

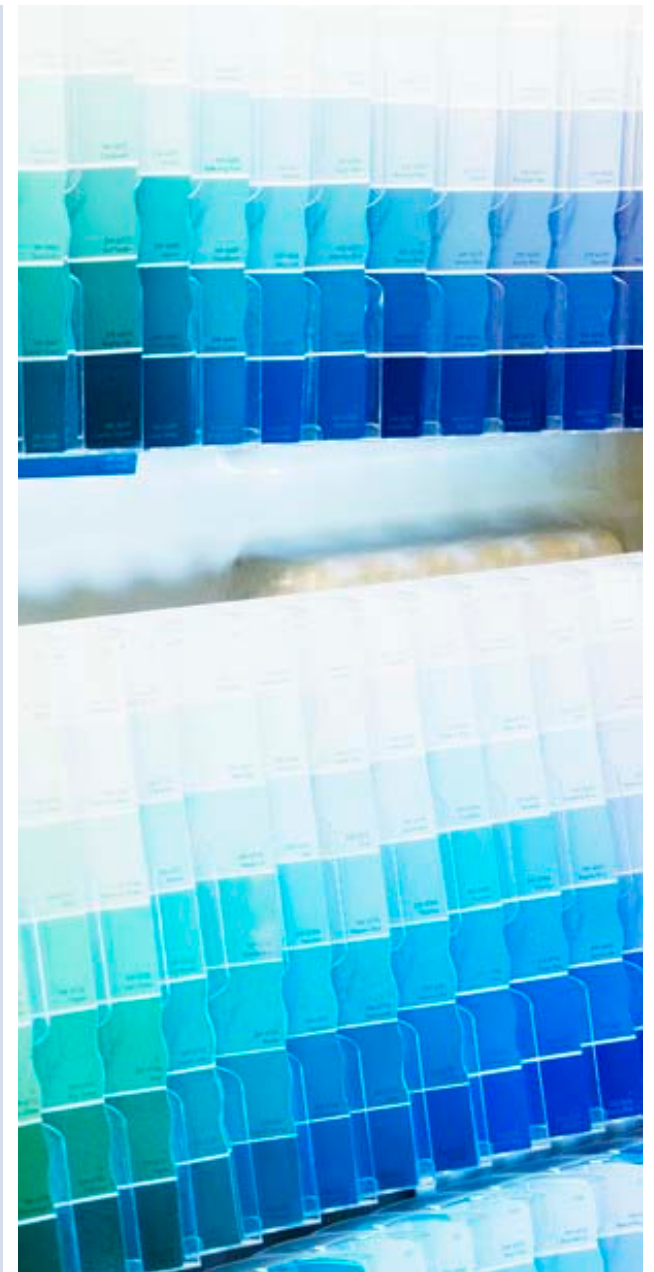
A Guide to Construction Lending with BBVA Compass



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This booklet is designed to provide general information about the BBVA Compass Construction Permanent Loan Program. The information contained herein should not be considered legal or technical advice. If you need additional information, we recommend that you seek expert advice from a competent professional. This information is subject to change without notice. This is not a commitment by BBVA Compass to make a Construction Perm Loan. BBVA Compass is a trade name of Compass Bank, Member FDIC.



About BBVA Compass

BBVA Compass is a leading U.S. banking franchise located in the Sunbelt region. BBVA Compass is the 15th largest U.S. commercial bank based on deposit market share and ranks as the third largest bank in Alabama, fourth largest bank in Texas and fifth largest bank in Arizona. Headquartered in Birmingham, Alabama, it operates 741 branches throughout Texas, Alabama, Arizona, California, Florida, Colorado and New Mexico.

Through three major business units – Corporate Banking, Retail Banking, and Wealth Management – Compass offers customers unique and industry-leading products and services with a focus on providing customers with financial solutions to fit their lives. These products and services include commercial and wholesale banking, treasury management, Small Business Administration loans, international services, merchant processing, retail banking services, consumer loans, mortgages, home equity lines and loans, credit cards, personalized Visa® Check Cards, securities brokerage, mutual funds and annuities, financial counseling, wealth management, pension plan management and insurance.

