Residential Construction Loan Handbook

We help you build a house.
You make it a home.

First Merchants®
Helping you prosper

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Thank you for choosing First Merchants

Choosing the right financial partner is one of the most important decisions you'll make when building a home. You need more than just a great rate. You need a team that provides the right products, technology, and resources, along with the experience to guide and support you.

Our team brings a unique advantage—firsthand experience in the construction field paired with long-standing careers in construction financing. This combination allows us to navigate the complexities of the building process with precision, helping minimize delays and keep your project moving forward.

We will be with you every step of this journey to build your dream home, from application to move-in and beyond. This handbook is designed as a clear, easy-to-follow guide to answer many of the most common questions we receive from borrowers like you.

Please take time to review this handbook carefully. You will be required to acknowledge and certify that you have received, read, and understand its contents. Of course, we are always here to answer your questions and can be reached using the contact information below.

We look forward to partnering with you and your builder to bring your vision to life.

Sincerely,

JONATHAN LAMMERS
VP, Construction Lending Program Manager

Licensed Residential Builder (#2101193421)
Phone: 248-205-1425
Email: constructiondraw@firstmerchants.com

Have a question about your construction loan or the draw process?

Email constructiondraw@firstmerchants.com. This inbox is monitored by the Construction Lending Team for the quickest response.

About First Merchants

First Merchants is a community-focused bank with our roots firmly in the Midwest. We got our start in Muncie, Indiana in 1893, and we've grown to proudly serve customers across Indiana, Kentucky, Michigan, and Ohio—while maintaining the welcoming, relationship-centered feel of a true community bank.

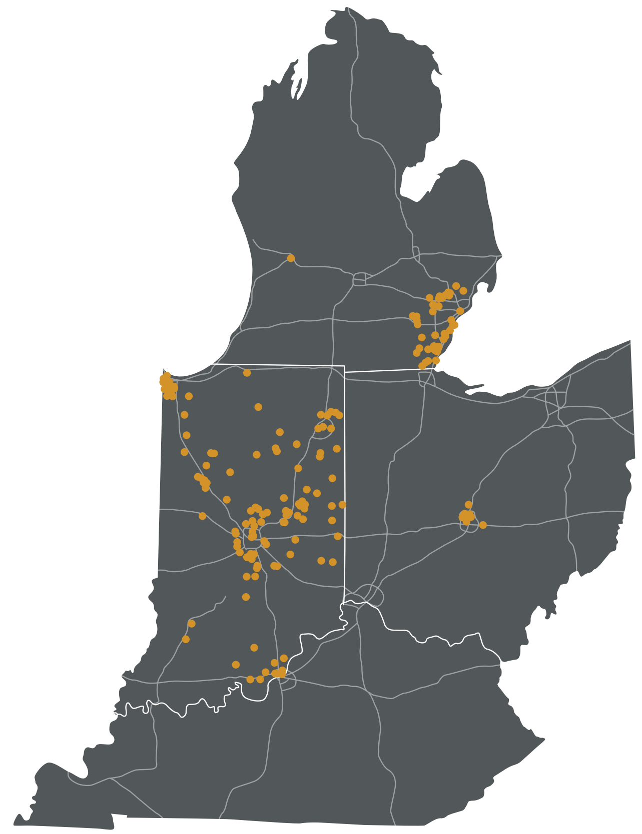
Our mission, guided by our Helping You Prosper philosophy, goes far beyond traditional banking. We're committed to delivering attentive, dependable service that ensures customers feel supported at every step of their financial journey. That same commitment extends into the communities we serve. Our team members volunteer, partner with local nonprofits, and provide financial education that helps strengthen families, businesses, and neighborhoods.

This combination has earned First Merchants recognition among top banks and top workplaces in the nation, reflecting the care we take in supporting both our customers and our employees.

Services

We offer comprehensive "whole bank" services including personal banking, mortgage lending, small business 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 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.

