

Q&A Document from USDA Rural Development

Single-Close Construction (a/k/a Construction-to-Permanent) Loan Webinars Held June 9th & June 23rd, 2021

Q: Is there a separate lender approval process for CTP loans?

A: No. Any approved SFHGLP lender with the required construction lending experience (having two or more years of experience **OR** employing a qualified agent with two or more years of experience) can participate and close this specific product type. Further guidance is available in Chapter 12.13 of the Handbook.

Q: Can I offer these loans and originate them through one of USDA's approved lenders since I am a broker and not a lender?

A: Yes. Brokers can establish relationships with any USDA approved lender under a co-brokerage agreement or as a Third-Party Originator and send CTP loans as part of the agreement. The Lender takes full responsibility for the loan. It is the broker's responsibility to establish this relationship with an approved lender.

Q: What type of monitoring or audits does USDA perform to ensure compliance with the program?

A: USDA relies solely on the approved Lender to manage the construction process. However, lenders are subject to the normal compliance reviews and bi-annual recertifications conducted by the Agency.

Q: Are all states included in this program?

A: Yes. All states are included since it is a nation-wide program under USDA (a federal Agency).

Q: How does a lender know if a property location is USDA eligible?

A: Property eligibility may be determined using this link:
<https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=sfp>

Q: Are there predefined USDA documents for CTP loans?

A: No. Specific forms are not required by USDA. Standard industry forms are acceptable as determined by the lender.

Q: Does USDA need to approve the builder?

A: No. The approved lender and their agent, if any, will be responsible for approving participating builders. Each builder seeking to participate will be subject to a process that involves license verification, insurance validation, credit examination, reference verification and a criminal background check. Chapter 12.14 of the Handbook provides complete guidance.

Q: What are credit score minimum requirements for builders?

Answer: There is no set minimum credit score for builders. The lender is responsible for approving the builder after they have determined them to be financially stable and of good reputation. Chapter 12.14 of the Handbook provides additional details.

Q: Do we have to do our own construction inspections or can we use an inspection service?

A: Lenders may opt to use an inspection service for all draw requests. Lenders may also employ the service of a construction loan management company or other experienced third party to manage the entire process.

Q: What happens when a loan takes over 12 months?

A: The USDA Single Close Construction loan allows for a payment reserve of up to 12-months of payments during construction. Lenders are encouraged to hold off on closing these loans until all the building permits and environmental reviews are in order to help avoid potential delays that could eat into the 12-month allotment.

Q: We typically do not obtain permits until after initial closing and prior to breaking ground. Is this acceptable?

A: USDA does not specify when the permits should be obtained. We rely on the Lender to manage the process in a manner that is prudent and follows good business practices. As a best practice, we do recommend obtaining the building permits prior to or shortly after closing the loan whenever possible to avoid exceeding the 12-month construction period limitation.

Q: Are there construction requirements specific to my state?

A: The lender's file must contain evidence the plans and specifications comply with all development standards. Applicable development standards include the current International Code Council (ICC) standards or current state adopted ICC codes for residential construction. Further details are available in Chapter 12.9(B) of the Handbook.

Q: Are lenders having trouble getting the appraisal to come in at value, especially when utilizing payment and contingency reserves?

A: The appraiser must be informed of all the construction and loan costs at the time of the appraisal assignment. This includes the desired payment and contingency reserves. If the appraiser is not aware of all costs from the onset, which includes the payment and contingency reserves, they may not have enough information to render an informed opinion of value. It is very important that an appraiser has ALL costs associated with the build from the onset.

Q: Is a payment reserve required?

A: No, however, most borrowers may find it necessary to make the build affordable. During construction, interest on the construction loan is payable monthly either directly from the borrower or indirectly through draws from an established reserve account. Complete guidance is available in Chapter 12.20 of the Handbook.

Q: Are contingency reserves an eligible use of funds?

A: Yes. A contingency reserve to cover eligible expenses associated with unplanned expenses with the construction or change orders may be utilized. The reserve is limited to 10% of the cost of construction (including labor, materials and soft costs). Additional guidance is available in Chapter 12.15 of the Handbook.

Q: In general terms, how can the loan be sold after a project is completed?

A: The Single Close Construction program allows for two product options: 1) a standard option with interest only payments made during construction followed by a loan modification when construction is completed, and 2) an immediately securitizable version where full PITI payments are made 30 days from loan closing and every 30 days thereafter throughout construction. With this option there is no loan modification upon completion of the build. Both options allow for payments during construction to be escrowed from loan funds and both receive the Agency's Loan Note Guarantee at settlement, before a shovel goes into the ground!

Q: Do CTP loans have to be the newer securitized version or can it be the original version of Interest Only payments during construction?

A: Either option is always available to the lender/borrower.

Q: Does USDA require a "fixed price" construction contract?

A: Yes. The Agency does require the use of a fixed price construction contract. However, the use of a fixed price contract does not eliminate the ability to utilize contingency funding. See Chapter 12.13 of the Handbook for further details.

Q: Does the USDA CTP allow for an Owner Builder?

A: No. This product does not allow for owner builders.

Q: Does USDA guarantee loans with manufactured housing units as collateral?

A: Yes. The Agency does allow for new manufactured housing units on permanent foundations. For full guidance see Chapter 13.5 of the Handbook.

Q: If we have a borrower that has inherited land and wants to place a modular or manufactured home on it, do you have a general contractor list that you could recommend for the foundation and final items?

A: USDA does not maintain a list of general contractors and cannot make referrals. It is the responsibility of the applicant (possibly with assistance from their Realtor and/or lending agent) to secure the services of a qualified contractor.

Q: Where can I find a list of USDA lenders in my area?

A: A list of lenders known to currently be offering the Single Close Construction product can be found on our website here: https://www.rd.usda.gov/sites/default/files/ctp_lenders_investor_list062021.pdf

A complete list of all USDA RD approved lenders can be found here: <https://www.rd.usda.gov/sites/default/files/RDGRH-AllStatesList.pdf>

Many lenders work through an approved lender as a correspondent or broker (under a co-brokerage agreement or a Third-Party Originator agreement), so ask your bank/lender if they do USDA loans.

Q: Do you have specific trainings you offer for each partner (i.e. Realtors) on the full process as it pertains to the construction process - particular to Realtors & what they could expect?

A: We offer trainings for lenders, Realtors, and/or builders regarding the product and the parameters regarding the loan process and closing, with a focus on the knowledge base needed for the applicable audience. Please email us at SFHGLD.LenderPartner@usda.gov . We would welcome the opportunity to provide you with this service.

Q: How can I find a local USDA rep to further discuss our interest in this program?

A: The Single Family Housing Guaranteed Loan Program was consolidated in 2020 to be managed by a centralized unit for the entire nation. You can reach out to us at SFHGLD.LenderPartner@usda.gov for trainings -or- SFHGLD.Program@usda.gov for specific loan scenarios. A full complete department contact sheet is posted on our website and can be found here:

https://www.rd.usda.gov/sites/default/files/sfhgld_contact_list-4-13.pdf .