



# Single-Family Housing Guaranteed Loan Program (SFHGLP) Enhanced Combination Construction to Permanent Pilot

Correspondent Channel

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## Summary

The Money Source Inc. (TMS) will accept USDA Rural Housing Service (RHS) Construction-to-Permanent loans for purchase review under its pilot program as introduced under USDA Unnumbered Letter (UL) dated June 20, 2017 and updated December 20, 2017. This pilot program is intended to enhance certain features of the SFHGLP Combination Construction-to-Permanent (CTP) financing program and is available for a period of 24 months.

The enhanced CTP Pilot (herein Pilot) is available to eligible applicants in selected states for the financing of new construction dwellings that meet the requisite criteria outlined below:

- Loans financed under this Pilot must meet all parameters set forth in 7 CFR 3555 and HB-1-3555 except as noted in the provisions below:
  - CTP Pilot loans which are pooled in a mortgage-backed security immediately after loan closing must be fully disbursed at the time of closing.
  - All construction loan proceeds after lot payoff, soft closing costs, and any builder deposits must be held in a Federal Deposit Insurance Corporation (FDIC) insured interest bearing custodial escrow account to the benefit of the borrower. The accrued interest on the account may be used to pay construction costs, applied



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to the principal balance at completion, or disbursed to the borrower after completion based on the borrower's preference.

- Eligible loan costs may include a reserve to fund an escrow account for up to one year of fully scheduled (amortized) principal and interest payments at the original Promissory Note rate, as well as taxes and insurance (PITI). This program feature will eliminate the need for a loan modification or re-amortization once construction is completed and enables the loan to be pooled into mortgage-backed securities immediately after loan closing.

## Participating States

Alabama, Arkansas, California, Colorado, Florida, Georgia, Indiana, Kentucky, Louisiana, Michigan, Missouri, Mississippi, New Mexico, New York, Ohio, Oregon, South Carolina, South Dakota, \*Puerto Rico, Tennessee, Texas, and Washington.

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[Note: Loans with subject properties in Puerto Rico are not eligible for purchase consideration by TMS](#)

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## TMS Overlays

- Loan Note Guarantee (LNG) is required prior to purchase by TMS.
- Construction-to-Permanent with open administration on loans using float rate or terms re-amortization are ineligible for purchase by TMS until the property is completed and the final certificate of occupancy has been issued.
- Loans with subject property addresses in Puerto Rico are ineligible for purchase review by TMS.

## Eligible Properties

- One-unit primary residences located in rural development designated rural area
- Condos (must be approved by FHA, VA, FNMA, FHLMC)
- Manufactured homes

## Required Construction Documents

- Project Review Form attachment 12-C is recommended as a coversheet



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- Construction Mortgage Worksheet with breakdown of fees and construction costs
- Documentation of contractor/builder requirements
- Construction Contract
  - Evidence of all pages
  - Must contain a time frame for work to be completed (start/end)
  - Cost of change orders will be the responsibility of the borrower
  - Must be signed by contractor/builder and borrower. Amount must match the total amount of budget-cost breakdown
- Budget – Cost Breakdown
  - Must match construction contract
  - Must be eligible loan costs. See Paragraph 12.16
  - Contingency reserves are limited to 10% of construction costs
- Plans, Drawings, and Specifications
  - Must be certified in accordance with Paragraph 12.9B
  - Must fully detail work to be completed
- Construction Rider
- Construction Loan Agreement

Lenders may use their own custodial escrow account agreement that meets USDA program requirements or may opt to use HUD Form 92700-A 203(k) Borrower's Acknowledgement.

### Pre-Purchase – TMS

The Renovation Department will confirm the amount of escrows being held prior to TMS purchasing the loan.

### Post-Purchase – TMS

Once the Renovation Department is informed that a new USDA CTP Pilot loan has been purchased by TMS's Accounting Department, a Renovation Specialist will again confirm that all renovation escrow balances are correct.



