

# Combination Construction to Permanent Loans

Rehabilitation and Repair

Single Family Housing Guaranteed Loan Program



**AFTER**



**BEFORE**



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

# HB 12.28 – Purchase with Rehabilitation and Repair Loan

## 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



BEFORE



**AFTER**



# 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





# HB 12.28 – Purchase with Rehabilitation and Repair Loan

## Eligible Loan Costs

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



# HB 12.28 – Purchase with Rehabilitation and Repair Loan

## 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



# HB 12.28 – Purchase with Rehabilitation and Repair Loan

## 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.





# 7 CFR Part 3555: 3555.105

## 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.



## 7 CFR Part 3555: 3555.105



### 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

## 7 CFR Part 3555: 3555.105

### 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



# QUESTION

*Topic*

- Question will be bulleted with scenario, or
- Include a statement/question

TRUE/FALSE or other answer options will be displayed



# ANSWER

*Topic*

*7 CFR Part 3555 and HB-1-3555 references provided*

## **X. Correct Response**

- Additional guidance for clarification may be provided





*Ready?*

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LET'S GET  
STARTED!

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## QUESTION

### *Rehabilitation and Repair with Purchase of Existing Dwelling*

The rehabilitation and repair feature allows borrowers to finance only the cost of repairs of an existing dwelling.

A. TRUE      B. FALSE



# ANSWER

## *Rehabilitation and Repair with Purchase of Existing Dwelling*

*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.





## QUESTION

### *Rehabilitation and Repair with Purchase of Existing Dwelling*

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

- A. TRUE      B. FALSE



## ANSWER

### *Rehabilitation and Repair with Purchase of Existing Dwelling*

*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.



## 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



# 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





## QUESTION

### *Rehabilitation and Repair with Purchase of Existing Dwelling*

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



# ANSWER

## *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.



## 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



# 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.





## QUESTION

### *Rehabilitation and Repair with Purchase of Existing Dwelling*

The dwelling may be demolished as part of the rehabilitation.

- A. TRUE      B. FALSE



# ANSWER

## *Rehabilitation and Repair with Purchase of Existing Dwelling*

*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.



## QUESTION

### *Rehabilitation and Repair with Purchase of Existing Dwelling*

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.





## 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



## ANSWER

### *Rehabilitation and Repair with Purchase of Existing Dwelling*

*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



## ANSWER

### *Rehabilitation and Repair with Purchase of Existing Dwelling*

*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.





## QUESTION

### *Rehabilitation and Repair with Purchase of Existing Dwelling*

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**

\$200,000	Purchase Price/rehab work
20,000	Contingency reserve
14,472	PITI payments - 6 months
\$234,472	TOTAL
\$230,000	"As Improved" Value
2,323	GRH Fee
\$232,323	Maximum Loan Amount

The total of the purchase price, rehab work and reserves exceeds the maximum allowable loan amount. The reserve accounts must be reduced or omitted.



## QUESTION

### *Rehabilitation and Repair with Purchase of Existing Dwelling*

An inspector is required for both structural and non-structural repairs.

- A. TRUE      B. FALSE



## ANSWER

### *Rehabilitation and Repair with Purchase of Existing Dwelling*

*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!





Navigate through these resources and tools like an expert!

Take the “Program Overview Training”

Available on the USDA LINC:  
<https://www.rd.usda.gov/page/usda-linc-training-resource-library>



<https://www.rd.usda.gov/resources/regulations/program-regulations>

**Subpart C—Loan Requirements**

- §3555.101 Loan purposes.
- §3555.102 Loan restrictions.
- §3555.103 Maximum loan amount.
- §3555.104 Loan terms.
- §3555.105 Combination construction and permanent loans.
- §3555.106 [Reserved]
- §3555.107 Application for and issuance of the loan guarantee.
- §3555.108 Full faith and credit.
- §3555.109 Qualified mortgage.
- §§3555.110-3555.149 [Reserved]
- §3555.150 OMB control number.

<https://rd.usda.gov/resources/directives/handbooks>


**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.

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- Chapter 1** - Overview
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- 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

## USDA LINC Training & Resource Library



**Single Family Housing Guaranteed Loans**  
**Single Close New Construction and**  
**Rehabilitation and Repair Loans in GUS**  
**Reference Guide**

The Single Close Combination Construction to Permanent Loan Final Rule was published on July 23, 2019 with an effective date of October 1, 2019. To assist lenders and field office staff, the Agency has issued additional instructions for Single Close New Construction and Rehabilitation and Repair Loan data entry in GUS. The following instructions will ensure the Single Close loans are correctly identified and coded in GUS.

