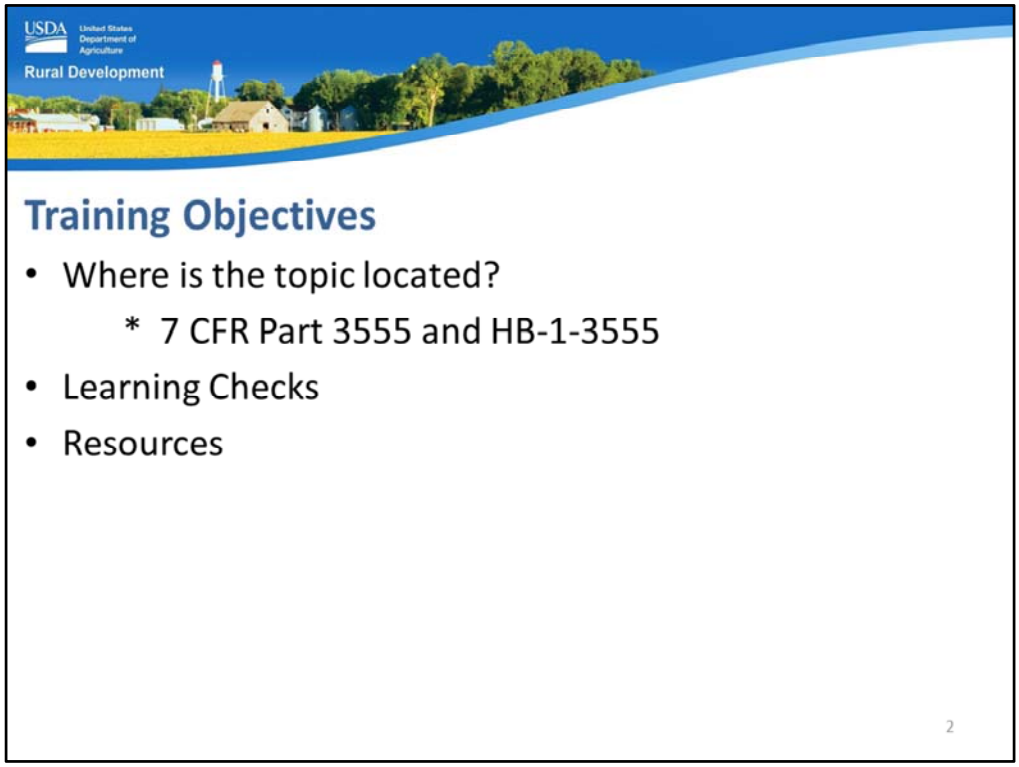
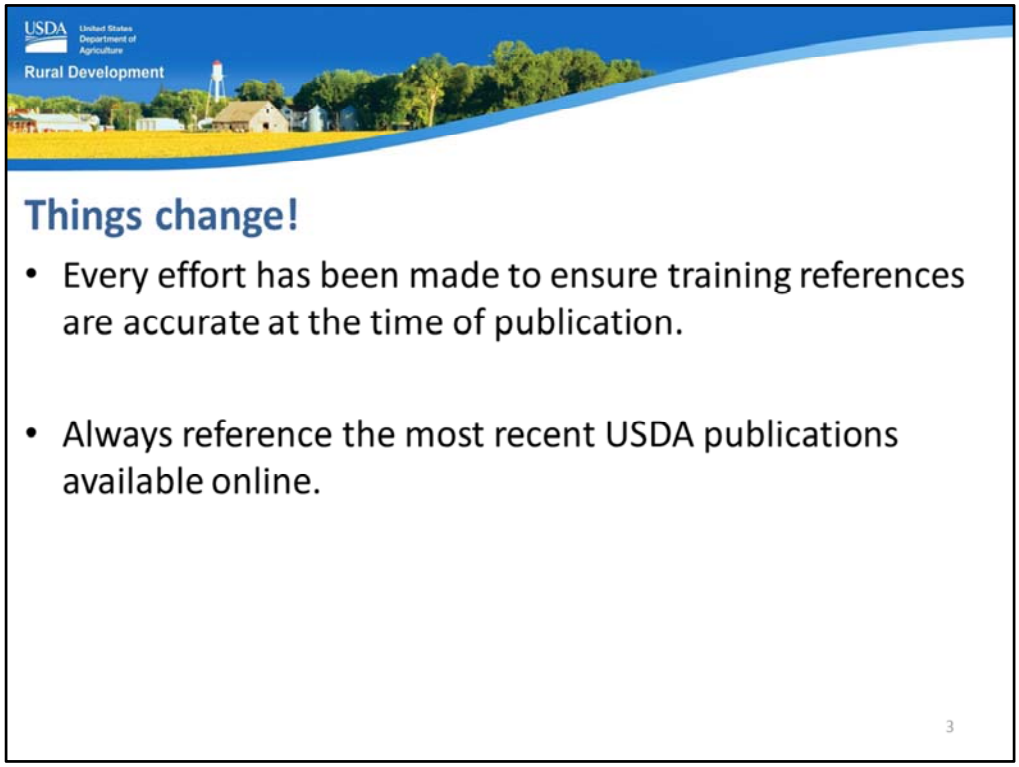
Welcome to Combination Construction and Permanent Loan training, presented by USDA's Single Family Housing Guaranteed Loan Program!

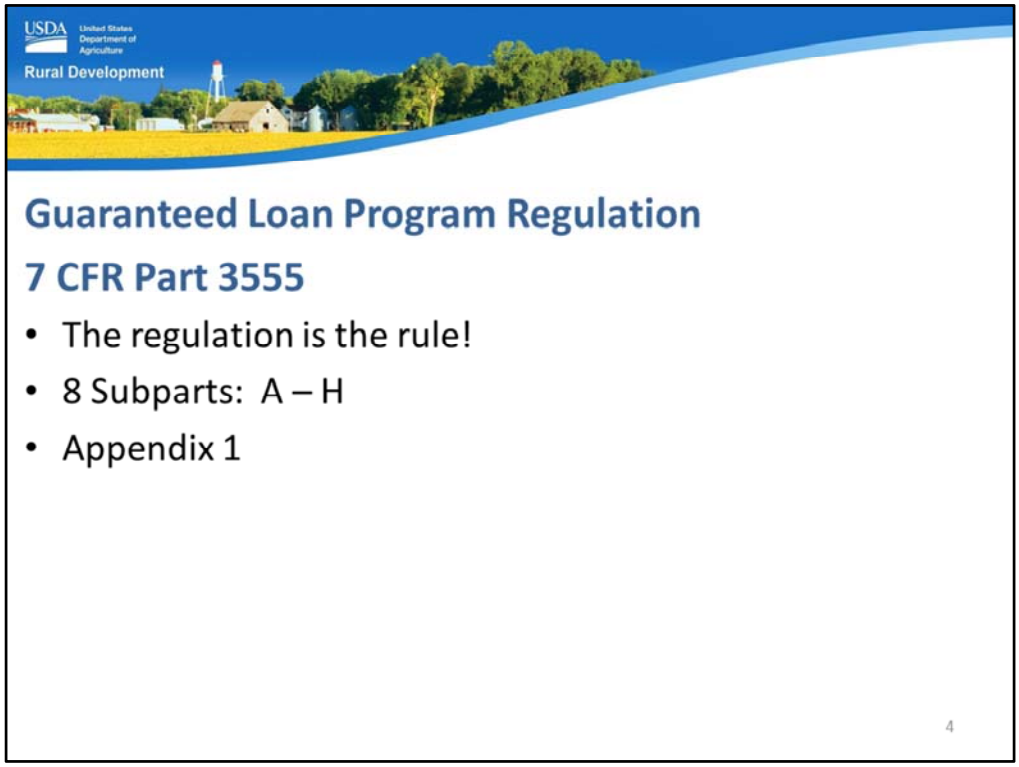


The objectives of the training include:

1. Demonstrating where the training topic is located in the program regulation, 7 CFR Part 3555 and the technical handbook, HB-1-3555.
2. Providing learning checks to help you gain a working knowledge of the topic, and
3. Links to online resources to assist in locating program information.

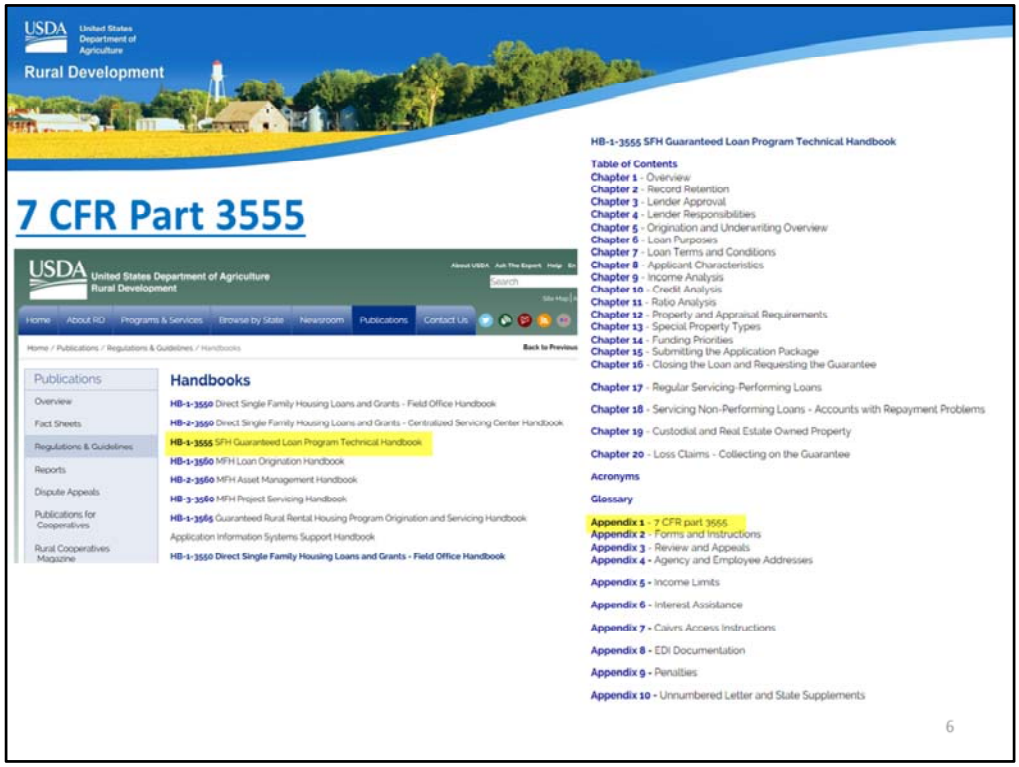


Every effort has been made to ensure this training and all references are accurate, however, new program revisions and clarifications may occur.
Therefore, please ensure you always reference the most recent USDA publications available online.
This training module is not intended to replace the need to reference the regulation, technical handbook, and additional USDA published documents regarding the Guaranteed Loan Program.

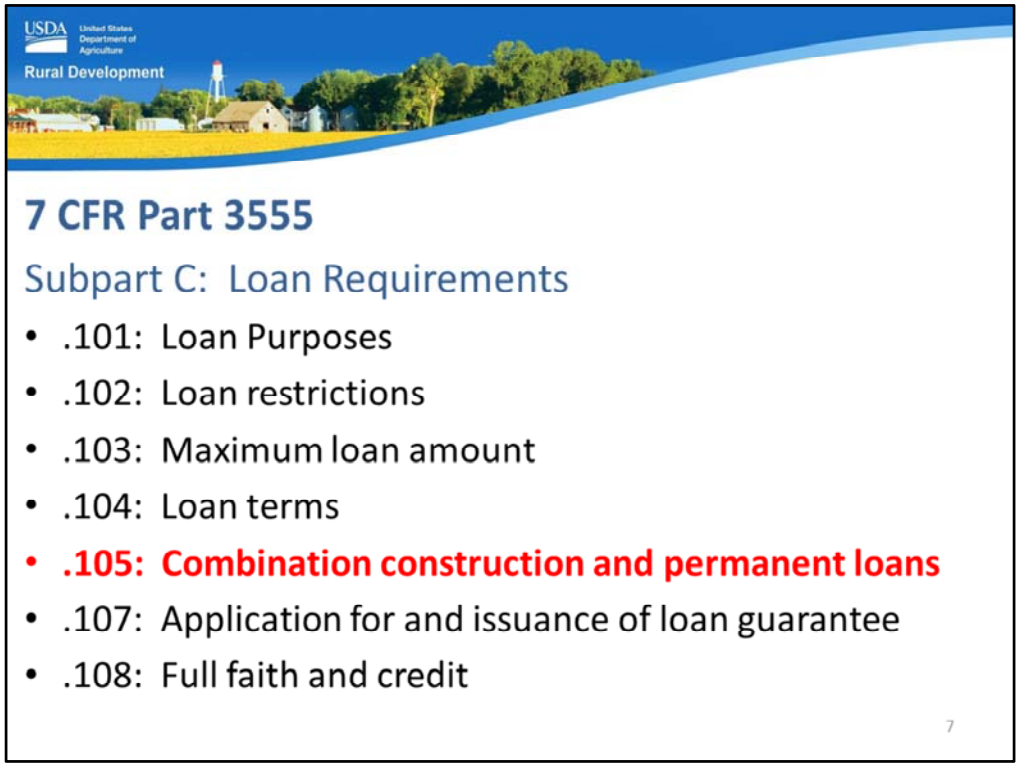


7 CFR Part 3555 is the program regulation. It is the first place users should look for the answers to their questions.
The regulation is the rule and it cannot be overridden by the technical handbook.
The 7 CFR Part 3555 is comprised of 8 subparts, A through H.
You can access the full regulation online as Appendix 1 from the Regulations and Guidelines website.

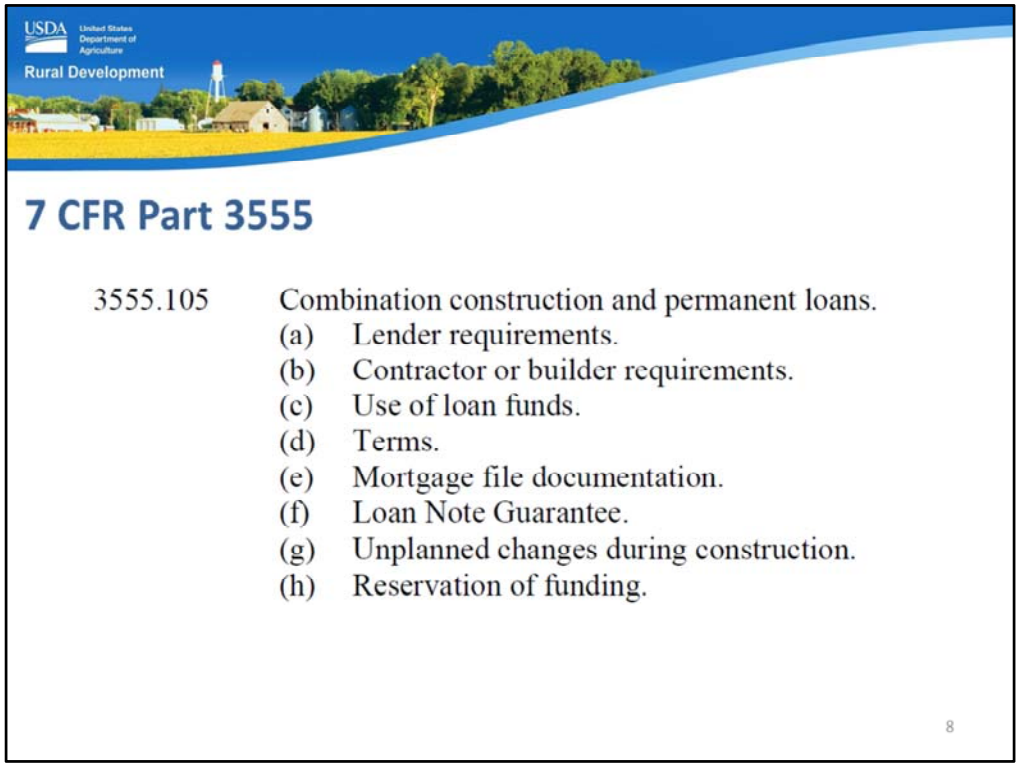
The Regulations and Guidelines website is located from the link shown on the slide. Under “Rural Development” there are many items available from this home page. To access the regulation, select “Handbooks.”