Compass Bancshares, Inc., a wholly owned subsidiary of BBVA (NYSE: BBV) (MAD: BBVA). BBVA is a financial services group with more than \$750 billion in total assets, 48 million clients, 8,000 branches and approximately 103,000 employees in more than 30 countries. BBVA provides its customers around the world with a full range of financial services, including commercial and wholesale banking, retail banking services, consumer loans, mortgages, credit cards, securities brokerage, wealth management, pension plan management and insurance. The BBVA Group maintains a leadership position in Spain, Mexico, Latin America and the Sunbelt Region of the United States as well as operations in China, France, Germany, Hong Kong, Italy, Japan, Singapore, Switzerland, and the United Kingdom.



Contact Information

Selecting the Right Mortgage

Just like choosing the perfect paint color, how you finance your project is an important decision to make.

At BBVA Compass we have the expertise to help you find the right program to build your dream home. Whether it's your first home or your vacation home, we'll make financing your dream a reality.

Our simple and straightforward Construction Perm program makes the decision to choose BBVA Compass an easy one.

The Construction Perm Loan provides you benefits unlike any other loan program:

- One Time Close transaction eliminates the need for multiple loans to finance your new home.
- Variety of loan programs available to fit specific lending needs.
- Save money with one set of closing costs.
- Flexibility to modify loan terms after closing. (Restrictions apply.)
- Capped interest rate protection during construction with a one-time float down at completion.
- Construction phase options of 6 to 24 months allow time for completion of any size project.
- Re-qualification is not necessary in most cases.
- BBVA Compass' draw process is simple and straightforward for both the Borrower and the Builder.
- Flexibility to use an inspection schedule that meets the disbursement needs of your project.
- Interest paid during the construction phase may be tax deductible. (Consult your tax advisor.)

Your BBVA Compass Mortgage Banking Officer will present you with a variety of loan programs to fit your unique needs.

Did you know? Construction Perm is also referred to as: CP, One Time Close or OTC.

Selecting a Builder

As the homeowner, you will make a lot of decisions about your new home, but none are more important than selecting the right builder. Choosing the right builder will help ensure the successful completion of the project and you'll be able to enjoy the experience of building your dream home.

It is the Borrower's sole responsibility to investigate and choose the builder. BBVA Compass' acceptance of your builder is not an endorsement of the builder.

We believe the more informed you are, the more prepared you are to make the right decision for you and your project. Here are a few recommendations when choosing a builder:

- The builder should have basic qualifications – Contractor's license, city or state licenses, proper insurance, a business address, a proven track record, a good reputation and a professional manner.
- Check references – Contact homeowners your contractor has worked with to discuss how their projects were handled. Visit 2-3 in-process and recently completed homes for quality and appearance.
- Ask other builders, contractors, and Realtors in your area about their opinion of the builder.
- Check on-line resources, including the local Homebuilder's Association, the local Better Business Bureau, and www.contractors-license.org.

The Application Process

You've probably already spent a lot of time thinking about your dream home. You may have already met with a builder and selected your plans. Your project is starting to come together. Now you are ready to apply for the mortgage that will make all this possible. At BBVA Compass, we will work hard to make the application process easy and convenient for you.

How do I start the application process?

Contact your local BBVA Compass mortgage professional or visit www.bbvacompass.com to find the nearest BBVA Compass Banking Center.

What can I include in my loan amount?

The following project costs may be included in the transaction:

- Contract with builder – for the home and all site improvements
- Contingency Reserve – to cover cost overruns
- Lot purchase or loan payoff – if applicable
- Closing Costs – using equity in the lot ownership prior to closing

What project information will my loan officer need?

You will have to provide:

- The building contract – signed
- Lot Purchase Contract, if applicable
- Final Plans and Specifications
- Earnest Money Proof, if applicable
- Perc Test – for projects with a septic tank
- Current Boundary Survey

Good to Know

Change in Plans

The plans and specifications cannot be changed after they are provided to us, especially after the appraisal has been completed. Changes may affect the value.

Conflict in Terms

In the event of a conflict between the building contract and our terms, we will follow our terms, regardless of whether we address or acknowledge the conflict.

Rate Lock

The permanent interest rate maybe locked at anytime once you are within 60 days of loan closing.

Construction Phases

We offer construction phases ranging from 6 months to 24 months to fit all types of projects. It's up to you to select the right amount of time to complete the project.

Builder Review

BBVA Compass requires all builders to go through our review process to determine if our minimum builder standards are met. Acceptance by BBVA Compass is not an endorsement of the builder.



