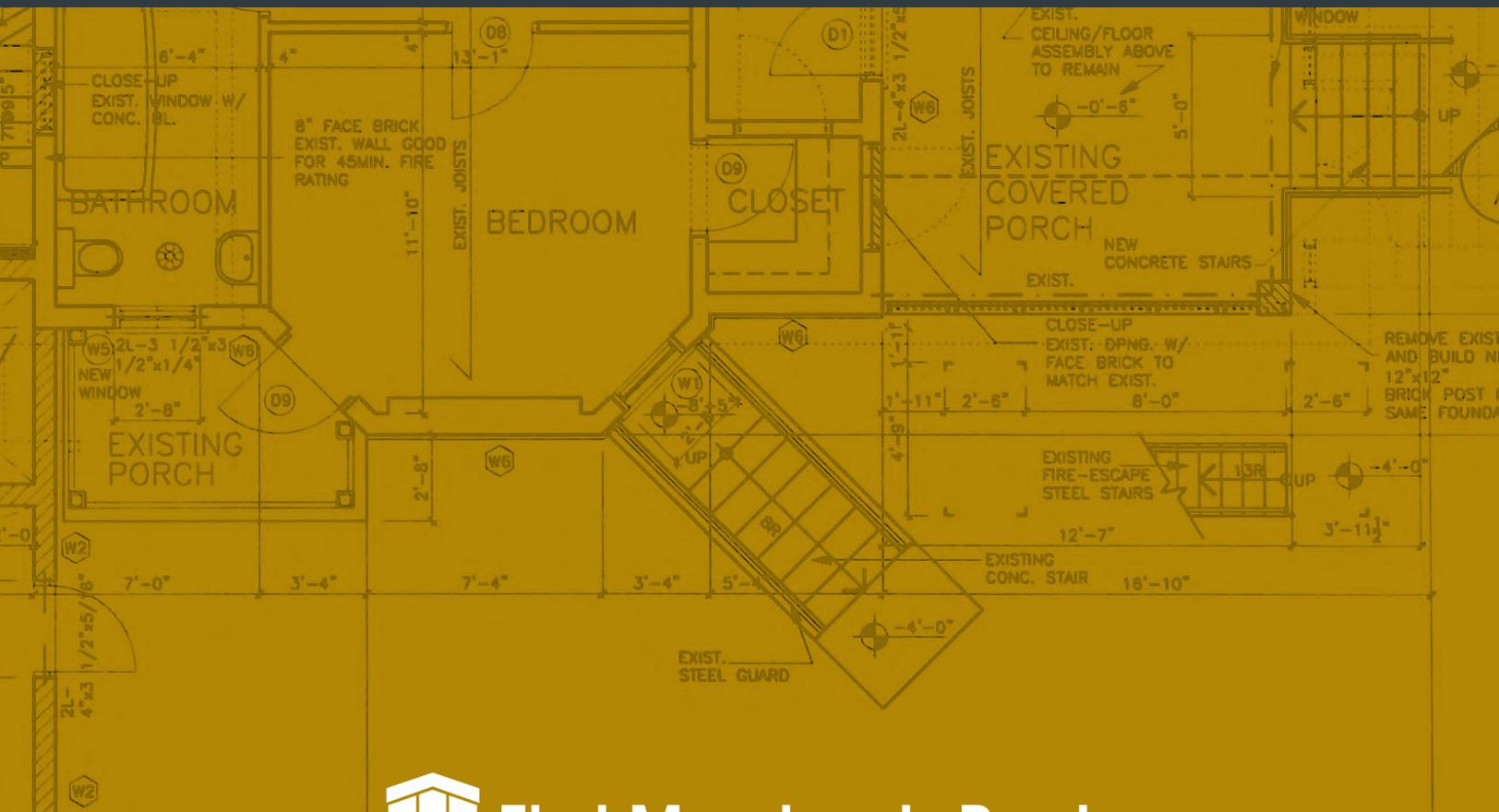


Residential Construction Loan Handbook

We attentively help you build a house,
you make it a home.



First Merchants Bank
Helping you prosper



4.....Introduction
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Choosing the right financial partner may be one of the most important decisions you can make when it comes to building a home. You need more than just a great rate. You need an attentive team that can connect you with the right products, technology, and helpful resources – while also having the experience to support and educate you throughout the process.

Our team is made up of individuals who have worked in the construction field and have longstanding careers in the construction financing industry. We have the hands-on experience and agility required to help you confidently navigate the many layers of the construction process.

At First Merchants Bank, we will be with you every step of this journey to build your dream home – from application to move-in. It starts with this Handbook. It is our easy-to-follow guide which answers many of the most frequently asked questions we receive from borrowers like you.

Please take the time to review this Handbook carefully. You will be required to acknowledge and certify that you have received, read, and fully understand its contents. Of course, we are here to answer any questions you may have and can be reached at the phone or email listed below.

We look forward to attentively working with you and your builder as we bring your vision for your new home to life!

