

# Construction Loan Information for Applicants and Builders (Georgia)

Highlights of the “Section 502” Single Family Housing Direct Loans as processed in Georgia

USDA is an equal opportunity provider, employer and lender.

## General

**Q1. Who qualifies for New Construction?** A1. Anyone who qualifies for a USDA Rural Development (RD) home loan may choose to build a new home (assuming the amount of the loan for which they qualify is enough to build.)

**Q2. Where can I locate the Rural Development Construction Procedures and Forms?** A2. Rural Development Construction Procedures and Forms are found in RD Instruction [1924-A](#) and Handbook [HB-1-3550](#) Chapter 5 (pages 5-37.)

**Q3. How does USDA convert the Construction Loan to a Permanent Loan?**

A3. If a Construction Loan is used by the homeowner, at contract completion, the loan will be converted to Section 502 Permanent Loan. Interest accrued during construction period (at a subsidized rate) is added to the loan principle. Payments are calculated on this amount.

**Q4. What is considered a New Dwelling?** A4. The proposed dwelling or a dwelling less than one year old per Certificate of Occupancy and never occupied

## Proposed Construction

**House Plan Requirements:** The applicant chooses the plans. Plans must not be plagiarized. Plans must contain professional designer’s stamp; be certified as meeting all building codes and on ¼-inch scale. The loan amount must be under: 1) Maximum loan limit for Specific County and 2) Maximum loan for what the applicant qualifies according to their Certificate of Eligibility. Plan accordingly to have room in the loan for closing costs etc. Commonly, applicants use plan services such as Standard Home Plans or WDFarmer. This is not an endorsement but provided for information only. Any plans certified as meeting building codes may be used. For details about drawings and specifications, see Exhibit C of RD Instruction [1924-A](#).

**Plan Certification:** Plans and Specifications must be certified as meeting all building codes of Form RD 1924-25, “Plan Certification”. Builder must be in good standing with RD. An approved 10-year warranty company may self-certify plans. Plans must be agreed upon and signed by the applicant, builder and Rural Development. See RD Instruction [1924-A](#), page 10 for acceptable plan certs.

**Plan Specifications:** Construction must be completely described on the plans and specifications. Form RD 1924-2, “Description of Materials” or similar document may be used. The Specs must be agreed to and signed by the applicant and the builder.

**Building Codes:** The Georgia Department of Community Affairs is the “keeper” of [Georgia’s Construction Codes](#). They no longer keep a list of cities and counties that have adopted or enforce codes. Each city or county must be contacted individually to determine this. If this is relied upon for inspections absent from RD inspections, the city or county must provide proof of enforcement of building codes. There are eight mandatory codes that all residential structures must meet in Georgia regardless of local code enforcement.

1. International Building Code, 2012 Edition, with Georgia Amendments (2014/2015 GA Amendments)
2. International Residential Code, 2012 Edition, with Georgia Amendments (2014/2015 GA Amendments)
3. International Fire Code, 2012 Edition (2014 GA Amendments)
4. International Plumbing Code, 2012 Edition, with Georgia Amendments (2014/2015 GA Amendments)
5. International Mechanical Code, 2012 Edition, with Georgia Amendments (2014/2015 GA Amendments)
6. International Fuel Gas Code, 2012 Edition, with Georgia Amendments (2014/2015 GA Amendments)
7. National Electrical Code, 2014 Edition (No Georgia Amendments)
8. International Energy Conservation Code, 2009 Edition, with Georgia Supplements and Amendments (2014/2015 GA)

**Plot Plan:** The proposed construction must show property boundaries and all proposed development. The scale required is 1-inch-to-20-inch. Examples are provided online at <https://www.rd.usda.gov/files/ex1924A.pdf>

**Appraisal:** To ensure adequate loan security for USDA Rural Development, the property will be appraised by contract appraiser “as proposed” or “as built”. This establishes the upper limit on the loan amount.

## Construction Contract

**Contract Documents:** Form RD 1924-D will spell out the terms of agreement. In addition, 1) Form RD 400-1, Equal Opportunity Agreement; 2) Form RD 400-3, Notice to Contractors and Applicants; and 3) Form RD 400-6, Compliance Statement, are required.

**Parties to Contract:** USDA Rural Development is NOT a party to the contract, but may provide advice to ensure a successful transaction.

**Important Details:** Please pay close attention; the contract has many important details such as draws limited to 60 percent of work-in-place (without surety bonds) and applicant’s right to stop work or terminate the contract.

**Changes:** All changes to plans or specifications must be agreed upon by the applicant, builder and USDA Rural Development by being spelled out on a signed Form RD 1924-7, “Contract Change Order” or similar document. Specific changes may require the property to be re-appraised.

## Financing and Construction Options

**Construction Financing:** The builder and applicant agree upon if the Builder will carry a construction loan with their lender or if the Applicant will utilize Draw method under the contract.