Insurance Requirements

When building a home, there are risks that must be insured by either the Borrower and/or the Builder.

Below is a list a standard insurance coverages.

1. **Builder's Risk Insurance** – This policy generally covers fire, vandalism, mischief, and theft and can be provided by either the Builder or the Borrower. It is required during the construction phase.
2. **Homeowner's Insurance with a Builder's Risk Rider** – This provides coverage for the builder's risk that converts to a standard homeowner's policy upon completion of the home. It is provided by the Borrower and is required during the construction phase.
3. **Homeowner's Insurance** – Standard homeowner policy is required at the completion of the home and is provided by the Borrower.
4. **Flood Insurance** – Mandatory on all loans if any part of the subject property is located in a flood zone. This is required at the initial loan closing and is provided by the borrower. If the structure is built outside the flood zone, the borrower may provide information to FEMA requesting an amendment to the flood map.
5. **General Liability Insurance** – This is a comprehensive policy that protects against claims of property and personal injuries, especially for parties not directly associated with project, such as a visitor falling on the job site. Typically, this is provided by the Builder.
6. **Worker's Compensation** – This is coverage for construction professionals and sub-contractors or others who are working on the property. BBVA Compass does not require proof of coverage. State guidelines dictate whether this must be provided by the Builder.



The Closing

Once your loan is approved, you are ready to close. The closing is an important part of the loan process.

Borrower & Builder Attend Closing

The Borrower and the Builder attend the closing to sign the required documentation.

Down Payment Funds

The Borrower has to provide the required down payment funds at closing.

Construction Costs Paid at Closing

The borrower may authorize that some of the building cost be paid at closing, such as real estate commission and a start up draw (typically 5%) for initial start up expense.

Escrows

Tax and insurance escrows are not collected at closing. When the loan is ready to convert to the permanent phase, the appropriate amounts for tax and insurance escrows will be collected from the Borrower.

Lot Ownership

If you do not already own your lot, purchasing it will be handled at closing.

Survey Recommendations

An acceptable current boundary survey is required.

Work Started Prior to Closing

Work must not be started and materials must not be delivered to the site prior to loan closing and the recording of the security instrument. If this happens, BBVA Compass may not be able to close the loan.

The Construction Phase

After loan closing, you will be assigned a BBVA Compass Draw Coordinator who will handle the disbursement of the construction funds.

Borrower Funds

Depending on the loan amount, the Borrower may have to deposit funds to cover the difference between the loan amount and the cost of construction. The borrower funds will be disbursed first before the loan is funded.

Process for Obtaining a Disbursement

1. Progress is made on the project.
2. The Borrower and Builder submit a Draw Request and required documentation.
3. An inspection is performed to determine the progress of the project.
4. Funds are disbursed.

Required Documents

Documents needed at the first progress draw are:

- Builder's risk insurance
- Foundation survey or foundation endorsement

Documents needed at all draws are:

- Draw Request Form signed by the Borrower and the Builder

Documents needed at the final draw are:

- Final inspection by the appraiser indicating completion
- Homeowner's insurance paid for one year
- Soil treatment letter and/or termite bond
- Certification of occupancy
- Final survey
- Tax receipt showing taxes have been paid for the current year

Flood Insurance Removal

If the land is in a flood zone, but the foundation has been built outside the flood area, flood insurance may be removed if the Borrower can obtain approval from FEMA to change the flood designation.

Interest Only Payments

The Borrower will make monthly interest only payments based on the outstanding loan funds.

General Disbursement Guidelines

- Funds may be released to the Borrower, the Builder, or jointly.
- The construction funds must only be used to cover the project costs.
- BBVA Compass is not responsible for ensuring that disbursements are used appropriately by the Borrower and/or the Builder. Misuse of funds by either party may result in a default of the loan.
- Disbursements are made for work in place using an inspection schedule based on the scope and size of the project.
- Typical deposits (e.g. cabinets) may be allowed from time to time.
- The start-up draw and any earnest money will be factored into the progress draws.
- Typical final retainage is 5% of the building funds until the project is 100% complete and all final documentation is provided. (Texas: 10%)
- BBVA Compass may, at its discretion, change the disbursement process, as it deems necessary, at anytime.



The Construction Phase Continued

Change Orders

All significant changes in the project must be submitted to BBVA Compass in order to determine the impact the changes may have on the appraised value and the loan terms.

