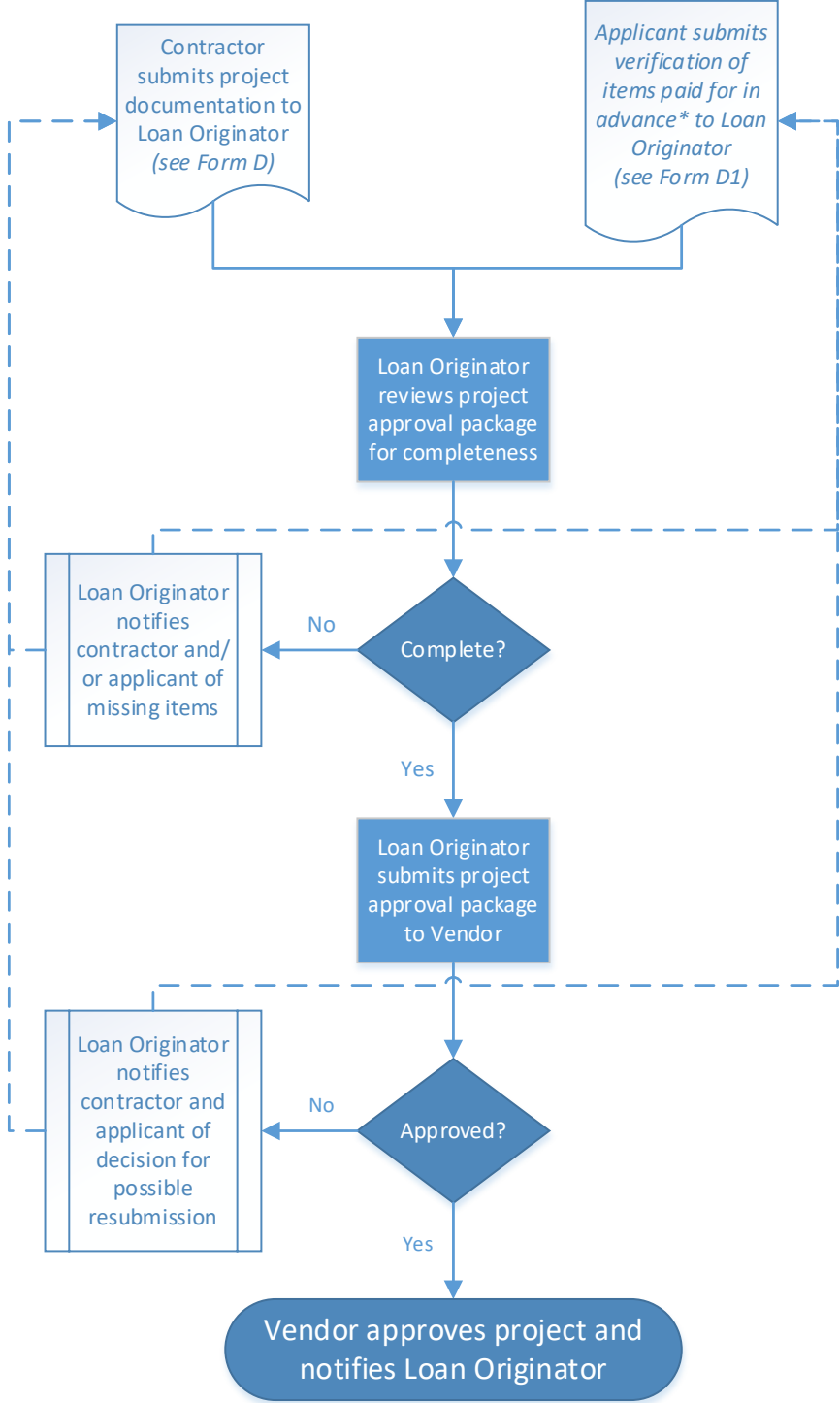
draws@graniteriskmanagement.com

ILLUSTRATED PROCESS FLOWS



Revised 07/13/2023

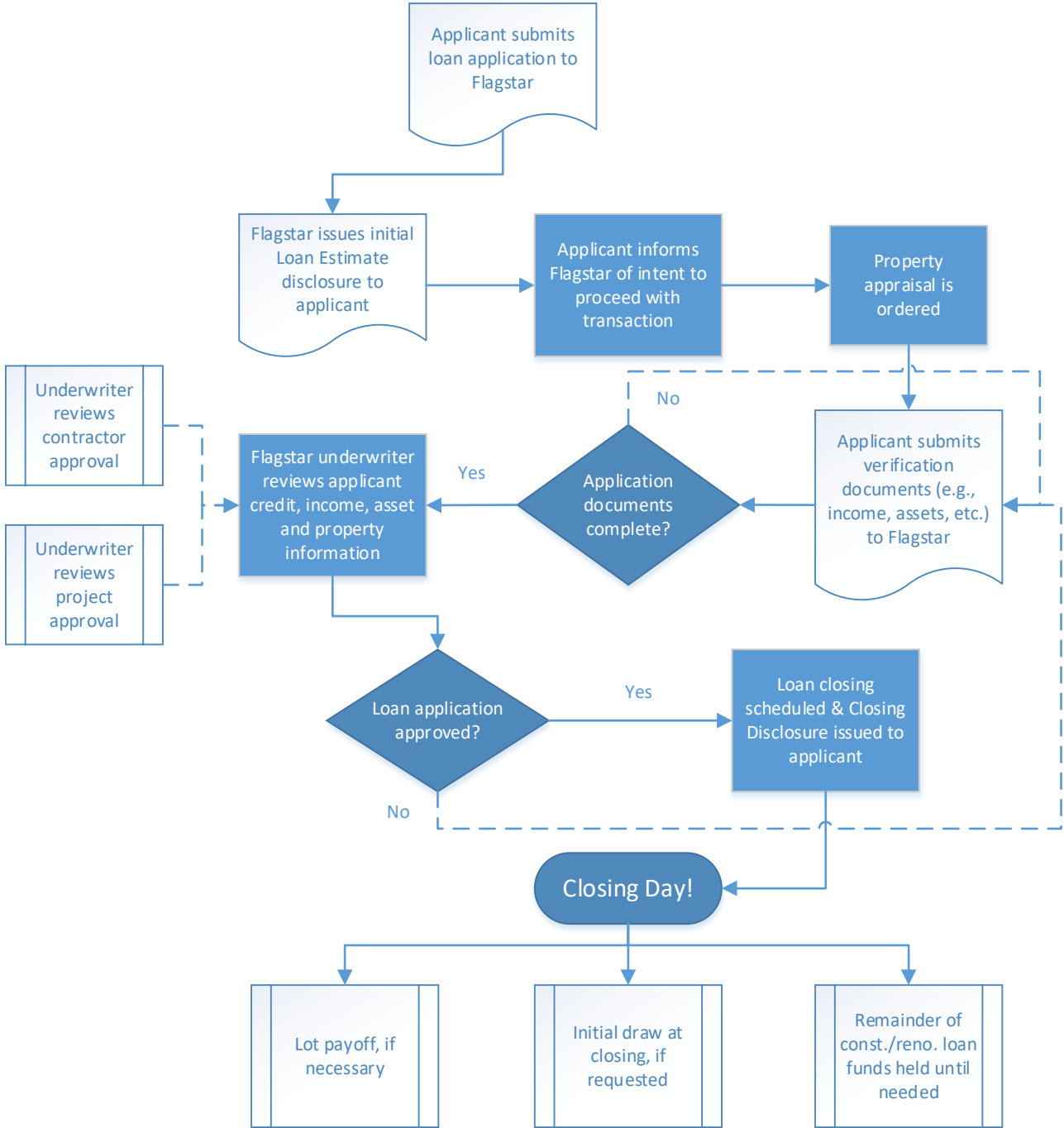
Project Approval Process



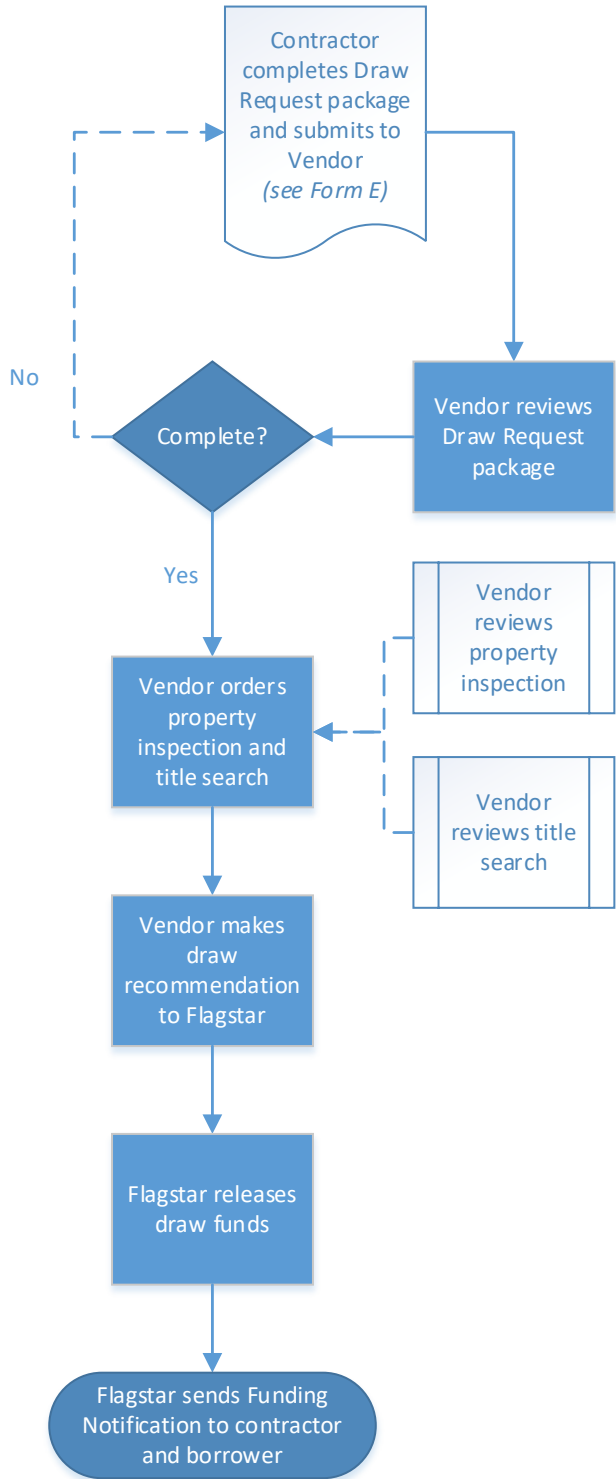
* Verification documentation (invoices, paid receipts, etc.) should be submitted for items that are included as part of the construction contract as well as those items paid for outside of the contract for which the Vendor is to be reimbursed from loan funds.