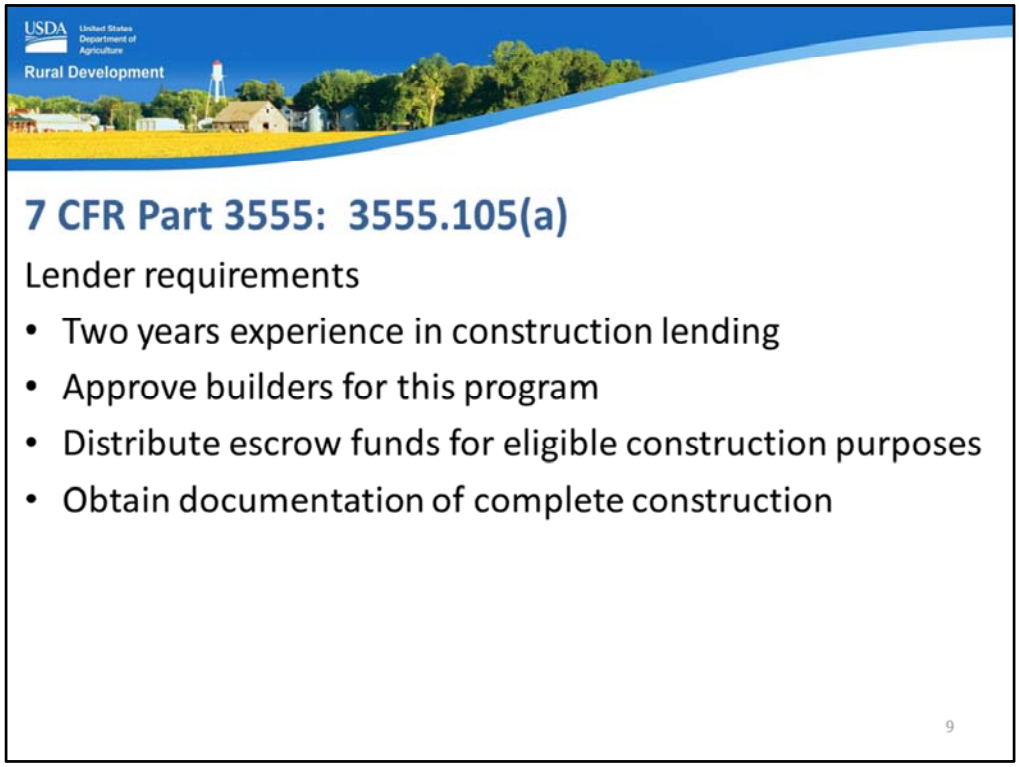
A list of all USDA Rural Development handbooks will display.
Be sure to select the correct technical handbook: HB-1-3555.
Once HB-1-3555 is selected, the entire handbook, including all appendix will display for selection.
Appendix 1 is the full regulation, 7 CFR Part 3555.



Combination construction and permanent loans is located in Subpart C, Section 3555.105.

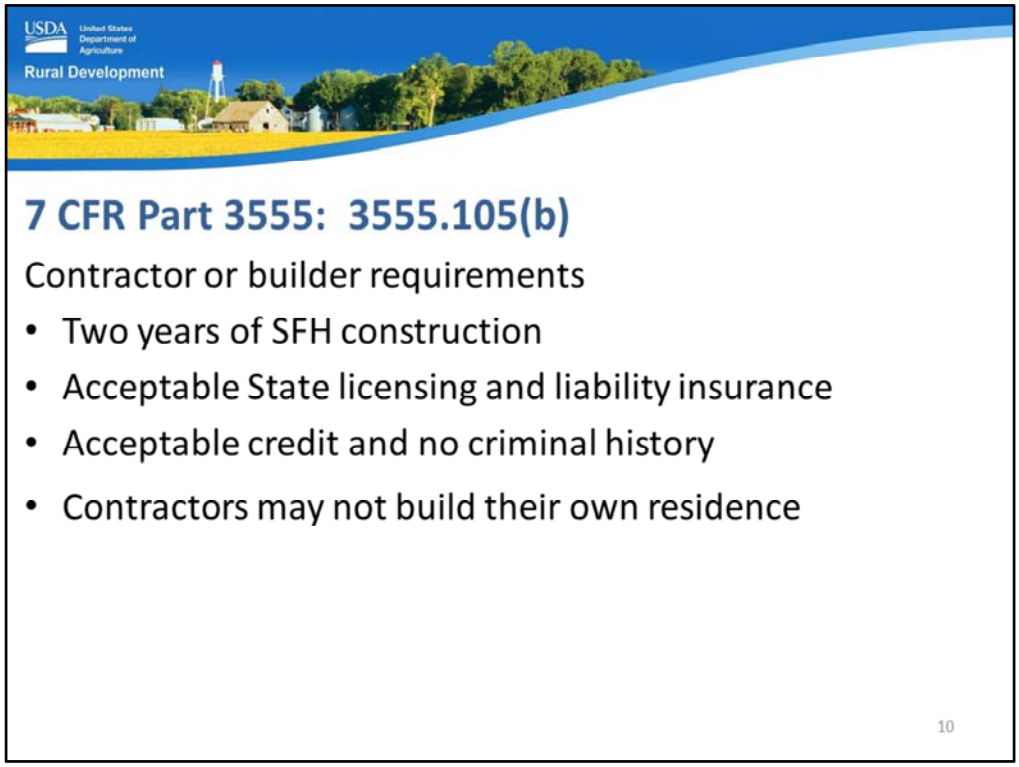


The regulation Table of Contents provides a quick view of the individual topics included under this Section.



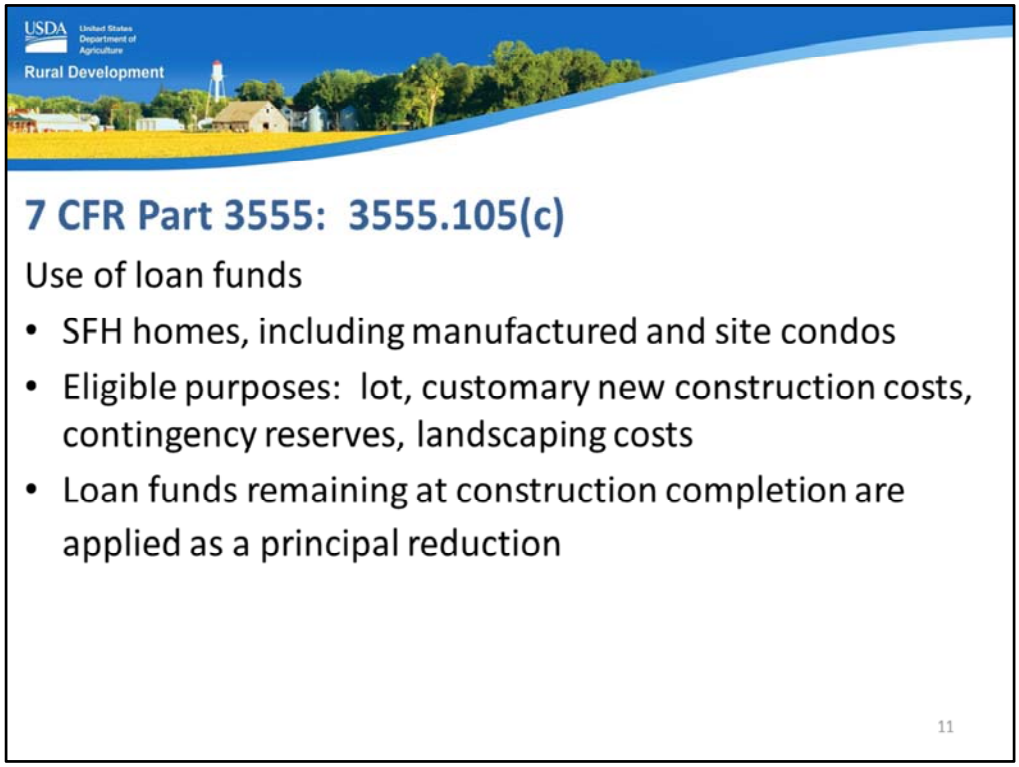
In order to participate in the combination construction and permanent loan program lenders must meet the following requirements:

1. They must have a minimum of two years of experience in construction lending
2. Lenders are responsible to ensure the builders they work with meet the eligibility criteria of the regulation.
3. Lenders must distribute escrow funds only for eligible construction purposes.
4. Lenders must obtain documentation that construction has been completed.

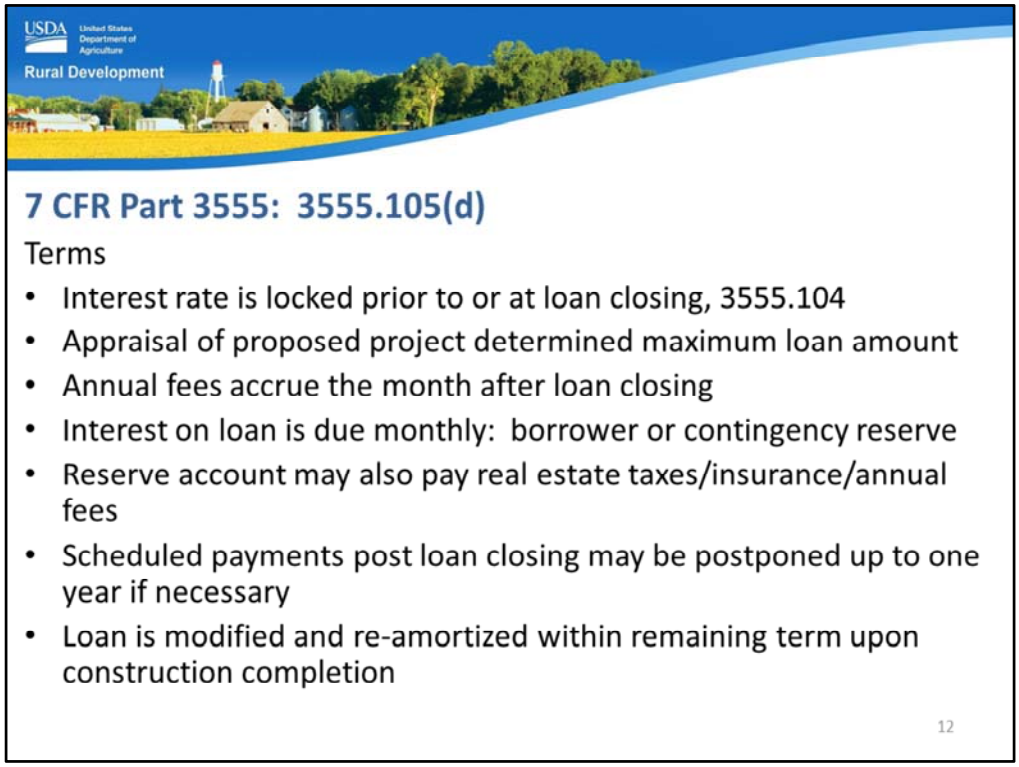


Builders and contractors who participate in the program must meet the following criteria:

1. They must have a minimum of two years of single family housing construction experience.
2. Provide acceptable State licensing and liability insurance.
3. They must have an acceptable credit history and no criminal history.
4. Contractors may not build their own residence with the use of this program.

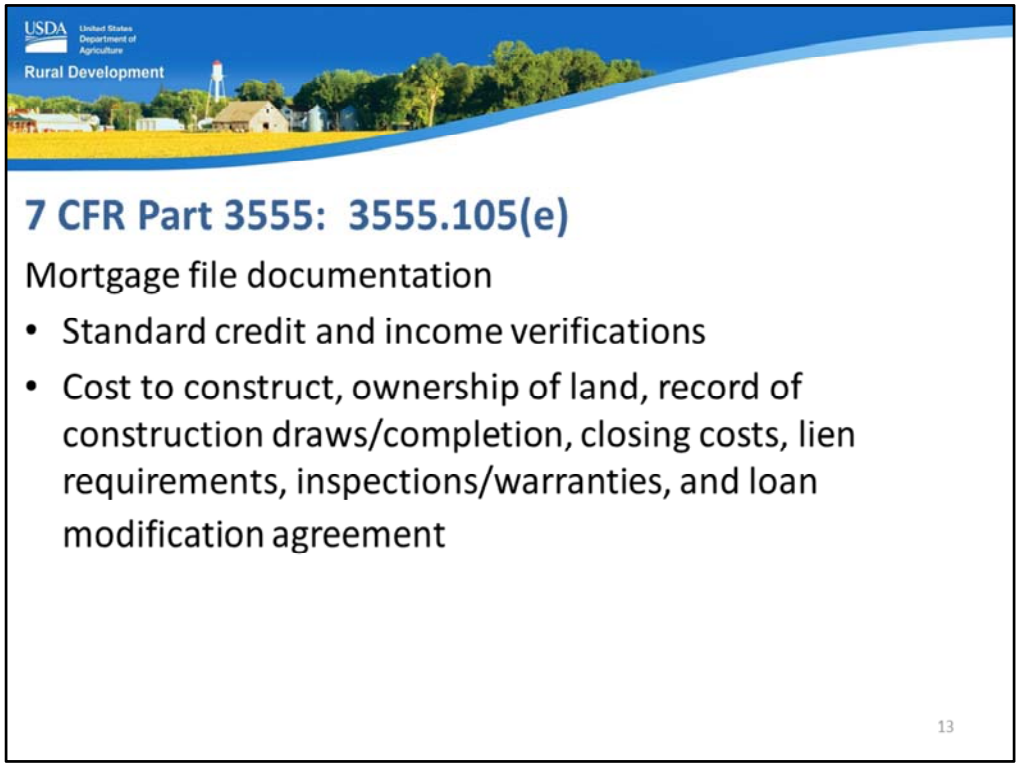


Loan funds may be used to construct eligible single family homes. This may include manufactured home and site condominiums.
Loan funds must be used only for eligible loan purposes as outlined in the regulation. This includes the lot, customary new construction costs, contingency reserves, landscaping costs, etc.
Loan funds that remain upon construction completion must be applied as a principal reduction.

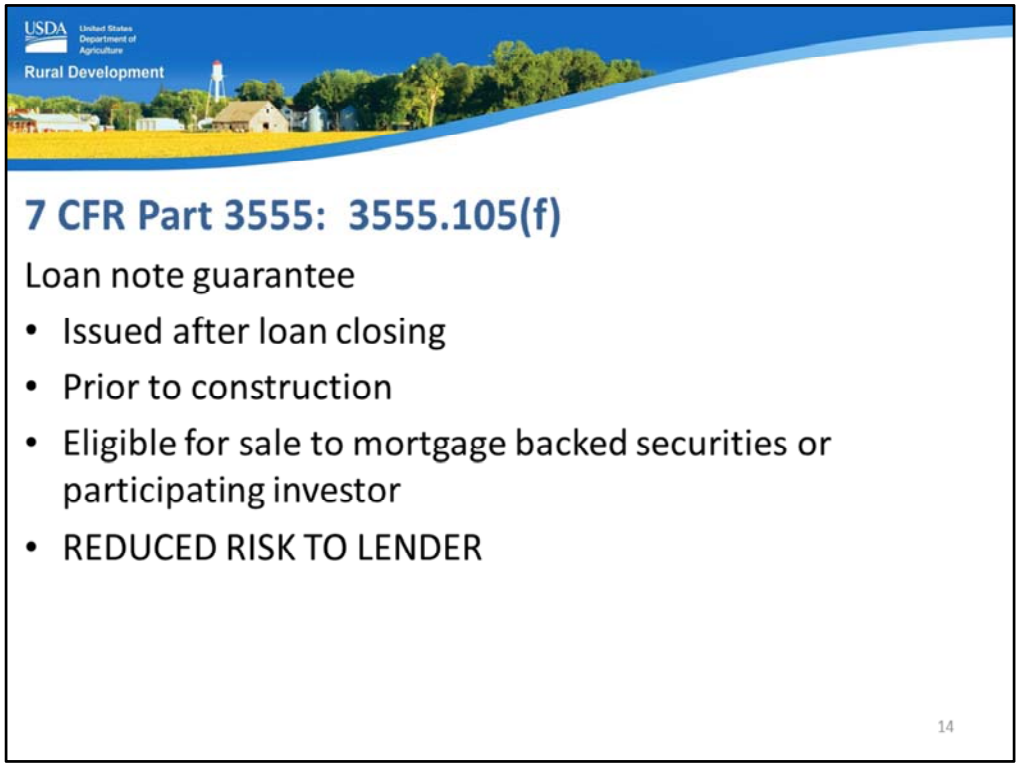


The terms of the combination construction and permanent loans are as follows:

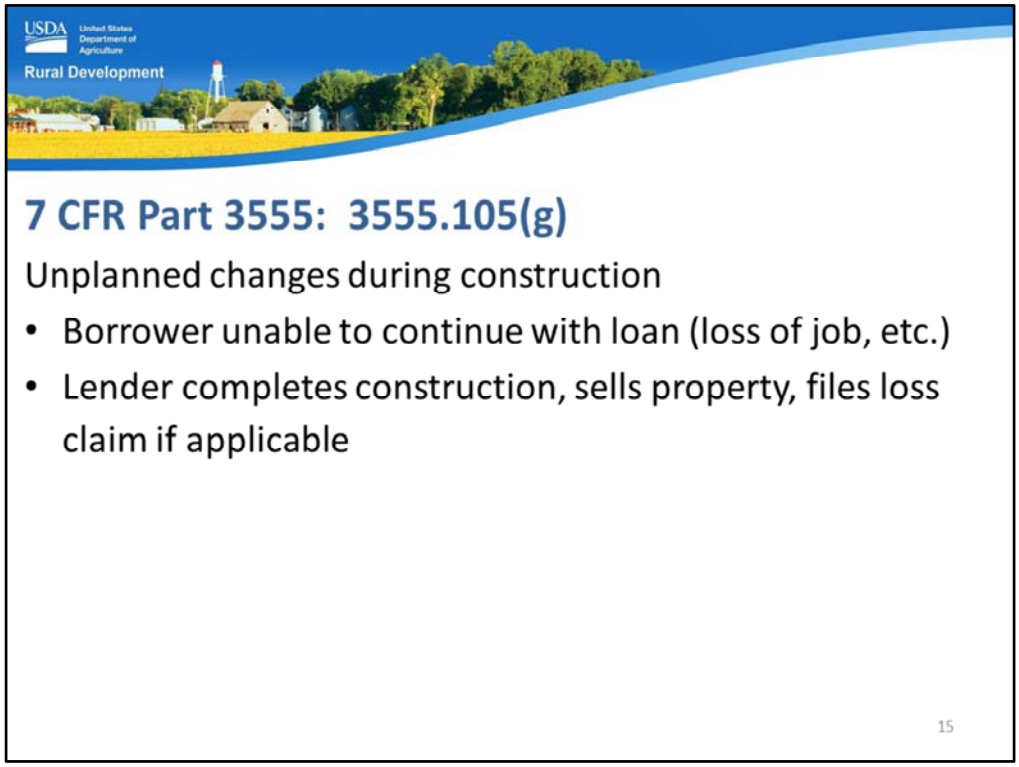
- The interest rate is locked prior to or at loan closing. The interest rate many not exceed the maximum interest allowed under 3555.104 at the time of rate lock and/or loan closing.
- An appraisal will be completed based on the proposed project to determine the appraised value upon completion. This appraisal will also serve to determine the maximum allowable loan amount.
- The annual fee will begin to accrue the month after loan closing.
- Interest is due on the loan monthly. This payment may be made by the borrower from their own funds or from a contingency reserve is applicable.
- The contingency reserve may also be used to pay real estate taxes, homeowners insurance, and annual fess due during the construction phase.
- Scheduled payments that are due once the home is completed may be postponed up to one year if necessary.
- When the home is complete, the loan is modified and reamortized within the remaining term.



