

USDA Rural Development
U.S. DEPARTMENT OF AGRICULTURE

Combination Construction to Permanent Loans

Single Family Housing Guaranteed Loan Program



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BUILD
the
AMERICAN DREAM
and
YOUR BUSINESS

with a

**90%
GUARANTEE!**



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Traditional New Construction

New home construction typically consists of two loans.

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



Eligible Rural Area



Buildable Lot



New Construction



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Traditional New Construction

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



- **Construction is complete**
- **Certificate of occupancy issued**
- **Apply for 30-year home loan**



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

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

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

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.

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

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.

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

Types of *“Reserves”* Established at the Single Close

***“Interest Only”* Payment Reserve:**

During construction interest only is paid monthly on construction loan.

<OR>

***“PITI”* Payment Reserve:**

During construction PITI is paid monthly on the fully amortized loan.

<AND>

***“Construction Contingency”* Reserve**

If used, reserve is limited to 10% of the cost of construction.

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



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



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

Eligible Loan Costs - Contingency Reserve

Construction costs include:

- Land
- Construction hard costs
- Construction soft costs



× 10% =

Construction Contingency Reserve



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

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.

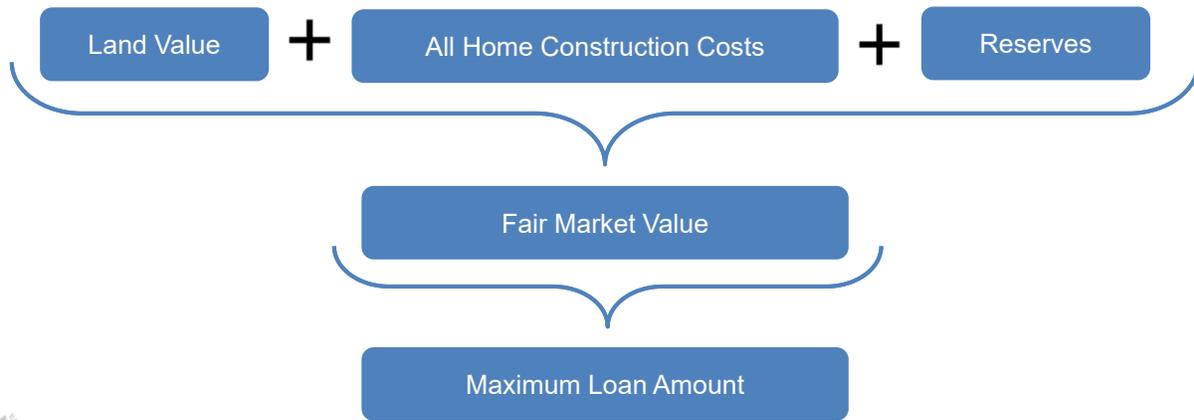
At construction completion any excess funds from the payment reserve account will be applied as principal curtailment.



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HB-1-3555, Chapter 12.17 – Appraisals



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LEARNING CHECKS

7 CFR Part 3555 / HB-1-3555



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QUESTION

Topic

- Question will be bulleted with scenario, or
- Include a statement/question

TRUE/FALSE or other answer options will be displayed



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ANSWER

Topic

7 CFR Part 3555 and HB-1-3555 references provided

X. Correct Response

- Additional guidance for clarification may be provided



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Ready?

LET'S GET
STARTED!



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QUESTION

Combination Construction to Permanent Loans

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.

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ANSWER

Combination Construction to Permanent Loans

HB 12.13 – Lender Requirements

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.



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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



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ANSWER

Combination Construction to Permanent Loans

HB 12.13 – Lender Requirements

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.



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QUESTION

Combination Construction to Permanent 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



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ANSWER

Combination Construction to Permanent Loans

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.



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QUESTION

Combination Construction to Permanent Loans

The approved lender, not USDA will be responsible for approving participating builders.

A. TRUE B. FALSE



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ANSWER

Combination Construction to Permanent Loans

HB 12.14 – Construction Contractor-Builder Requirements

A. TRUE

The approved lender and their agent, if any, will be responsible for approving participating builders.



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QUESTION

Combination Construction to Permanent Loans

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



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ANSWER

Combination Construction to Permanent Loans

HB 12.15 – Eligible Loan Costs

A. and B.

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.



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QUESTION

Combination Construction to Permanent Loans

- 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



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ANSWER

Combination Construction to Permanent Loans

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



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QUESTION

Combination Construction to Permanent Loans

What items does the appraiser include to determine subject property fair market value? Choose all that apply.

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



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ANSWER

Combination Construction to Permanent Loans

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.



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QUESTION

Combination Construction to Permanent Loans

The lender is responsible for approving disbursements to the builder.

A. TRUE B. FALSE



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ANSWER

Combination Construction to Permanent Loans

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.