Revised 07/18/2023

Loan Approval & Closing Process



Draw Process



CONTRACTOR APPROVAL

We will review a contractor's qualifications by obtaining personal and business credit reports, building history and reference check on all projects. This review is accomplished by requesting the contractor complete the *Contractor Questionnaire* (Form A). Contractors must complete this form in its entirety as missing information will delay the processing of your package. Forward the completed *Contractor Questionnaire*, along with all other required documentation as detailed on the *Contractor Acceptance Checklist* (Form B), to your Loan Originator. Our loan administration Vendor will continuously monitor the contractor's licenses and appropriate insurance information. Should either expire during construction, the Vendor will require a renewal certificate prior to us funding any additional draws.



Our approval of a contractor is not an endorsement of that contractor, but rather an acknowledgement at the time of our review they met our standards for participation in our construction/renovation programs in terms of licensing, insurance coverage, timely payments to subcontractors and suppliers, etc. The choice of contractor is solely yours. You should make independent inquiries into their reputation by asking friends and neighbors for recommendations, by asking for and contacting references of past clients, by reviewing a contractor's record with the local Better Business Bureau, etc.

PROJECT APPROVAL

Project approval involves a review of the details of the construction/renovation project to determine if it meets our loan standards and to ensure there are enough funds in the proposed budget to complete the project. In order to complete the project review we require several documents, some of which you may provide but most will come from the contractor or from your loan originator.

DOCUMENTATION REQUIRED FOR PROJECT APPROVAL

The following documents comprise the project review package (see Form D):

From the Applicant

- Verification of items paid for in advance

Items paid for in advance are costs incurred by the applicant prior to the loan closing for items that either are or are not included as part of the construction contract and budget and for which the applicant has requested reimbursement, meaning that the amounts are requested to be financed into the loan.

Items that ARE included in the construction contract might include deposits for custom or specialty items, while items that ARE NOT part of the construction contract and budget may include architectural costs, permits, and similar items.

For items paid for in advance, please provide the following:

- Complete the *Prepaid Accounting Worksheet* (Form D1).
- Obtain and submit the appropriate support documentation as detailed under *Type of Verification, Prepays Applied to Contract* (Form D1).

From the Loan Originator

- Appraisal

The appraisal must be prepared based on the plans and specifications for the project and the construction contract.

From the Contractor

- Plans and specifications
- Construction contract (fully executed by all parties)
- Memorandum of Understanding with Flagstar Bank
- Permits (if available)
- Budget (this must be the FINAL budget)

The budget is one of the more important documents in the project approval package. (We provide a Construction Budget (Form C) but the contractor may choose to use his/her own line-item budget.) As construction proceeds, draw requests received are matched to the line item amounts in the budget to ensure each line item is properly accounted for in the disbursement of funds. Therefore, it is critical the contractor submit the final budget for project approval. When requesting a draw the contractor will need to refer to the specific line items from the approved budget in order to be reimbursed for work performed.

IMPORTANT

Once approved, the budget may not be changed without Flagstar's written approval. Any changes to the budget without our approval may significantly delay the draw process.

LOAN APPROVAL

After the contractor and project have been approved, or possibly simultaneously, an underwriter will review your loan application, income and asset documentation, credit report, property appraisal, etc., for approval of the loan itself (or both loans, if you are using the two-closing process). Other than the additional information regarding the contractor and construction/renovation project, this process is the same as any other home purchase or refinance credit decision we make. Your loan will be reviewed by an impartial underwriter with an eye toward ensuring the criteria for approval are met of the loan program under which your application was received. Of course, not every loan application will be approved, and sometimes additional documents are requested by the underwriter to aid in their decision making. We realize the anxiety inherent in this part of the approval process and we will make every effort to make a final decision as quickly as possible.

The end result of the loan approval process, we all hope, will be an approval notice outlining the conditions that must be met either prior to or at loan closing.