## LINC Training and Resources

Contact Us

7 CFR 3555

### New:

- [Origination and Servicing FAQs](#)
- [Single Close Job Aid](#)

<https://www.rd.usda.gov/files/RD-GRH-SingleCloseJobAid.pdf>

Can't find your answer in the regulation or handbook?

*Contact the PAC team!*

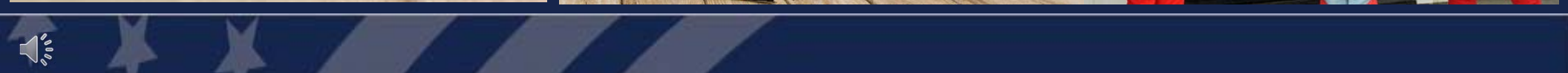
Want additional live program training?

*Contact the LPA team!*



TOPIC	CONTACT
<b>File-Specific Questions</b> <b>Information to include in email:</b> <ul style="list-style-type: none"> <li>Identify the state the application is located; if applicable;</li> <li>Provide applicant's name and USDA borrower ID, if applicable;</li> <li>GUS loan number, if applicable</li> <li>Include contact information; and</li> <li>Indicate if you would like a call back (otherwise you will receive an email reply)</li> </ul>	<b>Production Team One:</b> <a href="mailto:SFHGLPONE@usda.gov">SFHGLPONE@usda.gov</a> AK, AL, AZ, CA, CO, GU, HI, IA, ID, KS, MT, NM, NV, OR, SD, TX, UT, WA, WI, WP, WY  <b>Production Team Two:</b> <a href="mailto:SFHGLPTWO@usda.gov">SFHGLPTWO@usda.gov</a> AR, KY, LA, MN, MO, MS, ND, NE, NJ, NY, OK  <b>Production Team Three:</b> <a href="mailto:SFHGLPTHREE@usda.gov">SFHGLPTHREE@usda.gov</a> CT, DE, GA, IL, MA, MD, ME, MI, NC, NH, RI, SC, VT, WV  <b>Production Team Four:</b> <a href="mailto:SFHGLPFOUR@usda.gov">SFHGLPFOUR@usda.gov</a> FL, IN, OH, PA, PR, TN, VA, VI
<b>Lender Approval</b>	<a href="mailto:sfhqld.compliance@usda.gov">sfhqld.compliance@usda.gov</a>
<b>Lender Recertification</b>	
<b>Program Training</b>	<a href="mailto:sfhqld.lenderpartner@usda.gov">sfhqld.lenderpartner@usda.gov</a>
<b>Program Marketing &amp; Outreach</b>	
<b>General Loan Scenario Questions</b>	<a href="mailto:sfhqld.program@usda.gov">sfhqld.program@usda.gov</a>
<b>Loan Policy/Regulation/Handbook</b>	
<b>Loan Servicing</b>	<a href="mailto:sfhglpservicing@usda.gov">sfhglpservicing@usda.gov</a>
<b>Technical Issues: e-Authentication</b>	<a href="mailto:eAuthHelpDesk@ftc.usda.gov">eAuthHelpDesk@ftc.usda.gov</a> 800-457-3642, option 1 (USDA e-Authentication <a href="#">Issues</a> )
<b>Technical Issues: GUS</b>	<a href="mailto:RD.HD@STL.USDA.GOV">RD.HD@STL.USDA.GOV</a> 800-457-3642, option 2 (USDA Applications); then option 2 (Rural Development)
<b>Loss Claims</b>	<a href="mailto:guarantee.svc@stl.usda.gov">guarantee.svc@stl.usda.gov</a>
<b>Monthly &amp; Quarterly Status Reporting</b>	
<b>GUS User Agreements</b>	<a href="mailto:rd.nfaoc.hsb@stl.usda.gov">rd.nfaoc.hsb@stl.usda.gov</a>
TOOLS & RESOURCES	
<b>Regulation and Handbook:</b> <a href="https://www.rd.usda.gov/resources/directives">https://www.rd.usda.gov/resources/directives</a> <b>Lender Webpage—Turn times, contact information, and helpful links:</b> <a href="https://www.rd.usda.gov/page/sfh-guaranteed-lender">https://www.rd.usda.gov/page/sfh-guaranteed-lender</a> <b>USDA LINC—Training modules, user guides, and more useful resources:</b> <a href="https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library">https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library</a> <b>GovDelivery—Receive notifications regarding origination, servicing, and GUS updates:</b> <a href="https://public.govdelivery.com/accounts/USDARD/subscriber/new">https://public.govdelivery.com/accounts/USDARD/subscriber/new</a>	







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