Sincerely,

Jonathan Lammers

Construction Lending Program Manager

Licensed Residential Builder (#2101193421)

Phone: 248-205-1425

Email: constructiondraw@firstmerchants.com

CONSTRUCTION LOAN TESTIMONIALS

“In our 17 years of building luxury custom homes we have dealt with numerous other financial institutions and I have never dealt with a construction loan department better than First Merchants Bank! They understand what it takes to keep the client and builder happy throughout the entire construction process. Our clients love working with them and we as the builder couldn’t be happier with their draw process and commitment to our projects and their funding needs. I recommend First Merchants Bank to every one of our clients as they are hands down the best bank we have ever dealt with in the construction loan/financing process.”

— Bryan Leith, Olde World Homes/
LUXE Homes Design+Build

“The construction loan team is great to work with. Very responsive and efficient. Truly a no hassle experience.”

— Kirill Liberman, ModHome Design

“One of the truly bright spots in connection with building our new home in Birmingham was First Merchants’ construction lending process. They were super flexible to deal with and administered our draws on a very timely basis ensuring our Trades got paid quickly. It was a pleasure to deal with Jonathan Lammers throughout the process.”

— Michael Berger, Berger Realty Group, Inc.

First Merchants Bank is a community bank with our roots firmly in the Midwest. We got our start in Muncie, Indiana in 1893 and today we serve customers across Indiana, Ohio, Illinois, and Michigan.

We believe in combining dependable, big-bank services with the welcoming, close-knit feel of a community bank. Our bankers will be attentive to your needs, with a focus on building relationships and elevating our communities.

Driven by our vision and mission, we believe that helping communities prosper means more than just providing banking services. We actively volunteer, partner with local nonprofits, and offer financial education to help raise up neighborhoods and lift families out of financial hardship.

All of this has earned us a Best Bank rating from Forbes and Newsweek. We’ve also been named among the best employers in Indiana and Ohio.

SERVICES

We offer comprehensive “whole bank” services including personal banking, commercial banking, and private wealth management. So, if all you need is a construction loan, or you’re also interested in opening a checking account, funding a new business, or managing your investments – we’re here to help.

We also offer innovative options aimed at making your life a little easier – such as a top-rated mobile app with a budget-building personal finance tool, an interactive online financial wellness learning platform, and calculators to help you make decisions about your financial life.



OUR VISION

To enhance the financial wellness of the diverse communities we serve.

OUR MISSION

To be the most attentive, knowledgeable and high-performing bank for our clients, teammates and shareholders.

OUR TEAM

We are a collection of dynamic colleagues with diverse experiences and perspectives who share a passion for positively impacting lives. We are genuinely committed to attracting and engaging teammates of diverse backgrounds. We believe in the power of inclusion and belonging.



Streamline the loan process with a Construction-to-Permanent Loan which finances the construction with a short-term loan (usually 12-18 months), and then converts to a traditional mortgage — all with one closing. Saving you time and money as we work to help you prosper.

FEATURES

- Loan amounts up to \$3 million*
- Adjustable rate options (ARMs) and fixed rate options available
- Financing for new construction or renovation of an existing home
- Available for primary and secondary homes
- Borrow up to 90% of the sale price or your home's "to-be-completed" value
- Build on your lot or purchase a lot with your construction loan
- Up to 18 months to build
- Draw requests completed in a timely manner
- Interest only payments during the construction phase
- Single, one-time closing
- Option to convert to current mortgage rates after construction is complete (terms apply)
- PLUS... local underwriting and servicing, quick turnaround times and a local team you can turn to.

*Higher loan amounts may be available upon request.



Applying for a Construction-to-Permanent loan is very similar to that of traditional mortgage financing. Our team will review your financial information such as income, assets, debts, and credit history. In addition to obtaining this information, we will order an appraisal to determine the “Subject-to-Completion” value of the project (meaning, how much the house will be worth when it is done).

The approval process for a Construction-to-Permanent loan may take a little longer than that of traditional financing due to the complexity of the transaction that needs to be reviewed. You will be required to provide information related to the construction project, such as Builder Registration, project plans and specifications, budget and more.

We understand that applying for a loan can seem like a daunting process, and it is our goal to make the process as easy as possible. Below is a checklist of the information and documentation you’ll need to complete your application.