Construction Process

Construction-to-Permanent Loan

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 Loan

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

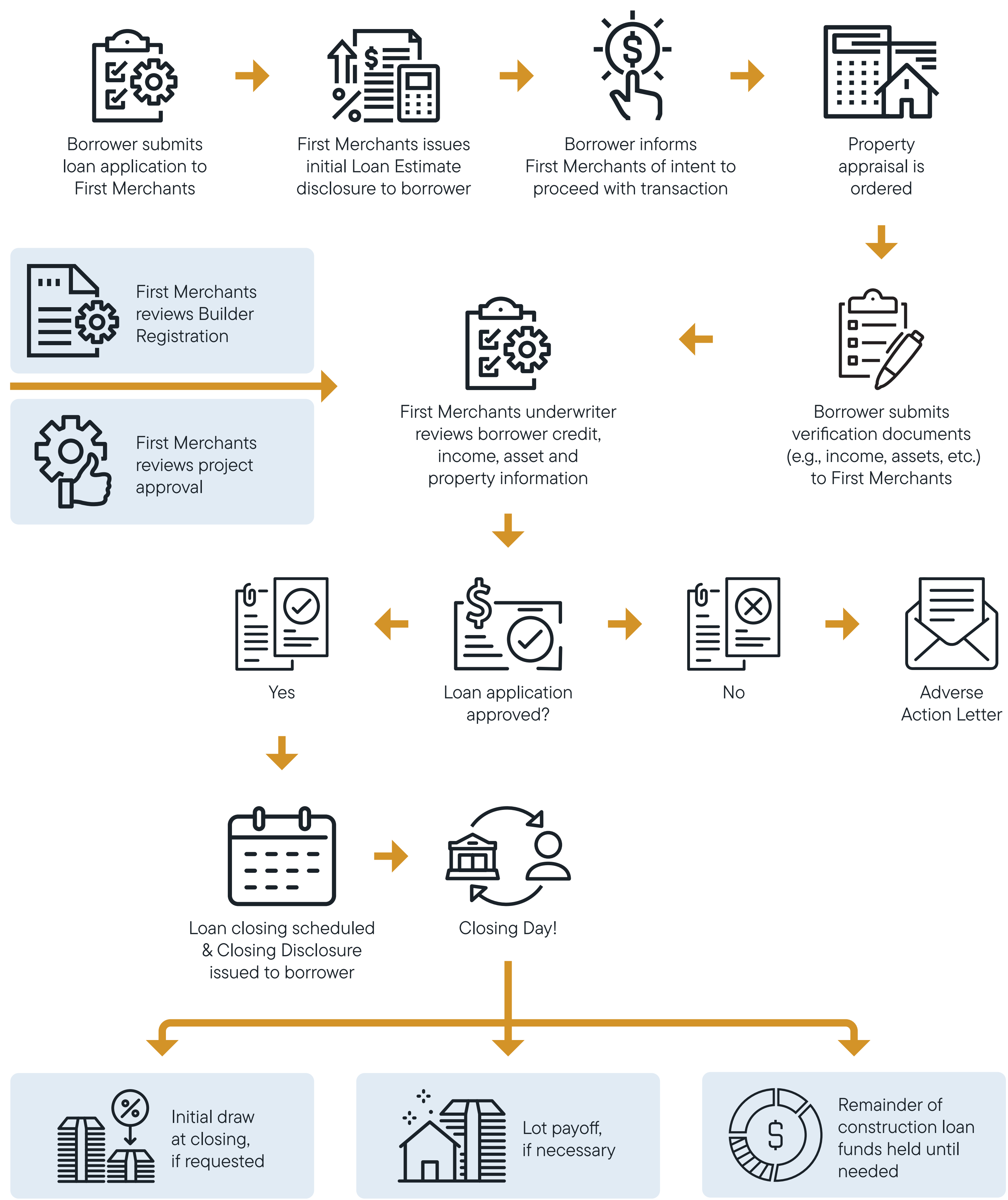
- Current and previous addresses (2 years)
- Current and previous employment information (2 years)
- Document income, assets and liabilities
- Document current monthly housing expenses such as rent and mortgage payments
- Address and market value information for properties you own, including taxes and 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 First Merchants loan officer for personalized guidance, or apply online at www.firstmerchants.com. Our team will walk you through each step, help you understand documentation requirements, and ensure your application is completed as efficiently as possible.