Inspections

Progress inspections will be performed at each disbursement. The inspections are performed solely for the benefit of BBVA Compass and should not be relied upon by the Borrower or the Builder to ensure quality, craftsmanship, code compliance or adherence with the plans and specifications.

Inspection Expense

The Borrower will pay a fee at closing that is an estimate of the cost for five progress inspections and one final inspection. If the inspections cost more than the estimate or additional inspections are needed then the Borrower will be responsible for the additional expense.

Real Estate Taxes

The Borrower is responsible for paying all real estate taxes when they come due and for providing proof of payment.

Improvements Not Included in the Loan

All improvements, whether part of the loan or paid for outside the loan, must be completed prior to the maturity of the construction phase.

Conversion Date

In order for the loan to convert from the construction phase to the permanent phase, the project and all improvements must be completed and all loan terms must be met.

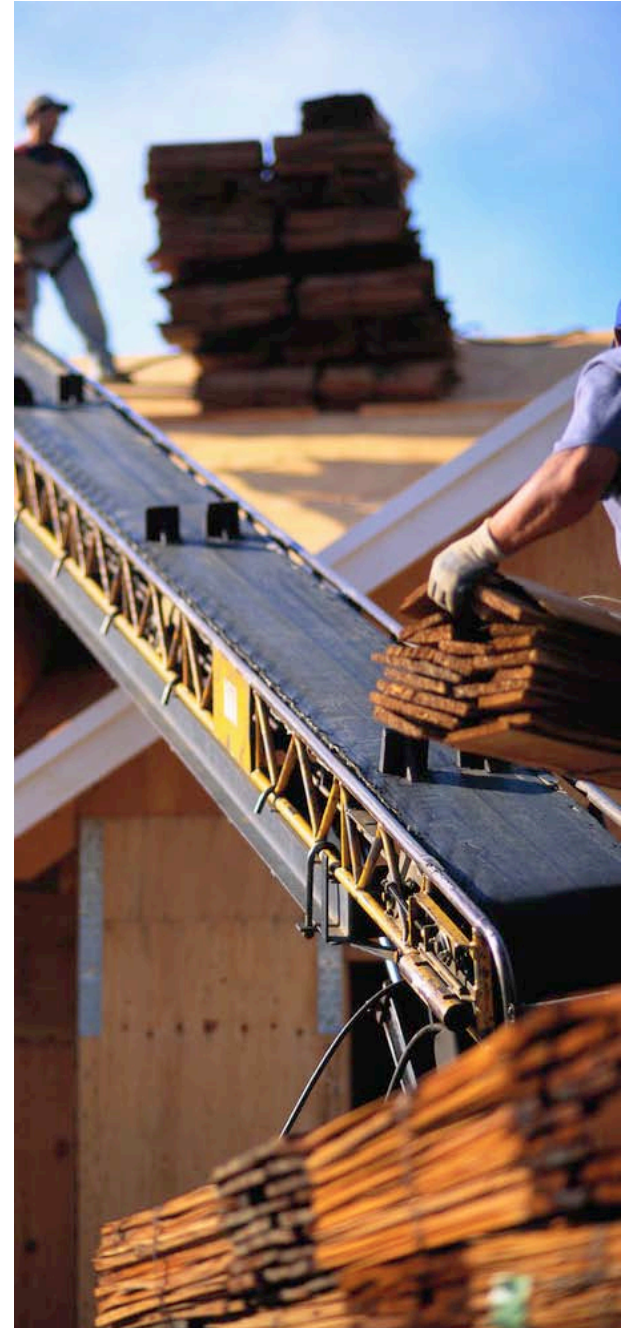
Modification of Loan Terms

In the event that the loan requires a modification of loan terms, the Borrower will be responsible for all modification fees, including, but not limited to, modification fee, extension fee, credit report fee, recording fee, and appraisal fee. Other costs may be incurred.

The Borrower's and Builder's Responsibility

Working together to build someone's dream home and to follow the lender's loan guidelines are both the Borrower's and the Builder's responsibility. We encourage both of you to:

- Visit the job site together on a regular basis.
- Have regular meetings to discuss the project.
- Work to resolve all issues quickly and completely.
- Don't rely on anyone else to protect your interest, including BBVA Compass. If you need assistance, hire the right expert to assist you.