**Turn-key vs Draw:** Construction Financing Options, 1) Builder buys the lot, builds the house, sells the house/lot as a “turn-key” job using Sales Contract (includes spec-houses); or 2) Applicant buys the lot, enters contract with builder to build on their lot.

## Inspections

### Four Inspection Options:

1. If the city or county has adopted all eight building codes (“code city/county”), their periodic inspections are acceptable
2. If not a “code city/county,” Rural Development or other qualified inspector may conduct a minimum three inspections (footer/rough-in/final)
3. House covered under Rural Development approved 10-year warranty plan requires only a final inspection
4. If none of the above, financing is limited to 90 percent.

**Rural Development Approved 10-Year Warranty Companies:** As of November, 2017 there are several approved Warranty Companies. Updates to this list are provided at <http://www.rd.usda.gov/files/1924a.pdf> for RD Instruction 1924-A, Exhibit L, Attachment 1 (see page 163 of the pdf.)

1. Homebuyer’s Warranty Co. (“HBW” or “2-10 Warranty”)
2. Residential Warranty Corp. (“RWC”)
3. StrucSure Home Warranty
4. Manufactured Housing Warranty Corp.

## Super Energy Efficient Homes

**Increased Repayment Ratios:** While all homes must be built to the minimum standards of the “International Energy Code”, homes that are considered super-energy-efficient may provide applicants an extra 2 percent increase in repayment ratios. In these cases, instead of qualifying with repayment ratio limits of 29/41 (Very-Low Income Applicants) or 33/41 (Low-Income Applicants), the ratios then become 31/43 and 35/43 respectively. Lower utility bills are justification for allowing this. This may help include energy-savings measures in the loan.

**Energy Efficiency Standards:** To qualify for increased repayment ratios, a home must be CERTIFIED as meeting one of the following standards:

1. [Energy Star for New Homes](#) (U.S. EPA)
2. [Zero Energy Ready Homes](#) (U.S. Dept. of Energy)
3. [Leadership in Energy and Environmental Design](#) (LEED; U.S. Green Building Council)
4. [Home Innovation's "National Green Building Standard"](#) (National Association of Home Builders)
5. [Green Communities](#) (Enterprise Community Partners)

## Construction Closeout

**Final Forms:** Once construction and rehabilitation work is satisfactorily completed, the Agency will make final payment to the contractor. Before that can occur, the loan Originator must ensure that the work has been done properly and that no one will make any claims against the property (such as dissatisfied subcontractors or suppliers). The Agency provides several forms to help the Loan Originator close out the construction process. The forms are as follows:

1. "Certificate of Contractor's Release" (Form RD 1924-9), signed by the contractor. It certifies that the work has been completed according to the drawings and specifications and the Agency's standards.
2. "Release by Claimants" (Form RD 1924-10), the contractor must have each material supplier or subcontractor used during construction sign this form. It certifies that the contractor has paid each subcontractor and there are no outstanding claims against the property for work performed or materials. The total of materials, labor, and builder profit should equal the contract amount.
3. Builder's Warranty guaranteeing quality of work and materials. A one-year Builder's Warranty is the required minimum. The warranty guarantees that the builder will repair or replace any defects in materials or construction that occur within one year from the date of acceptance. A 10-year warranty is preferred.

**Survey:** For new construction, a survey must show all improvements (house, well, septic, etc.), boundary lines, encroachments on the subject or adjacent property, above-ground easements, setbacks imposed by either restrictive covenants or zoning, and any additional requirements needed to obtain title insurance. For new construction, the boundary corners must also be clearly marked. Existing survey may be used if it meets the requirements of the title insurance.

## Laws and Regulations

**Civil Rights:** In addition to laws and regulations already mentioned, all parties to contract must follow applicable laws and regulations including Civil Rights laws as in RD Instruction 1901-E found at the URL <http://www.rd.usda.gov/files/1901e.pdf>

## Other

**Builder License:** Residential Contractors must be licensed by the Georgia Secretary of State

### Modest Site Requirements:

1. Located in a Rural Area
2. Size must not be large enough to be subdivided under local subdivision regulations

3. The value of the site should not exceed 30 percent of the as-is improved appraised value of the property. The 30 percent limit may be exceeded if the site meets the requirement 2 and the value of the site is typical for the area, as evidenced by the appraisal and the practices of other lenders
4. The property must not include farm service buildings; however smaller outbuildings such as storage sheds are allowed.

**Prohibited Features:**

1. In-ground pools
2. Income-producing properties (Home based operations that do not require specific features such as child care, product sales, or craft production are not restricted.)

**Recently Completed Homes Eligibility:** Recently completed homes are eligible however the home should have been inspected during construction by either, 1) local code enforcement in the jurisdiction that has adopted all eight of the mandatory building codes; copies of inspections provided to Rural Development; 2) USDA Rural Development employee; or 3) be covered under an RD-approved 10-year Warranty Company. If none of these apply, Rural Development financing is limited to 90 percent of the market value.