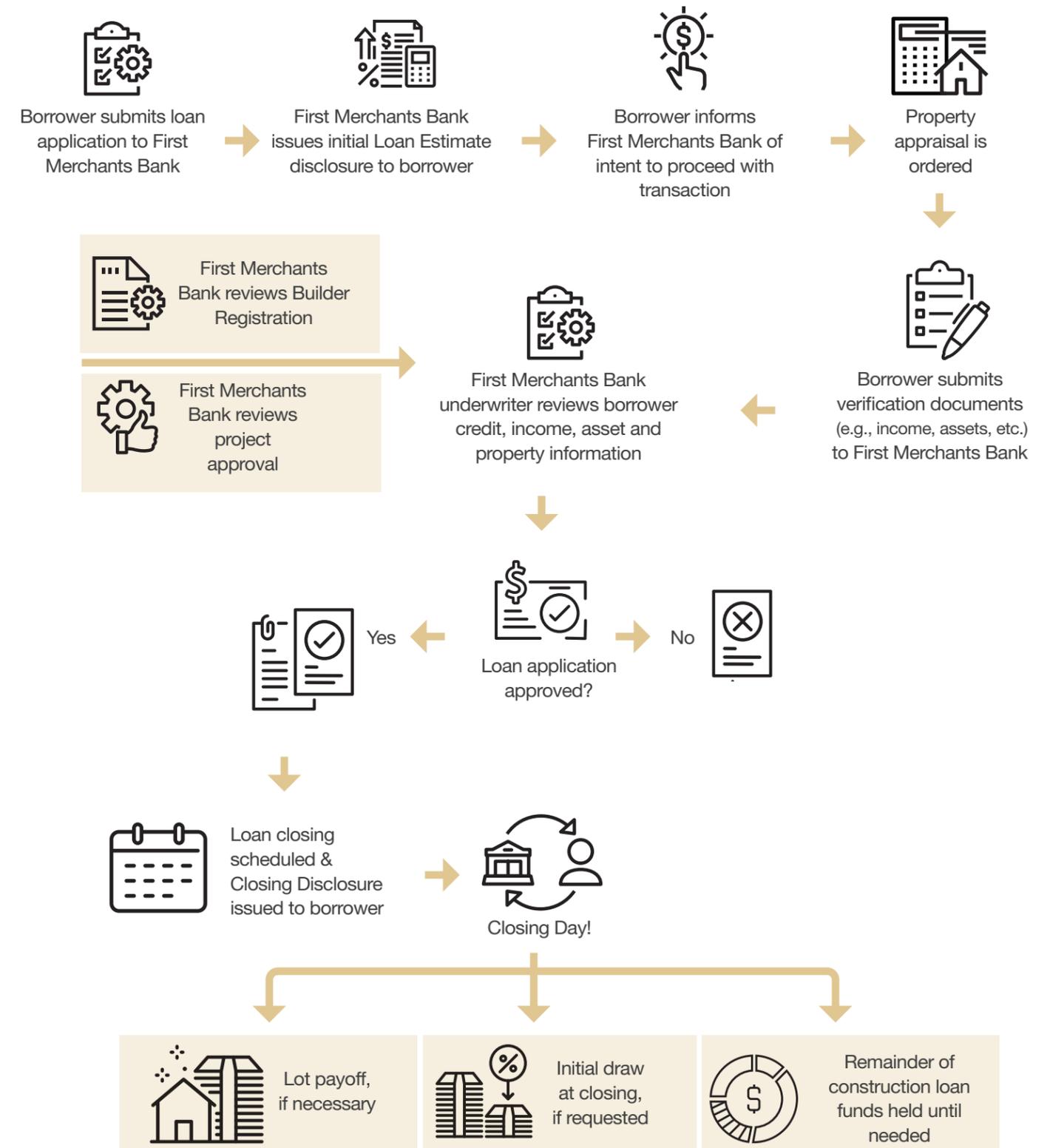
GENERAL ITEMS:

- Current and previous addresses (2 years)
- Current and previous employment information (2 years)
- Document income, assets and liabilities
- Document current monthly housing expenses such as rent and mortgage payments
- Address and market value information for properties you own, including taxes and insurance

CONSTRUCTION RELATED ITEMS:

- Builder Registration (see page 10 for details)
- Set of project plans and specifications
- Copy of project budget or Sworn Statement
- Executed building contract between builder and borrower
- Builder's Risk Insurance

To begin the application process, contact a mortgage banker or apply online at www.FirstMerchants.com.



Finding a qualified builder is a critical step towards your projects' success. At First Merchants Bank, we require all builders meet a set of requirements in order to act as your builder for your new project.

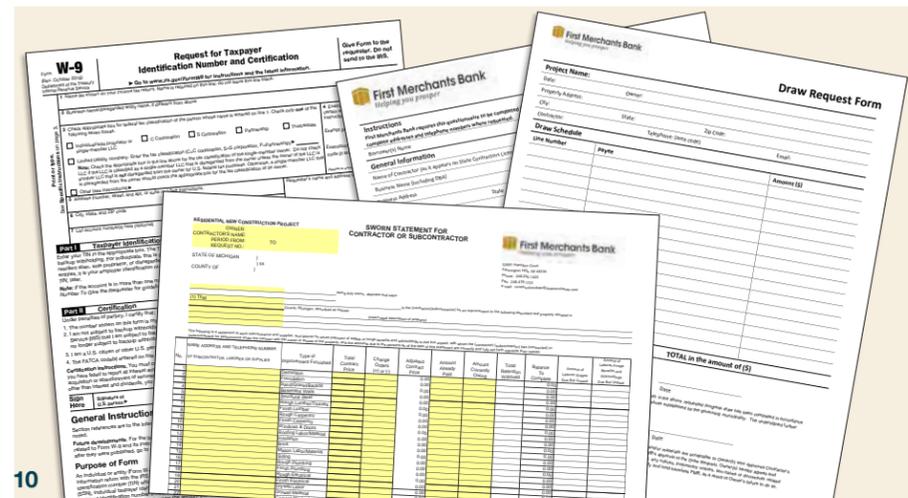
Your builder will be required to supply the following information:

