



**TEG**<sup>®</sup>  
Federal Credit Union



**RENOVATION  
LOAN GUIDE**



## RENOVATION LOAN INFO PACKAGE

Thank you for your interest in TEG's Renovation Loan product – your home improvement/renovation loan. TEG is dedicated to helping our members become successful homeowners. We are committed to providing the tools and resources that you need to purchase a fixer upper or update your existing property with our single-close renovation loan.

Included in this package is our step-by-step process from your first call to one of our experienced loan officers to completion of your project, and answers to frequently asked questions. This information guide will make the financing of your project clear and easy to understand from start to finish. When you are ready to get started, or if you would like to have a more in-depth discussion about this product, please contact one of our mortgage loan officers. We look forward to working with you.

Sincerely,

TEG Mortgage Department  
1 Commerce Street  
Poughkeepsie, NY 12603  
845.452.7323  
[mortgageofficers@tegfcu.com](mailto:mortgageofficers@tegfcu.com)

[Meet our mortgage loan officers.](#)

## GETTING READY TO APPLY

### *Pre Application Phase*

During this phase, you will work with your mortgage loan officer to gather all the information needed to structure your renovation loan.

Contact a mortgage loan officer to get pre-qualified. We will review your credit history, income, and assets to determine how much you can borrow. This will help establish a budget for the purchase/refinance and renovations.

If you do not already own the home, the purchase of your home and cost of renovations can be included in your renovation loan.

- Select the home you want to purchase and renovate and determine the scope of work to be included (i.e.: bathroom updates, new roof, kitchen renovation).
- Select a general contractor. We recommend you review your contractor's references, licenses and financial background when making this choice. Your TEG loan officer may be able to provide recommendations for contractors in your area. TEG does not provide any warranty on the contractor's work.
- Select a [HUD Consultant](#). A HUD Consultant differs from a traditional home inspector in that they are not only identifying issues with the property but working with you during your renovation project. Your HUD Consultant, along with your general contractor, will assess the project to ensure all necessary repairs are included in the scope of work. They will provide a breakdown of the cost of labor, materials, and fees for improvements. Your renovation budget will include an allowance for unexpected expenses.
- Important Note** – make sure that your contractor understands the renovation loan draw process. A maximum request of 50% of material costs can be made up front and subsequent progress payments will be made after the HUD Consultant has confirmed work is complete.
- Estimate the value of the property once renovations are complete. You may wish to consult with a realtor or your HUD Consultant for guidance.
- When all steps have been completed, you are ready to begin your formal application!

# APPLY FOR A TEG RENOVATION LOAN

## *Application Phase*

- Now that your total budget (home refinance or purchase plus renovation) has been determined, please contact your loan officer so we can finalize your application and proposed loan amount.
- Provide your plans and specs, construction proposal, Specification of Repairs (SOR) which you will obtain from your HUD Consultant, and updated income and asset statements as needed.
- Sign your application package with disclosure documents and provide an appraisal deposit to begin the processing phase.

## *Processing and Underwriting Phase*

The processing of a TEG Renovation Loan is like any other mortgage product, but also includes review of your selected general contractor and project.

- Please be sure to provide contact information for your general contractor so we can contact them to obtain any documentation needed such as insurance and contractor profile.
- Your loan will be assigned to a processor who will review your file and will order any third-party reports which will include the appraisal as per plans and specs.
- Once all processing documents have been received, your loan will be reviewed by underwriting. If all is acceptable, an approval letter will be issued.



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- A photograph showing three men on a construction site. Two men in the foreground are wearing hard hats (one yellow, one white) and are looking at a set of blueprints held by one of them. A third man in a white shirt stands to the right, looking on. They are standing on a concrete surface with a building under construction in the background.
- Your processor will review your approval letter with you which may include any final conditions necessary for your loan to be cleared to close.
  - The draw schedule, including any initial material advances, must be approved by TEG prior to closing.

Prior to closing, if you have questions at any time, please contact your loan officer or processor.

### ***Closing Phase***

The closing attorney will schedule your closing once you are cleared to close.