LOAN CLOSING

Loan closing is the point at which the final loan documents are signed. This appointment often takes place at a title or escrow company, but can also take place elsewhere. You, the loan applicant(s), will attend as will a settlement agent. The settlement agent is the person responsible for ensuring all construction and loan documents, real estate transfer documents and other documents and disclosures are correctly completed and signed, and that any funds being disbursed at closing are appropriately handled. The settlement agent is also responsible for sending certain documents to the county recorder's office for filing in the public land records after the loan closing.

For a construction loan, if you purchased the lot separately and not from the builder as part of the construction transaction, and if you obtained lot financing when you purchased the lot, we will pay off any outstanding amount at closing. The disbursement of funds at closing for this purpose is not considered a draw. There may also be funds disbursed at closing for certain construction costs that will be considered a draw, discussed later in this document.

Title updates are needed for each draw to ensure that no additional liens were filed on the property by anyone who completed work. The fee for the title updates will be based on the number of draws. Title update costs will be included in the Construction Draw Updates fee line. This fee is not refundable.

A final title update fee is included on all construction and renovation loans in order to ensure no additional liens were filed on the property by anyone who completed work. Any unused portion of this fee will be refunded after the construction has been completed. Refer to Exhibit A, Fees, for specific fee information.

DRAW AT CLOSING

A contractor may wish to request a draw at the loan closing to provide funds for initial materials purchases or for special order items that require payment at the time the order is placed (e.g., custom cabinetry). It can also be used to reimburse you for items you paid for in advance or deposits that may have been needed to start the project. A draw at closing is the **only opportunity** to access construction funds for 10 business days following the loan closing. A limit of 10% of the budget or \$50,000 (10% or \$100,000 for Jumbo One-Close), whichever is less, is placed on this draw.

All draws, including a draw at closing, requires the completion of a *Construction Loan Disbursement Request/Authorization* (Form E). This form must list the line items of the budget from which the funds are to be drawn. The request for a draw at closing should be given to the Loan Originator. This is the only draw that should be submitted in this manner. All other draw requests will be submitted directly to the Vendor for your loan.

In most jurisdictions permits must be obtained for the project and certain forms filed with the county or state. Before you can access construction funds, we (or the Vendor if there is no draw at closing requested) will confirm these have been completed by requesting copies of the permits and/or filings as part of the draw-at-closing request documentation.

Disbursement of Draw Funds

When a draw request is approved, funds may be issued by wire directly to the builder or by two party check payable to you and the builder. If the funds will be disbursed to the contractor by wire, you will need to complete the *Amendment to Construction Loan Agreement /Indemnification Agreement* (Form G) authorizing the direct disbursement of funds to the contractor. In addition, the contractor must complete an IRS Form W-9 and a *Bank Account Authorization* (Form F). The W-9 is required for federal tax filing purposes, while the *Bank Account Authorization* provides the necessary authorization for us to wire funds to a specified account.

HOW YOUR DOWN PAYMENT IS APPLIED

Any cash down payment you bring to closing will be used to acquire or pay off the lot, or may be disbursed to the contractor as a draw at closing. Any excess down payment funds not needed at closing, will be held in a Loan in Process Account and disbursed as work is completed. When these funds are depleted the disbursements will be drawn on the principal of the loan. Flagstar refers to this as a Restricted Escrow. This is an interest bearing account.

CONSTRUCTION DRAW CHECKLIST

Once your loan has closed and construction has commenced you will need to submit draw requests to access loan funds for work completed as the project progresses. Use the checklists below to ensure that all required documentation is submitted for each draw request. Please submit ALL listed documents in a single submission so that your request can be processed and funds released quickly. Following the Documentation Requirements for All Draws checklist are additional documentation required on the First Draw and the Final Draw.

DOCUMENTATION REQUIREMENTS FOR ALL DRAWS

Construction Loan Disbursement Request/Authorization (Form E)

Signatures from BOTH the borrower and contractor are required. Refer to the budget submitted during the project approval phase for the line numbers to include on the Draw Schedule portion form. The payees for each line item must be identified as well. The payee is the subcontractor or supplier to whom the contractor will make payment after receiving the draw funds.

Line Item Transfer (Form I), if needed

Signatures from BOTH the borrower and contractor are required. This form is to be used when there is a need to move funds from one line of the budget to another. This can only be accomplished if it can be demonstrated (by invoices and/or receipts) that savings have occurred in the line item from which funds are requested to be transferred.

Invoices and Receipts

The invoices and receipts are supporting documentation for the current draw verifying the amounts listed for disbursement under the requested line items on the Draw Request/Authorization form or for the transfer of funds requested on the Line Item Transfer form. Refer to the Standard Draw Requirements Letter for specific policies, if applicable.

Waiver of Liens

This document waives the right of contractors, subcontractors and suppliers to file liens against the subject property to secure payment for labor and materials for items paid from the previous draw (since payment has been received). The lien waiver form is state-specific and is further based on whether the contractor, subcontractor or supplier has been fully paid for labor performed or materials provided. Use the Partial Unconditional Waiver (Form K1) when only a partial payment has been made. Use the Full or Final Unconditional Waiver when full payment has been made. Refer to the Standard Draw Requirements Letter for specific policy, if applicable.