- **Builder's Questionnaire**
All pertinent contact information for your builder including past sales information and appropriate references from past clients, subcontractors and suppliers.
- **State Contractor's License — Builder's License (if applicable)**
- **Driver's License**
- **General Liability Insurance**
- **Workman's Compensation Certificate (if applicable)**
- **W-9 Form**
- **List of completed projects from the past 3 years**

We will also order a "soft pull" credit report on all principals of the company to verify the credit worthiness of anyone who will be administering the payment of subcontractors and suppliers associated with your project.

Before registration, our team will review all information supplied, including verifying valid contractors' licenses, contacting references and running background checks to ensure your builder's qualifications meet our requirements.

Once your builder is registered, we will notify all parties and you may move to the next steps of the process.



During the Underwriting phase of your project, our team will work with you to collect the items we need to approve your project:

1. SIGNED CONSTRUCTION CONTRACT WITH YOUR BUILDER

Your construction contract should have key elements including:

- **Scope of Work** – type of materials to be used, windows, heating/cooling systems, etc
- **Timing for completion** — construction schedule and penalties for missed milestones
- **Payment terms** — draw schedule and how to handle cost overruns
- **Change Orders** — detailed description of work to be changed, costs, and timing (requires First Merchants Bank approval)
- **Default provisions**
- **Dispute Resolution** — Arbitration vs Lawsuit

2. SWORN STATEMENT / BUDGET

In some geographical regions, builders use a sworn statement to itemize and budget costs for improvements, materials, and labor on your project. It outlines all funds due and is their way of accounting for draws and progress. In other regions, a line-item budget is used for project approval and draw requests are based on work completed. Disbursements are reviewed and compared to percentage complete and draw schedule supplied.

3. PLANS AND SPECIFICATIONS

A comprehensive review of plans and specifications is performed by a licensed builder, on behalf of First Merchants Bank, to determine the scope of work matches the costs to build.

4. APPRAISAL

An appraiser we select will be provided with plans and specifications, as well as conduct a site visit. They will use the provided specifications and plans to understand the scope of work, so the value of the home listed in the report is based on the "Subject To Completion" value, meaning the value of the home after construction is completed.

FINDING THE RIGHT BUILDER

Once you have identified potential candidates, be sure to consider the following:

- Interview the builder. Ask how long they have been in business and if they have the appropriate experience.
- Contact references. Ask about how projects were managed including any issues related to contractors, errors or delays. Find out how the builder warranties work once a project is completed.
- Check with your local chapter of National Association of Home Builders or other industry related groups.
- Inspect one or more of the builder's finished projects for quality, fit and finish.
- Review sample contracts, budget, change orders, schedules, draw requests and procedures they follow for each item.
- Ask your attorney to review the contract before signing.

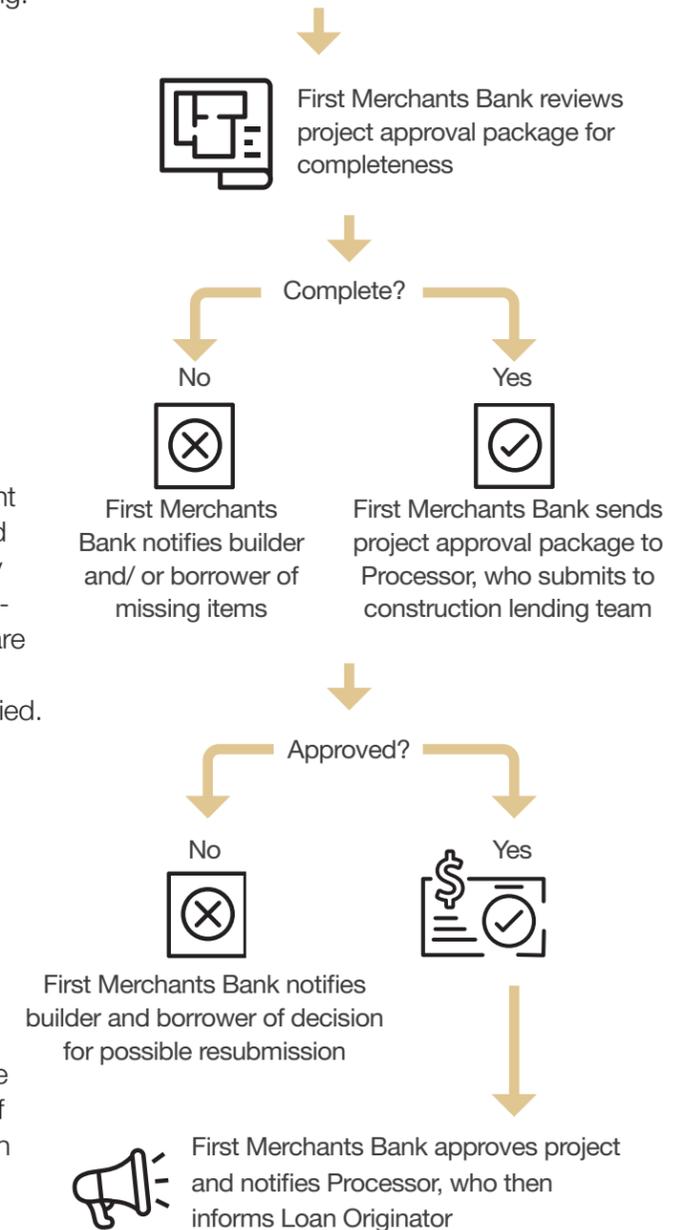
[QUICK TIP: Start your search with friends, family members or colleagues who have recently had work completed on their homes or businesses.]