Loan Process



Builder Registration Process

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

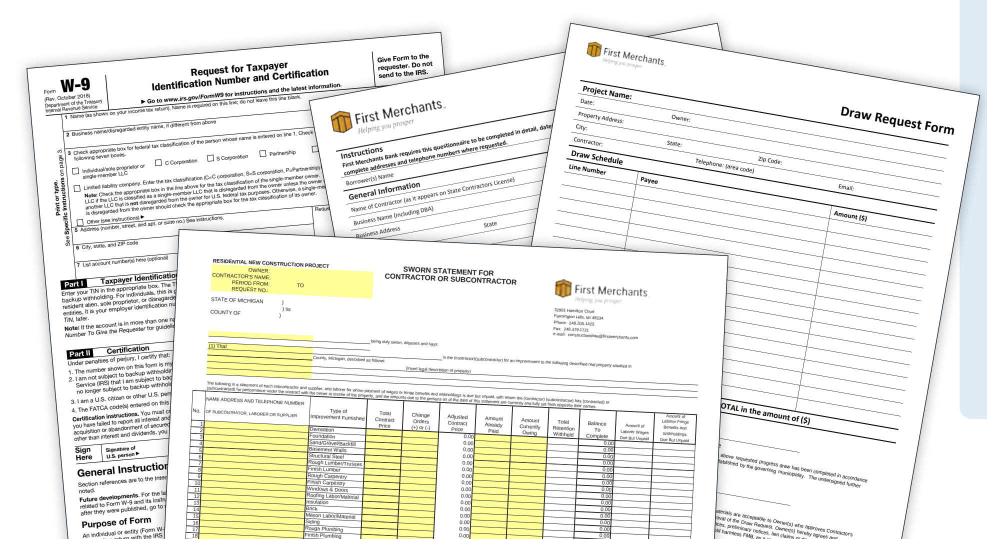
Your builder will be required to supply the following information:

- 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.



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.*

Project Approval Process

During the Underwriting phase of your loan, 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 approval)
   - Default provisions
   - Dispute Resolution — Arbitration vs Lawsuit

2. **Sworn Statement/Budget**

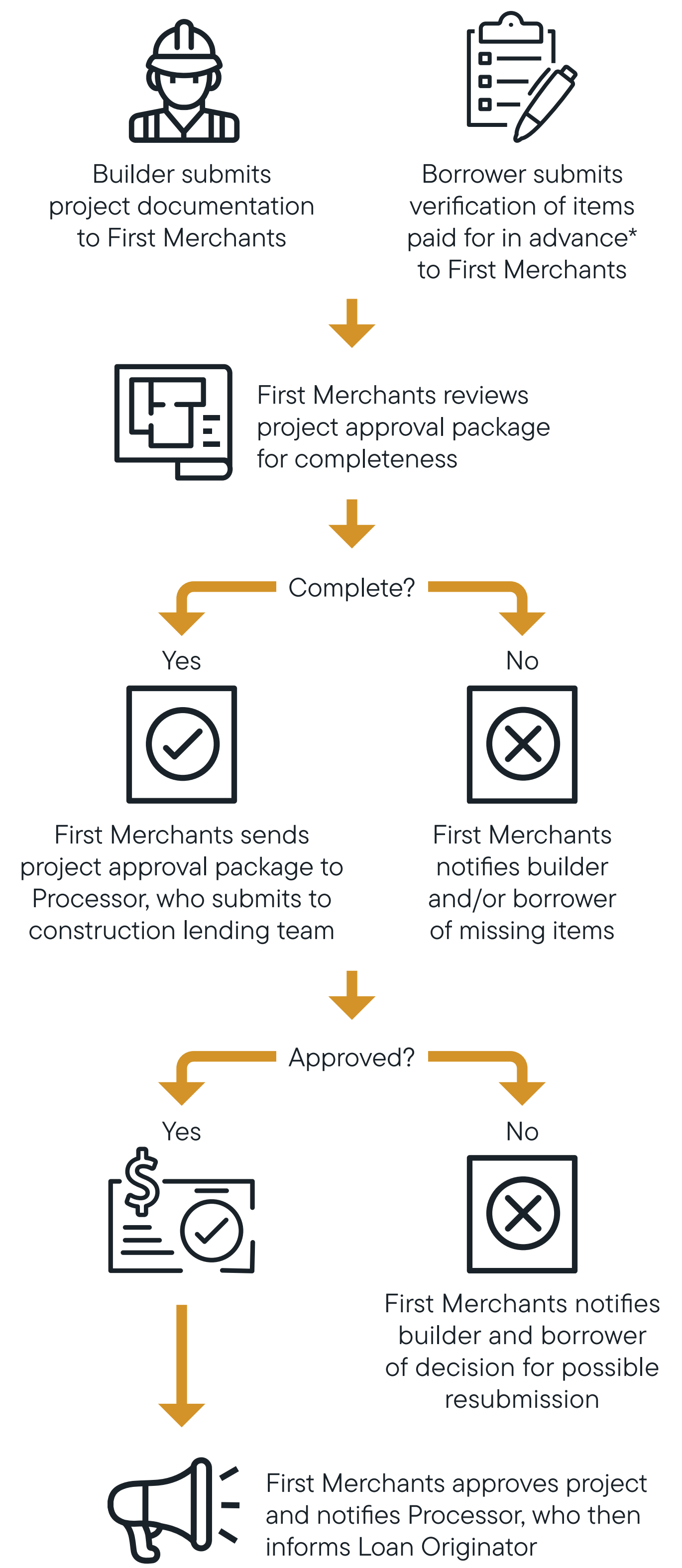
   In some geographical regions, builders use a sworn statement to itemize and budget costs for improvements, materials, and labor on your project. It outlines all funds due and is their way of accounting for draws and monitoring progress. In other regions, a line-item budget is used for project approval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



