Combination Construction to Permanent Loans

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Lender and Partner Activities Branch
Program Highlights
Program Mission
Single Family Housing Guaranteed Loan Program

• Serve low to moderate income rural homebuyers

• Assist homebuyers in obtaining adequate, modest, decent, safe, & sanitary dwellings

• Guarantee sound loans which otherwise would not be made without a guarantee
• 100% financing, no down payment required
• Loan Amount may include closing costs
• Maximum loan amount based on appraised value
• No sales price or loan amount limits
• Not limited to first time home buyers
• No Acreage limits
Lender Benefits
Single Family Housing Guaranteed Loan Program

• 90% Loan Note Guarantee
• Earn Community Reinvestment Act (CRA) credits
• Premium pricing in securities market, mainly due to extremely low prepayment rate - 7%
Program Eligibility
Eligibility Requirements

Determination of Applicant Eligibility

✅ Property located in an eligible rural area

✅ Total Household Income Within Program Limits - 115% of MHI
The applicant must be a U.S. citizen, a U.S. non-citizen national, or a qualified alien.

The lender should obtain the non-citizen’s alien identification number with copies of any supporting documents and enter into GUS.
Single Family Housing Guaranteed Loan Program
Applicant Eligibility – Qualifying for Conventional Credit

• Has personal non-retirement liquid asset funds of at least 20%;
• Can pay all closing costs (plus the 20% down) associated with the loan;
• Meets qualifying ratios of no more than 28% PITI and 36% TD;
• Demonstrates qualifying credit for such a loan; AND
• Conventional loan is 30-year fixed rate loan without PMI
• Lender and applicant certify applicant is not eligible for conventional credit by signing the 3555-21

FHA and VA are NOT conventional credit!
Single Family Housing Guaranteed Loan Program
Applicant Eligibility – Owning a Dwelling

Owning a Dwelling, the applicant is limited to owing one single family housing unit whether adequate or inadequate and the property associated with the loan request.

Applicants may purchase another home if all the criteria below are met:
• The homeowner’s current dwelling is not financed by a Rural Development guaranteed, direct Section 502 (including cosigned obligations), or 504 loan or active grant;

• The homeowner is financially qualified to own more than one house;

• The homeowner will occupy the home financed with the guaranteed loan as their primary residence throughout the term of the loan; and

• The current home owned no longer adequately meets the applicants’ needs. Examples include, but are not limited to:
  o Relocation due to a new job opportunity.
  o Requires a larger home to provide for a growing family.
  o Obtaining a divorce and the ex-spouse will retain the dwelling.
Combination Construction to Permanent (CTP) Loan
Combination Construction to Permanent Loan
HB-1-3555, Chapter 12, Section 6

- Combines the features of a construction loan (short-term interim loan for financing the cost of construction) and the traditional long-term permanent residential mortgage.

- Approved lenders with appropriate construction lending experience and adequate controls for interim construction cost disbursements may offer to eligible applicants

Also know as “single-close loan”
Combination Construction to Permanent Loan Issuance of Loan Note Guarantee

- Agency issues loan guarantee when construction loan is closed
- Full amount of the loan is guaranteed.
  - 30 year, fixed rate loan
  - After closing, funds are disbursed to cover the cost of the land and applicable closing costs

Construction should be completed within 12 months – Obtain all permits prior to beginning of construction
Single Close Feature: “Interest Only Version”

- Interest rate established at one time close.
- Loan Note Guarantee (LNG) is issued after closing.
- Construction begins after loan closes.
- Monthly interest is paid from interest payment reserve on construction loan balance.
- Construction completed and excess reserves applied to principal. Loan modification to re-amortize the remaining balance.

HB-1-3555, Chapter 12, Section 6
7 CFR Part 3555 Subpart 3555.105
Combination Construction to Permanent Loan
Warehouse Line of Credit - Re-amortization

- Re-amortization may be utilized to achieve full repayment for the remaining term of loan
- Interest rate for permanent loan may be lowered with loan modification
- Lender to provide executed Loan Amortization Agreement
- Amortization must begin no later than the 1st of the month, 60 days from final inspection
Principal, interest, taxes, insurance (PITI) payments are made during construction from the reserve.

LNG issued and construction begins.

The construction contingency and payment reserves are established at close.

The PITI is fixed at closing. There is no requirement for a loan modification or re-amortization after construction is completed.

Construction completed.

Excess contingency reserve funds applied as principal curtailment.

HB-1-3555, Chapter 12, Section 6
7 CFR Part 3555 Subpart 3555.105
Combination Construction to Permanent Loan
Securitized After Loan Closing

- May establish reserve account for regular PITI payments during construction period
- No need for loan modification or re-amortization
- Excess funds will be applied as principal curtailment
Combination Construction to Permanent Loan Loan Closing

Lender is responsible for:

• Ensure all applicable closing documents are completed, closing conditions are met, and USDA guarantee fee is collected.
  ▪ Any state specific construction requirements are met
  ▪ Construction contract between applicant and builder is obtained
Combination Construction to Permanent Loan
Lender Requirements

- Self-certify staff has two or more years’ experience making and administering construction loans.

- Lender may employ a construction loan management company with two or more years of experience, in lieu of in-house staff. Lender to confirm eligibility.

