



Combination Construction to Permanent Loans

Presented by: Annette Joyer, Finance and Loan Analyst

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Today's USDA Speaker



Annette Joyer

Annette Joyer is a Finance and Loan Analyst with USDA Rural Development. Annette has been with the Agency for 27 years, working primarily with the Single Family Housing Guaranteed Loan Program (SFHGLP.) For over 20 years, Annette was the SFHGLP Coordinator in California, overseeing all program activity statewide. Currently, Annette is a member of the Lender and Partner Activities Branch, working directly with lending partner throughout the U.S. to provide support in promoting the SFHGLP.

Program Highlights



Homebuyer Benefits

Single Family Housing Guaranteed Loan Program

- **100% financing, no down payment required**
- **Loan Amount may include closing costs**
- **Maximum loan amount based on appraised value**
- **No sales price or loan amount limits**
- **Not limited to first time home buyers**



Program Mission

Single Family Housing Guaranteed Loan Program



- **Serve low to moderate income rural homebuyers**
- **Assist homebuyers in obtaining adequate, modest, decent, safe, & sanitary dwellings**
- **Guarantee sound loans which otherwise would not be made without a guarantee**

Program Eligibility



Eligibility Requirements

Determination of Applicant Eligibility



- ✓ **Property located in an eligible rural area**
- ✓ **Total Household Income Within Program Limits - 115% of Median**
- ✓ **Applicant is a U.S. citizen or qualified alien**
- ✓ **Ability to meet monthly obligations and repay the loan**

Combination Construction to Permanent (CTP) Loan

A decorative graphic in the bottom right corner of the slide, featuring a cluster of light blue stars above several wavy, horizontal stripes in a slightly darker shade of blue, reminiscent of the American flag.

Combination Construction to Permanent Loan

HB-1-3555, Chapter 12, Section 6

Also know as “single-close loan”

- ❑ **Combines** the features of a **construction loan** (short- term interim loan for financing the cost of construction) and the **traditional long-term permanent residential mortgage**.
- ❑ **Approved lenders with appropriate construction lending experience** and adequate controls for interim construction cost disbursements **may offer to eligible applicants**



Combination Construction to Permanent Loan Issuance of Loan Note Guarantee

- Agency issues loan guarantee when construction loan is closed
- Full amount of the loan is guaranteed.
- ✓ 30 year, fixed rate loan
- ✓ After closing, funds are disbursed to cover the cost of the land and applicable closing costs



Construction should be completed within 12 months – Obtain all permits prior to beginning of construction

Combination Construction to Permanent Loan Loan Closing

Lender is responsible for:

- **Ensure all applicable closing documents are completed, closing conditions are met, and USDA guarantee fee is collected.**
- **Any state specific construction requirements are met**
- **Construction contract between applicant and builder is obtained**



Combination Construction to Permanent Loan Appraised Value

Land Value



All costs
associated
with
construction



Reserves



Appraised
Value



The appraiser must be given all costs associated with the construction to be included in the final market value



Combination Construction to Permanent Loan Lender Responsibilities

- Oversee Disbursement of Loan Proceeds**
- Monitor the construction of subject property**
- Obtain documentation confirming construction is complete**
- Ensure use of fixed price construction contract**



Combination Construction to Permanent Loan Lender Requirements



- Self-certify staff has two or more years' experience making and administering construction loans**
- Lender may employ a construction loan management company with two or more years of experience, in lieu of in-house staff. Lender to confirm eligibility**
- Confirm the eligibility of contractors/builders**

Combination Construction to Permanent Loan

Builder/Contractor Requirements

- 2 or more years of building/construction experience (SFH)
- State-issued construction or contractor license
- Commercial general liability insurance (\$500,000 min)
- Acceptable credit history
- No previous felony criminal record
- Background check to be completed by lender

A key to the success of the CTP loan feature is the financial stability and reputation of the builder constructing the home.