*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.

Loan Closing

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

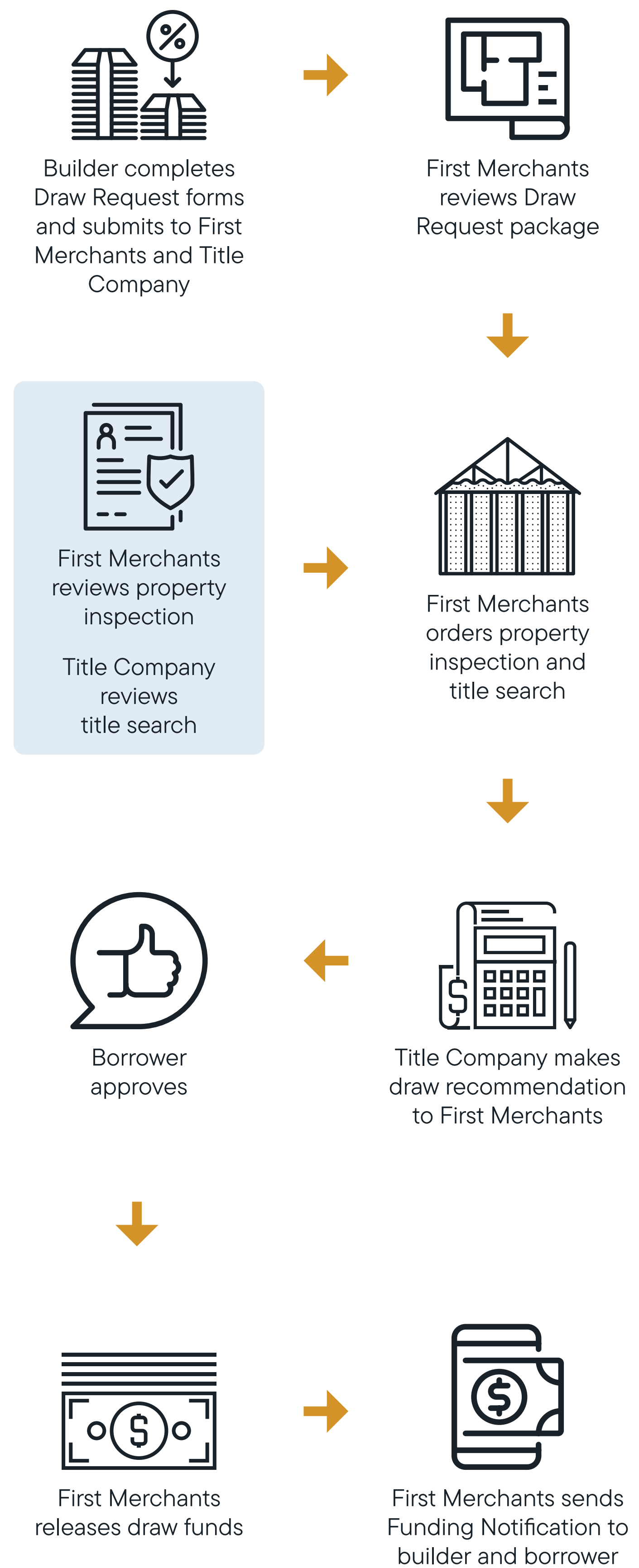
The settlement agent is the person responsible for ensuring all construction and loan documents, real estate transfer documents and other documents and disclosures are correctly completed and signed, and that any funds being disbursed at closing are appropriately handled. The settlement agent is also responsible for sending certain documents to the county recorder's office after the loan closing.