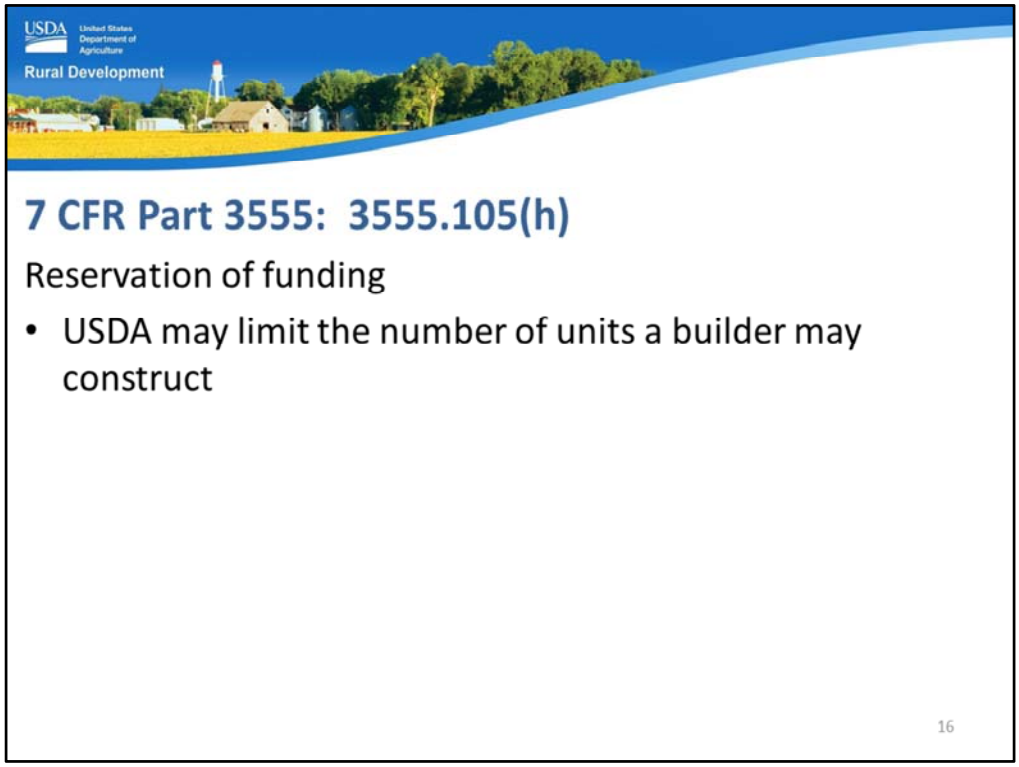
The mortgage file must contain standard origination documentation for credit and income verifications (see Attachment 15-A in HB-1-3555 Chapter 15).
Additional documentation will be required to be retained by the lender to verify the cost of construction, validate ownership of land, record all construction draws, completion of construction, lien requirements, inspections and warranties, and the loan modification agreement.



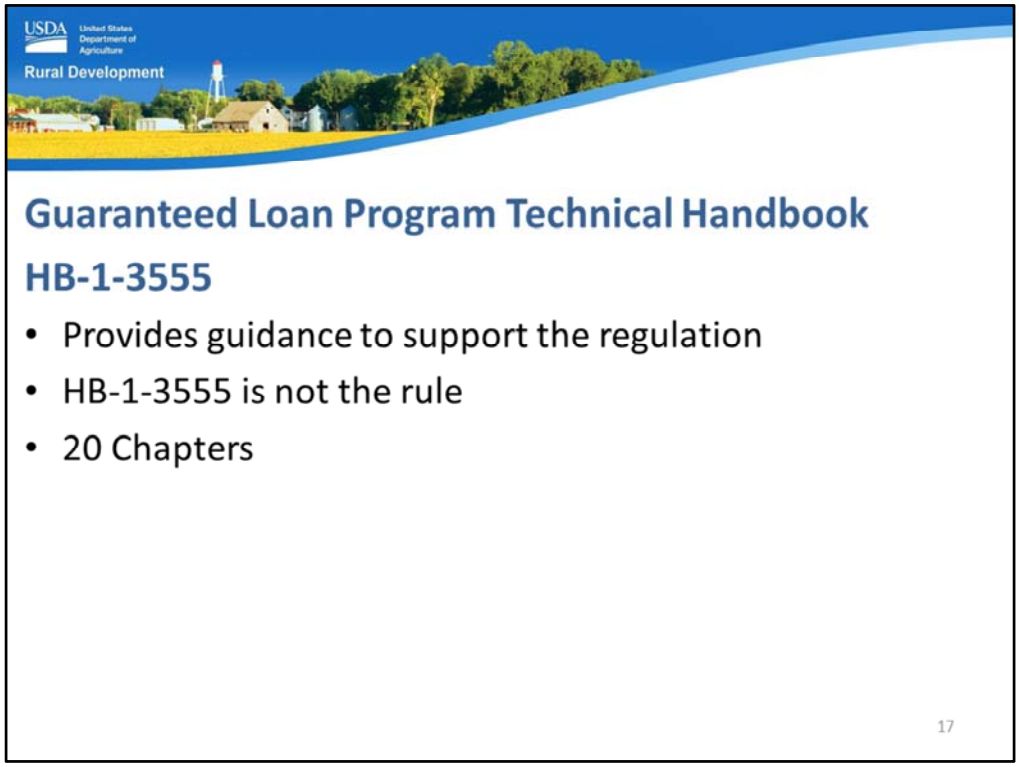
The loan note guarantee will be issued after the loan closes.
This typically occurs prior to the beginning of construction.
The combination construction and permanent loans are eligible for sale to a mortgage backed security or a participating investor.
With a 90% loan note guarantee issued on an incomplete dwelling, this greatly reduces the risk to the lender during the construction phase.



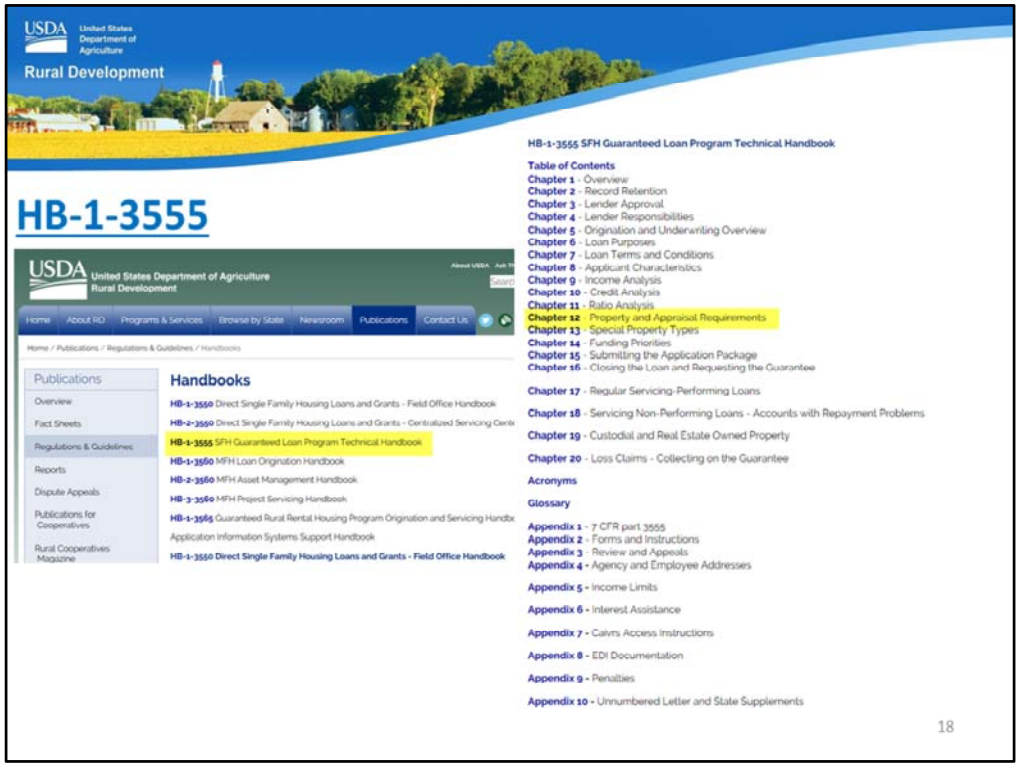
If there are unplanned changes during construction such as: the borrower loses their job, is deceased, has a major medical issue, etc., construction will continue.
The lender will oversee the completion of construction and then sell the home.
If the home does not sell for the loan balance due, the lender may file a loss claim with USDA if applicable.



USDA may limit the number of units a builder may construct under the combination construction and permanent loan program.

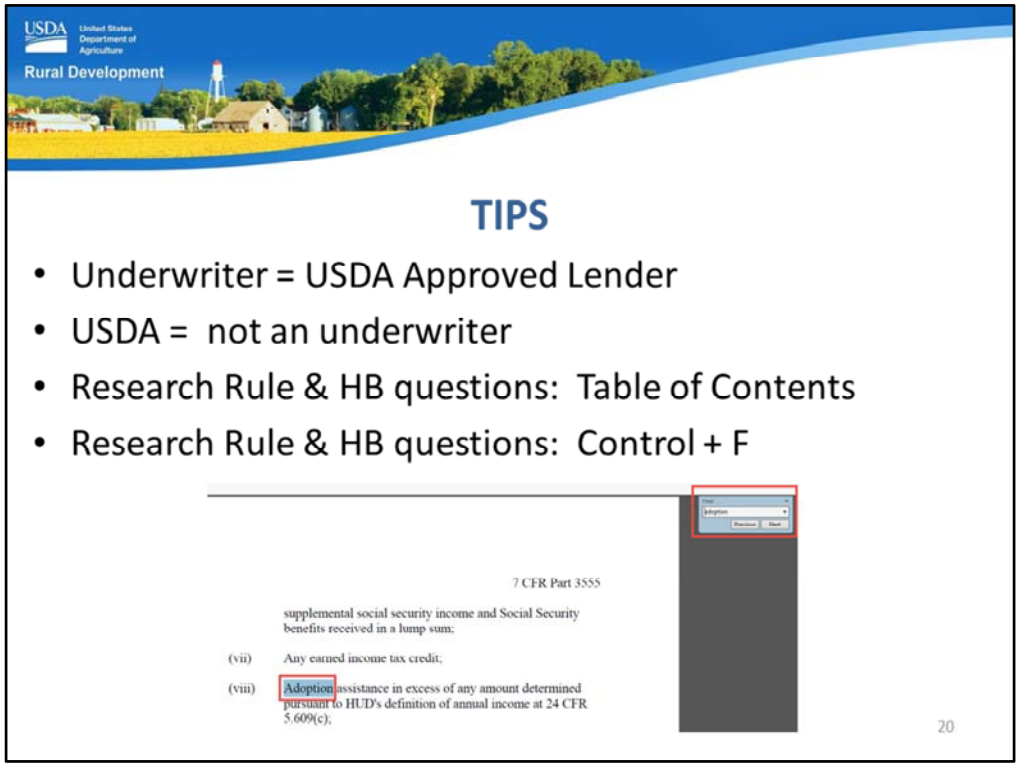


The 7 CFR Part 3555 regulation cannot cover every topic and every potential scenario, therefore a technical handbook has been published to support the regulation and provide additional clarification. HB-1-3555 has 20 chapters.



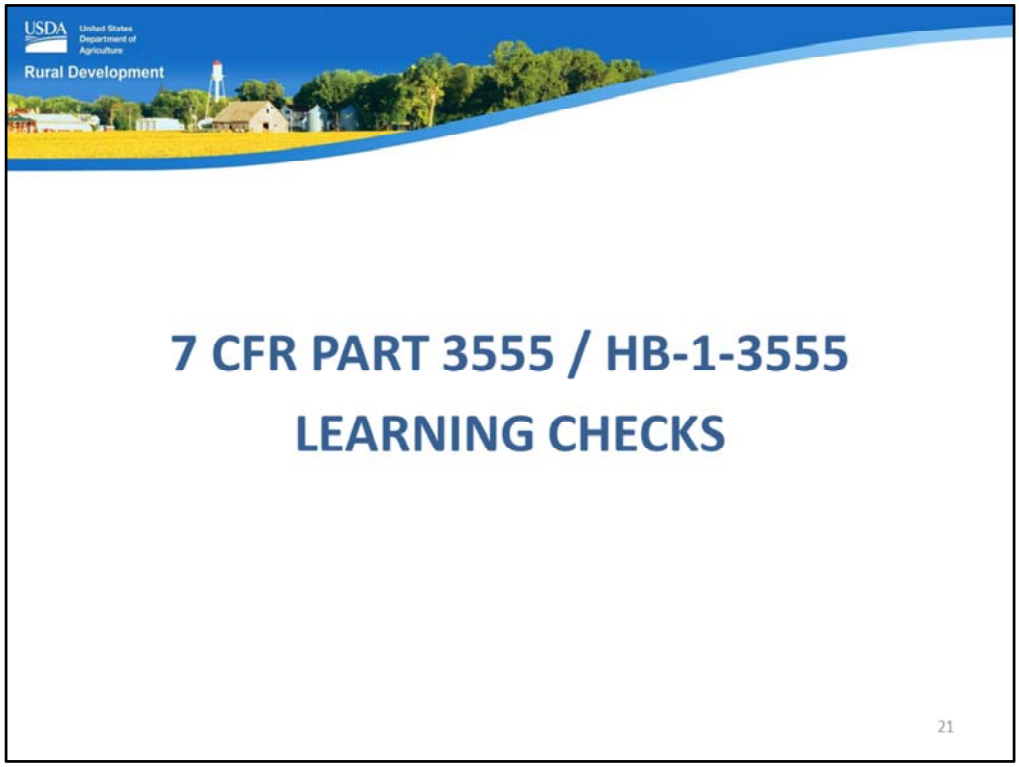
The handbook may be accessed from the Regulations and Guidelines website. Combination construction and permanent loans are located in Chapter 12.

This screen shot displays the Table of Contents of Chapter 12. This helps the user to locate specific topics more quickly.

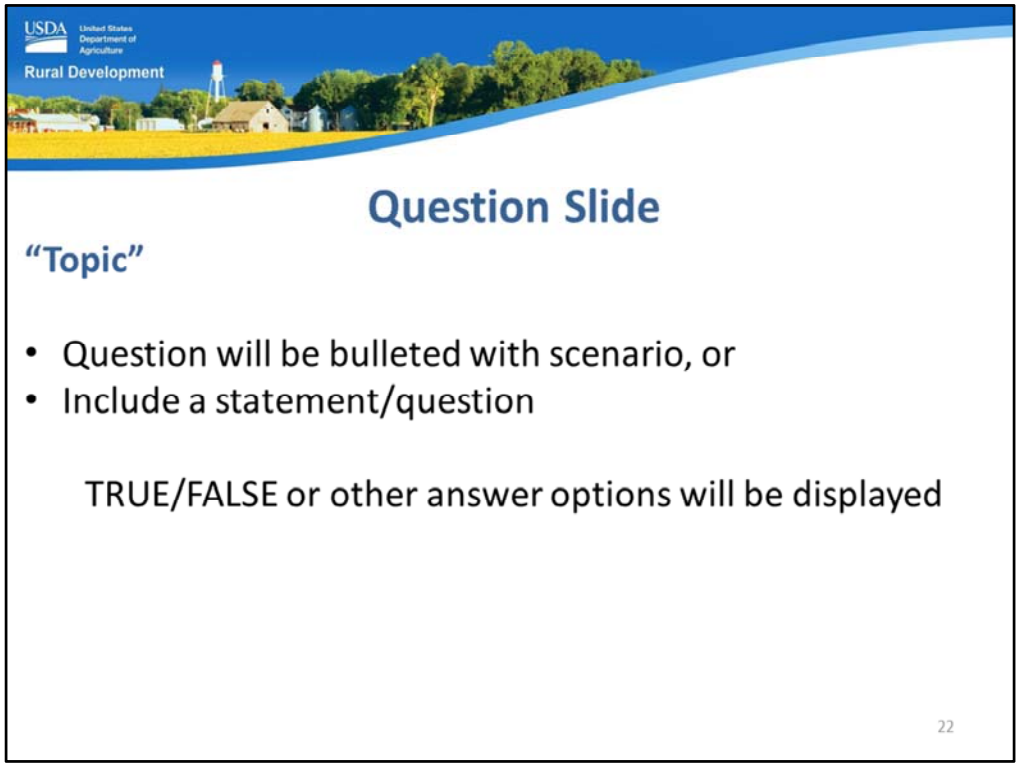


A few helpful tips:

1. The underwriter of the loan is the approved lender's underwriter.
2. USDA is NOT the underwriter of the loan.
3. When researching topics, it is helpful to begin with the Table of Contents for the regulation and the handbook.
4. A great best practice when searching for information is to open the regulation or a handbook chapter, select the "Control" button on the keyboard, hold it down, and then also select the "F" key. A keyword search box will appear. Enter a keyword or phrase to locate information more quickly.