Combination Construction to Permanent Loan

Eligible Loan Costs

**Must be common
and customary
for similar
transaction in the
area**

- ✓ **Land** – Acquisition or payoff of balance
- ✓ **Construction Hard Costs** – costs in contract and detailed in budget; costs outside of the contract paid to others (example well and septic installation, roads/driveways, landscaping, etc...)
- ✓ **Construction Soft Costs** – inspection and survey fees, contingency reserves, permits, lender admin fees, etc.

Combination Construction to Permanent Loan Contingency Reserve



- **A contingency reserve may be utilized to cover eligible expenses associated with unplanned problems with construction or change orders.**
- **Limited to 10% of the cost of construction (including labor, materials and soft costs).**
- **Funds must be deposited into the construction reserve account**

Combination Construction to Permanent Loan Warehouse Line of Credit - Re-amortization

**Excess funds
from
contingency
reserve will be
applied as a
principal
reduction**

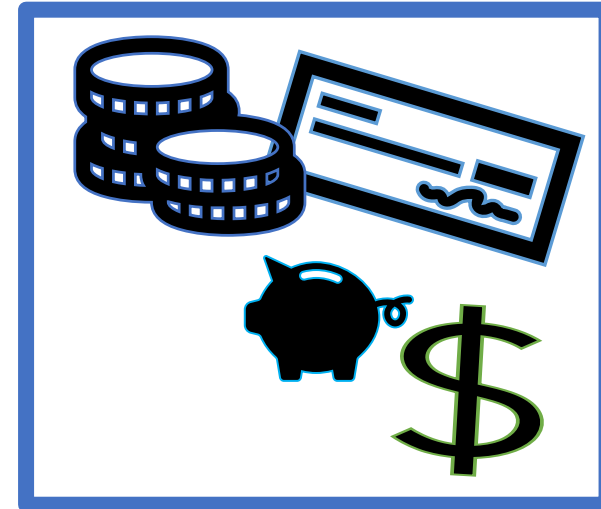
- **Re-amortization may be utilized to achieve full repayment for the remaining term of loan**
- **Interest rate for permanent loan may be lowered with loan modification**
- **Lender to provide executed Loan Amortization Agreement**
- **Amortization must begin no later than the 1st of the month, 60 days from final inspection**

Combination Construction to Permanent Loan Interest Payments During Construction

**From established reserve
account**

OR

**Directly from borrower (lender to
document ability to pay)**



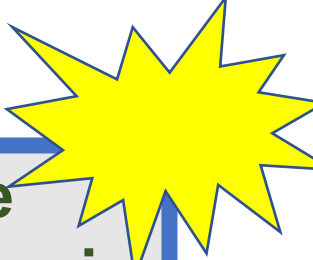
Combination Construction to Permanent Loan Securitized After Loan Closing

- May establish reserve account for regular PITI payments during construction period**
- No need for loan modification or re-amortization**
- Excess funds will be applied as principal curtailment**



Combination Construction to Permanent Loan Construction Draws – Lender Requirements

- **Draws and disbursements are managed and recorded by the lender**
- **Borrower and lender are jointly responsible**
- **Retain documentation to confirm work has been completed for the draws disbursed**



When funds are disbursed, the lender is warranting to Rural Development the work was done as specified.

Combination Construction to Permanent Loan Change Orders and Unplanned Changes

UNPLANNED CHANGES DURING CONSTRUCTION

Should a life change occur with the borrower, such as loss of job or death occurs, the lender remains responsible to work with the builder to complete the home.

