Welcome to the Combination Construction to Permanent Loans Rehabilitation and Repair training module presented by USDA’s Single Family Housing Guaranteed Loan Program.
For some buyers, finding their dream home may not be as easy as they hoped. Existing move in ready homes are limited in some areas and building new from the ground up may be more responsibility than some buyers want to take on. For these buyers, Rural Development has the perfect option, the Combination Construction to Permanent Loans Rehabilitation and Repair loan program. They can find that dream home that needs a little TLC and make it their own.
There are a number of advantages to the applicant when purchasing an existing dwelling with the rehabilitation and repair loan option.

The borrower may customize repairs and improvements and the loan for the purchase and repairs are included in one closing.
The purchase of an existing dwelling with the rehabilitation and repair feature is a 100% financing program.

The maximum loan may be up to the “as improved” market value plus the amount of the upfront guarantee fee.

Because this loan feature is a single close, the loan is amortized over a 30 year term and there is no need to modify the loan after closing.
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

One of the biggest advantages to the lender is reduced risk since the Loan Note Guarantee is issued after loan closing but before the completion of all rehab and repair work.

Lenders do not have to wait until the repairs have been completed to obtain the loan guarantee.

Lenders are able to immediately sell the loan to the secondary market and securitize the 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

There are two features available with this program.

The first option is the non-structural feature for those repairs, such as replacing floor coverings, roofing materials or new windows and doors, that do not exceed a total cost of $35,000.

There is no minimum repair amount but the dwelling must be deemed habitable during the renovation period.

A contingency reserve “soft cost” may be established to cover cost overruns or change orders but USDA does not require a contingency reserve nor is it included in the $35,000 repair total.

Any unused funds must be applied to a principal reduction.
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

For repairs requiring structural work, or repairs that exceed $35,000 in costs, a qualified inspector, such as a HUD Inspector, will be assigned by the lender to inspect and provide a detailed plan of the work to be completed.

Eligible soft costs include:

- A contingency reserve of 10% when the home's utilities will remain on and 15% when the utilities will remain off. Again, USDA does not require a contingency reserve.
- A PITI reserve of up to 6 months when the dwelling is deemed uninhabitable is also an eligible cost. Once the inspector determines the dwelling may be occupied, the borrower will take over payments.
- These are eligible costs but not required costs so they are not included in the $35,000 total.

Any unused funds from the PITI reserve will be applied to the principal loan amount.
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

Loan funds may be used to improve or modernize an existing dwelling such as updating kitchens and bathrooms, interior floor coverings, etc.

Loan funds may also be used to make a dwelling accessible to persons with disabilities.

Loan funds could be used to construct additions or make structural alternations to enlarge a dwelling.

Energy conservation and weatherization features may also be installed with loan funds.
Eligible Loan Costs

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

Other examples of eligible loan costs include installation or repair of private well and wastewater systems, removing safety and health hazards, and even making repairs to existing amenities such as swimming pools, saunas and accessory units.
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

Borrowers must occupy the property as their primary residence.

Investment properties are not allowed. Installation of luxury items such as swimming pools, exterior fireplaces or kitchens are also prohibited.

The dwelling must have been previously used for housing purposes. Therefore, the conversion of any building such as a barn or schoolhouse into a single-family housing dwelling is not eligible.
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.

In addition, any alterations that would allow the property to have income-producing features are not allowed.

Repairs or improvements to new or existing manufactured homes and condominiums are also prohibited.

Repairs to common areas, playgrounds or other shared areas are ineligible.
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.

Another advantage to lenders of the Rehabilitation and Repair with Purchase of Existing Dwellings loan feature is the fact the lenders are not required to have construction experience if the servicing lender will administer the construction phase.

Builder/contractors must meet program requirements and the borrower may not serve as the project general contractor.

The lender may use the service of any inspector or consultant determined by the lender to be qualified to evaluate the property.
If there are structural repairs in excess of $35,000, an inspector will inspect the property and provide a detailed write-up including associated costs of the project.

A cost estimate will also be obtained by the borrower that fully describes the work to be completed.

An inspection and a cost estimate are not required for non-structural repairs totaling less than $35,000.

Appraisals are to be completed subject to all work being completed and must reflect the “as improved” value.

Typically, the construction period should be no more than 6 months but lenders may approve an extension.
A fixed price contract should be obtained for the project and the total amount of the contract should match the bid proposal breakdown.

Any additions or new structures to the dwelling must meet applicable local and national codes.

Prior to loan closing, proper certification must be obtained by the borrower for any unpermitted work that is discovered during the project.

And the lender will be responsible for making the borrower’s PITI payments during the construction phase or until the dwelling is determined to be habitable.
The best way to learn information is to test your knowledge!
The following question slides will list:

- The topic,
- A question or scenario, and
- potential responses.
The answer slides will list:

- The topic,
- the reference to the answer from the regulation and handbook,
- the correct response, and
- any additional clarification that may be helpful.
Ready?