Builder submits project documentation to First Merchants Bank



Borrower submits verification of items paid for in advance* to First Merchants Bank



*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 borrower would like to be reimbursed from loan funds.

We are almost there! The Loan Closing is when the final loan documents are signed. As the loan borrower(s), you will attend as will a settlement agent, who is typically a representative of the Title Company.

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 after the loan closing.

If you purchased the lot separately and not from the builder as part of the construction transaction, and financed the purchase, we will pay off any outstanding amount at closing with the loan proceeds. 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 construction liens were filed on the property by anyone who completed work.

HOW YOUR DOWN PAYMENT IS APPLIED

Any 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 an escrow account and disbursed first as work is completed. When these funds are depleted, the disbursements will be drawn against the principal of the construction loan.

CONSTRUCTION DRAW PROCESS

Rather than receiving a lump sum check, construction loans pay out the loan funds over the course of the project. The installments, called draws, are made throughout the construction process as milestones are completed in accordance with the draw schedule established in your Construction Contract or as work is completed by your builder.

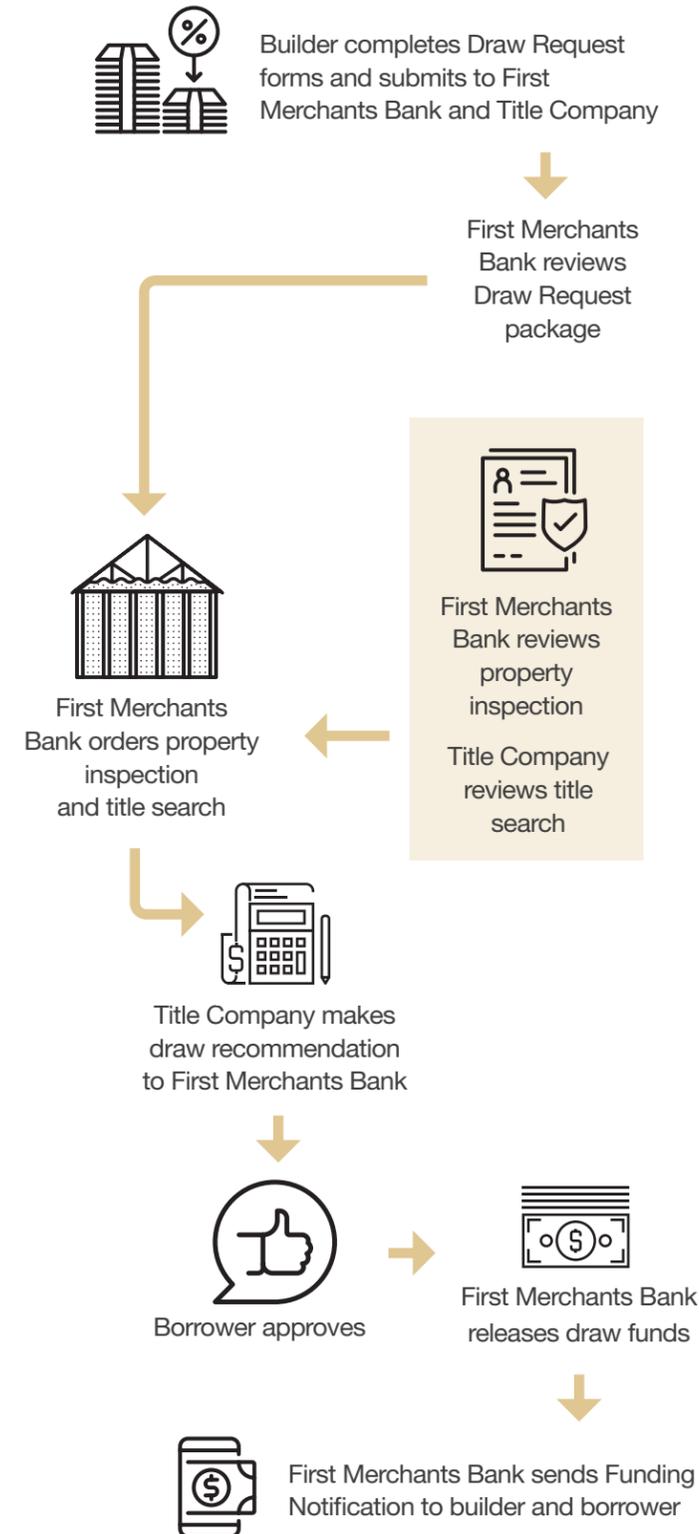
DRAW PROCESS

Step 1: The owner and builder or general contractor will request draws by submitting the Construction Loan Disbursement Request/Authorization to us or through Built – our online construction management system. In some states, a Builder's Sworn Statement and Lien Waivers will be required. In others, the funds disbursed will be based on the percentage of completion as determined by a third party inspector.