If you purchased and financed your lot separately from the construction transaction, any outstanding balance will be paid off at closing using loan proceeds. This payoff is not considered a construction draw. However, funds disbursed at closing for construction-related costs will be treated as a draw, as outlined 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.



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 REQUEST

Step 1: Builder Submits Draw Request

Your builder will submit draw requests through Built, our online construction management platform. This system allows all required documentation—including draw request forms, invoices, and supporting materials—to be submitted and tracked in one centralized location.

Step 2: Review of Draw Request

First Merchants reviews each draw request submitted through Built to confirm it aligns with your approved budget or sworn statement. This review ensures the requested funds correspond to completed work or approved materials.

Step 3: Inspection Ordered and Completed

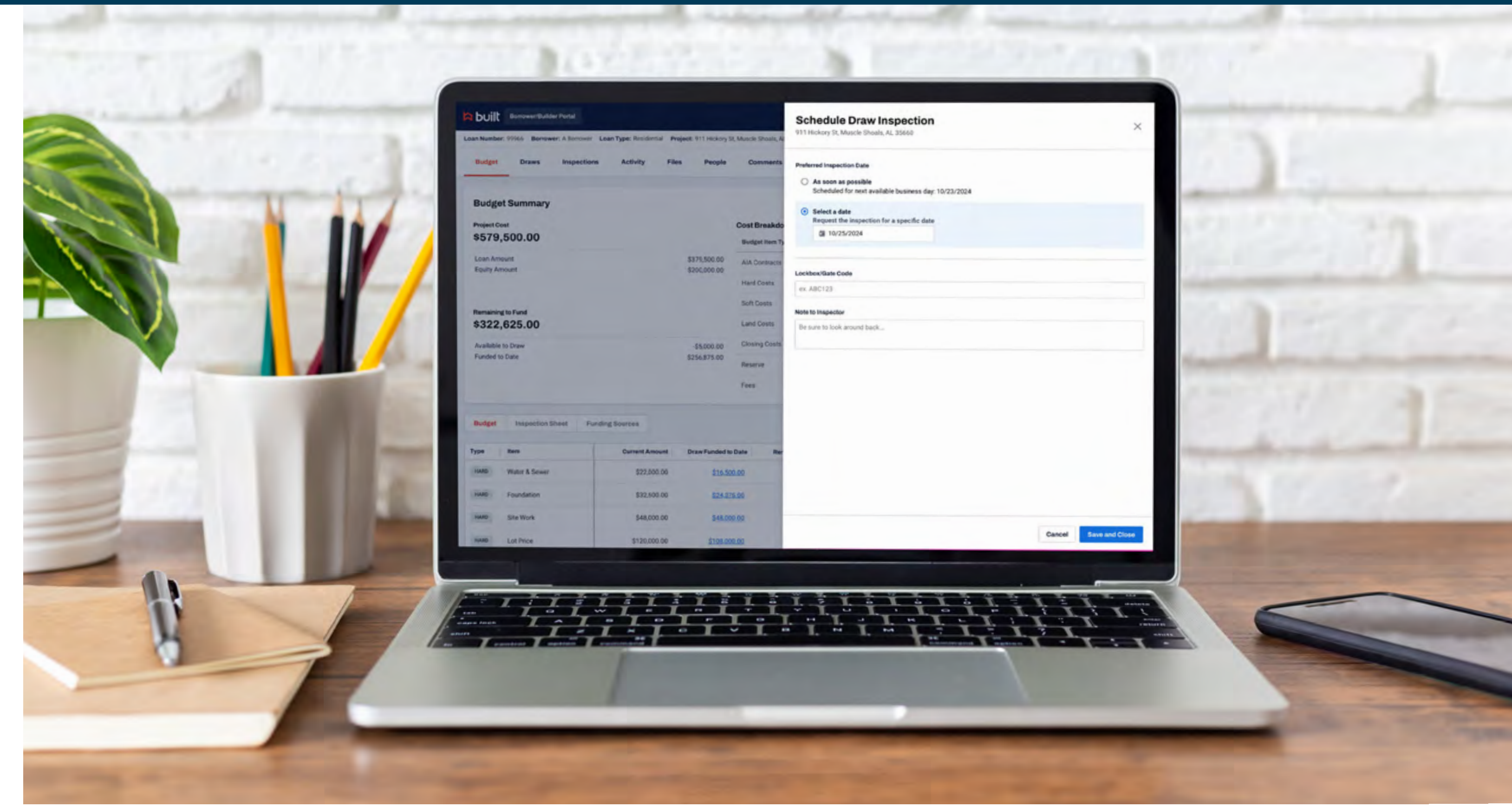
Once the draw request is submitted, an inspection is ordered directly through Built. A third-party inspector will visit the property to verify work completion and document progress. Inspection results, including photos and completion percentages, are uploaded into the Built platform for review by all applicable parties.