LET’S GET STARTED!

Let’s get started!
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.

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 financed.
The dwelling must be considered habitable during construction to use the structural repair feature.

A. TRUE  B. FALSE
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.

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.
QUESTION
Rehabilitation and Repair with Purchase of Existing Dwelling

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

Read the question on the slide and select a response.
ANSWER
Rehabilitation and Repair with Purchase of Existing Dwelling

3555.107 (d), HB 12.28

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

True.

Jeff and Connie can finance the purchase plus the cost of repairs and still finance up to $1,500 in closing costs.

In addition, they can exceed the “as improved” market value by the amount of the financed upfront guarantee 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
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.

Changes to the original construction contract that may effect the overall scope of the project as well as to the “as improved” value of the property are ineligible.

In addition, luxury improvements such as an outdoor kitchen is considered an ineligible loan purpose.
QUESTION
Rehabilitation and Repair with Purchase of Existing Dwelling

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

Read the question on the slide and select a response.
C. Convert barn into a single family dwelling

Converting structures to a SFH dwelling is an ineligible loan purpose.

Existing structures such as a barn or schoolhouse are prohibited from being converted to a single family dwelling and is considered an ineligible loan purpose.
QUESTION
Rehabilitation and Repair with Purchase of Existing Dwelling

The dwelling may be demolished as part of the rehabilitation.

A. TRUE    B. FALSE

Read the question on the slide and select a response.
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.

If the dwelling must be demolished as part of the rehabilitation, the complete existing foundation must still be in place and will be used.

Properties where the foundation has been demolished or where only the footings remain are not eligible.
QUESTION
Rehabilitation and Repair with Purchase of Existing Dwelling

Non-structural repairs may be financed up to $_____________

A. $30,000  B. $35,000

Read the question on the slide and select a response.
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.

This feature allows borrowers to finance up to $35,000 for repairs such as those identified by a home inspector or appraiser.

The repairs must be non-structural, and the home must be considered habitable at the time of closing to be eligible.
QUESTION

Rehabilitation and Repair with Purchase of Existing Dwelling

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

Read the question on the slide and select a response.
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.

The addition of new kitchen appliances does not change the overall scope of the work.
In addition, new appliances are an eligible loan purpose.
Originating lenders must have construction experience to administer the construction phase.

A. TRUE B. FALSE

Read the question on the slide and select a response.
3555.105, HB 12.28 C

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.

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
B. FALSE

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<td>GRH Fee</td>
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<tr>
<td>$232,323</td>
<td>Maximum Loan Amount</td>
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The total of the purchase price, rehab work and reserves exceeds the maximum allowable loan amount. The reserve accounts must be reduced or omitted.

False.

The maximum loan amount is the total of the “as improved” value plus the upfront guarantee fee which in this case equals $232,323.

As proposed, the total of the purchase and rehab work plus the contingency reserve and the 6 month PITI payments is $234,472 which exceeds the maximum loan amount.

The borrowers may reduce the amount of the contingency and PITI reserves or decide to fund only one of the reserves.

If the borrowers have available funds, they may fund a portion of the reserve account(s) or cover the PITI payments and change orders out of pocket.

Please note that contingency and PITI reserves are recommended but are not required.
An inspector is required for both structural and non-structural repairs.

A. TRUE  B. FALSE

Read the question on the slide and select a response.
B. FALSE

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

False.

For structural repairs that exceed $35,000, an inspector will perform a thorough inspection of the property and prepare a detailed write-up of the work to be completed including estimated costs of labor and materials and other customary fees typical for the area.

An inspector or consultant is not required for non-structural repairs of $35,000 or less.
Way to go! You have completed the learning checks!
• This training module has provided you with an overview of the key requirements of a Rehabilitation and Repair loan.

• Complete program requirements and guidance can be found in 7 CFR Part 3555, Subpart C, Sections 3555.104 and 3555.105 and Chapter 12 of HB-1-3555 in section 12.28.

• Be sure to bookmark these references, save yourself valuable time by using Ctrl-F to quickly search and find answers, and always ensure you are referencing the most current publications.

• The “Program Overview Training” module will assist you in learning how to navigate through all the resources and tools Rural Development has created to assist you.
• In addition to the other resources and tools available to assist lenders, the agency has developed a Single Close Job Aid to be used specifically for construction to permanent loans, including Rehabilitation and Repair with Purchase of Existing Dwelling applications.

• The Single Close Job Aid, available at the USDA LINC Training & Resource Library, provides step by step instructions on how to properly identify and input single close applications in GUS.
Users should first look for answers to their questions in the regulation and handbook, but if you still have a question after reviewing your resources, we’re here to help.

All policy and regulation questions regarding the topic we just covered should be sent to our Policy, Analysis, and Communications Branch and

If you would like to request additional program training, contact our Lender and Partner Activities Branch.
Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program and America’s rural homebuyers!
This will conclude the training module. Thank you and have a great day!