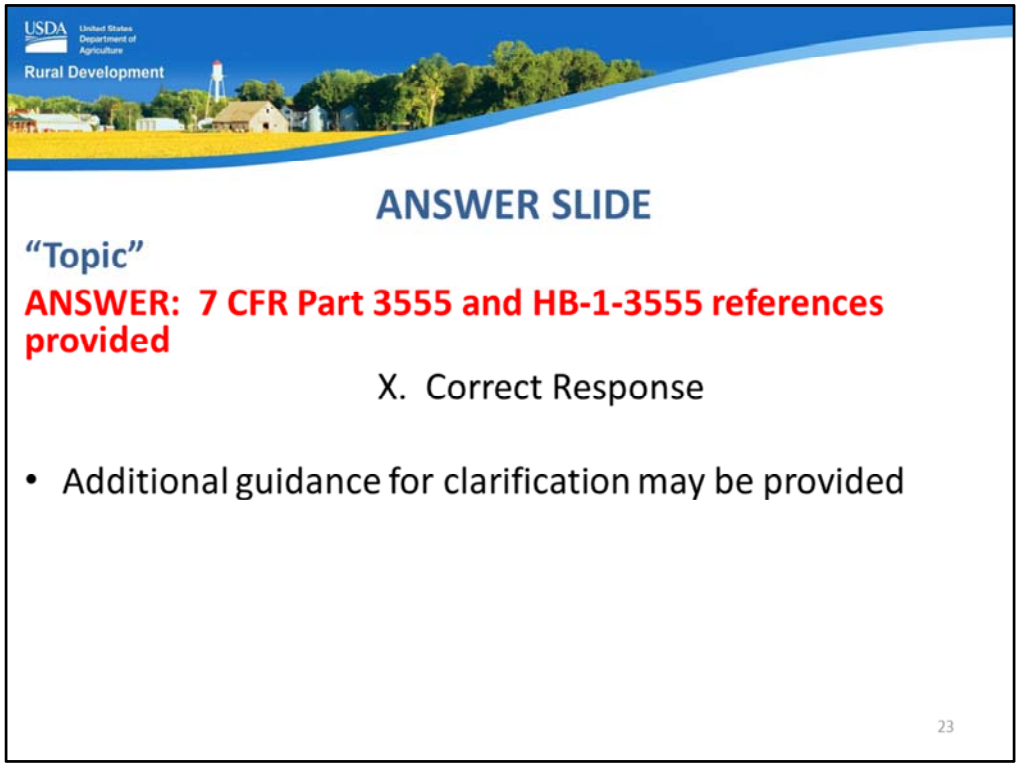


The best way to learn information is to test your knowledge!



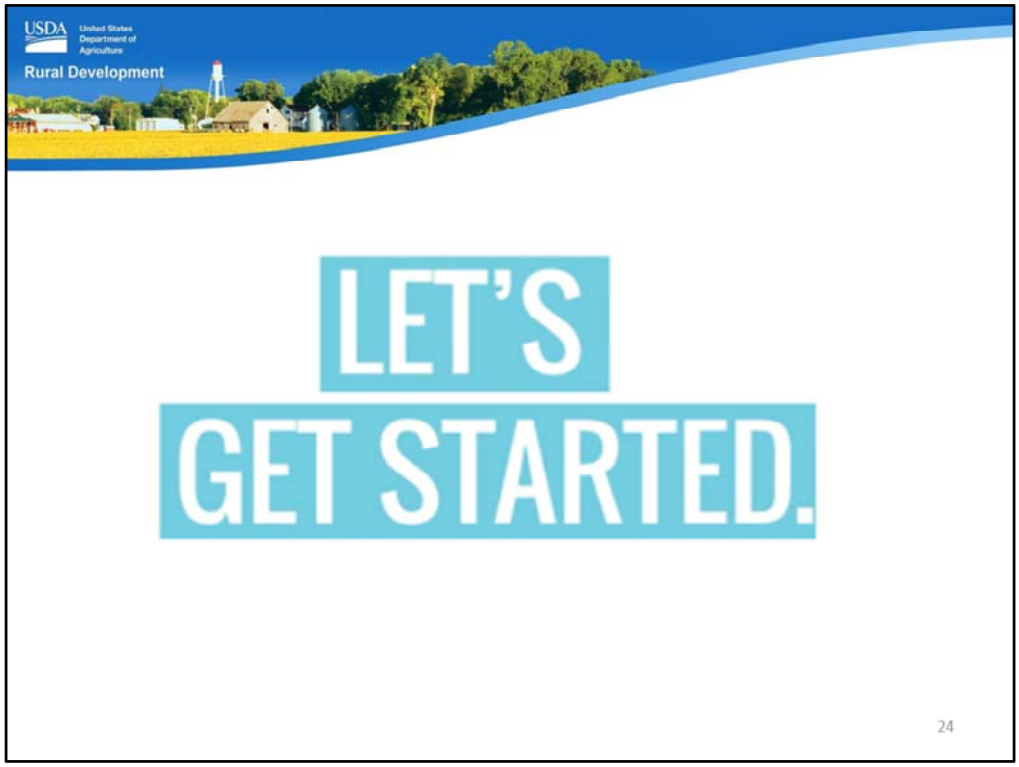
Each question slide will list:

- the topic
- a question or scenario, and
- potential responses.

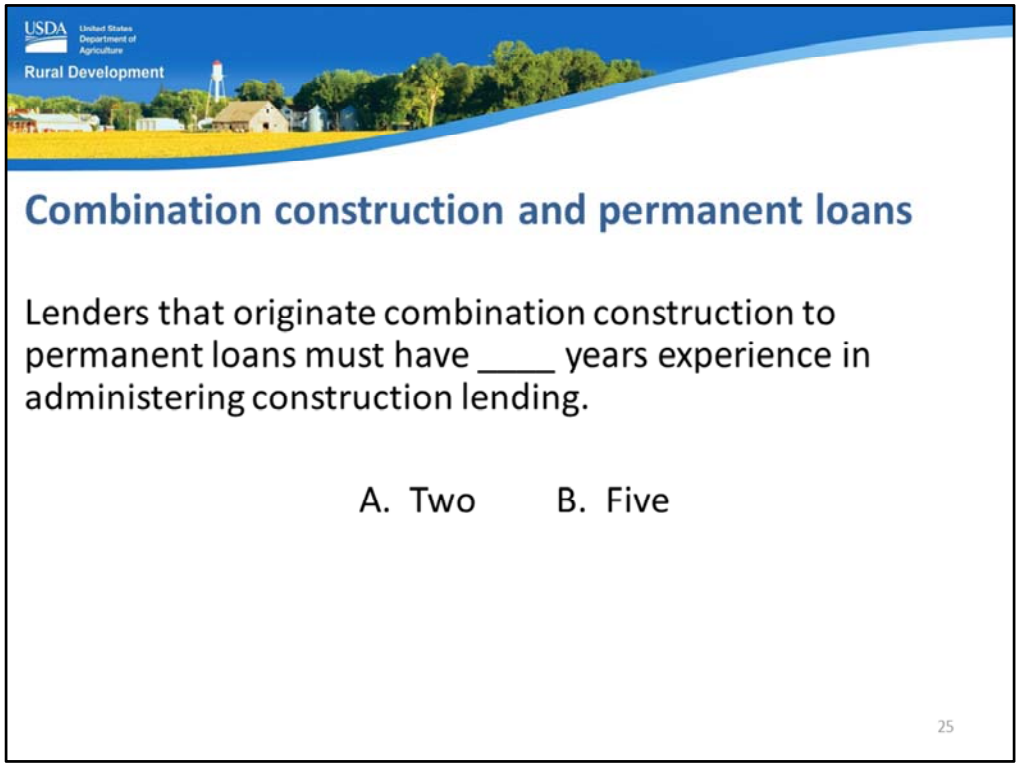


The answer slide will list:

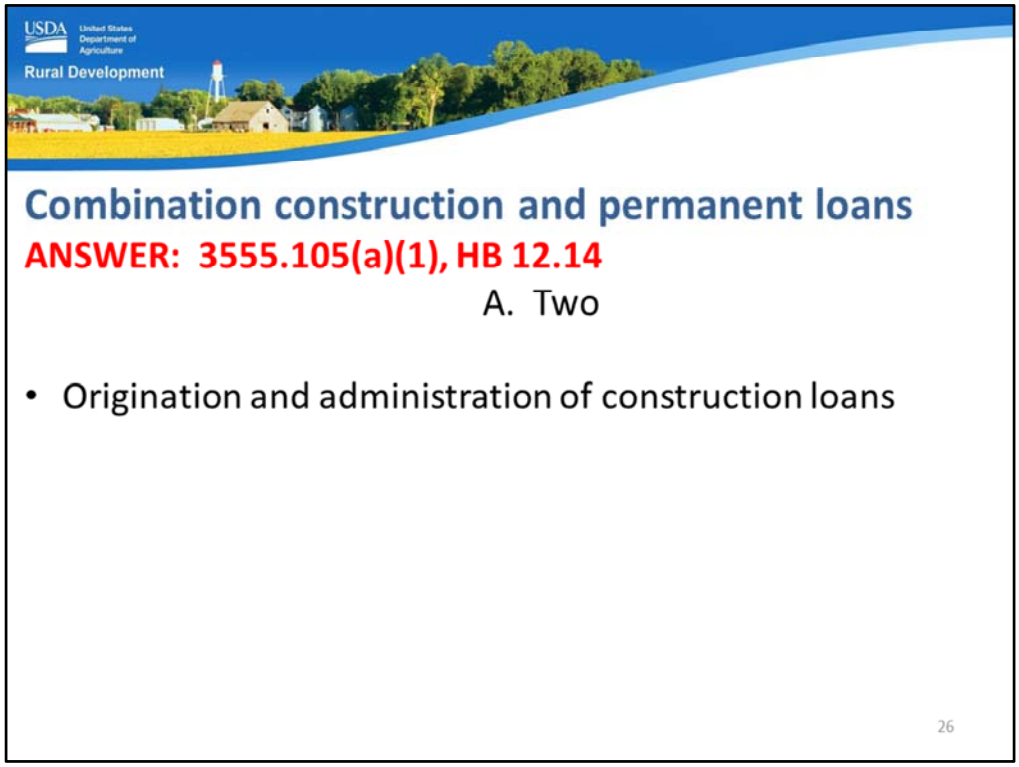
- The topic
- The reference to the answer from the regulation and handbook
- The correct response, and
- Any additional clarification that may be helpful.



Let's get started!



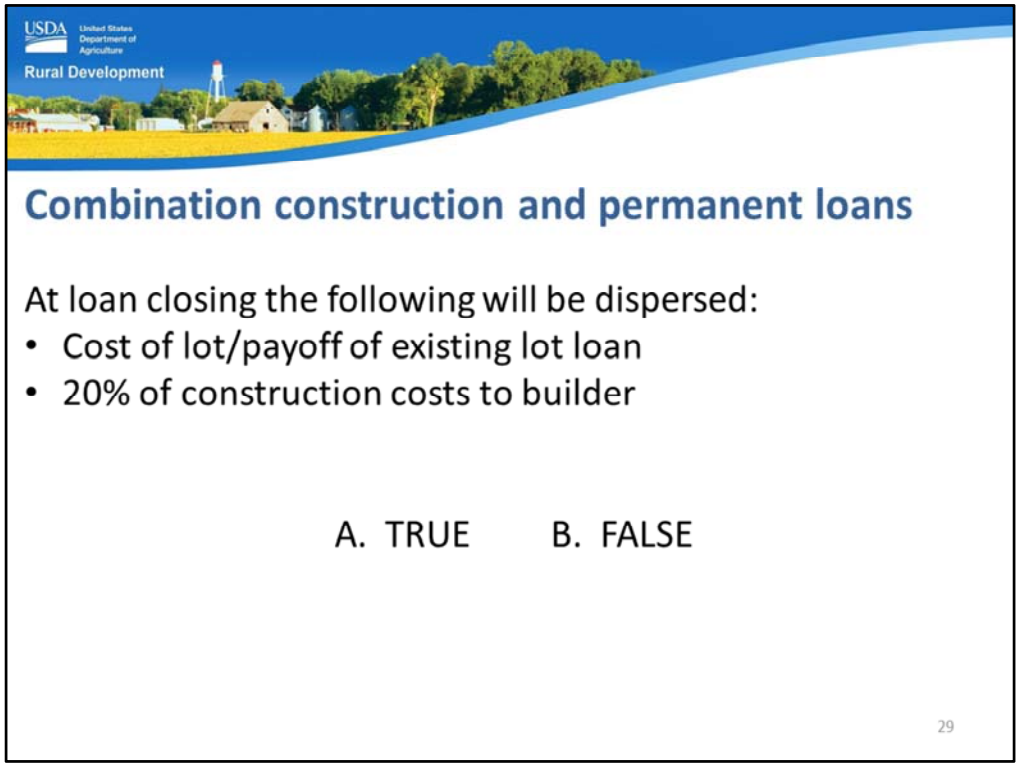
Read the question on the slide and select a response.



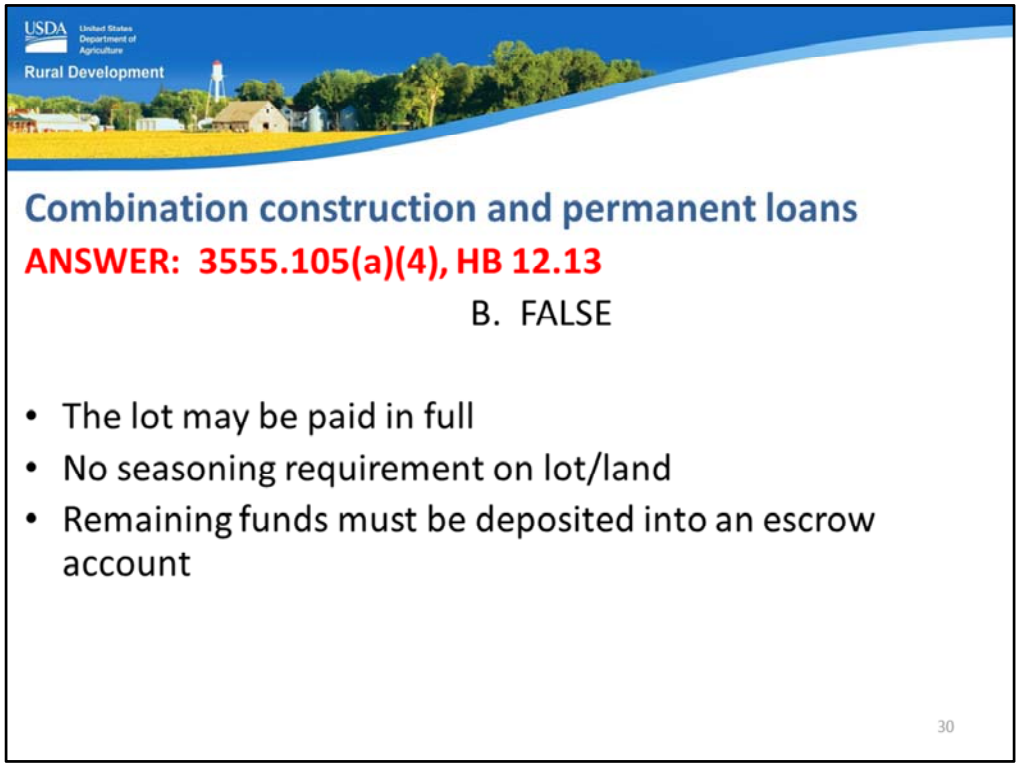
Two
Eligible lenders must have two years of experience in the origination and administration of construction loans.

Read the question on the slide and select a response.