Step 2: Upon receipt, the First Merchants Bank Construction Administrative Team will immediately order an on-site inspection and title endorsement for the draw.

Step 3: First Merchants Bank receives title endorsement from the title company authorizing the release of funds.

Step 4: The requested funds are wired to Title Company for disbursement to builder (subcontractors and suppliers).



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. 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 disbursement. A limit of 10% of the budget is placed on this draw.

All draws, including a draw at closing, requires the completion of a Construction Loan Disbursement Request/Authorization. This form must list the line items of the budget or Sworn Statement from which the funds are to be drawn. The request for a draw at closing should be given to the Construction Administrative Team. This is the only draw that should be submitted in this manner. All other draw requests will be submitted directly to the Construction Administrative Team only.

ONLINE PORTAL – BUILT

At First Merchants Bank, we utilize an online platform called “Built” to streamline the draw process. You and your builder will have access to an online portal where draws can be requested and approved, and you can monitor loan activity and project progress in real-time. Third party services, such as site inspections and title updates, are also automated through this system to keep your project moving efficiently. After your construction loan closes, our team will provide details and instructions for accessing the portal.

PROJECT EXTENSIONS

If construction is not completed on time, extension paperwork will be sent to you 15 to 30 days prior to the maturity of the construction period. You must complete the paperwork and return it to us with the extension fee. Refer to the Fees section for the specific extension fee and the extension time period allowed. No refund is provided if the work is completed sooner. No additional draw requests will be processed if your loan has exceeded the predetermined construction period until we have received a properly executed modification form agreement and appropriate extension fee.

EARLY COMPLETION OF CONSTRUCTION

If construction is completed prior to the end of the construction phase, your construction loan will convert to the permanent phase shortly after the final draw. 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 of the loan.

PROJECT COMPLETION

At the end of the construction phase, final draw funds are disbursed and any construction funds remaining (e.g., unused contingency funds, but not including any unused fees which will be refunded to you) will be applied to the principal amount set forth on the note. One-time closing Construction loans will convert to the fully amortized permanent phase and payments will include both principal and interest (as well as insurance and taxes, if applicable). If the principal of the note is reduced, you may request a recasting of your payment.

When your builder has completed the project and is requesting their final draw, we will require a copy of the Certificate of Occupancy or CO. This is provided by your local Building Department after they have inspected the home for the last time. One other requirement is the conversion of your Builder's Risk Insurance policy to a standard Homeowners Insurance policy. In addition to the Insurance Declarations Page, we will also require a paid receipt for 1 year of coverage.



FIRST MERCHANTS BANK CONSTRUCTION LOAN FEE SCHEDULE

1. Draw Fees

For a 12-month construction loan, our standard fee includes up to five construction draws. For an 18-month construction loan, our standard fee includes up to seven construction draws. Draw fees include site inspections performed by your construction loan team or third-party inspector, monitoring of the construction loan and access to our construction loan software. Additional draws may be needed to complete the project, and supplementary fees will apply per occurrence.

2. Survey Fee

A mortgage survey is required once the foundation is set. The survey is ordered by your construction loan team and assists us with verifying the home is located within the borders of your property, meets setback requirements, identifies any easements, and can assist with flood insurance determination if applicable. Prices can vary by geographic location and vendor.

3. Title Endorsement Fee

In addition to the Title Insurance fees incurred on a mortgaged loan, with a construction loan, the title company charges for its review of the builder's sworn statement and waivers, draw requests, or search of public records for any potential liens that could infringe on the project. Upon their satisfactory review, they will provide a Title Endorsement authorizing First Merchants Bank to release the construction funds. These fees range from title company and geographic location.

4. Inspection Fees

Regular site inspections are performed at a minimum with each construction draw requested. A qualified inspector will visit the site and take numerous pictures and observations on the work completed to date, materials on site, and the percentage complete for various stages of the project. Inspection fees are included in our standard draw fees mentioned above for 12- and 18-month projects.

5. Final Inspection Fee

To move into your newly completed home, a Certificate of Occupancy is granted by your local City Building Department. First Merchants Bank also performs a final inspection through the original appraiser to verify completion. The appraiser will confirm there is no negative change to the original "Subject-to-Completion" value provided. Before sending the final inspection back to First Merchants Bank, they will also change the appraisal to "As-Is", indicating the project is complete.

