Combination Construction to Permanent Loans

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Lender and Partner Activities Branch

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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
Combination Construction to Permanent Loan
HB-1-3555, Chapter 12, Section 6

- **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**

Also know as “single-close loan”
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
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.
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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
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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
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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.
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Eligible Loan Costs

- **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.

**Must be common and customary for similar transaction in the area**
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.
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Warehouse Line of Credit - Re-amortization

- 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

Excess funds from contingency reserve will be applied as a principal reduction
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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
• 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.
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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
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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
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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
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
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
Access Single Family Housing Programs from the “Program & Services” Drop Down menu
Chapter 12: Property and Appraisal Requirements

Section 6: Combination Construction to Permanent Loans

{7 CFR 3555.105}
Online training modules include guidance on “Combination Construction to Permanent” loans.

Documents and Resources include Handbook updates, forms, and checklists.


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Questions?

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Lender and Partner Activities Branch
David Corwin
Ed Peace
Annette Joyer
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.