If the draw will be the first draw or the final draw see the additional requirements on the next page.

All required forms and support documentation should be submitted via email to

draws@graniteriskmanagement.com, online at www.granite-companies.com or via fax to (888) 456-4999.

ADDITIONAL REQUIREMENTS FOR THE FIRST DRAW

These requirements apply to either the draw at closing or the first draw if there was no draw at closing.

Include the documents listed under Documentation Requirements for All Draws and the following:

- Permits, if not previously supplied
- Foundation survey
- Any applicable pre-closing state-specific documentation as outlined in the Standard Draw Requirements Letter

Flood insurance policy is required if property is located in a flood zone

ADDITIONAL REQUIREMENTS FOR THE FINAL DRAW

Include the documents listed under Documentation Requirements for All Draws and the following:

- Certificate of Occupancy*
- Contractors Waiver and Affidavit* (Form L), notarized, or equivalent document
- Notice of Completion* (Form Z) or local equivalent, if required or other final completion documentation

HOW WE WILL RESPOND TO YOUR DRAW REQUESTS

1. Vendor will fax or email a *Receipt of Fax Notification* to the contractor within 24 hours of receiving the draw request. Please call Vendor if the contractor does not receive this notice.
2. Vendor will order an inspection. For the final draw, Flagstar will order a separate inspection by the property appraiser to verify the construction/renovation was completed as originally planned. The local jurisdiction may also inspect the property prior to issuing a Certificate of Occupancy, if necessary.
3. Vendor will request and review a title search confirming the property is lien free, if applicable.
4. After reviewing all supporting items, Vendor will fax or email a *Notification of Draw Status* (Form J) to the contractor within 36 hours of Vendor receiving the draw request.
5. Vendor will make a recommendation to us for funding upon receipt of all documentation including the inspection and title search.
6. We will disburse funds by check or wire based upon the completed *Bank Account Authorization* (Forms F and G). Do not write checks on the receiving account until the financial institution confirms receipt.
7. We will send the contractor or the borrower a *Funding Notification* after the draw is funded. In most cases, the designated party will have funds within five business days of submitting a complete draw request.
8. Vendor will send the contractor an updated *Project Cost Report* (Form N) for reconciliation purposes.

Questions Regarding Your Draw?

For questions regarding the draw, please contact the Vendor using the contact information under the Loan Administration Vendor section on page six. You may also direct questions to the Flagstar Bank Construction Administration Department at (800) 830-2303 or by email to drawrequests@flagstar.com.

To aid in the completion of future draw requests, please make additional copies of all forms and checklists.

NOTICE OF RIGHT TO LIEN

In certain states a subcontractor or supplier is required to give notice to the property owner and/or contractor of his intent to file a lien; this is one way in which a subcontractor or supplier can advise a property owner they are working on their project. The subcontractor and supplier are not required to notify the lender. Because the potential of these liens can affect our primary lien position, it is important that all notices received from the subcontractor or supplier be forwarded to our loan administration Vendor who in turn will provide them to Flagstar. These notices can have a variety of titles depending on the state. For example, it may be referred to as *Notice of Right to Lien*, *Preliminary 20-day Notice*, *Notice of Intent to File a Lien*, *Pre-lien Notice*, *Special Notice*, *Notice of Lien*, *Notice to Owner*, *Notice of Unpaid Balance and Right to File a Lien*, *Notice of Furnishing and Notice of Right to Claim a Lien*, or similar titles. Should the borrower or contractor receive a preliminary notice, it should be forwarded to the Vendor using the contact information under the Loan Administration Vendor section on page six.

HOMEOWNER/CONTRACTOR DISPUTES

It is certainly not unheard of for homeowners and contractors to find themselves in disagreement at times during a construction or renovation project. There can be misunderstandings about the scope of work that the contractor is to perform, differences of opinion about the quality of work, complaints about the time it takes to complete a job, and many other potential disputes.

As your construction or renovation lender, our role is to provide financing for your project and to ensure the contractor meets our standards for licensing, insurance coverage, etc. However, we are not a project manager, nor are we able to act as a mediator or referee in disputes between you and your contractor, though *we do want you to let us know about these disputes as soon as possible*.

Contact the Flagstar Construction Administration Department or our Vendor if you are experiencing a dispute with your contractor. Once notified, we will ensure that no additional funds are disbursed until the dispute is resolved. This is to protect our interest in the property, but is also a safeguard for you by ensuring that funds are not released to the builder for work items subject to dispute. Please reach out to us to discuss the situation at (800) 830-2303 or by email to drawrequests@flagstar.com.