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Way to Go!
LEARNING CHECK
COMPLETED!



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USDA Rural Development
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<https://www.rd.usda.gov/resources/regulations/program-regulations>

Subpart C—Loan Requirements

- §3555.101 Loan purposes.
- §3555.102 Loan restrictions.
- §3555.103 Maximum loan amount.
- §3555.104 Loan terms.
- §3555.105 Combination construction and permanent loans.
- §3555.106 [Reserved]
- §3555.107 Application for and issuance of the loan guarantee.
- §3555.108 Full faith and credit.
- §3555.109 Qualified mortgage.
- §3555.110-3555.149 [Reserved]
- §3555.150 OMB control number.

<https://rd.usda.gov/resources/directives/handbooks>

HB-1-3555 SFH GUARANTEED LOAN PROGRAM TECHNICAL HANDBOOK

A consolidated version of the handbook is available. [HB-1-3555](#) is a large document and may take sometime to load.

Table of Contents

- Chapter 1** - Overview
- Chapter 2** - Record Retention
- Chapter 3** - Lender Approval
- Chapter 4** - Lender Responsibilities
- Chapter 5** - Origination and Underwriting Overview
- Chapter 6** - Loan Purposes
- Chapter 7** - Loan Terms and Conditions
- Chapter 8** - Applicant Characteristics
- Chapter 9** - Income Analysis
- Chapter 10** - Credit Analysis
- Chapter 11** - Ratio Analysis
- Chapter 12** - Property and Appraisal Requirements

Navigate through these resources and tools like an expert!

Take the “Program Overview Training”

Available on the USDA LINC:
<https://www.rd.usda.gov/page/usda-linc-training-resource-library>

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USDA LINC Training & Resource Library



Single Family Housing Guaranteed Loans

[Single Close New Construction and Rehabilitation and Repair Loans in GUS](#)

[Reference Guide](#)

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.

LINC Training and Resources

Contact Us

7 CFR 3555

New:

- [Origination and Servicing FAQs](#)
- [Single Close Job Aid](#)

<https://www.rd.usda.gov/files/RD-GRH-SingleCloseJobAid.pdf>

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Single Family Housing Guaranteed Loan Program (SFHGLP)
Contacts & Resources

TOPIC	CONTACT
File-Specific Questions Information to include in email: <ul style="list-style-type: none"> Identify the state the application is located, if applicable; Provide applicant's name and USDA borrower ID, if applicable; GUS loan number, if applicable; Include contact information; and Indicate if you would like a call back (otherwise you will receive an email reply) 	Production Team One: SFHGLPONE@usda.gov AK, AL, AZ, CA, CO, GU, HI, IA, ID, KS, MT, NM, NV, OR, SD, TX, UT, WA, WI, WY Production Team Two: SFHGLPTWO@usda.gov AR, KY, LA, MN, MO, MS, ND, NE, NJ, NY, OK Production Team Three: SFHGLPTHREE@usda.gov CT, DE, GA, IL, MA, MD, ME, MI, NC, NH, RI, SC, VT, WV Production Team Four: SFHGLPFOUR@usda.gov FL, IN, OH, PA, PR, TN, VA, VI
Lender Approval	sfhgl.compliance@usda.gov
Lender Recertification	sfhgl.lenderpartner@usda.gov
Program Training	sfhgl.program@usda.gov
Program Marketing & Outreach	sfhgl.program@usda.gov
General Loan Scenario Questions	sfhgl.program@usda.gov
Loan Policy/Regulation/Handbook	sfhgl.program@usda.gov
Loan Servicing	sfhgl.servicing@usda.gov
Technical Issues: e-Authentication	sAuthHelpDesk@fc.usda.gov 800-457-3642, option 1 (USDA e-Authentication Issues)
Technical Issues: GUS	RD_HD@STL.USDA.GOV 800-457-3642, option 2 (USDA Applications); then option 2 (Rural Development)
Loss Claims	guarantee.svc@stl.usda.gov
Monthly & Quarterly Status Reporting	rd.nfacbsb@stl.usda.gov
GUS User Agreements	rd.nfacbsb@stl.usda.gov

TOOLS & RESOURCES

Regulation and Handbook: <https://www.rd.usda.gov/resources/directives>
 Lender Webpage—Turn times, contact information, and helpful links: <https://www.rd.usda.gov/page/sfh-guaranteed-lender>
 USDA LINC—Training modules, user guides, and more useful resources: <https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library>
 GovDelivery—Receive notifications regarding origination, servicing, and GUS updates: <https://public.govdelivery.com/accounts/USDA800/subscriber/new>

Rev. 07/08/2020

Can't find your answer in the regulation or handbook?
Contact the PAC team!

Want additional live program training?
Contact the LPA team!

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