Step 4: Title Review and Draw Recommendation

The title company reviews the property to confirm that no liens have been filed. Based on the inspection results and title review, a draw recommendation is provided through the Built system.

Step 5: Borrower Review and Approval

You will receive a notification through Built when a draw is ready for your review. Within the platform, you can view inspection results and photos, review the requested draw amount, and approve or decline the request. Your approval is required before any funds are released.



FUNDING AND DISBURSEMENT

Once all approvals are received, First Merchants releases the draw funds. Funds are typically wired to the title company for proper disbursement to the builder, subcontractors, and suppliers. You and your builder will receive confirmation through Built once funding has been completed.

DRAW AT CLOSING

A contractor may request a draw at closing to fund initial material purchases, deposits for special-order items, or to reimburse pre-paid project expenses.

A draw at closing:

- Is limited to a percentage of the total project budget
- Must be requested prior to closing
- Requires submission of the appropriate documentation

All draw requests, except for the draw at closing, must be submitted through the Built platform.

TECHNOLOGY POWERED BY BUILT

At First Merchants, we utilize Built, a secure online construction management platform, to streamline the draw process and enhance transparency.

Through Built, you and your builder can:

- Submit and manage draw requests
- Track project progress in real time
- Access inspection reports and supporting documentation
- Receive status updates and notifications
- Approve draws securely online

This centralized system helps ensure efficient communication, accurate fund disbursement, and visibility into every stage of your project.

Project Extensions and Completion

Project Extensions

If construction is not completed on time, we offer an extension of your construction term. 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

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.

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.

Explanation of Fees

FIRST MERCHANTS 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 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**