CONTRACTOR CHANGES

On a renovation loan, sometimes it becomes necessary to change contractors before the renovation work is completed. Please be aware that Flagstar must be notified *before a new contractor does any work on the project*. The new contractor is subject to approval by us (through our Vendor), and there will be a contractor replacement fee assessed by the Vendor (refer to Exhibit A, *Fees*, for specific fee information). If the new contractor has their own budget the budget is subject to approval by us (through our Vendor), and there will be an additional project review fee assessed by the Vendor (refer to Exhibit A, *Fees*, for specific fee information). Contractor changes on a new construction loan should be required only in exceptionally rare circumstances. If a change to the contractor is needed on a construction project the new contractor is subject to approval by us (through our Vendor), and there will be a contractor replacement fee assessed by the Vendor (refer to Exhibit A, *Fees*, for specific fee information). If the new contractor has their own budget the budget is subject to approval by us (through our Vendor), and there will be an additional project review fee assessed by the Vendor (refer to Exhibit A, *Fees*, for specific fee information). Anytime, you believe a change in contractor is necessary, either on a renovation or new construction project, please reach out to us to discuss the situation at (800) 830-2303 or by email to drawrequests@flagstar.com.

END OF CONSTRUCTION/RENOVATION

WHAT HAPPENS WHEN CONSTRUCTION/RENOVATION IS COMPLETED?

At the end of the construction or renovation phase, final draw funds are disbursed and any construction/renovation funds remaining (e.g., unused contingency funds, but not including any unused fees which will be refunded to you) will be applied to the outstanding principal of the loan.

One-closing construction loans will convert to the fully-amortized permanent phase and payments will include both principal and interest (as well as taxes and insurance, if applicable). For two-closing construction loans, the closing of the permanent loan will be scheduled to pay off the construction financing.

Renovation loans will continue with the standard payment amount and schedule, which also applied during the renovation phase.

What Happens if Construction/Renovation is Not Completed on Time?

Extension paperwork will be sent to you 15 days prior to the maturity of the construction/renovation period. You must complete the paperwork and return it to us with the extension fee. Refer to Exhibit A, *Fees*, for the specific extension fee and the extension time period allowed. No refund is provided if the work is completed sooner. No additional draws will be processed if your loan has exceeded the

predetermined construction/renovation period until we have received the extension paperwork and appropriate extension fee.

For One-Close Construction loans, when work is finally completed you will be required to sign loan modification documents to change the beginning date of the permanent phase of your loan and the maturity date. The total construction time including extensions must not exceed 15 months unless the term exceeds 15 months on the Construction Addendum to the Note.

For renovation loans, no modification agreement is necessary. The total renovation time including extensions must not exceed 14 months.

What if Construction/Renovation is Completed Early?

If construction/renovation is completed prior to the end of the predetermined construction/renovation phase, the same process will take place as outlined in the paragraph, “What Happens When Construction/Renovation is Completed?” However, for construction loans, you also will be required to sign loan modification documents to change the beginning date of the permanent phase of your loan, and for one-closing construction loans, also the maturity date of the loan.

FOREGOING COMPLETION OF A RENOVATION PROJECT

On occasion, we have experienced situations where a homeowner who has taken out a Fannie Mae HomeStyle Renovation loan with us decides not to have the renovation work completed after all. They ask us to apply the renovation funds to reduce the outstanding balance of the loan and to treat the loan as if it were not a renovation loan.

These are tough situations because we have to explain that is simply not possible; the loan was made with the understanding that renovation work would be completed. A property appraisal was conducted to determine the value of the property on an as-completed basis meaning that the appraiser arrived at their opinion of value by assuming all of the proposed work was already done. If the work is not actually completed then the valuation assigned by the appraiser is no longer valid, and the loan is no longer eligible under the Fannie Mae HomeStyle Renovation program. This is a breach of the terms of the loan, which results in a default under the loan agreement and can result in the initiation of foreclosure action. We know you don't want that to happen, and neither do we. We want to work together with you to ensure the renovation work gets completed in a timely manner.

EXHIBIT A: FEES

CONSTRUCTION LOANS			
Vendor Fees ^{1,2,3}	Standard Fees & Additional Draw Fees	Loan amount <= \$200,000	\$1,400 with three draws; \$265/each additional draw
		Loan amount \$200,001 – \$500,000	\$1,900 with five draws; \$295/each additional draw
		Loan amount \$500,001 - \$1,000,000	\$3,650 with ten draws; \$295/each additional draw
		Loan amount \$1,000,001 - \$3,000,000	\$5,500 with ten draws; \$350/each additional draw
Flagstar Fees	Extension Fee	\$700 for an extension of two months for Conforming One-Close; \$1,000 per month for Jumbo One-Close	
	Survey Fee ⁴	Varies by geographic location (<i>may not be required for all loans</i>)	
	Final Title Update Fee ⁵	\$175	
	Final Inspection Fee ⁶	\$175	
RENOVATION LOANS			
Vendor Fees ^{1,2,3}	Standard Fees	Renovation amount <= \$40,000	<ul style="list-style-type: none"> \$795 for 1 draw \$910 for 2 draws \$1075 for 3 draws
		Renovation amount \$40,001 - \$200,000	<ul style="list-style-type: none"> \$1,165 with 3 draws \$1,465 with 5 draws
		Renovation amount > \$200,000	Refer to fees for Construction Loans above by loan amount
	Additional Draw Fees	\$265	
Flagstar Fees	Extension Fee	\$700 for an extension of two months (conforming loans) \$1000 for an extension of one moth (jumbo loans)	
	Survey Fee ⁴	Varies by geographic location (<i>Survey not required unless footprint of property is being changed (e.g., a room addition, pool, garage, etc.)</i>)	
	Final Title Update Fee ⁵	\$175	
	Final Inspection Fee ⁶	\$175	
REPLACEMENT BUILDER			
		Replacement Builder and Project review fee = \$675.00	

Please see footnotes on the following page.