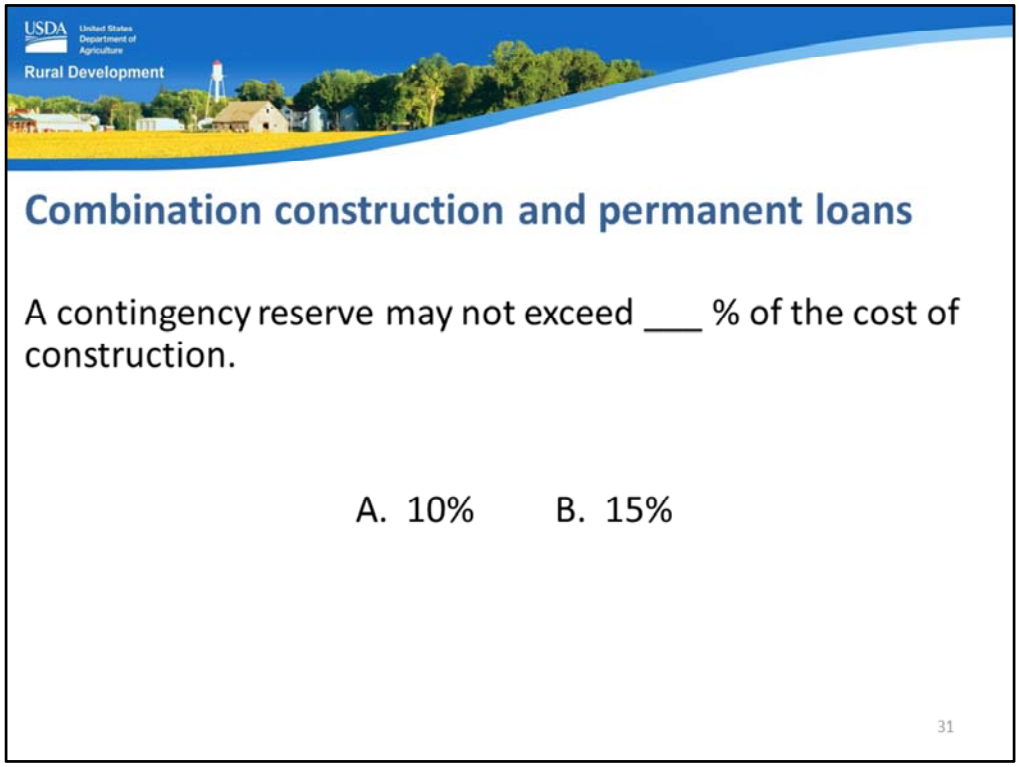
False
The responsibility to ensure builders are eligible to construct homes under the combination construction and permanent loan program rests with approved lenders.
These requirements are in 3555.105(b).



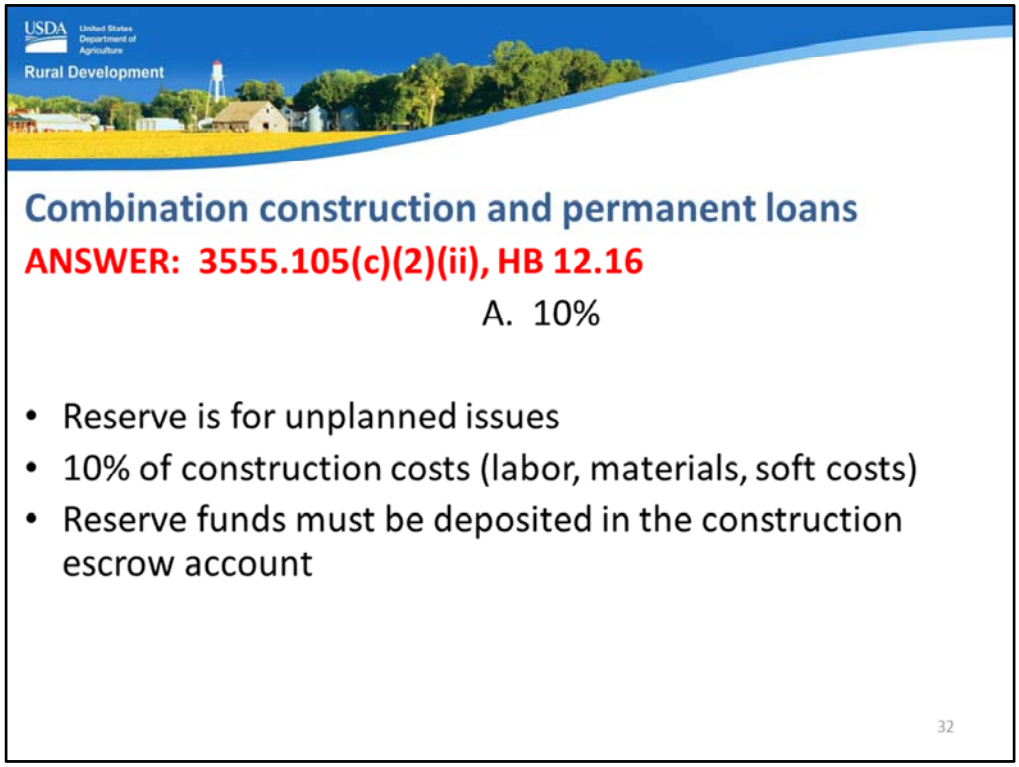
Read the question on the slide and select a response.



False
The lot may be paid in full at loan closing.
There is no required seasoning for ownership of the lot.
All remaining funds that are not distributed at loan closing will be deposited into an escrow account.



Read the question on the slide and select a response.



10%
The contingency reserve is utilized for unplanned construction issues.
The reserve is calculated as 10% of the construction costs, which may include labor, materials and soft costs.
This reserve account must be deposited in the construction escrow account.

Combination construction and permanent loans

- There is a shortage of the hardwood floor to complete the kitchen
- The cost to buy more is $850
- The contingency reserve may be used to pay the $850

A. TRUE B. FALSE

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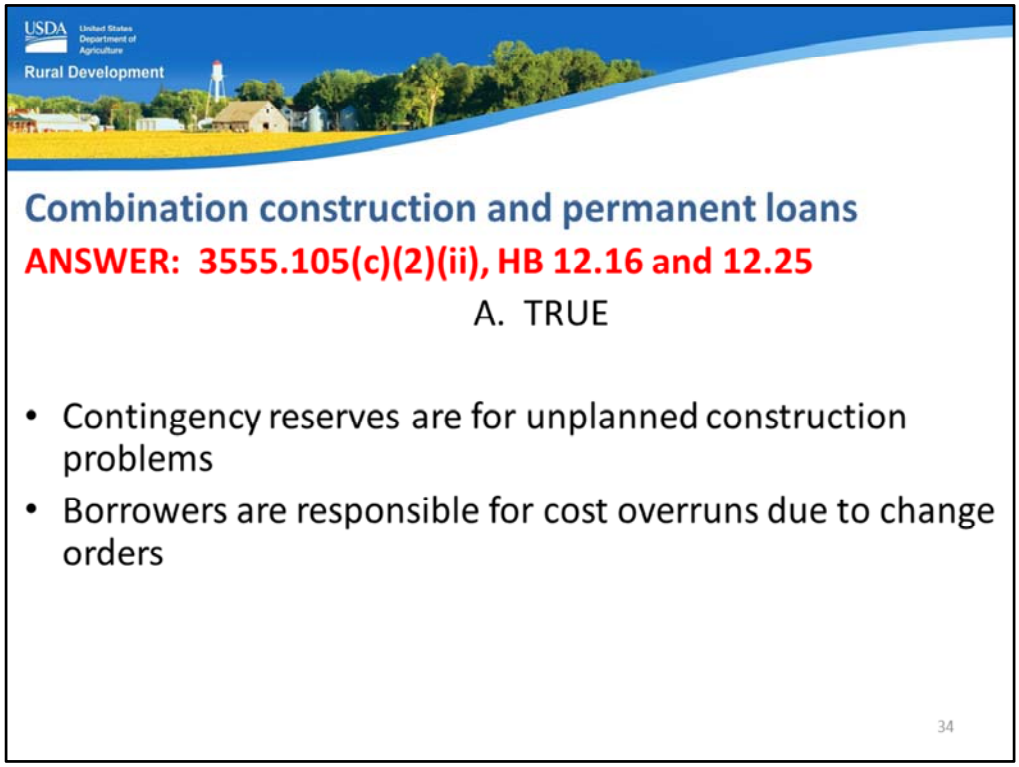
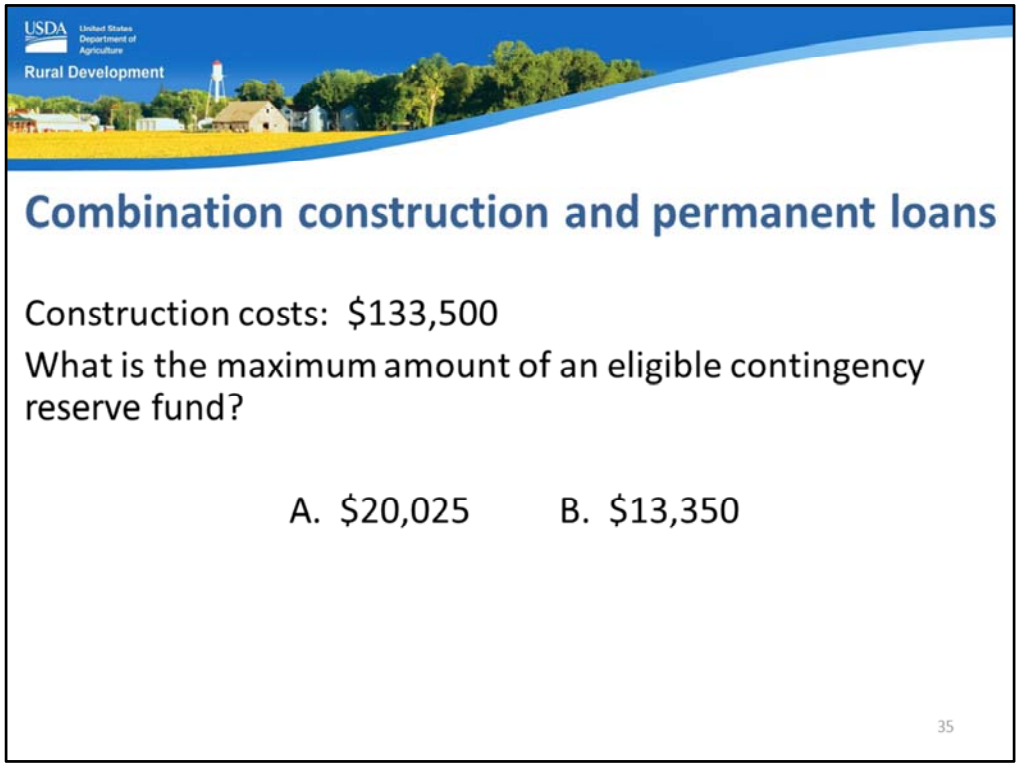


True
A shortage of flooring would certainly represent an unplanned construction issue.
If a borrower determined they wanted a different flooring option that exceeded the agreed upon selection at loan closing, this would constitute a change order. The contingency reserve is not established to pay for overruns due to change orders.



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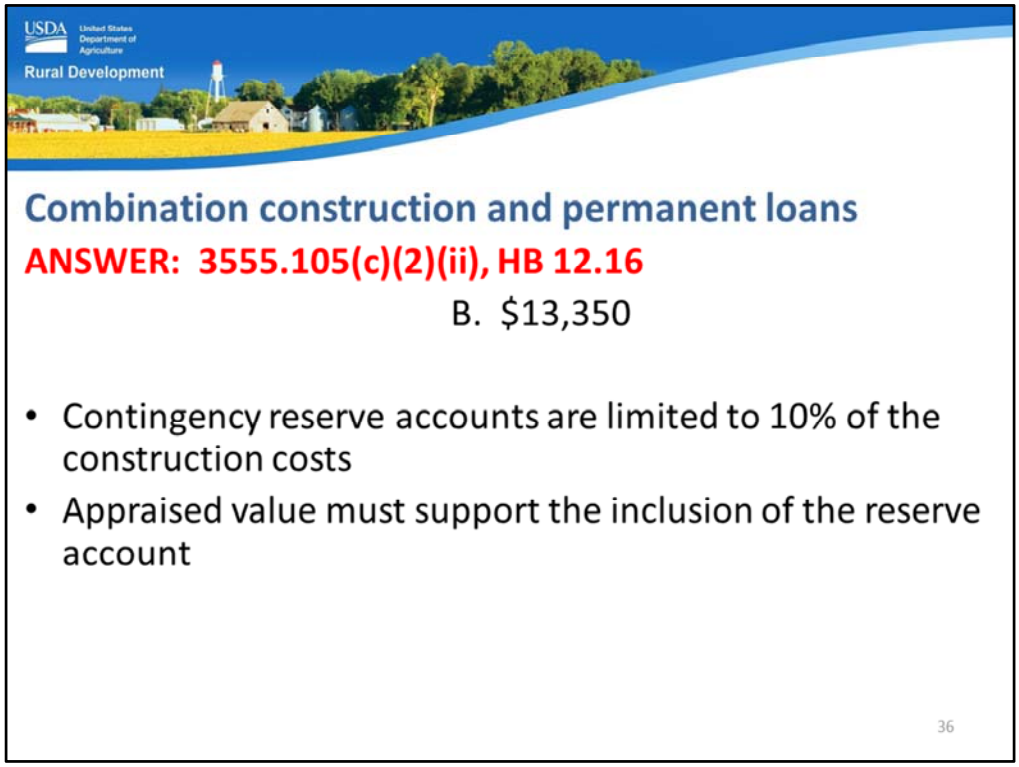
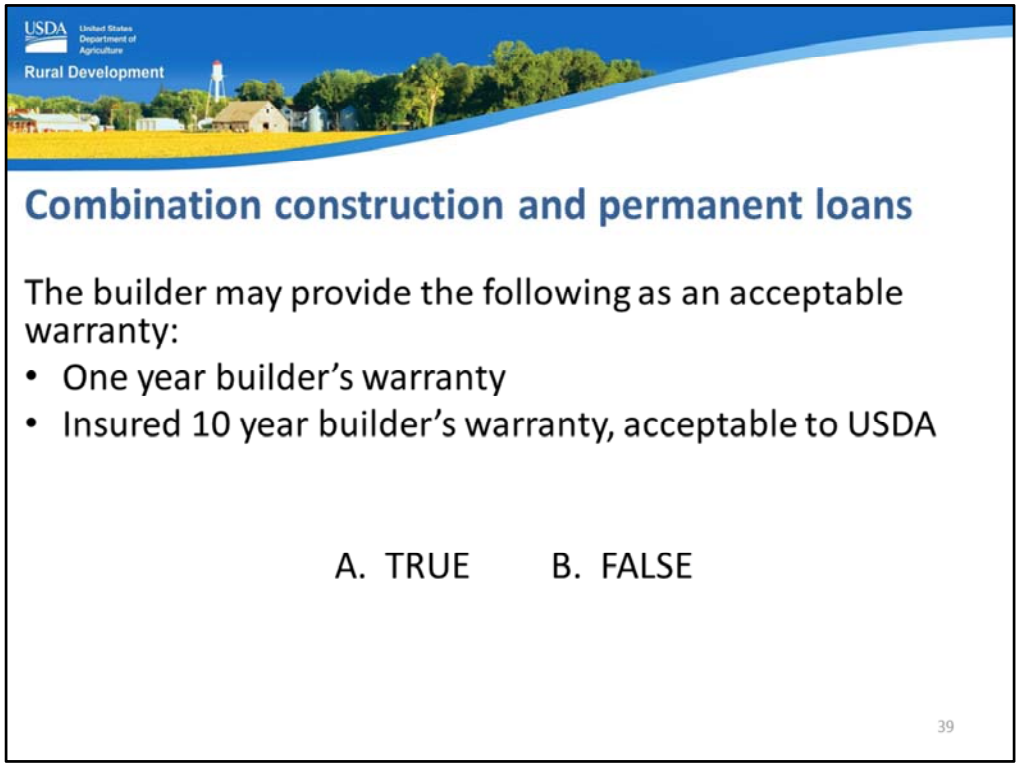


$13,350
The contingency reserve is limited to 10% of the construction costs.
The appraised value must also support the inclusion of the reserve account. It is not an automatic inclusion into the loan amount, there must be room within the appraised value.

Read the question on the slide and select a response.

False
The appraisal is completed before the loan closes.
The appraiser must have access to all of the plans and specifications to arrive at an appropriate completed value.



