Combination Construction to Permanent Loans

Rehabilitation and Repair

Single Family Housing Guaranteed Loan Program
When their dream home requires a little (or a lot) of TLC,
Rural Development can help!
HB 12.28 – Purchase with Rehabilitation and Repair Loan

Applicant Advantages

• Purchase existing dwelling
• Customize improvements
• One loan closing
• Funds to purchase the dwelling and provide eligible rehabilitation
HB 12.28 – Purchase with Rehabilitation and Repair Loan

Applicant Advantages

• 100% financing
• Maximum loan amount = 100% of the “as improved” appraised value
• Upfront guarantee fee may be included above the “as improved” value
• The loan amount will not be re-amortized or changed at a future date
Lender Advantages

• Reduced risk
• Loan Note Guarantee is issued post closing but prior to completion of repairs and renovation work
• Loan may be sold immediately on the secondary market following issuance of the Loan Note Guarantee
HB 12.28 – Purchase with Rehabilitation and Repair Loan

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
HB 12.28 – Purchase with Rehabilitation and Repair Loan

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
HB 12.28 – Purchase with Rehabilitation and Repair Loan

Eligible Loan Costs

• Upgrade and renovate kitchen, bathrooms, interior floor covering, etc..
• Create accessible amenities to accommodate individuals with disabilities
• Structural alterations, additions, or reconstruction
• Install energy conservation or weatherization features
• Addition of a garage, attached or detached
Eligible Loan Costs

- Repair or install septic systems and water wells
- Remove safety and healthy hazards
- Repair existing amenities
Prohibited Loan Purposes

• Investment Properties
• Installation of new swimming pools, saunas, or hot tubs
• Installation of luxury items such as exterior fireplaces, backyard kitchens, etc..
• Convert existing structures such as a barn or outbuilding to a single family dwelling
Prohibited Loan Purposes

• Alterations that allow income producing features
• Repair new or existing manufactured homes or condominiums
• Repairs or improvements to common area spaces such as community meeting rooms, playgrounds, etc.
Managing Construction

- Originating lenders do not need to have construction experience if the servicing lender will administer the construction phase.
- Builder/contractors must meet program requirements.
- The borrower may not act as the general contractor.
Managing Construction

- **Inspection/Consultant Fees** – for structural repairs exceeding $35,000, an inspector will perform
- **Cost Estimates** – A detailed, fixed cost estimate must be obtained
- **Appraisals** – Property must be appraised “as improved” subject to completion of all proposed work
- **Construction Period** – Typically for a period of 6 months. Deadline extensions may be approved at lender’s discretion
Managing Construction

- **Construction Contract** – Fixed cost contract that matches the bid proposal breakdown
- **Additions** – New structures or additions to the dwelling must comply all applicable codes
- **Unpermitted Work** – Proper certification must be obtained by the borrower for discovered unpermitted work prior to loan closing
- **PITI Reserves** – The lender will be responsible for making the borrower’s PITI payments during the construction phase
LEARNING CHECKS

7 CFR Part 3555 / HB-1-3555
The rehabilitation and repair feature allows borrowers to finance only the cost of repairs of an exiting dwelling.

A. TRUE    B. FALSE
3555.105, HB 12.28

B. FALSE

The maximum loan amount cannot exceed the cost of acquisition plus the cost of repairs up to the as improved market value, plus the guarantee fee, if applicable.
The dwelling must be considered habitable during construction to use the structural repair feature.

A. TRUE  B. FALSE
3555.107 (d), HB 12.28 A

B. FALSE

If the dwelling is not habitable at the time of closing, reserves for principal, interest, taxes and insurance may be established to cover the mortgage payments for up to 6 months or until the home is determined to be habitable by a third-party inspector deemed qualified by the lender during the construction period.
Jeff and Connie want to purchase an existing dwelling. The purchase price is $160,000. Repairs to be completed include: new interior flooring, updated kitchen cabinets and countertops. Repair costs total $35,000, plus a $3,000 contingency reserve and $500 permit/inspection fees. The “as improved” value of the property is $200,000. This property is eligible for a rehab/repair loan.

A. TRUE    B. FALSE
B. TRUE

- Purchase Price: $160,000 + $38,500 repairs/fees/contingency = $198,500
- As-Improved Value: $200,000
- Maximum Loan amount: $202,020
- $200,000 - $198,500 = $1,500 closing costs + $2,020 GRH fee
After loan closing, Jeff and Connie decide they don’t want to update the kitchen but instead want to add a covered patio with an outdoor kitchen. A change order for this purpose is acceptable.

