



**By Rose Wageman,  
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**W**e have been extending loans for single-family homes, small residential condominiums and mixed-use construction projects for the past 20-plus years. It is interesting to see the changes in the market. We lend throughout the entire Chicago metropolitan area. We have a niche in the luxury single-family home market.

Prior to 2007, the market for luxury single-family homes was very hot. Homes were selling quickly. There were a lot of new builders coming on the market with lots of product. It seems that every subcontractor became a developer.

For many years this all worked. Real estate prices were rising rapidly and ev-

## Financing readily available for residential construction

erything was selling very quickly. Banks were getting very aggressive with their loan terms. There were some banks that were financing 100 percent of the project costs as long as the loan-to-value ratio was acceptable.

We also saw cases where a buyer would have a property under contract for a future project. The demand for land was so great that in some cases the buyer would be able to flip or assign the contract to another buyer for a nice profit.

Then in 2007, the market started to slow down. Property values declined and real estate was not selling as quickly. There was a rise in foreclosures and short sales. Many builders and developers were forced out of the market.

Interestingly, we were still active in construction lending at this time. We have a base of high-quality builders with great reputations. Because many builders were driven out of the market, there was not a lot of inventory of high-end homes. We would approve a spec loan for a builder and it would come under contract before we were able to close the loan.

The market has been steadily improving over the last couple of years. There are more builders coming back into the market. Most of the builders we work with have a record number of pre-sold or design-build projects in their pipeline. Virtually 100 percent of the spec projects we have financed have come under contract before maturity. Days on market for product is declining. I have even seen a couple of land flips over the past year.

I would even go as far as to say the construction market is robust. A trend I have been seeing more often is the acquisition and rehab of single-family homes or small rental buildings. We receive many phone calls from borrowers looking for financing for these smaller projects. Most often, the real estate is purchased through a sheriff's sale or a bank's OREO. The improvements are most often cosmetic, such as new paint, flooring, counters, etc., and then the property is flipped. Some projects are a total gut rehab, although some borrowers elect to hold onto the property and lease. It seems I get a call about once a week for this type of loan.

Another trend I have been seeing is the demand for single-family homes on wide lots. I have seen developers purchase a triple lot and then split into two wide lots to develop single-family homes. It is very competitive to find the wide lots in good locations. I have seen several instances where the developer purchased an entire condo building to be razed with a double or triple lot for future development.

Loans for construction projects are fairly straightforward. Equity requirements for a spec project are typically 30 percent of total project costs and 20 percent of total project costs for a pre-sold project. Equity requirements for land acquisition are typically 30 percent. Total project cost includes soft, hard and land acquisition costs. Soft costs include interest carry.

Loan terms are generally 12 to 18 months. Pricing will vary greatly depending on the strength of the borrower and the relationship with the lender, and there is always a commitment fee.

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Rose Wageman has been with First Eagle Bank since 1991. Today, she has overall responsibility for the loan department, including commercial lending, consumer lending, compliance, credit administration and interfacing with regulators. In 2012 she was elected to the board of directors. She can be reached at (630) 893-0062 or at [rwageman@febank.com](mailto:rwageman@febank.com).