- **Change orders must be approved by lender**
- **Borrower is responsible for any costs related to a change order that will exceed available funds**
- **Proposed changes should not affect the scope of the project or appraised value**

Combination Construction to Permanent Loan Cash Back to Borrower

- Lenders must apply any excess funds as a principal reduction
- Reimbursement of funds for costs paid directly by the borrower is permitted
- Funds remaining in the contingency reserve account may be used for an eligible loan purpose or applied as a principal reduction



Combination Construction to Permanent Loan Builders Warranty

Refer to Chapter 12.9,
“Evidence of Construction
Inspections” for details
pertaining to acceptable
documentation

**1 year builders warranty acceptable
to Rural Development together with
Certificate of Occupancy and 3
construction inspections**

OR

**10 year insured Builders Warranty
with Final Inspection**

Combination Construction to Permanent Loan Certified Plans and Specifications

Acceptable evidence of Plans and Specifications include any one of the following:

- Certification from a qualified individual or organization (RD Form 1924-25, “Plans Certification” is acceptable for this purpose
- Certificate of Occupancy from local jurisdiction
- Building permit from local jurisdiction

USDA
Form RD 1924-25
(Rev. 7-99)

U.S. DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
FARM SERVICE AGENCY

Form Approved OMB
No. 0575-0042

PLAN CERTIFICATION

(Property Name/Applicants Name and Case Number)	
(Property Address)	(City)
(Country)	(State)

BUILDING TYPE: Single Family Multi-Family
PLANS: Original Modifications

I, _____, being a _____
(type or print) (licensed architect, engineer, or authorized building official, etc.)
in the State of _____, hereby certify that I have reviewed:

the plans and specifications dated _____ prepared by _____
(name of firm or individual)
for the above property

the thermal performance plans, specifications and calculations dated _____
prepared by _____ for the above property
(name of firm or individual)

the seismic design (plans and specifications) dated _____ prepared by _____
(name of firm or individual) for the above property

modifications listed below, that have been clearly indicated on the drawings and specifications
dated _____ prepared by _____ and certified by _____
(name of firm or individual) and related to the above property

MODIFICATIONS

According to the Paperwork Reduction Act 1995, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0042. The time required to complete this information collection is estimated to average 10 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

Optional Form

Combination Construction to Permanent Loan Thermal Certification

- Thermal standards must meet or exceed the International Energy Conservation Code in effect at the time of construction.
- Typically included in the plans and specs



Resources



USDA Rural Development website

<https://www.rd.usda.gov/>

Access Single Family Housing Programs from the “Program & Services” Drop Down menu



HB-1-3555 SFH Guaranteed Loan Program Technical Handbook

Handbooks

▼ HB-1-3555 SFH Guaranteed Loan Program Technical Handbook

Consolidated version

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Chapter 8

**Chapter 12: Property and Appraisal
Requirements**

**Section 6: Combination Construction
to Permanent Loans
{7 CFR 3555.105}**

USDA LINC Training & Resource Library



Online training modules include guidance on “Combination Construction to Permanent” loans

Documents and Resources include Handbook updates, forms, and checklists

<https://www.rd.usda.gov/page/usda-linc-training-resource-library>

SFH Guaranteed Loan Origination Basic Training

SFH Guaranteed Loan Origination Documents and Resources

Guaranteed Underwriting System (GUS)

Guaranteed Underwriting System – Lender Test Environment (GUS LTE)

Lender Loan Closing/Administration

Guaranteed Annual Fee Billing and Payment

Electronic Status Reporting (ESR)

Loss Claims and Mitigation

Security



Rural Development
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Questions?



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Lender and Partner Activities Branch

