Combination Construction to Permanent Loans

Single Family Housing Guaranteed Loan Program
BUILD the AMERICAN DREAM and YOUR BUSINESS with a 90% GUARANTEE!
New home construction typically consists of two loans.

First Loan: Short term construction loan >>> Usually 12 months

Eligible Rural Area

Buildable Lot

New Construction
Second Loan: Construction complete >>> Apply for 30-year loan

- Construction is complete
- Certificate of occupancy issued
- Apply for 30-year home loan
How does a Single Close home loan work?

One set of loan documents bind both the construction and 30-year loan.

1. Construction loan
2. 30-year loan
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.
The Enhanced Single Close Feature Creates a “Securitized Version”

The construction contingency and payment reserves are established at close.

LNG issued and construction begins.

Principal, interest, taxes, insurance (PITI) payments are made during construction from the reserve.

Construction completed.

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

Excess contingency reserve funds applied as principal curtailment.
Types of “Reserves” Established at the Single Close

“Interest Only” Payment Reserve:
During construction interest only is paid monthly on construction loan.

“PITI” Payment Reserve:
During construction PITI is paid monthly on the fully amortized loan.

“Construction Contingency” Reserve
If used, reserve is limited to 10% of the cost of construction.

HB-1-3555, Chapter 12, Section 6
7 CFR Part 3555 Subpart 3555.105
Interest Rate Cap

Existing Dwelling Rehab

HB-1-3555, Chapter 12, Section 6
7 CFR Part 3555 Subpart 3555.105
HB-1-3555, Chapter 12, Section 6
7 CFR Part 3555 Subpart 3555.105

- Modular Homes
- Manufactured Homes

- Condominiums
Eligible Loan Costs - Contingency Reserve

Construction costs include:

- Land
- Construction hard costs
- Construction soft costs

\[ \times \ 10\% = \text{Construction Contingency Reserve} \]
Eligible Loan Costs - Payment Reserve

Loan term = 30 years

Fixed interest rate

Payment reserve account can be: “Interest Only” <or> “PITI Reserve”

If no PITI reserve, then an interest only reserve can be established from loan funds at closing to cover the construction loan payments during construction.

At construction completion any excess funds from the payment reserve account will be applied as principal curtailment.
HB-1-3555, Chapter 12.17 – Appraisals

- Land Value
- All Home Construction Costs
- Reserves

= Fair Market Value

= Maximum Loan Amount
LEARNING CHECKS

7 CFR Part 3555 / HB-1-3555
• Question will be bulleted with scenario, or
• Include a statement/question

TRUE/FALSE or other answer options will be displayed
7 CFR Part 3555 and HB-1-3555 references provided

X. Correct Response

• Additional guidance for clarification may be provided
Ready?

LET’S GET STARTED!
Approved lender responsibilities are to:

A. Monitor construction of the subject property.
B. Oversee disbursement of mortgage proceeds.
C. Obtain documentation that confirms the construction of the subject property is complete.
D. All of the above.
Approved lenders will be responsible for monitoring construction of the subject property, overseeing disbursement of mortgage proceeds, and obtaining documentation that confirms the construction of the subject property is complete.
QUESTION
Combination Construction to Permanent Loans

USDA will certify that the lender is utilizing a fixed price construction contract and that the lender has staff with two or more years experience in construction making and administering construction loans.

A. TRUE      B. FALSE
B. FALSE

- Lenders will ensure the utilization of a fixed price construction contract.
- Lenders will: Provide a fully executed Form RD 3555-16 lender agreement and self-certify that they have staff with two or more years’ experience making and administering construction loans.
It is the lender’s sole responsibility to disburse mortgage proceeds whenever the builder calls for funds to pay construction expenses.

A. TRUE B. FALSE
HB 12.13 – Lender Requirements

B. FALSE

Lenders will: Approve and disburse mortgage proceeds in accordance with the construction loan agreement, with prior written approval by the borrower and confirmation of work completion prior to disbursement.
The approved lender, not USDA will be responsible for approving participating builders.

A. TRUE    B. FALSE
The approved lender and their agent, if any, will be responsible for approving participating builders.
The single close loan can be used to finance the construction of a new single-family housing residence, which can include:

A. Modular home
B. Manufactured home
C. Condominiums, including detached and site condominiums
D. All of the above
The loan will be used to finance the construction of a new single-family housing residence, which can include modular and manufactured home construction. Condominiums, including detached condominiums and site condominiums, are ineligible for this type of loan feature.
Eligible loan costs are land, construction hard costs, and construction soft costs.

Ineligible loan costs are the interest only reserve and PITI reserve.

A. TRUE    B. FALSE
HB 12.15 – Eligible Loan Costs

B. FALSE

Loan costs which may be included in the loan amount are subject to the maximum loan to value and will be reasonable and customary construction costs such as:

- **Construction contingency** reserve
- **Interest reserve** including interim interest as accrued, during the construction period, on a warehouse line of credit up to 12 months
- Principal, interest, taxes, and insurance (**PITI**) **payment reserve** up to 12 months
What items does the appraiser include to determine subject property fair market value? Choose all that apply.

A. Acquisition cost of land
B. Construction hard costs inside of contract
C. Construction hard costs paid to subcontractors outside of contract
D. Furniture & major electronics
E. Appraisal fees
F. Architecture fees
G. Title fees
H. Construction contingency reserve
I. Interest payment reserve
J. PITI payment reserve
K. Builder acceptance or review fees
HB 12.15 – Eligible Loan Costs

All Except D

• The only item the **appraiser will not use** to establish fair market value is:
  “D. Furniture and major electronics”

• All other items are eligible loan costs and will be included in appraisers fair market value calculation.

• Make sure you review 12.15 Eligible Loan Costs, Land, Construction Hard Costs and Construction Soft Costs to understand all that is included in appraiser’s fair market value calculation.
The lender is responsible for approving disbursements to the builder.

A. TRUE     B. FALSE
HB 12.23 – Construction Draws

B. FALSE

The **borrower and lender** will be jointly responsible for approving disbursements to the builder during the construction phase.
Way to Go!
LEARNING CHECK COMPLETED!
Navigate through these resources and tools like an expert!

Take the “Program Overview Training”

The Single Close Combination Construction to Permanent Loan Final Rule was published on July 23, 2019 with an effective date of October 1, 2019. To assist lenders and field office staff, the Agency has issued additional instructions for Single Close New Construction and Rehabilitation and Repair Loan data entry in GUS. The following instructions will ensure the Single Close loans are correctly identified and coded in GUS.
Can’t find your answer in the regulation or handbook?
Contact the PAC team!

Want additional live program training?
Contact the LPA team!