

 **Rural Development**
U.S. DEPARTMENT OF AGRICULTURE

Combination Construction to
Permanent Loans

Rehabilitation and Repair

Single Family Housing Guaranteed Loan Program



AFTER

BEFORE



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**WHEN THEIR
DREAM HOME
REQUIRES A LITTLE
(OR A LOT) OF
TLC,**

*Rural Development
can help!*



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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



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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



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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



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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



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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

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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



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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



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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



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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.



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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.



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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

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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



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LEARNING CHECKS

7 CFR Part 3555 / HB-1-3555



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QUESTION

Topic

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

TRUE/FALSE or other answer options will be displayed

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ANSWER

Topic

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

X. Correct Response

- Additional guidance for clarification may be provided



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Ready?

**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 exiting dwelling.

A. TRUE B. FALSE



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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.



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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



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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.



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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



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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



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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



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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.



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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



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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.



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QUESTION*Rehabilitation and Repair with Purchase of Existing Dwelling*

The dwelling may be demolished as part of the rehabilitation.

A. TRUE B. FALSE



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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.



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QUESTION

Rehabilitation and Repair with Purchase of Existing Dwelling

Non-structural repairs may be financed up to \$_____

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



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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.



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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



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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.



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QUESTION

Rehabilitation and Repair with Purchase of Existing Dwelling

Originating lenders must have construction experience to administer the construction phase.

A. TRUE B. FALSE



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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.



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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



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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.



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QUESTION

Rehabilitation and Repair with Purchase of Existing Dwelling

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

A. TRUE B. FALSE



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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.



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Way to Go!

LEARNING CHECK COMPLETED!





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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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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>

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Can't find your answer in the regulation or handbook?
Contact the PAC team!

Want additional live program training?
Contact the LPA team!

USDA Rural Development U.S. DEPARTMENT OF AGRICULTURE

Single Family Housing Guaranteed Loan Program (SFHGLP) Contacts & Resources

TOPIC	CONTACT
File-Specific Questions Information to include in email: <ul style="list-style-type: none"> • Identify the state the application is located, if applicable; • Provide applicant's name and USDA borrower ID, if applicable; • GUS loan number, if applicable; • Include contact information; and • Indicate if you would like a call back (otherwise you will receive an email reply) 	Production Team One: SFHGLPONE@usda.gov AK, AL, AZ, CA, CO, GU, HI, IA, ID, KS, MT, NM, NV, OR, SD, TX, UT, WA, WI, WY, WY Production Team Two: SFHGLPTWO@usda.gov AR, KY, LA, MN, MO, MS, ND, NE, NJ, NY, OK Production Team Three: SFHGLPTHREE@usda.gov CT, DE, GA, IL, MA, MD, ME, MI, NC, NH, RI, SC, VT, WV Production Team Four: SFHGLPFOUR@usda.gov FL, IN, OH, PA, PR, TN, VA, VI
Lender Approval	sfhoid.compliance@usda.gov
Lender Recertification	sfhoid.compliance@usda.gov
Program Training	sfhoid.lenderpartner@usda.gov
Program Marketing & Outreach	sfhoid.lenderpartner@usda.gov
General Loan Scenario Questions	sfhoid.program@usda.gov
Loan Policy/Regulation/Handbook	sfhoid.program@usda.gov
Loan Servicing	sfhoid.servicing@usda.gov
Technical Issues: e-Authentication	sAuthHelpDesk@fc.usda.gov 800-457-3642, option 1 (USDA e-Authentication Issues)
Technical Issues: GUS	RD.HD@STL.USDA.GOV 800-457-3642, option 2 (USDA Applications); then option 2 (Rural Development)
Loss Claims	guarantee.svc@stl.usda.gov
Monthly & Quarterly Status Reporting	rd.nfaoc.hsb@stl.usda.gov
GUS User Agreements	rd.nfaoc.hsb@stl.usda.gov

TOOLS & RESOURCES

Regulation and Handbook: <https://www.rd.usda.gov/resources/directives>
 Lender Webpage—Turn times, contact information, and helpful links: <https://www.rd.usda.gov/page/sfh-guaranteed-lender>
 USDA LINC—Training modules, user guides, and more useful resources: <https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library>
 GovDelivery—Receive notifications regarding origination, servicing, and GUS updates: <https://public.govdelivery.com/accounts/USDARD/subscribe/new>

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 U.S. DEPARTMENT OF AGRICULTURE

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