6. Extension Fees

Delays are an unfortunate reality in the construction industry. It's possible you may experience project setbacks due to weather, material and supply backorders, subcontractor scheduling or other reasons. At First Merchants Bank, we understand this and can offer a 90-day extension to your construction loan for an additional fee. In the event a second extension is required, another 90 days could be granted. Fees are incurred with each extension and the amount varies between our 12- and 18-month programs.

Please contact your loan officer for details about our fee structure.

WHAT KIND OF LOAN DO I NEED TO BUILD A HOUSE?

Construction loans at First Merchants Bank are construction to permanent or one-time close loans. This means we offer a complete solution to provide the funds to purchase the land and construct your home through a series of draws paid to your builder. Once the project is complete the loan converts to a permanent mortgage.

WHAT PERCENT DOWN DO I NEED FOR A CONSTRUCTION LOAN?

Depending on the program type, we can lend up to 90% of the "Subject to Completion Value" Appraisal.

DO I MAKE PAYMENTS ON A CONSTRUCTION LOAN?

Yes, you will make simple interest payments on the amounts drawn against your construction loan. In essence you only pay interest on what you borrow or draw. Once the construction is completed on your home, the construction to permanent loan will convert to the Principal and Interest payment established at your loan closing.

HOW LONG DOES IT TAKE TO GET A CONSTRUCTION LOAN APPROVAL?

30-45 days. A construction loan has more moving parts than a traditional purchase or refinance transaction which can add additional time to the process. For example, your builder needs to be registered with First Merchants Bank and the entire project is reviewed to make sure the build contract, specifications and costs associated with the project meet our requirements. We strive to get you to the closing table as soon as possible. Depending on factors outside our control this time-frame can vary.

CAN I INCLUDE THE COST OF LAND WHERE I WANT TO BUILD MY HOUSE IN MY CONSTRUCTION LOAN?

Yes. Purchasing the land or paying off an existing lot loan or land contract may be included in your construction loan.

CAN I RENOVATE MY HOME WITH A CONSTRUCTION LOAN?

Yes. Our Renovation loan program allows us to lend on the future appraisal value or Subject to Completion Value. This means with your project plans and specifications, your house may be valued more with the new improvements. This allows you to borrow against this future value to help fund your renovations.



WILL YOU HELP ME CHOOSE A BUILDER?

No. It is your responsibility to properly vet your builder by reviewing their previous work, talking with other homeowners, contacting their subcontractors and suppliers. You will also want to check with the State to see if there were any complaints filed against their builder's license. The BBB is also a good source for this information. You are going to be working with this builder closely for the next year or more completing your project. First Merchants Bank does register the builders to our approved builders list by reviewing the Builder's Questionnaire Form (First Merchants Bank form but completed by the Builder) and other supporting documentation supplied by the builder. Make sure to spend your time wisely by performing your own due diligence. This is an important decision and should not be overlooked.

HOW DOES MY BUILDER GET PAID?

During the project your builder will make requests for funds called Construction Draws. Typically, a builder will need 5 draws to complete your new home. These construction draws will be for work completed or deposits required to order certain items. For example, once the framing of your home is complete the builder will request funds to pay for the lumber and labor to erect the home. First Merchants Bank offers the flexibility for your builder to request anywhere from 10-30% for materials that the industry normally requires deposits on before commencing production on the order. Windows, doors, cabinets and countertops are all items that typically require this kind of deposit.

First Merchants Bank will verify the work is completed by performing a site inspection of the property. In addition, we will verify with our title company that no liens have been filed by subcontractors or suppliers. Lastly, we will confirm that you authorize the release of the construction draw funds to your builder.



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.

Builder's Risk Insurance

A Builder's Risk Insurance Policy is a rider to your homeowners insurance policy that covers materials delivered to the construction site but not yet installed in the event of loss or damage. This is typically provided by the Builder, but in some instances, you may be required to provide your own. Dwelling coverage must be equal to your loan amount. It is important to review your insurance with a licensed insurance agent.

Change Orders

Change is inevitable during a construction project which is why a contingency plan is always in place to account for costs that are difficult to anticipate in advance. A change order comes about due to modifications or deletions to the original project plan. A change order document provides a description of the changes made, any additional time allowance required, and the associated costs. A change order serves as an addendum to the original contract. Common reasons for construction change orders include errors or omissions in the project scope, design changes, or material substitutions. All change orders must be authorized by First Merchants Bank.

Construction Loan Disbursement Request/Authorization

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 30% of the budget for the item.

Fees (Unused)

Any fees or portion of fees collected by First Merchants Bank that are unused after the completion of construction or renovation (e.g., inspection fees, survey fees, title update fees) will be refunded to you within 30 days of conversion of a construction loan to the permanent phase or the closeout of the renovation loan.

Final Draw

A minimum of 5% of the total construction hard costs must be held for the 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.

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.

Line Item

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

Notice of Right to Lien

In Michigan, a subcontractor or supplier is required to give notice to the property owner and/or contractor of their 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 and have not yet been paid by the contractor. 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 by you from the subcontractor or supplier be forwarded to our construction service team.

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 us no later than with the first draw request.