Notes

1. In the event that the included number of draws are not fully utilized there will not be a refund of fees from the Vendor.

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2. If you require a new budget analysis prior to closing your loan a resubmission fee of \$100 will apply.
3. If you need to change contractors during the construction/renovation process a contractor replacement fee of \$175 is required for the Vendor to review the new contractor. If an additional project review is needed an additional review fee of \$500 to review the new budget.
4. Survey is completed after the foundation has been established and varies by location. If the survey fee is lower than the amount collected at closing the difference will be refunded to you after the construction is completed.
5. Title updates are required when construction is completed to ensure that liens have not been placed on the property by any parties that completed work. Properties located in some states require a title update for each draw. Any fees collected for title updates that are unused will be refunded to you after the construction is completed.
6. Inspection fee is for the final inspection performed on behalf of Flagstar when the construction is completed. This may be performed by the original appraiser. It is to ensure that the home was built to the original specifications submitted. If the inspection fee is lower than the amount collected at closing the difference will be refunded to you after the construction is completed.

EXHIBIT B: GLOSSARY OF TERMS

The following section is a glossary of terms used in construction and/or renovation lending. At times, the unique terminology spoken by contractors, lenders, and service providers can seem like a foreign language. We hope this glossary will provide some clarity to help you navigate the construction lending process.

Change Orders

A change order is an official recognition of a change to the construction/renovation plans and specifications, and to the project budget.



*It is critical for homeowners to understand that changes cannot simply be agreed to between the homeowner and contractor. **Flagstar must approve all change orders in writing before any work is done on the change order.** Our construction/renovation loan to you is based on an appraisal that assumes the property will be completed according to the original plans and specifications (an “as-completed” appraisal). Any later changes to those plans and specifications will make it impossible for an appraiser to validate the as-completed value of the property because they will not be able to certify the property was completed as planned. Virtually all change orders will require a new appraisal at the homeowner’s expense.*

Changes that are additive only, meaning that everything included in the original plans and specifications will be completed as planned, but there will now be additional or new work added that was not originally contemplated, can be made without requiring a new appraisal. However, Flagstar still must approve the change order(s) in writing, and none of the additional costs can be included in our construction/renovation loan. All additional costs must be borne by the homeowner out of your own separate resources.

Change orders are initiated by a change order request between the homeowner and contractor detailing exactly what changes are being proposed and what the impact will be to the cost of the project. However, change orders require the written approval of all three parties: the homeowner, the contractor and Flagstar. It cannot be stressed strongly enough that change orders are to be avoided if at all possible. In some projects, a contingency may have been included in the budget to pay for unforeseen issues or changes, like change orders. If there is no contingency on your project, you will need to pay any additional cost associated with the change order, if approved, out of your own pocket at the time they are incurred. NOTE: Line items in the approved project budget cannot be overdrawn to pay for change orders. Submitted draw requests that overdraw any particular line item may be significantly delayed until a resolution can be reached.

Construction Loan Disbursement Request/Authorization (Form E)

This form is used to request a draw from the construction loan funds. It must be signed by both the borrower and the contractor. The approved budget must be referenced when completing this form, and the specific payees (subcontractor or supplier) who will be paid by the contractor must be identified. The form must be signed by both the borrower and the contractor.

Contingency Funds

Contingency funds are funds included in the construction/renovation budget to cover possible cost overruns and/or change orders. Contingency funds are common with renovation loans, but not as common with new construction. However, not all loans include a contingency fund.

Deposits

The lender will fund deposits on certain items that have been documented by an invoice. Deposits for which reimbursement is sought must be for custom and/or specialty items and are limited to 50% of the budget for the item.

Fees (Unused)

Any fees or portion of fees collected by Flagstar, other than Vendor fees, that are unused after the completion of construction or renovation (e.g., inspection fees, survey fees, title update fees) will be refunded to you at the time of conversion of a construction loan to the permanent phase and closeout of the construction loan or the closeout of the renovation escrow.

Final Draw

Final completion documentation will be required prior to the release of the remaining funds. Standard documentation required for the final draw can be found in the Construction Draw Checklist section earlier in this Guide. If there is additional completion document required in your state, it can be found in the Construction Forms Guide. Support documentation such as invoices and Unconditional Waiver of Liens for the previous draw must also accompany the final draw.