Conversion to the Permanent Phase

Typically 30 to 45 days before the scheduled conversion from the construction phase to the permanent phase, the Borrower will begin discussions with the Draw Coordinator regarding the requirements for conversion.

Conversion Requirements

In order to convert the loan from the construction phase to the permanent phase, the following conditions must be met.

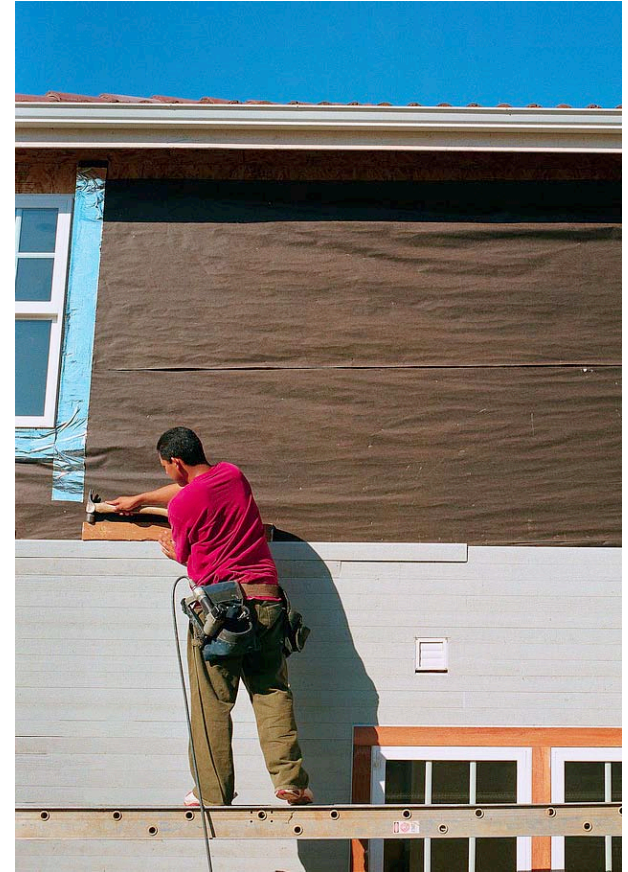
- The project is 100% complete.
- All final draw documents have been provided.
- The borrower remits payment for:
 - Final outstanding construction phase interest
 - Escrows for taxes and insurance
 - Prepaid interest for the permanent phase
- Executing the necessary modification documents.

Float Down Option

Most Construction Perm loans have a float down feature. This feature allows you to lower the permanent interest rate, if rates are lower, when you are ready to convert to the permanent phase.

Permanent Phase Amortization

Our construction loans are term inclusive, which means, the construction phase is included in the term of the loan. Therefore, the permanent phase (amortization period) is determined by the length of the construction phase. For example: A 30 year loan with a construction phase of 9 months will have a permanent phase of 351 months. Your permanent payments will be amortized over 351 months.



Frequently Asked Questions

Can I start my project before loan closing?

We recommend that you do not start the project before loan closing. An early start may hinder our ability to obtain proper title insurance coverage and may prevent us from closing your loan.

Do I have to own my lot prior to closing?

No, you do not have to own the lot prior to loan closing. The lot may be purchased at the closing of the Construction Perm loan.

I paid cash for my lot. Can I get cash back at closing?

We consider this equity into the project and cannot give you cash back.

What is a start-up draw?

A disbursement of funds at closing to help cover the initial start-up costs of the project, such as permits, fees, site work, etc.

Who are the construction funds released to?

Funds may be released directly to the Borrower, directly to the Builder, or into a joint account at BBVA Compass.

How long does it take to get a draw?

Typically it takes 2 days from the receipt of the Draw Request.

Who pays for cost overruns during the construction phase?

The Borrower is responsible for paying the overages out of pocket unless the loan has a Contingency Reserve.

During the construction phase, what type of loan payment do I make?

Monthly interest only payments.

How is interest calculated during the construction phase?

Interest is based on the outstanding loan funds.

What happens if my project is not completed prior to the maturity of the construction phase?

The construction phase may be extended to allow time to complete the project. The Borrower is responsible for extension fees including, but not limited to, an extension fee, a modification fee, and rate renegotiation. Subject to restrictions.

Glossary of Terms

A

Acquisition Cost – The total cost of construction including the home, land, closing costs, interest and other construction related items.