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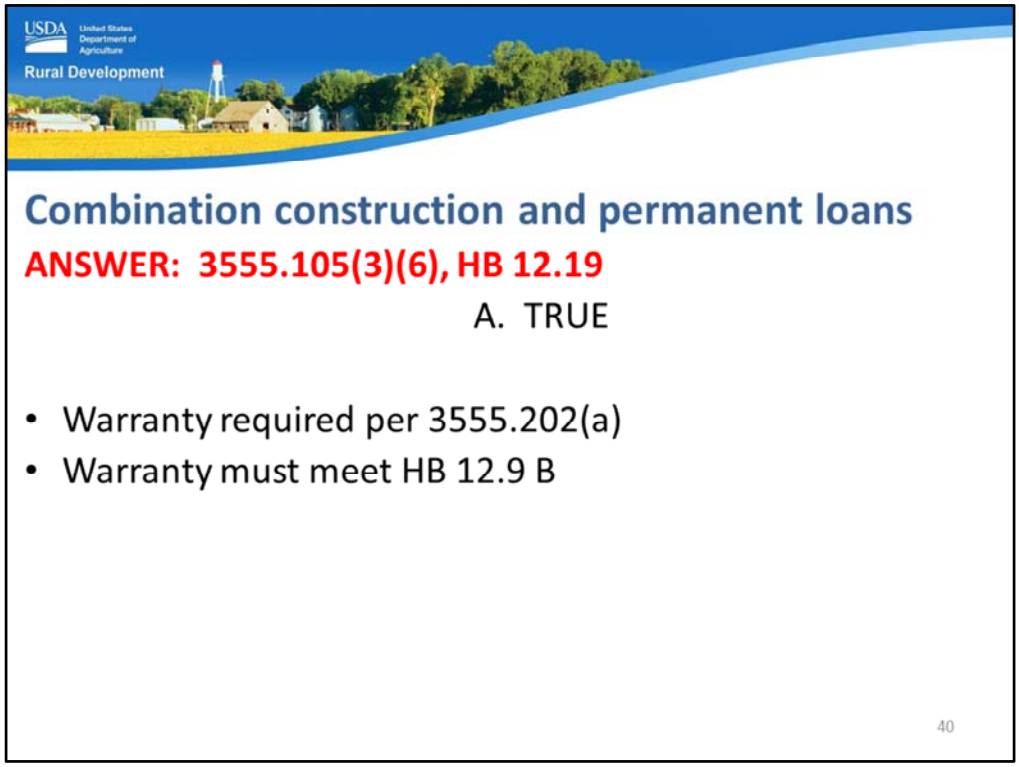
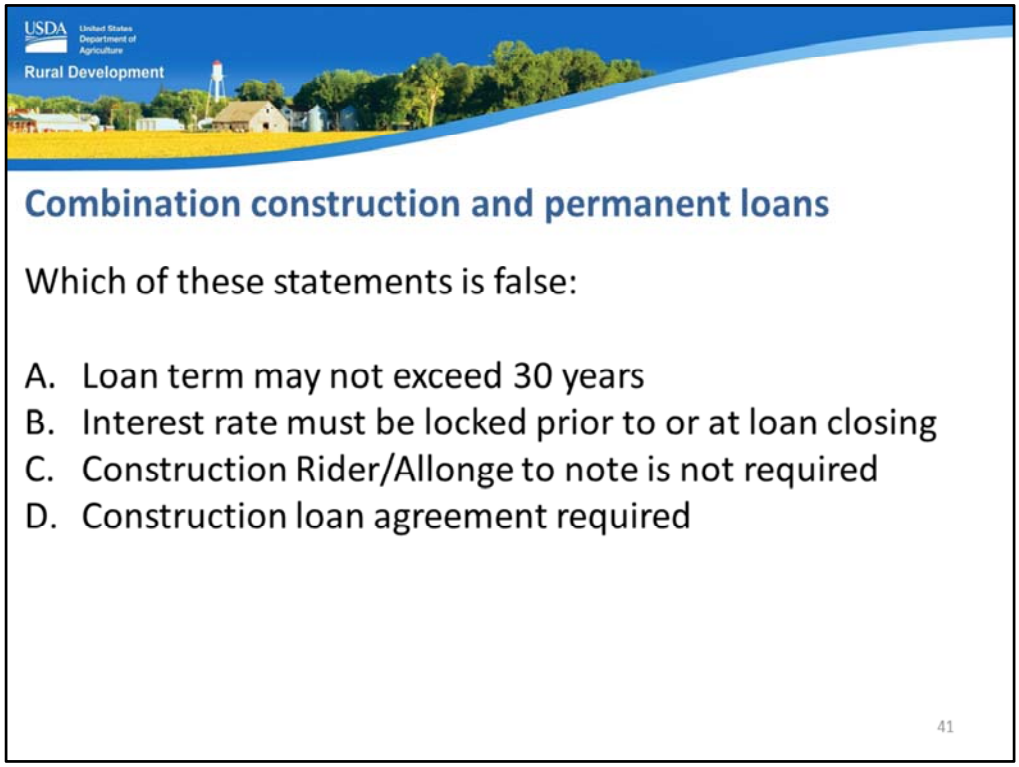
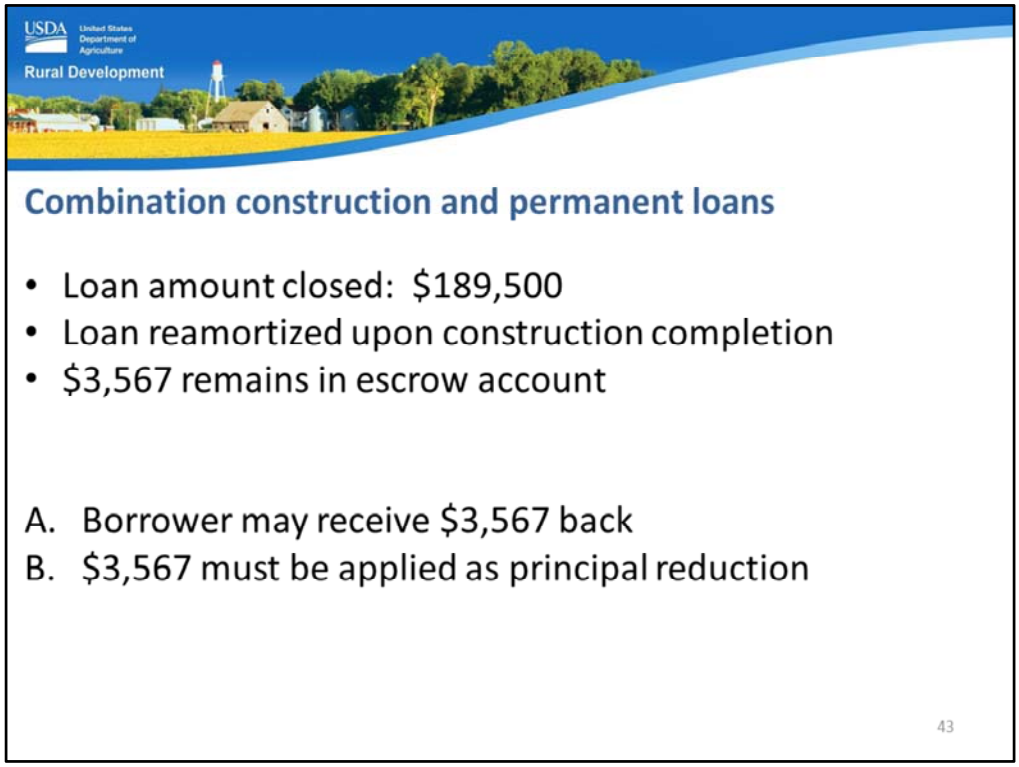


True
Either of those options are acceptable warranties to USDA.
Warranty options are included in 3555.202(a) and HB 12.9 B.

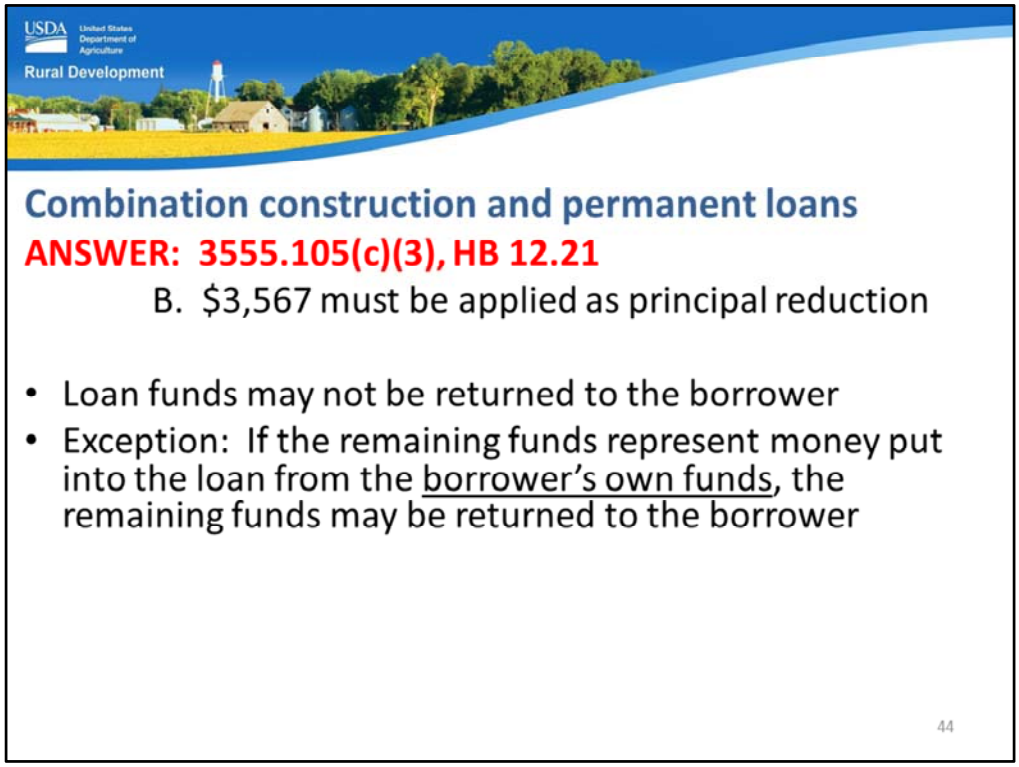


Read the question on the slide and select a response.

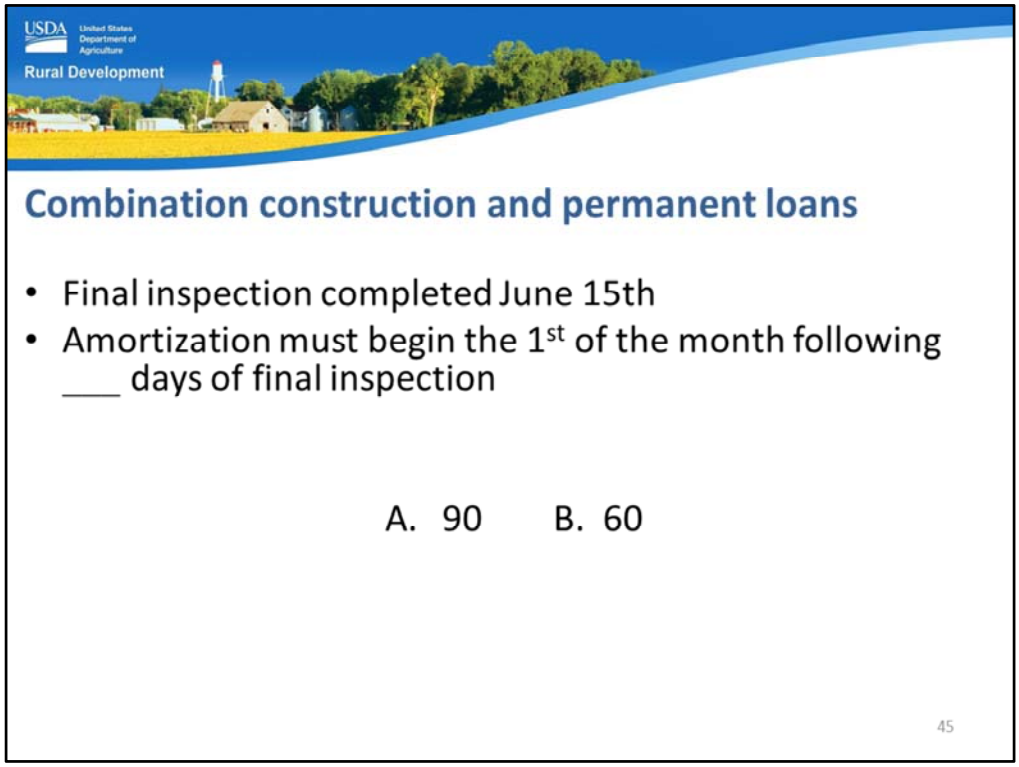
Response C.
A construction rider/allonge to the note is required.
This may be accomplished with any form that is acceptable to the lender.
This form must state any or all construction terms that apply at the time of conversion to a permanent loan.



Read the question on the slide and select a response.



Response B.
Loan funds are not eligible to be returned to the borrower UNLESS the remaining funds came from the borrower's own funds.



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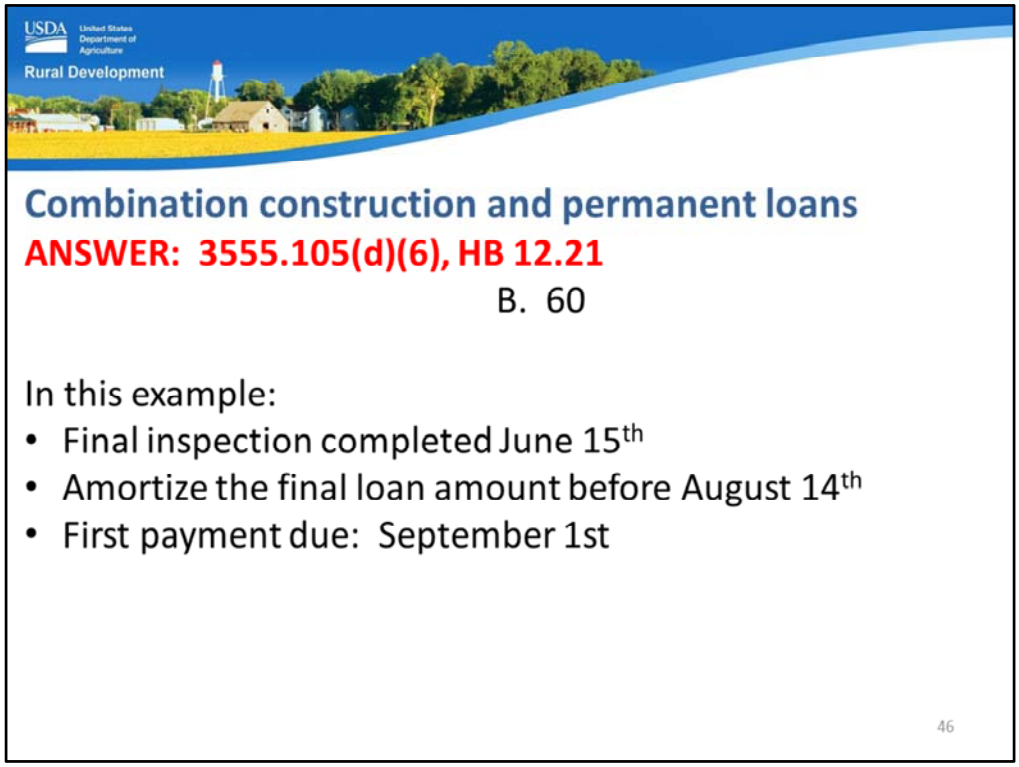
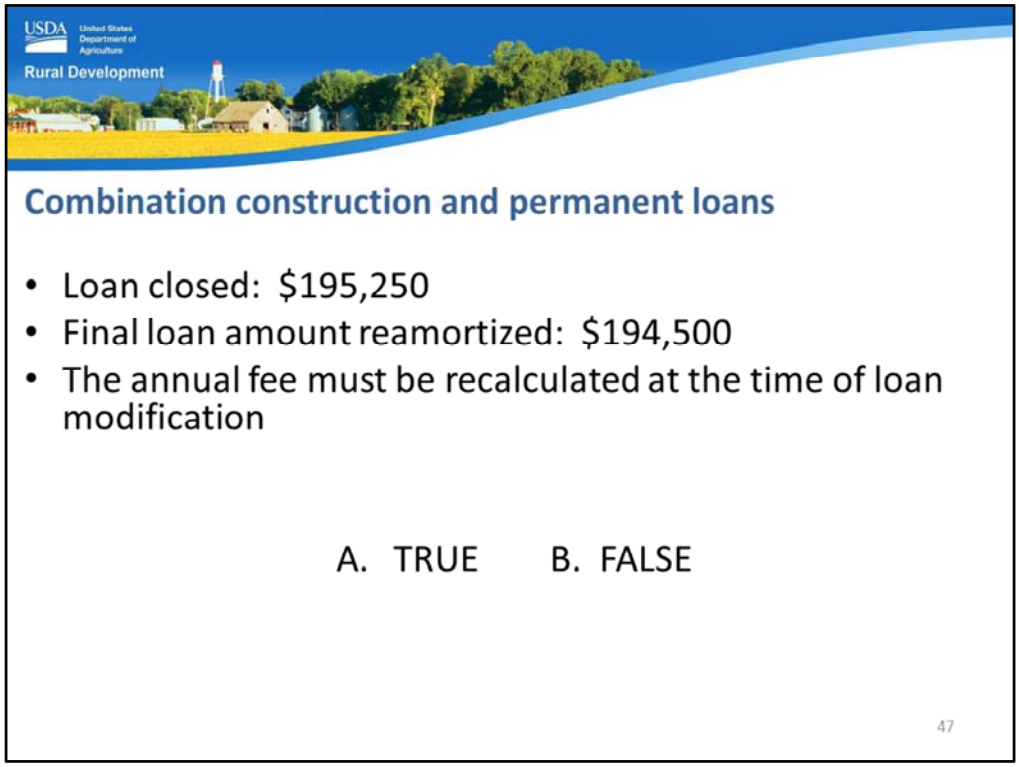
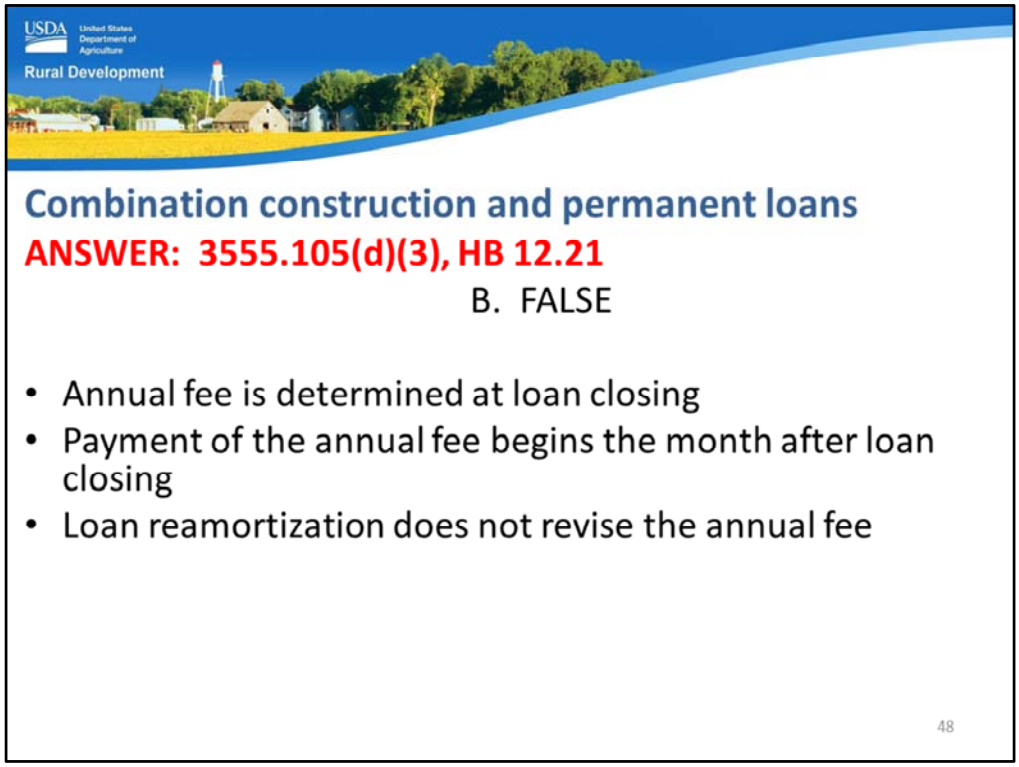