Request for Line Item Transfer

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. If the work for any particular line item has been completed and funds still remain, the funds may be transferred.

Site Inspection

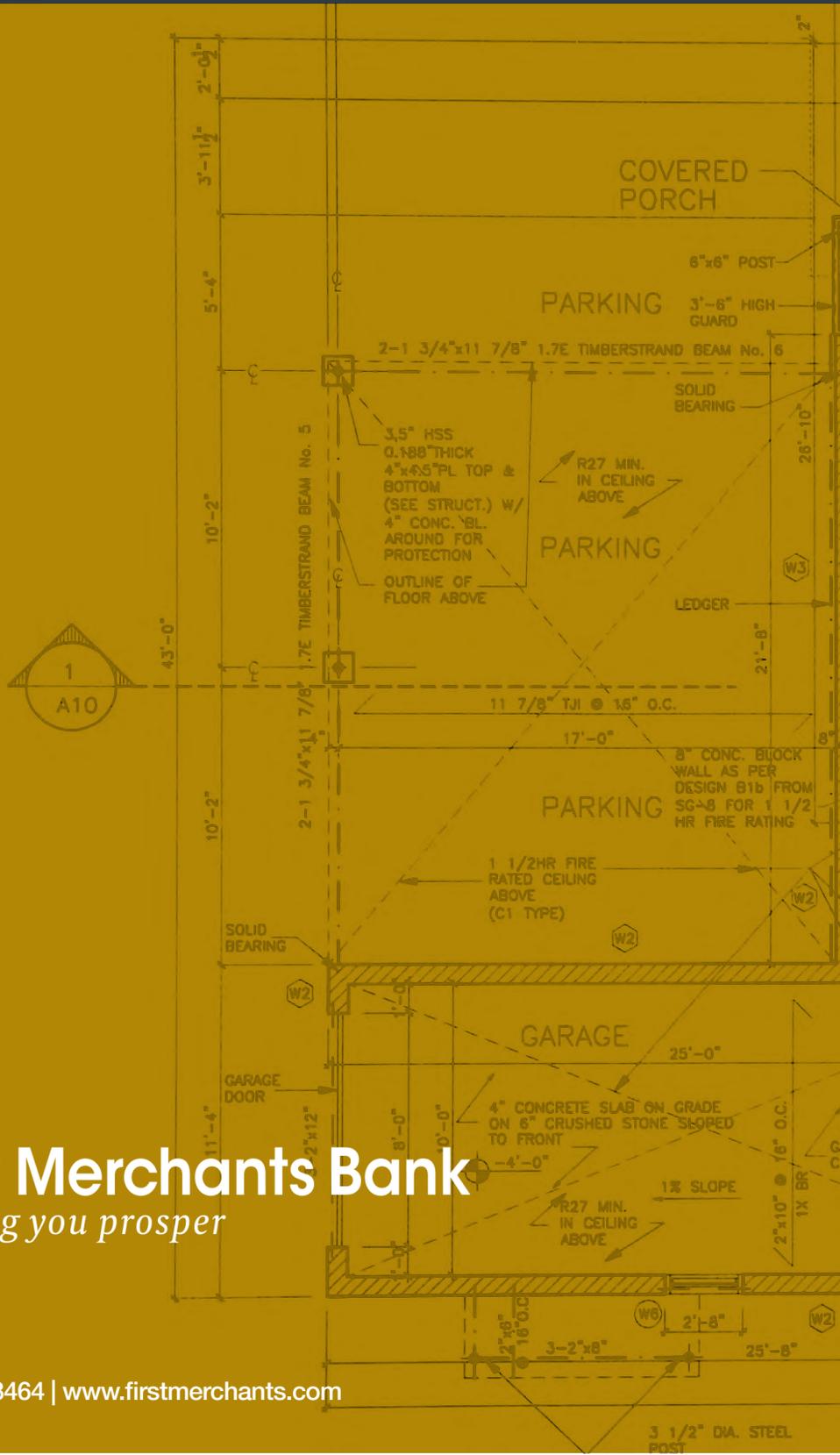
A site inspection is an on-site review of the progress of construction/renovation by a local inspector in order to make a determination as to whether the work or materials for which draw funds have been requested has actually been completed or are on site. The site inspections are only for the benefit of First Merchants Bank. We will order a site inspection from a local inspector each time a draw request is received. First Merchants Bank will order an additional site inspection prior to releasing the final draw; this inspection will be made by the original appraiser used during the underwriting of construction loan to ensure the construction/renovation was completed as originally planned. Inspections typically will be conducted 24-48 hours after we receive the draw request.

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. With each draw request, you are required to provide us the draw documentation, e.g., invoices and lien releases. A draw request cannot be processed without the correct Waiver of Lien form.

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).



First Merchants Bank
Helping you prosper



800-205-3464 | www.firstmerchants.com

**CONTACT
 ME TODAY** 



FIRST LAST NAME

Title / NMLS #
 email@firstmerchants.com
 Phone: xxx-xxx-xxxx
 Fax: xxx-xxx-xxxx
 www.website.com