

PFI Marketing Bulletin No. 2000-1

Date 7-18-00



Effective with Delivery Commitments dated: Immediately

Construction/Permanent Loans

Participating Financial Institutions (PFI) delivering closed loans into the MORTGAGE PARTNERSHIP FINANCE® (“MPF®”) Program may now include construction/permanent loans in their delivery commitments.

Participating MPF Banks will buy construction loans upon conversion to permanent financing that are closed as a purchase transaction under the following guidelines.

The payoff of a construction loan with permanent financing may be accomplished in two ways, a single closing or a dual closing transaction.

SINGLE CLOSING

Construction/Permanent loans with a single closing are eligible for delivery under the following MPF products:

- MPF Original
- MPF 125, and
- MPF 125 Plus

A construction/permanent loan qualifies as a single closing when the construction mortgage documents stipulate the terms of the permanent financing and the loan automatically converts to permanent financing upon completion of construction (a new Note or Security Instrument is not executed). A construction rider should be used to document the terms of the construction financing, including such items as adjustable rate terms. Only a separate instrument (rider) may make changes or additions to the Uniform Instruments, which must include a Uniform Fixed Rate Note and the following provision:

If a Federal Home Loan Bank buys all or some of the lender’s rights under the (Mortgage/Deed of Trust) and Note, the promises and agreements in this rider will no longer have any force or effect.

This rider must be referenced in the instrument it is modifying and be firmly attached to the instrument.

Since modification to FNMA/FHLMC Uniform Instruments may be required for use with construction loans, necessary changes or additions may be made. The changes or additions need not contain a statement that they become void upon purchase by a Federal Home Loan Bank if the changes or additions are necessary to assure the first priority of the Mortgage lien or if by their terms, the changes or additions cease to be effective before the delivery date.

The following are parameters for delivering single closing construction/permanent loans into the MPF Program:

- The Certificate of Occupancy must have been issued, the borrower must have accepted the property as complete, and the loan must be amortizing with regularly scheduled P&I payments. In a jurisdiction that does not issue Certificates of Occupancy or equivalent

permission to occupy homes, whatever certification customary in that jurisdiction may be substituted.

- The underwriting analysis must be based upon the terms of the permanent mortgage and the file documentation must comply with the standard requirements listed in the MPF Origination Guide. Credit documents may be no more than 180 days old at the time of conversion to permanent financing.
- The age of the appraisal may be no more than 12 months old at the time of conversion to permanent financing. Appraisals more than 180 days old require a re-certification of value by the original appraiser, if available, or a qualified appraiser from the same firm approved by the PFI. The re-certification must include an exterior inspection and a statement confirming the value of the subject property. This may occur at the same time as the final inspection for completion. If the appraiser believes that the property value has declined in value, a new appraisal must be obtained.
- A Satisfactory Completion Certificate is required for all appraisal reports made subject to completion in accordance with plans and specifications. The certification must be made after completion of all construction, state all requirements of the original appraisal report are complete, and be prepared by the original appraiser, if available, or a qualified appraiser from the same firm approved by the PFI. (Freddie Mac Form 442 provides an acceptable format)
- The PFI must have a valid Lender's Title Policy with no encumbrances as of the date of the permanent loan.

DUAL CLOSINGS

In a dual closing, the borrower (s) pays off construction financing with the proceeds of a new permanent mortgage. In this case, (1) a new Note and Security Instrument are executed or, (2) a loan modification agreement is executed to convert the loan to permanent financing.

Construction/Permanent loans with a dual closing are eligible for delivery under the following MPF products:

- MPF Original
- MPF 100 (Option 1 above only available for this product),
- MPF 125, and
- MPF 125 Plus

The following are parameters for delivering dual closing construction/permanent loans into the MPF Program:

- The Certificate of Occupancy must have been issued, the borrower must have accepted the property as complete, and the loan must be amortizing with regularly scheduled P&I payments. In a jurisdiction that does not issue Certificates of Occupancy or equivalent permission to occupy homes, whatever certification customary in that jurisdiction may be substituted.
- The underwriting analysis must be based upon the terms of the permanent mortgage and the file documentation must comply with the standard requirements listed in the MPF Origination Guide. Credit documents may be no more than 180 days old as of the date of the New Note and Mortgage or the date of the executed Modification Agreement.
- The age of the appraisal may be no more than 12 months old as of the date of the Note and Mortgage, or the date of the executed Modification Agreement. Appraisals more than 180 days old require a re-certification of value by the original appraiser, if available, or a qualified appraiser from the same firm approved by the PFI. The re-certification must include an

exterior inspection and a statement confirming the value of the subject property. This may occur at the same time as the final inspection for completion. If the appraiser believes that the property value has declined in value, a new appraisal must be obtained.

- A Satisfactory Completion Certificate is required for all appraisal reports made subject to completion in accordance with plans and specifications. The certification must be made after completion of all construction, state all requirements of the original appraisal report are complete, and be prepared by the original appraiser, if available, or a qualified appraiser from the same firm approved by the PFI. (Freddie Mac Form 442 provides an acceptable format)
- The PFI must have a valid Lender's Title Policy with no encumbrances as of the date of the new Note and Mortgage or the Modification Agreement.
- If a new Note and Security Instrument are not used, then the loan documents may be modified to adjust the payment due dates or loan amount (not available for MPF100 product). The standard FNMA/FHLMC Modification Form 3179 should be used and recorded. The note and mortgage of the permanent loan must reflect an accurate first payment due date and maturity date. The loan amount may also be adjusted. If the permanent loan amount is greater than the construction loan amount, the loan must be re-underwritten to current MPF guidelines.

SPECIAL DELIVERY REQUIREMENTS

Delivery requirements have been minimized. The PFI only need to check the construction/permanent box under loan type if they are manually completing the credit enhancement form for each loan. If a PFI delivers via electronic file, it must include Loan Plan Code (**LT06**) in **field 58** to identify the loan as a construction/permanent loan and mark the Loan Purpose Code as **Purchase**.

Please contact your MPF Marketing representative with any further questions.

Attachments: See attached new Credit Enhancement Form and Instructions for Completing the Credit Enhancement Form.