- In addition to standard closing documents, you will sign a construction loan agreement and escrow holdback a agreement. The escrowed funds will cover the balance of renovations/repairs, contingency reserve, inspection, and permit fees.
- Only the initial material draw, and permit fees, if any, will be released at closing.

### ***Renovation Phase:***

During the renovation phase, you will work with our mortgage servicing department, who can be reached at 845.452.7323 or at [mortgageservicing@tegfcu.com](mailto:mortgageservicing@tegfcu.com). They will monitor the progress of work and disburse funds according to the procedure below:

- Funds for the renovation are paid in accordance with the approved SOR and based on the HUD inspection and amount of work complete. Your first draw request cannot be submitted earlier than 7 business days after closing.
- You will be responsible to schedule your inspections with your HUD Consultant.
- Submit a draw request to [mortgageservicing@tegfcu.com](mailto:mortgageservicing@tegfcu.com).
- TEG will update title periodically to ensure there are no liens or judgements on the property. Any intervening liens will need to be released prior to draw disbursement.
- 10% of each draw will be held back until the project is 100% completed.
- Any change orders need to be submitted to TEG for approval prior to proceeding with the change.
- Do not approve funds to be released to the contractor for unsatisfactory work. If work stops for an extended period of time, or there are problems with the work performed that may cause significant delays, you must contact us.
- You are responsible for making the mortgage payment each month, even if the work is not satisfactorily completed.
- Do not pay the general contractor up front for any items included in the approved draw schedule.



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- Your loan amount cannot be increased post-closing. Your loan includes a contingency reserve for unexpected overages. Use of the contingency funds requires a change order be submitted to TEG for approval. You are responsible to pay for any overages that exceed the contingency reserve.
  - Your general contractor is responsible for paying all subcontractors and material suppliers involved with your project. If payment does not occur, a lien can be filed against your property, which would need to be resolved or it will impact your future draw requests and loans.
  - You are responsible for paying property taxes and insurance as they come due if not already paid through a Tax and Insurance Escrow account with your mortgage.
  - Any unused financed contingency will be applied as a principal payment to the mortgage once the project is complete.
  - The following items will be needed in order to process the final draw request:
    - Final HUD Inspection report showing all work is 100% complete
    - Certificate of Occupancy (if applicable)
    - Final title update
    - Executed borrower letter of completion
    - Contractor lien waiver

## FREQUENTLY ASKED QUESTIONS

Can I finance an investment property?	<b>No.</b> The Renovation Loan may only be used with a property that is intended as an owner-occupied primary residence or second home.
Can I act as my own general contractor?	<b>No.</b> A qualified general contractor is required to oversee the project.
Can I start my project before loan closing?	We recommend waiting until financing is secured before starting your project. In the event construction has started prior to application, please discuss with your loan officer so that they can provide appropriate direction.
Do I have to own my home to closing?	<b>No.</b> The home may be purchased simultaneously with the closing of the Renovation loan.
Can I get cash back at closing?	<b>No.</b> Proceeds from a Renovation Loan can only be used to purchase, pay off existing liens and renovation costs. No additional cash-out or debt consolidation is allowable.
Who are the construction funds released to?	Funds may be released directly to the Contractor, Sub-contractor, or Supply Vendors as directed on the draw request.
Can a subcontractor or materials supplier file a mechanics lien against my home?	<b>Yes.</b> Even though you may pay your contractor, if your contractor does not pay the subcontractors or materials supplier, they can file a mechanics lien against your property
Who pays for cost overruns during the construction phase?	Most renovation loans have a 10-15% contingency reserve. Those funds may be accessed with an approved change order and draw request. The Borrower is responsible for paying the overages that exceed the contingency allowance.
How are payments made during the renovation phase?	After closing, borrower will pay principal, interest, taxes and insurance on total loan amount. Renovation funds will be held in a separate escrow account to be released in progress payments.
What happens if my project is not completed prior to the maturity of the construction phase?	You may request an extension for your project to allow time to complete renovation. Failure to complete renovations within allotted time frame without approved lender extension would be a violation of your mortgage terms.
What happens if the contingency reserve is not used?	Any remaining financed contingency will be applied to your mortgage balance as a principal payment after final draw is complete.



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