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## Welcome Call

After initial setup, the borrower and builder will receive a welcome call from one of TMS's Renovation Specialist describing in detail the draw procedures including, but not limited to:

- Draw submission
- Requisite forms
- Inspection procedures
- Respective duties and responsibilities of the borrower and contractor/builder

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**Note:** TMS will attempt to schedule a conference call which includes the contractor/builder and builder to ensure any questions may be answered at the same time.

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## Continual Updates

TMS's Renovation Specialist will ensure continual updates are obtained by calling the borrower at least once every 30 days for status updates.

## Construction Draws

Draws and disbursements are managed by TMS. A draw and disbursement ledger will be maintained for any loan guarantee request. The borrower and TMS's Renovation Department will be jointly responsible for approving disbursements to the contractor/builder during the construction phase. Total disbursements should not exceed the value of the realized material cost and percentage of work completed. When funds are disbursed, TMS is warranting to Rural Housing Development that the associate work has been completed as specified. TMS will maintain documentation in the loan file evidencing the work that was completed and the corresponding draw amount that was disbursed. At a minimum, documentation will include evidence of third-party inspection, signed conditional lien waiver from the contractor/builder, and title insurance endorsement/title update for each draw.

## Lien Waiver Policy

Lien waivers must be signed by the contractor/builder prior to release of each draw.

## Title Update Policy

Title updates will be made with each draw. Draws will be funded only if the title update reflects no mechanic's liens or tax liens encumber the subject property.



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## Change Orders

TMS will approve any change orders during construction. The borrower will be responsible for any cost overruns related to change orders that exceed available funds in the contingency reserve account, or for ineligible loan purposes occurring post-loan closing.

## Cash Back to Borrower

TMS will apply any excess funds from the construction proceeds to reduce the principal balance of the loan. The borrower is not to receive funds after closing. In the event funds remain after closing from unused prepaid expenses – including, but not limited to per diem interest, to the end of the month on the new loan, hazard insurance premium deposits, and/or real estate tax deposits needed to establish escrow accounts – the borrower may receive cash back in the event they paid these items from their personal funds and they do not represent loan funds.

## Final Draw/Project Completion Procedures

- TMS will provide the borrower an accounting ledger of all deposits and withdrawals of the custodial escrow account at the time construction is completed. This document must be signed by the borrower prior to the release of the final draw for approval and acceptance.
- Evidence of the final certificate of occupancy and final inspection is needed to process the final payments on the project.
- The appraiser's certificate of completion and a photograph of the completed property are required.

## Payment of Escrow Accrued Interest

The Renovation Department will process payment of the interest accrued once all checks issued have cleared the bank account.

## Financial Principal, Interest, Taxes, and Insurance (PITI) Payments

Eligible loan costs may include a reserve to fund an escrow account for up to one year of full scheduled (amortized) principal and interest payments at the original Promissory Note rate, along with taxes and insurance.

The PITI reserve payments will be held as a separate line item in the FDIC-insured interest bearing custodial account. TMS will disburse the mortgage payments monthly as they become due and will inform the borrower via email when payments are made.



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## Unplanned Changes During Construction

Should the borrower experience a life change – such as loss of employment, serious health issue(s), or death – TMS will remain responsible for working with the contractor/builder to complete the home.

## General Accounting Review Procedures

TMS's Accounting Department obtains and reviews funding reports daily for any loan with renovation holdbacks which would have funded the prior business day.

Within 24 hours of a loan purchase, an individual escrow account for the borrower's escrow funds will be setup and all funds will be transferred the same day.

All checks are issued by the Renovation Department and managed by the AVP of Escrow Disbursement. The list of issued checks is reviewed for accuracy and entered into the accounting system.

The borrowers' escrow accounts are reconciled monthly by the Accounting Department. Any issues that arise are brought up with the Renovation Department and resolved accordingly.



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## Revision History

Publication Date	Description of Revision	Business Contact & Title
January 22, 2019	New guidelines/procedures drafted.	Angela Stalzer, AVP Escrow Disbursement