Funding Notification

A funding notification is a notice that funds have been disbursed following a draw request. Wire disbursements will receive an email with the confirmation number and amount. Funds disbursed by check will be notified via to the borrower via USPS first class mail or second day air via UPS based on the disbursement amount.

Line Item

A line item is a part of the construction budget that shows the amount budgeted to complete a particular component of the home.

Notice of Right to Lien

In certain states a subcontractor or supplier is required to give notice to the property owner and/or contractor of his intent to file a lien; this is one way in which a subcontractor or supplier can advise a property owner

they are working on their project. The subcontractor and supplier are not required to notify the lender. Because the potential of these liens can affect our primary lien position, it is important that all notices received from the subcontractor or supplier be forwarded to our loan administration Vendor who in turn will provide them to Flagstar. These notices can have a variety of titles depending on the state. For example, it may be referred to as Notice of Right to Lien, Preliminary 20–day Notice, Notice of Intent to File a Lien, Pre-lien Notice, Special Notice, Notice of Lien, Notice to Owner, Notice of Unpaid Balance and Right to File a Lien, Notice of Furnishing and Notice of Right to Claim a Lien, or similar titles. Should the borrower or contractor receive a preliminary notice, it should be forwarded to the Vendor using the contact information under the Loan Administration Vendor section on page six.

Permits

A permit is an authorization from the local building authority to begin work on a construction project. It is also used by the building authority to identify properties in need of inspections during and after completion to ensure they were constructed according to applicable building codes. The permits for your project must be submitted to our Vendor no later than with the first draw request.

Request for Line Item Transfer (Form I)

This form is used to move funds from one line item in the construction budget to another. This form can be submitted with a draw request. In order to transfer funds when work has not been completed on a specific line item, evidence of savings must be submitted. The evidence can take the form of a new bid or an invoice. A line item transfer will not be permitted unless savings are confirmed. If the work for any particular line item has been completed and funds still remain, the funds may be transferred.

Site Inspection

A site inspection is an on-site review of the progress of construction/renovation by a local inspector in order to make a determination as to whether the work or materials for which draw funds have been requested has actually been completed or are on site. The loan administration Vendor will order a site inspection from a local inspector each time a draw request is received. Flagstar will order an additional site inspection prior to releasing the final draw; this inspection will be made by the property appraiser to ensure the construction/renovation was completed as originally planned. Inspections typically will be conducted 24-48 hours after the Vendor receives the draw request. The local jurisdiction may also require inspections at various points during the construction or renovation process.

State-Specific Requirements

State lien laws place the burden on the property owner (you) to ensure subcontractors and suppliers are paid for their materials and their labor. In order to protect the primary lien position of our loan to you, we also must ensure that subcontractors and suppliers have been paid. Thus, state-specific procedures and documentation for draws have been established. With each draw request, you are required to provide us the draw documentation, e.g., invoices and lien releases, as detailed in the Standard Draw Requirements Letter. As certain states require a state-specific Waiver of Lien form, the applicable state name appears on each

Waiver of Lien form found in the Construction Forms Guide. Subcontractors and suppliers must be provided with the correct state-specific form. A draw request cannot be processed without the correct Waiver of Lien form.

Standard Draw Requirements Letter

The Standard Draw Requirements Letter is a state-specific document which outlines the requirements for requesting a draw in the state(s) to which the letter applies. The top portion of the letter will specify the applicable state(s). It is important to reference the correct Standard Draw Requirements Letter for your state to avoid delays in processing draw requests.

Survey

A survey is a geographic mapping of your property boundary lines, setback lines, utility easements, etc. A survey is required for your project after the foundation is poured to confirm it was poured within the legal lot limits. For renovation loans, a survey is generally not required unless the footprint of the home is changed (e.g., due to an addition).

Vendor

The Vendor is a specialized company contracted by Flagstar Bank to provide certain loan administration services to us in conjunction with construction and renovation loans. A fuller description of the Vendor's role in the construction/renovation process is provided on page six of this Guide.

ACKNOWLEDGEMENT OF RECEIPT OF GUIDE

Loan # _____

This Guide, along with the various construction/renovation forms referenced herein, was written for the purpose of clearly communicating Flagstar Bank’s construction and renovation lending process to our customers and contractors. To avoid errors and delays in draw request funding, it is critical that you understand and follow the procedures as written in this Guide. Please read this Guide thoroughly and contact your loan originator with any questions prior to loan closing.

While we have attempted to be as comprehensive as possible in this Guide we reserve the right to withhold funding a draw request unless and until all requirements are satisfied. After closing, you may direct questions to the Flagstar Bank Construction Administration Department at (800) 830-2303 or by email to drawrequests@flagstar.com.

By signing this acknowledgement, I certify that I have read and fully understand the contents of this Guide. I agree to provide the information required by this Guide and the applicable Standard State Requirements Letter, and follow the processes as outlined herein:

Signature

Print Name

Date

Signature

Print Name

Date

Signature

Print Name

Date

Signature

Print Name

Date