A. TRUE  B. FALSE
Rehabilitation and Repair with Purchase of Existing Dwelling

3555.105, HB 12.24 and 12.28

B. FALSE

• Proposed changes should not affect the scope of the project and/or affect on the “as improved” value.

• An outdoor kitchen is considered a luxury feature and is a prohibited loan purpose.
Each of the following are eligible loan costs, except:

A. Additions or structural alterations
B. Addition of a garage
C. Convert barn into a single family dwelling
D. New exterior siding
ANSWER
Rehabilitation and Repair with Purchase of Existing Dwelling

3555.105, HB 12.28

C. Convert barn into a single family dwelling

Converting structures to a SFH dwelling is an ineligible loan purpose.
The dwelling may be demolished as part of the rehabilitation.

A. TRUE   B. FALSE
3555.105, HB 12.28

A. TRUE

The dwelling may be demolished in order to complete the rehab and repair work, however, the complete existing foundation must still be in place.
Non-structural repairs may be financed up to $______________

A. $30,000  B. $35,000
ANSWER
Rehabilitation and Repair with Purchase of Existing Dwelling

3555.105, HB 12.28

B. $35,000

Non-structural repairs may be made up to $35,000.
Frank and Susan financed non-structural repairs into their loan amount for the purpose of updating the kitchen cabinets and countertops. There is an unused balance in the contingency reserve in the amount of $3,000. New kitchen appliances were not included in the construction contract, however, they would like to use these funds to purchase appliances for their newly updated kitchen. This proposal is eligible.

A. TRUE       B. FALSE
3555.105, HB 12.24 and 12.28

A. TRUE

The change order does not change the scope of the work.
New appliances are an eligible loan purpose.
QUESTION
Rehabilitation and Repair with Purchase of Existing Dwelling

Originating lenders must have construction experience to administer the construction phase.

A. TRUE   B. FALSE
B. FALSE

Originating lenders do not need to have construction experience if the servicing lender will administer the construction phase. Servicing lenders must meet the requirements outlined in Paragraph 12.13 of Handbook 3555.
Steve and Margaret are purchasing an older home that will require extensive rehabilitation work. The property will not be habitable while the rehab work is being completed. The total cost of the purchase and all construction/permit work is $200,000. They have also included a 10% contingency reserve and a 6 month PITI reserve of $14,472. The property’s “as improved” value is $230,000. This proposal is eligible.

A. TRUE  B. FALSE
ANSWER

Rehabilitation and Repair with Purchase of Existing Dwelling

3555.105, HB 12.24 and 12.28

B. FALSE

<table>
<thead>
<tr>
<th>$200,000</th>
<th>Purchase Price/rehab work</th>
</tr>
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<tbody>
<tr>
<td>20,000</td>
<td>Contingency reserve</td>
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<tr>
<td>14,472</td>
<td>PITI payments - 6 months</td>
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<td>$234,472</td>
<td>TOTAL</td>
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<td>$230,000</td>
<td>“As Improved” Value</td>
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<tr>
<td>2,323</td>
<td>GRH Fee</td>
</tr>
<tr>
<td>$232,323</td>
<td>Maximum Loan Amount</td>
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</tbody>
</table>

The total of the purchase price, rehab work and reserves exceeds the maximum allowable loan amount. The reserve accounts must be reduced or omitted.
An inspector is required for both structural and non-structural repairs.

A. TRUE  B. FALSE
3555.105, HB 12.28

B. FALSE

Only structural repairs that exceed $35,000 require an inspector to perform a thorough inspection of the property.
Way to Go!

LEARNING CHECK COMPLETED!
Lender Toolkit
Navigate through these resources and tools like an expert!

Take the “Program Overview Training”

Available on the USDA LINC:

PART 3555—GUARANTEED RURAL HOUSING PROGRAM

Contents

Subpart D—Underwriting the Applicant

§3555.151 Eligibility requirements.
§3555.152 Calculation of income and assets.
§3555.153-3555.199 [Reserved]
§3555.200 OMB control number.

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
Chapter 13 - Special Property Types
Have a question on POLICY?
Contact the PAC team!

Need TRAINING?
Contact the LPA team!

Have a question on a SPECIFIC FILE?
Contact the OPD!
Thank you.