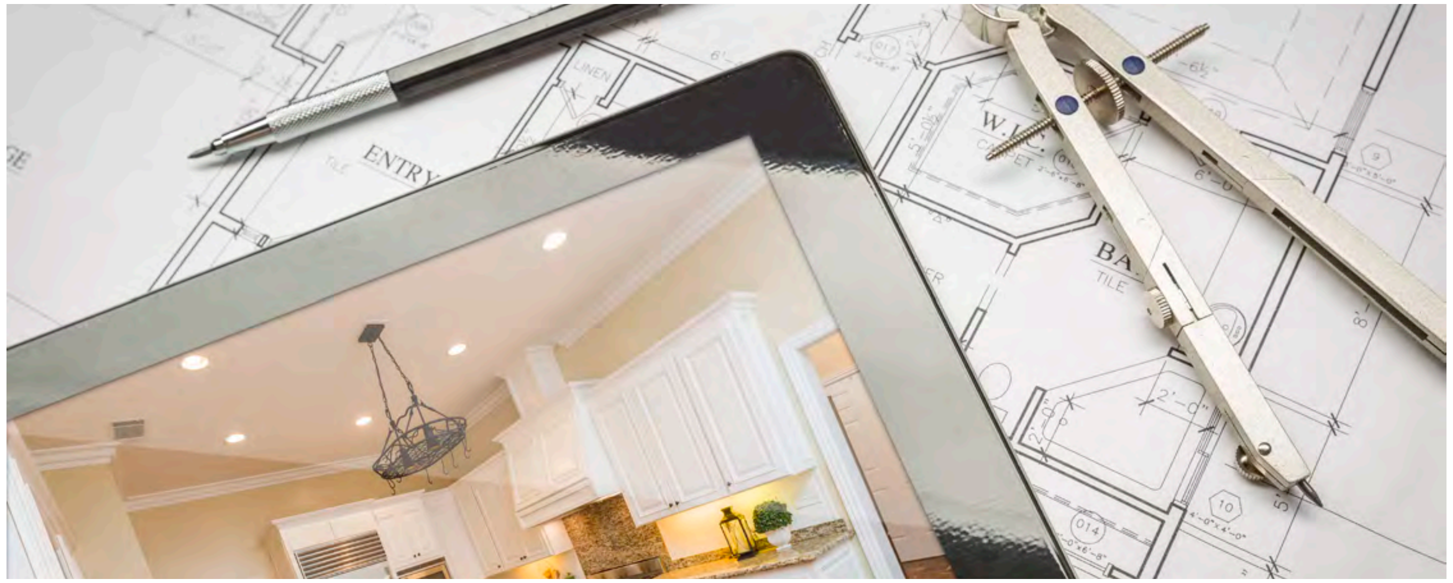
   To move into your newly completed home, a Certificate of Occupancy is granted by your local City Building Department. First Merchants also performs a final inspection through the original appraiser to verify completion. The appraiser will confirm there is no negative change to the original "Subject-to-Completion"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

Construction Loan FAQs



What kind of loan do I need to build a house?

Construction loans at First Merchants 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 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 does register the builders to our approved builders list by reviewing the Builder's Questionnaire Form (First Merchants 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 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 will verify that work has been completed by ordering a site inspection of the property. We will also coordinate with the title company to confirm that no liens have been filed by subcontractors or suppliers. Once these items are confirmed, we will request your authorization before releasing funds. This process is designed to ensure that work is completed as expected, funds are disbursed appropriately, and all parties involved in the project are properly protected.

Glossary

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.

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 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. We will order a site inspection from a local inspector each time a draw request is received. First Merchants 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).

Testimonials

"I have worked with First Merchants for many years. They are the best at what they do. Their efficiency, timeliness and professionalism put them in a class of their own. Thanks for making the construction loan process a simple and easy process."

STEVE CONARD
Conard Custom Homes

"As a custom builder, our clients rely on Executive Homes to help them navigate a fairly complex process that can seem overwhelming, and an important part of that includes financing for their project. I always recommend First Merchants to our clients for construction perm financing. Knowing that a recommendation is also an endorsement, we take that endorsement seriously, and First Merchants always performs. From explaining how a construction perm loan works, to facilitating the loan approval process, and seamlessly managing the draw process, every aspect is handled efficiently and effectively. The Executive Homes team and our clients appreciate that!"

PETE GRAY
Executive Homes

"I have been administrating new home construction draws for clients for over 30 years. First Merchants is one of my favorite lenders to work with. Their process is easy for both the client and the builder. They go above and beyond in every situation. I will always recommend First Merchants as a construction lender."

KATHY WAGNER
Gradison Design Build

Acknowledgment Receipt of Guide

This Residential Construction Loan Handbook ("Handbook") is provided to clearly communicate First Merchant'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 required by First Merchants. Please read this Handbook thoroughly and contact your loan originator with any questions prior to loan closing.

While we have attempted to be as comprehensive as possible within this Handbook, we reserve the right to withhold funding a draw request unless and until all requirements set forth in the Construction Loan Agreement are satisfied. After closing, you may direct questions to the First Merchants Construction Lending team.

By signing this acknowledgment, you certify that you have received, read, and fully understand the contents of this Handbook.

Signature	Signature
Print Name	Print Name
Date	Date
Signature	Signature
Print Name	Print Name
Date	Date

First Merchants®

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