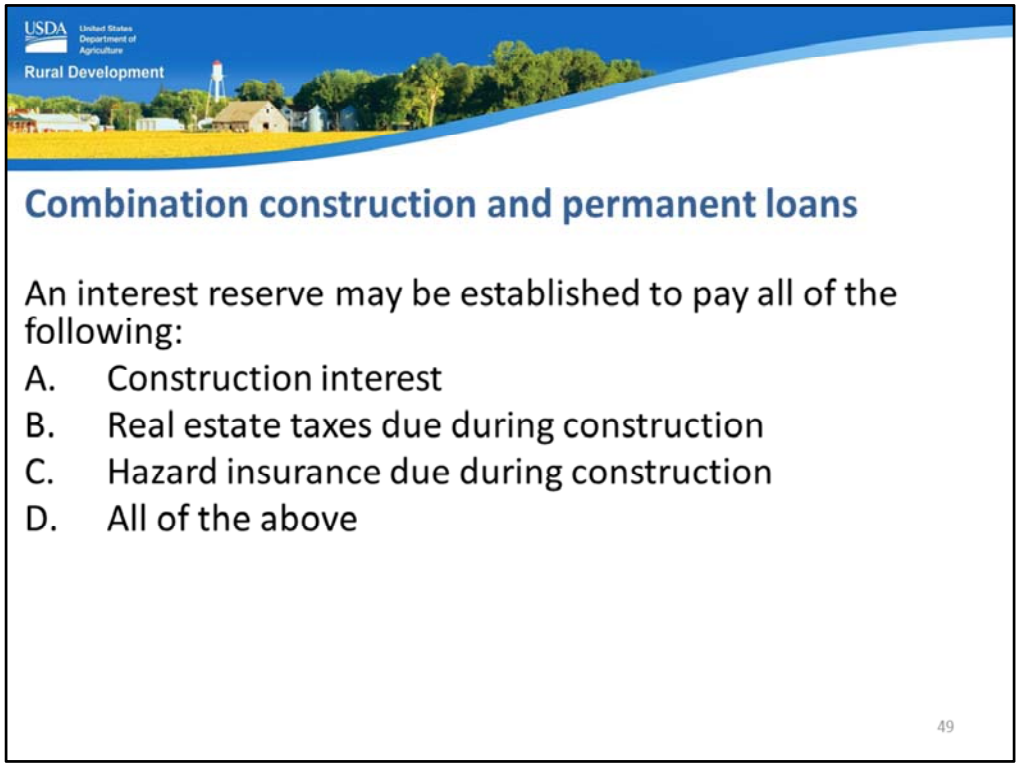
Response B.
The amortization of the loan must occur within 60 days of the loan closing. In this example the final inspection to support construction completion was on June 15th.
The final amortization must occur before August 14th.
The first payment is due September 1st.



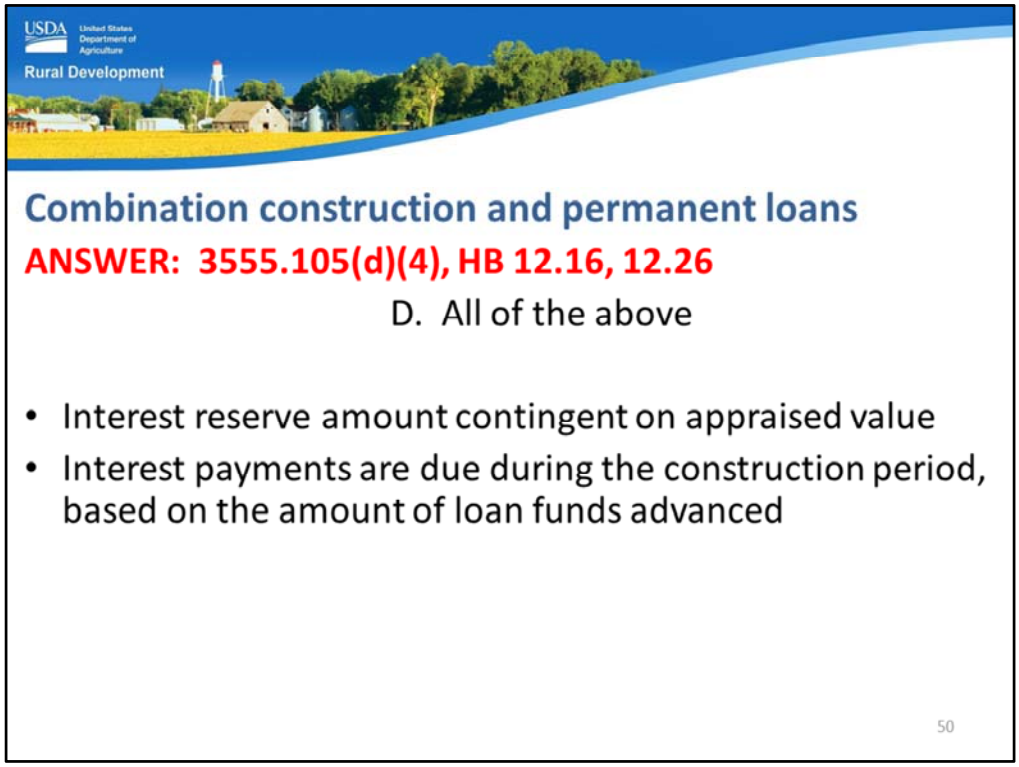
Read the question on the slide and select a response.



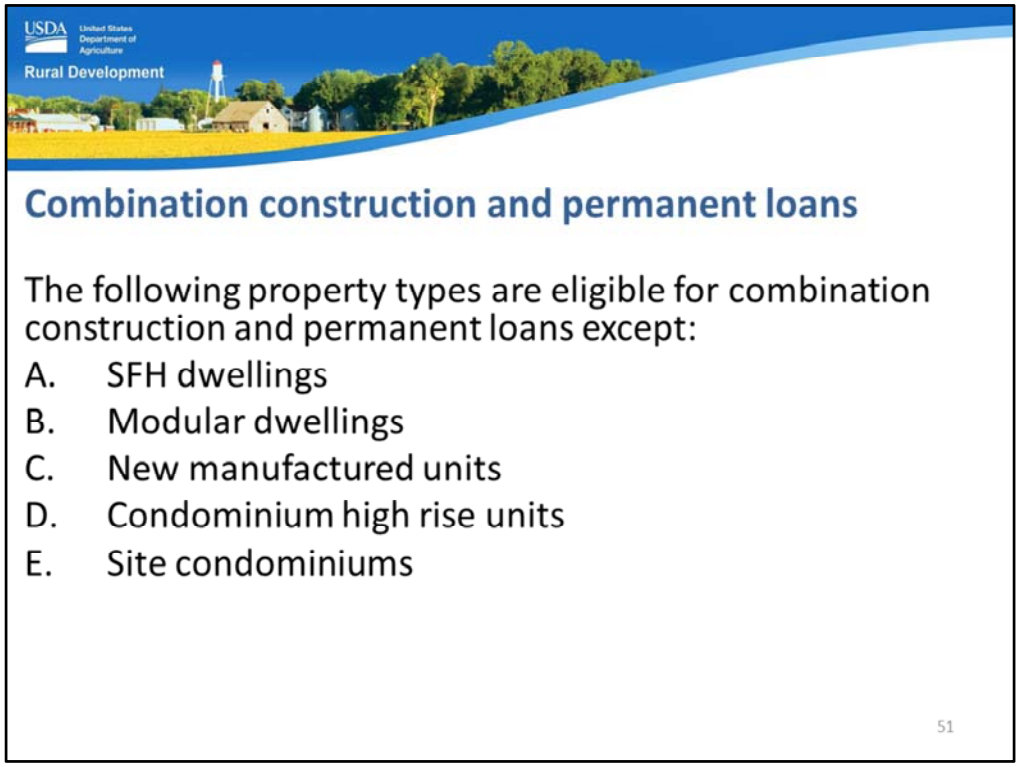
False
The annual fee was determined at loan closing, based on that loan amount.
The annual fee will begin to accrue the month after loan closing. Annual fees are typically collected on a monthly basis from the borrower so the lender will have the funds to pay the annual fee due when USDA remits the bill to the approved lender.
But the reamortization of the loan does not affect or revise the annual fee.



Read the question on the slide and select a response.



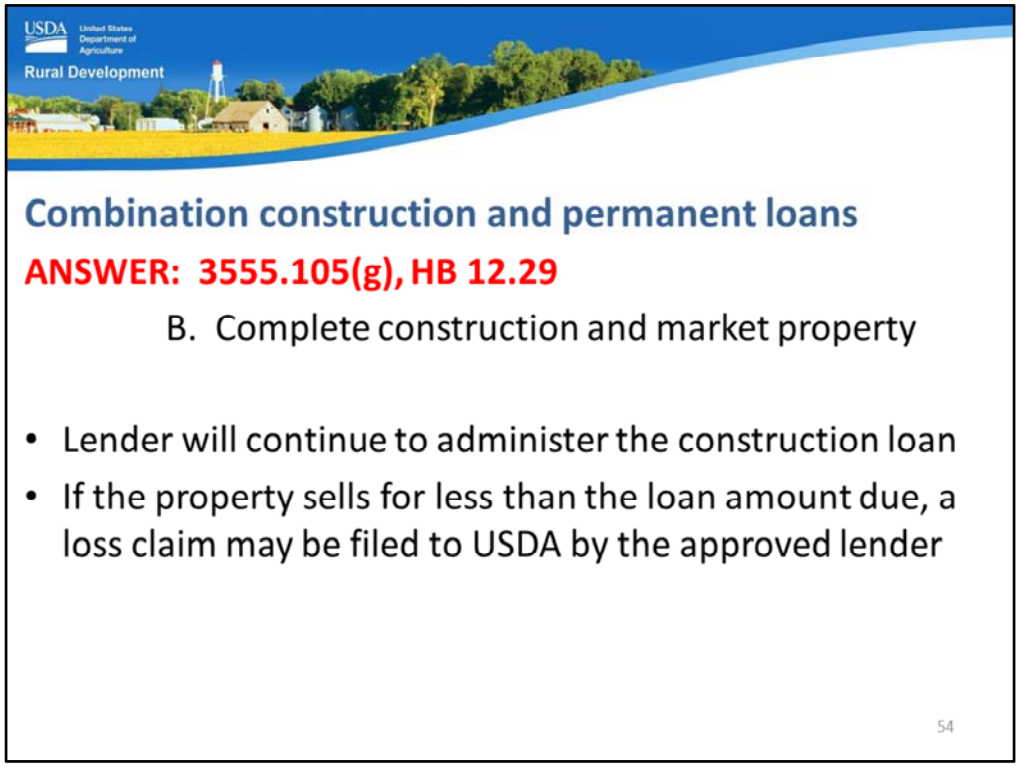
Response D.
The interest reserve would be eligible to pay for all of the items that were listed.
The interest reserve amount is contingent upon the appraised value. So some loans may not be eligible to finance this into the loan.
As loan funds are advanced, the amount of interest due will vary. Real estate taxes, homeowners insurance, and HOA fees, etc. due during construction are also eligible to be paid from this reserve account as applicable.



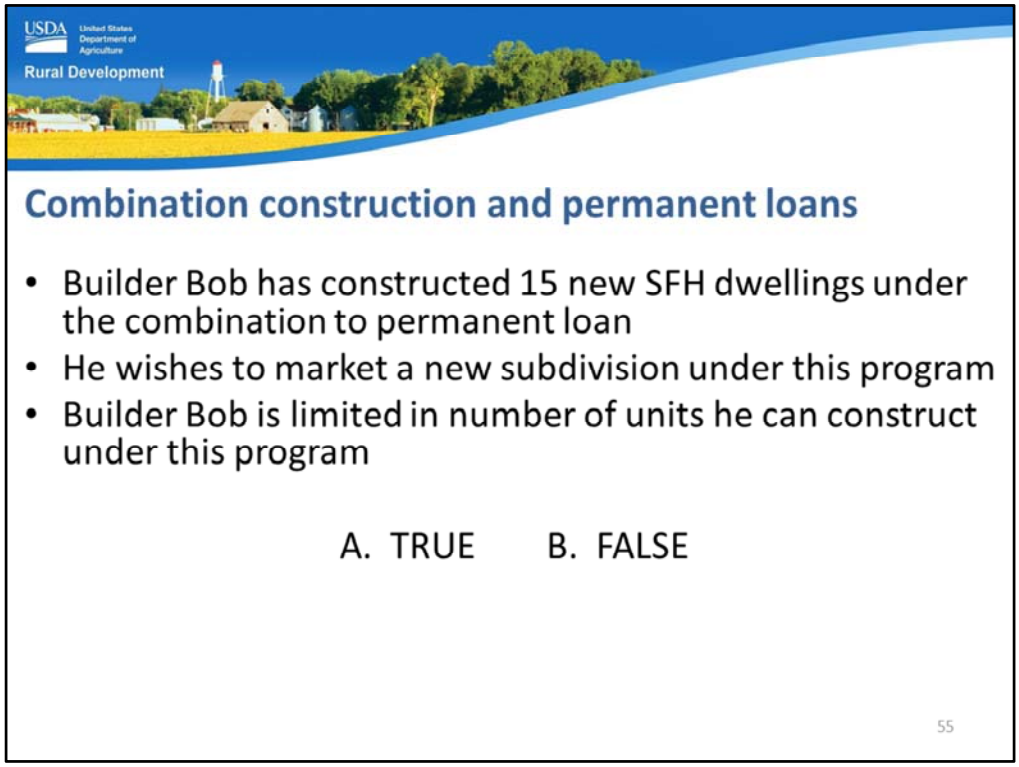
Read the question on the slide and select a response.

Response D
A condominium high rise unit would represent multiple SFH units.
Only single unit single family housing dwellings are eligible.
Stand alone site condominiums may also be eligible if they meet the stated requirements.

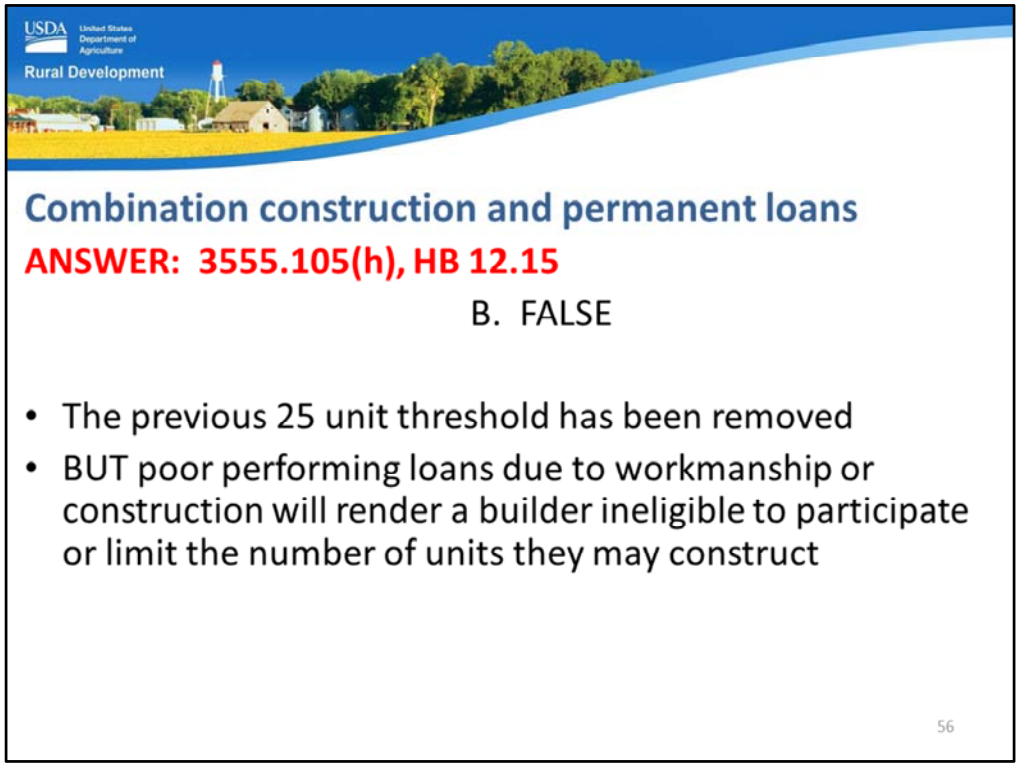
Read the question on the slide and select a response.