David Corwin

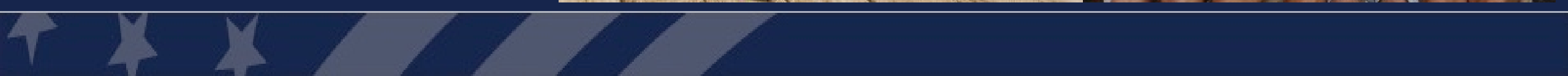
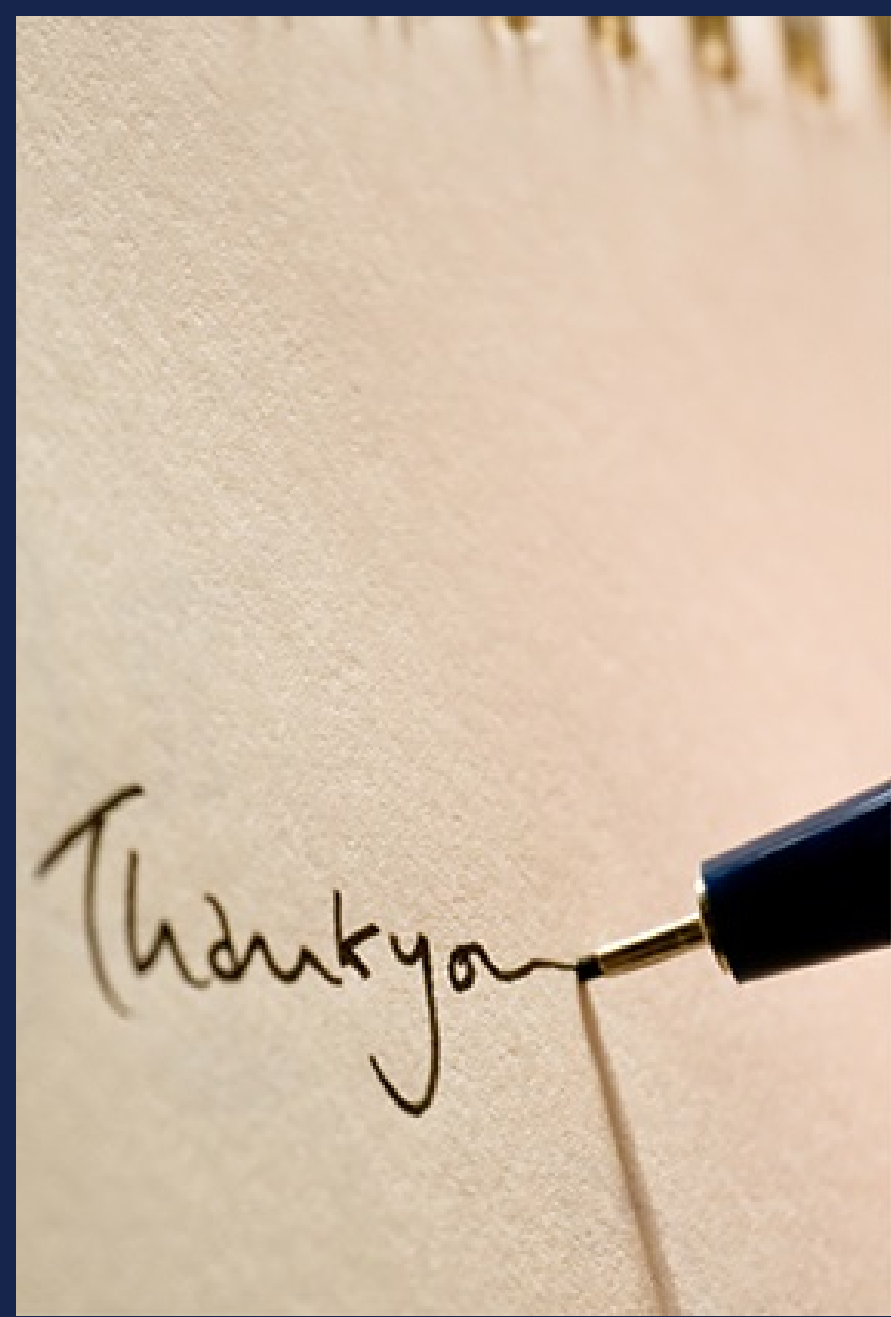
Ed Peace

Annette Joyer



Rural Development

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USDA is an equal opportunity provider, employer, and lender.

This concludes the USDA Single Family Housing Guaranteed Loan Program portion of the presentation.

We are very happy to introduce a lender partner who will share their experience and expertise in Single Close Construction lending. While the Agency makes no endorsement of this company or the content of its presentation, we do believe the information they will share will be useful to your expansion of personal business through utilization of our Single Close Construction loan product.

Ladies and Gentlemen, 1st Signature Lending's Mr. Mike Johnson.