Affirmative Title Coverage – Coverage provided by the title company insuring against filed and unfiled liens. This is obtained in situations where the project has started prior to closing and recording of the security instrument.

B

Borrower's Deposit – The amount of the Borrower's down payment that will be deposited into the construction account to cover the cost of the project

Builder's Risk Insurance – Insurance that covers the project from theft, vandalism, weather, and defects. Usually this is provided by the Builder, but can be provided by the Borrower.

Building Contract – The written agreement between the Borrower and the Builder for the construction of the home and all improvements.

C

CCRs – Conditions, Covenants and Restrictions. This document is created for a specific subdivision development to ensure that each project adheres to the parameters set for by the developer.

Certificate of Occupancy – A document furnished by a local government indicating the project meets local and state building codes, ordinances, and regulations, and is ready to be occupied.

Change Order – An agreed upon written change in the project between the Borrower and Builder.

Construction Phase – The time period during which the Borrower will make monthly interest only payments based on the outstanding loan funds.

Glossary Continued

Construction Phase Interest Rate – The rate of interest charged on the outstanding loan funds during the construction phase.

Conversion – The date on which the loan will convert from the construction phase to the permanent phase.

Cost Plus Contract – A building contract that has an estimated cost but allows for the actual expenses related to the completion of the project to be passed onto the homeowner.

D

Disbursement – The remittance of construction funds to the designated party.

E

Earnest Money – The funds given to the Builder by the Borrower per the terms of the building contract.

F

Final Inspection – An inspection performed by the appraiser indicating the project was satisfactorily completed per the plans and specifications.

Fixed Price Contract – A contract that has a fixed price for the building of the home and which has been agreed upon by the Builder. Often times the contract includes allowances for specific items like flooring, cabinets, light fixtures, plumbing fixture and landscaping.

Float Down Option – The option to modify the permanent phase interest rate prior to the maturity of the construction phase.

Foundation Endorsement – This is provided by the title company and is an endorsement to the title policy indicating the home is located within the boundaries of the mortgaged property and there are no easements or encroachments present.

Foundation Survey – Provided by a registered land surveyor indicating the location of the structure on the mortgage property.

G

General Liability Insurance – Insurance obtained by the Builder to protect against certain claims and lawsuits against the Builder alleging that the Builder's negligence has resulted in bodily injury or resultant property damage to a third party. Such claims/lawsuits can arise while construction is ongoing or many years after the home is sold.

H

Hard Costs – The part of the cost to build that includes labor and materials (i.e. bricks, sheetrock, framing, etc.).

Homebuilder's License – License that is obtained by the builder and requirements vary by state.

I

Inspection – A visit to the job site by the lender's representative to determine the progress.

L

Lien – A document filed in the county records claiming that money is owed for work or materials furnished on the property.

Lien Waiver – A document that waives the right to file a lien and is usually provided after payment is made.

M

Mechanic's Lien – A lien filed against the property by a person who performed labor or provided materials during a project and was not paid.

Modification – Change in loan terms, such as an extension, increase in loan amount or change of interest rate.

Modular Home – A prefabricated structure that is delivered to the job site on the back of a truck and is hoisted onto the foundation with a crane.

Glossary Continued

O

On Frame Modular Housing – A prefabricated structure that has a steel undercarriage and is transported to the site by a truck.

Owner/Builder – An individual building their own home.

P

Perc Test – Percolation test. A test performed to determine if the soil conditions are acceptable for a septic tank system.

Permanent Phase – The time period following the construction phase during which the borrower makes payment according to the terms of the Note.

Pre-Sale – A project in which the homeowner has a contract with a builder to build a house.

R

Retainage – Funds held until the home is complete and the final documents are provided.

S

Site Built Housing – Housing that is constructed entirely on the project site.

Soft Costs – Costs associated with the project other than labor and material costs, such as plans, fees, permits, etc.

Spec Home – A home built for the sole purpose of selling for a profit.

Stick Built Housing – A home built on site using traditional wood frame construction.

Sweat Equity – The labor performed by the Borrower or the consideration of labor from the Borrower to the Builder that is used as an equity consideration.

T

Title Endorsement – Enhancements or updates to the title policy for items (liens, mortgages, exceptions) on the property that would prevent BBVA Compass from having priority on the title.