Response B
The lender is responsible to oversee the construction of the dwelling to completion and then market the home.
If the home sells for less than the loan amount due, the lender may file a loss claim with USDA as applicable.

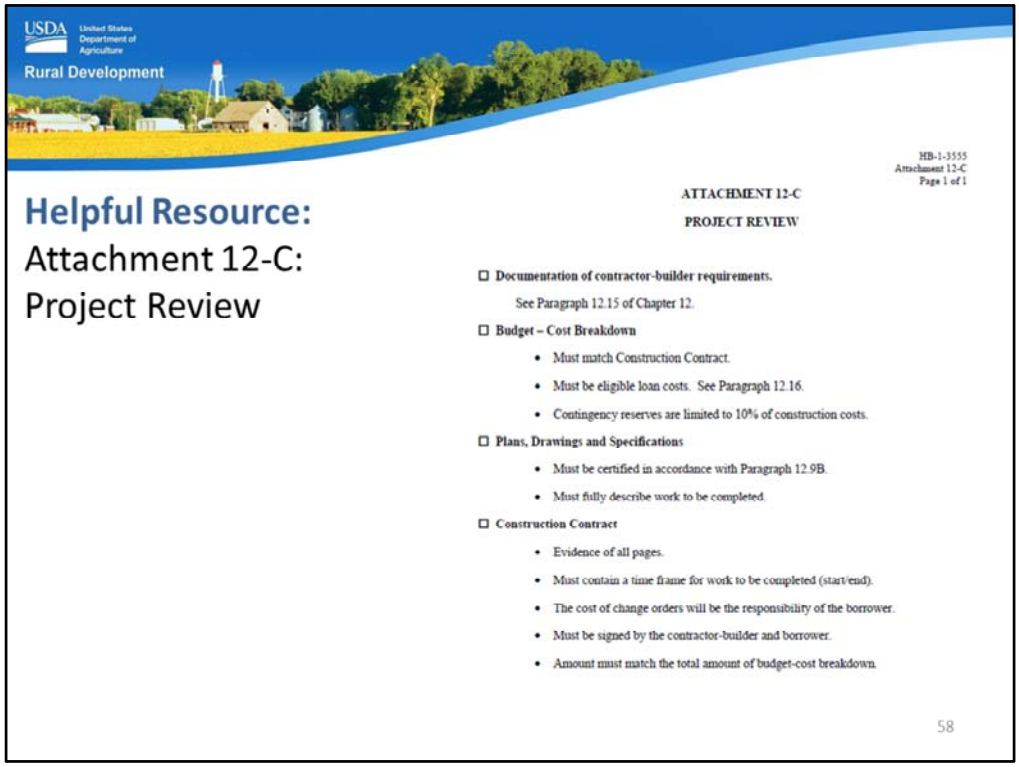


Read the question on the slide and select a response.

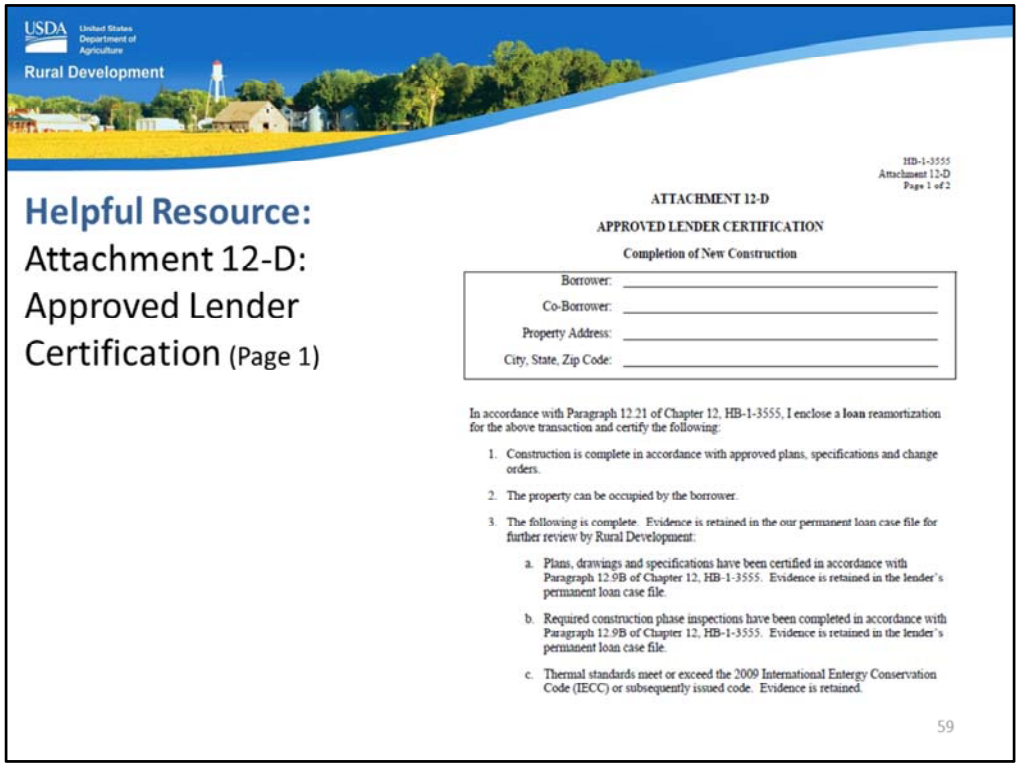


False
There was a previous 25 unit maximum per approved builder, but it has been removed.
If a builder is found to be producing homes with poor workmanship or construction, they may be removed from participation in the combination construction and permanent loan program.

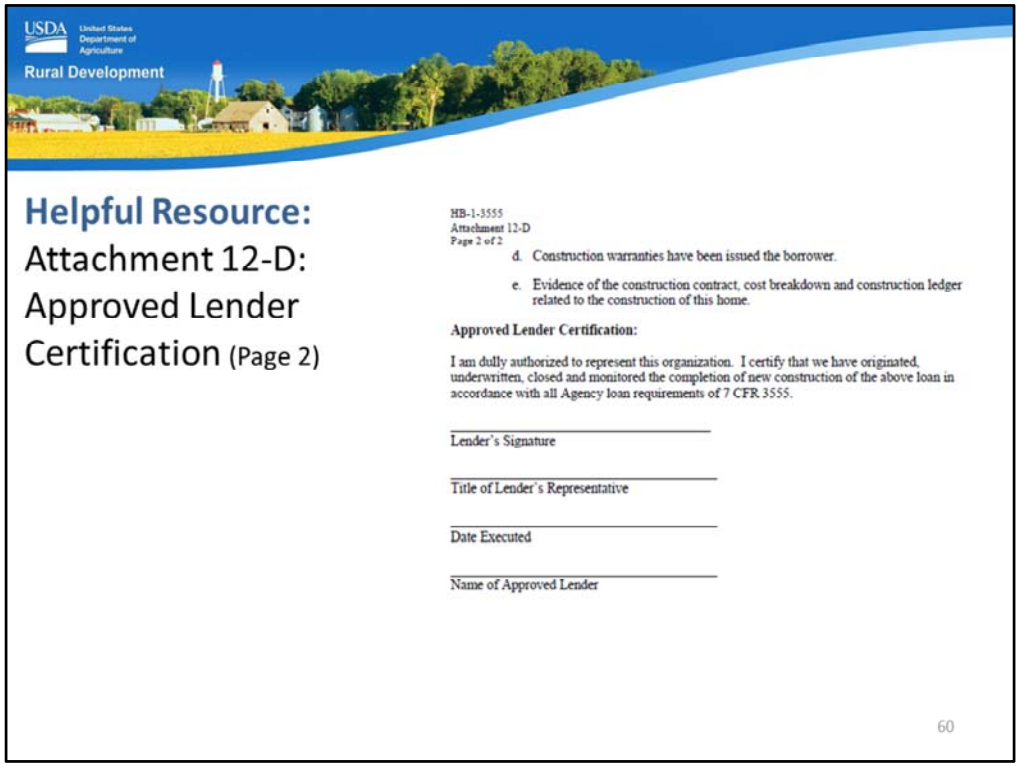
Way to go! You have completed the learning checks!



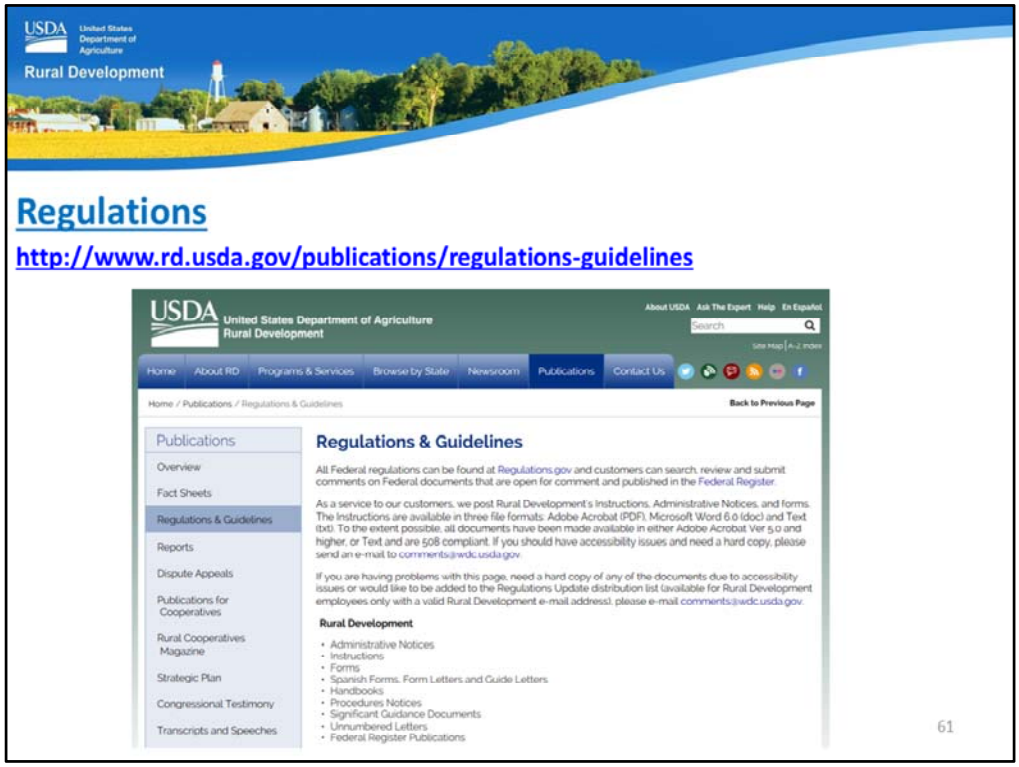
Attachment 12-C "Project Review"
This is an optional form that an eligible lender may use to ensure their loan file retains all required documentation.



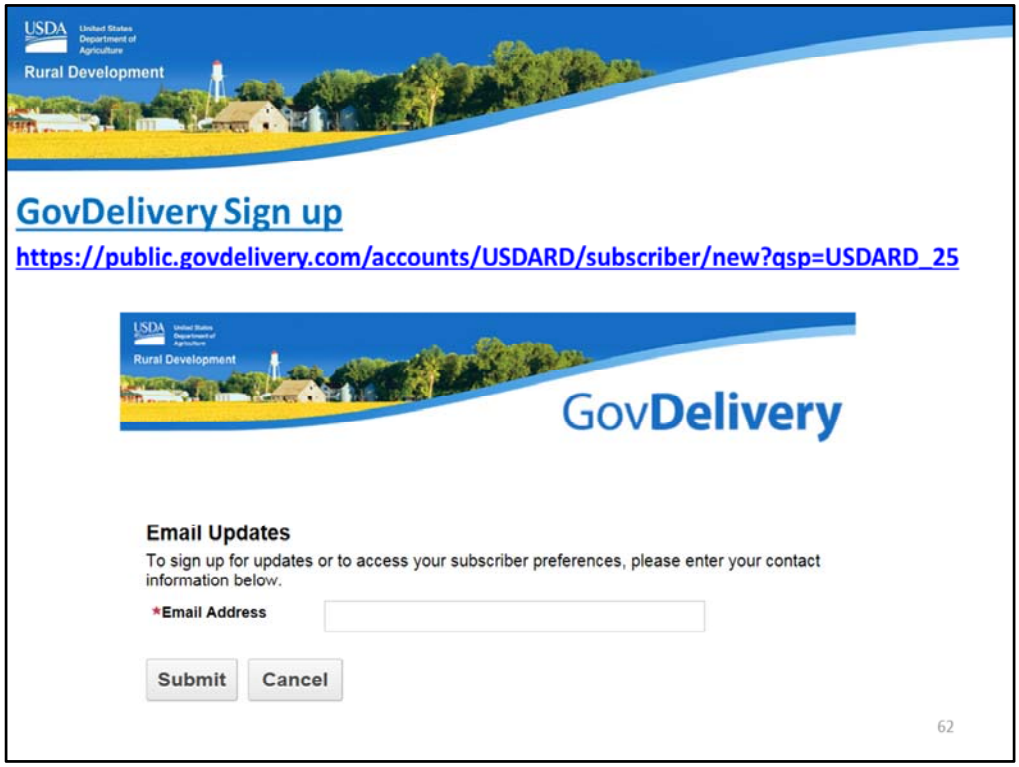
Attachment 12-D "Approved Lender Certification" is an optional form that lenders may utilize to certify to USDA that all requirements of 7 CFR Part 3555 have been met under the combination construction and permanent loan and other new construction loan programs.



Page 2 of Attachment 12-D includes the signature line for the certification.

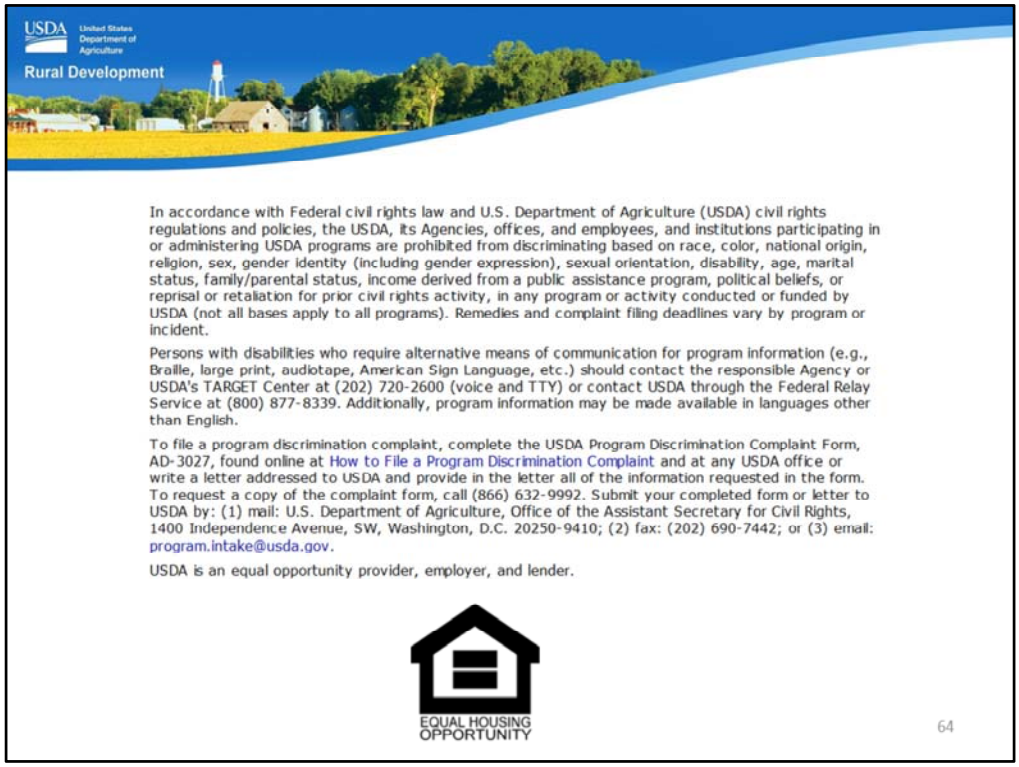


Don't forget the Regulations and Guidelines website is a treasure trove of USDA guideline knowledge.



Please sign up for GovDelivery messages. USDA sends out origination (including GUS) and servicing messages to alert lenders of new publications, clarifications, and additional program updates.

Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program! We appreciate the opportunity to help you serve more rural homebuyers!



This will conclude the training module. Thank you and have a great day!