- Confirm the eligibility of contractors/builders.
Combination Construction to Permanent Loan
Lender Responsibilities

- Oversee Disbursement of Loan Proceeds
- Monitor the construction of subject property
- Obtain documentation confirming construction is complete
- Ensure use of fixed price construction contract
Combination Construction to Permanent Loan

**Appraised Value**

Land Value + All costs associated with construction + Reserves = Appraised Value

*The appraiser must be given all costs associated with the construction to be included in the final market value.*
Combination Construction to Permanent Loan
Builder/Contractor Requirements

- 2 or more years of building/construction experience (SFH)
- State-issued construction or contractor license
- Commercial general liability insurance ($500,000 min)
- Acceptable credit history
- No previous felony criminal record
- Background check to be completed by lender

A key to the success of the CTP loan feature is the financial stability and reputation of the builder constructing the home.
Combination Construction to Permanent Loan
Eligible Loan Costs

- **Land** – Acquisition or payoff of balance

- **Construction Hard Costs** – costs in contract and detailed in budget; costs outside of the contract paid to others (example well and septic installation, roads/driveways, landscaping, etc…)

- **Construction Soft Costs** – inspection and survey fees, contingency reserves, permits, lender admin fees, etc.

Must be common and customary for similar transaction in the area
Combination Construction to Permanent Loan
Contingency Reserve

- A contingency reserve may be utilized to cover eligible expenses associated with unplanned problems with construction or change orders.
- Limited to 10% of the cost of construction (including labor, materials and soft costs).
- Funds must be deposited into the construction reserve account.
Combination Construction to Permanent Loan
Interest Payments During Construction

- From established reserve account
- OR
- Directly from borrower (lender to document ability to pay)
Combination Construction to Permanent Loan
Construction Draws – Lender Requirements

- Draws and disbursements are managed and recorded by the lender
- Borrower and lender are jointly responsible
- Retain documentation to confirm work has been completed for the draws disbursed

When funds are disbursed, the lender is warranting to Rural Development the work was done as specified.
Combination Construction to Permanent Loan Change Orders and Unplanned Changes

**UNPLANNED CHANGES DURING CONSTRUCTION**

Should a life change occur with the borrower, such as loss of job or death occurs, the lender remains responsible to work with the builder to complete the home.

- Change orders must be approved by lender
- Borrower is responsible for any costs related to a change order that will exceed available funds
- Proposed changes should not affect the scope of the project or appraised value
Combination Construction to Permanent Loan
Cash Back to Borrower

- Lenders must apply any excess funds as a principal reduction
- Reimbursement of funds for costs paid directly by the borrower is permitted
- Funds remaining in the contingency reserve account may be used for an eligible loan purpose or applied as a principal reduction
Combination Construction to Permanent Loan
Builders Warranty

Refer to Chapter 12.9, “Evidence of Construction Inspections” for details pertaining to acceptable documentation

1 year builders warranty acceptable to Rural Development together with Certificate of Occupancy and 3 construction inspections

OR

10 year insured Builders Warranty with Final Inspection
Acceptable evidence of Plans and Specifications include any one of the following:

- Certification from a qualified individual or organization (RD Form 1924-25, “Plans Certification” is acceptable for this purpose
- Certificate of Occupancy from local jurisdiction
- Building permit from local jurisdiction
Combination Construction to Permanent Loan Thermal Certification

- Thermal standards must meet or exceed the International Energy Conservation Code in effect at the time of construction.
- Typically included in the plans and specs
Non-Structural Repairs

- Finance up to $35,000 in repairs
- No minimum repair costs
- Dwelling must be habitable
- Contingency reserves allowed:
  - 10% utilities on
  - 15% utilities off
Structural Repairs

- Finance over $35,000 in repair costs
- Qualified inspector required
- Contingency reserves allowed:
  - 10% utilities on
  - 15% utilities off
- PITI reserves, up to 6 months when the dwelling is uninhabitable
Resources
Access Single Family Housing Programs from the “Program & Services” Drop Down menu
Chapter 12: Property and Appraisal Requirements

Section 6: Combination Construction to Permanent Loans
{7 CFR 3555.105}
Online training modules include guidance on “Combination Construction to Permanent” loans.

Documents and Resources include Handbook updates, forms, and checklists.


- SFH Guaranteed Loan Origination Basic Training
- SFH Guaranteed Loan Origination Documents and Resources
- Guaranteed Underwriting System (GUS)
- Guaranteed Underwriting System – Lender Test Environment (GUS LTE)
- Lender Loan Closing/Administration
- Guaranteed Annual Fee Billing and Payment
- Electronic Status Reporting (ESR)
- Loss Claims and Mitigation
- Security
Questions?

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Lender and Partner Activities Branch
David Corwin
Ed Peace
USDA is an equal opportunity provider, employer, and lender.
This concludes the USDA Single Family Housing Guaranteed Loan Program portion of the presentation.

We are very happy to introduce a lender partner who will share their experience and expertise in Single Close Construction lending. While the Agency makes no endorsement of this company or the content of its presentation, we do believe the information they will share will be useful to your expansion of personal business through utilization of our Single Close Construction loan product.

Ladies and Gentlemen, 1st Signature Lending’s Mr. Mike Johnson.

June 9, 2021