MFM Bulletin: 022-2023

Date: August 4, 2023

Subject: Fannie Mae One-Time-Close Construction Loan Program

We are pleased to announce the roll out of Fannie Mae's One-Time-Close Construction Loan Program. This program is a single-closing transaction, used for both the construction loan and permanent financing. Because loan documents specify the terms of permanent financing, the construction loan will automatically convert to a permanent mortgage upon completion of construction.

MFM will handle the disbursement of loan proceeds to the builder during the construction phase. Please see below/attached for complete program guidelines.

Loans may be locked under this program beginning Monday, August 7th, 2023.

Thank you

Fannie Mae One-Time Close Construction Loan Program Guidelines

Single-closing transactions are used for both the construction loan and the permanent financing. The borrower will close both the construction loan and the permanent financing at the same time. MFM will be responsible for managing the disbursement of the loan proceeds to the builder.

Because the loan documents specify the terms of the permanent financing, the construction loan will automatically convert to a permanent mortgage loan upon completion of the construction.

The loan will not be sold to Fannie Mae until the construction is completed and the terms of the construction loan have converted to the permanent financing.

Special Feature Code

SFC 151 must be used when delivering single-closing construction-to-permanent loans to Fannie Mae.

Terms of Construction Loan Period

- Maximum construction Loan period: 9 Months
- Interest only during the construction phase.
- One three-month extension period may be granted if needed to complete construction – no additional extensions will be granted.

Allowable Terms of Permanent Financing

- 30-Year Fixed only.

Maximum Loan Amount

- Fannie Mae conforming loan limit.

Pricing

Lock Term	Base Pricing	Price Adj	Rate Add-On	Up-Front Fee Construction loan fee
45 days only FNMA	45 day pricing	0.750	.0375	1.000%

Extensions during construction period: MFM will offer this product with a maximum construction period of 9 months (270 days). A one-time extension of 3 months (90 days) may be permitted at a cost of 0.50 (50 bps). Must be requested by borrower prior to 9 month completion date and 0.50% paid to MFM. No additional extensions will be granted.

Interest Rate Float Down Option: A one-time float down option may be permitted dependent on current market conditions at the time of request. Request must be initiated by the member and must be within 15 days of the completion of construction. Float down rate will be calculated as follows:

Current FNMA 60-day Pricing + 0.250% to the rate compared to the locked rate. No additional pricing premium can be provided as this is ONLY an adjustment to rate.

Occupancy Types

- Primary residence
- Second home
- Investment properties **ARE NOT** allowed.

Eligible Loan Purposes

Purchase	Borrower is not the owner of lot at time of closing and borrower is using proceeds from the interim construction loan to purchase lot and finance construction of property.
Limited Cash Out Refinance	Borrower must have held title to the lot before closing. Borrower may use proceeds from construction financing to pay off any existing liens on the loan and finance construction of the property. All other requirements for LCOR apply.
Cash Out Refinances	**NOT ALLOWED**

Standard Eligibility Requirements

Primary Residence			
Transaction Type	**Number of Units**	**Max LTV/CLTV/HCLTV**	**Minimum Credit Score**
Purchase and Limited Cash out Refinance	One	90/90/90%	720

Second Home			
Transaction Type	**Number of Units**	**Max LTV/CLTV/HCLTV**	**Minimum Credit Score**
Purchase and Limited Cash out Refinance	One	85/85/85%	720

Eligible Properties

- One unit single family
- Detached (site) condominiums
- Detached PUDS

Ineligible Properties

- Manufactured homes
- Multi-unit properties
- Attached condos
- Attached PUDS

CONSTRUCTION MAY NOT BEGIN PRIOR TO CLOSING (INCLUDING FOOTING/FOUNDATION WORK) OR LOAN IS NOT ELIGIBLE FOR FINANCING.

Mortgage Insurance

Standard mortgage insurance per AUS is required for LTVs over 80%. **Mortgage will be activated at the closing of the construction loan and will be escrowed in the payment if monthly mortgage insurance premium is selected.**

Calculating Loan to Value (LTV)

The LTV calculation differs depending on whether the transaction is a purchase or a limited cash out refinance (LCOR).

Transaction Type	LTV Ratio Calculation
Purchase	Divide the loan amount by the lesser of: • Purchase price (sum of the cost of construction and sales price of lot). OR • The "as-completed" appraised value of the property.
Limited Cash out Refinance	Divide the loan amount by the "as-completed" appraised value of the property.

Down Payment Requirements

Gifts allowed on **primary residences ONLY** when LTV is above 80%.

Contingency Required

A construction Contingency Fee will be added to the total cost of construction. This is the amount allocated to pay for additional or unexpected costs during the construction period. The contingency fee may be financed into the loan (if appraised value supports) or can be paid in cash.

Unused contingency will either be applied to loan balance when construction is complete (if financed) or may be paid back to borrower (if paid in cash).

Contingency Fee Requirements

Building Contract Cost	Contingency Required
$400,000 and under	10%
Over $400,000	15%

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Construction Loan Fees

- MFM Construction loan fee: 1.000% of loan amount.
- $350 title draw fee (may vary by title company.
- $875 appraisal inspection fees (assumes 5 draws). If more than 5 draws – then $175 per draw.
- $350 Title Draws and overnight delivery fees (may vary by title company).
- $400 survey fee (may vary by state).
- $15 wire fee – per scheduled draw (if builder requests wired funds rather than check).

Financeable Costs

- Builder Contract price.
- Soft costs (permit fees, architectural fees, engineering fees).
- Contingency fee (see above).
- Survey fees.
- All other closing costs (refinance only).

Underwriting

Loans will be underwritten based on the terms of the permanent financing. The following will apply:

- Loan must be underwritten through DU and receive an Approve/Eligible recommendation.
- Loan must meet all eligibility requirements per loan program and AUS findings.

If the permanent financing terms are modified, and no longer reflect the terms on which the underwriting was based, the loan must be re-underwritten. The loan information at sale to Fannie Mae must match the data in the final submission of the loan casefile to DU.

Modifications of Single-Closing Construction-to-Permanent Mortgage

If the terms of the permanent financing change after the original closing date of the construction loan, the loan may be modified by recording a Loan Modification Agreement to reflect the new terms if it meets all of the following criteria:

1. The modification must take place prior to or at the time of conversion. Borrower must qualify under new terms and loan must remain Approved/Eligible through AUS or modification will not be approved.
2. Only the following loan terms may be modified in a single-closing transaction:
    - Interest Rate
    - Loan Amount
    - Loan Term
    - Amortization Type. The only amortization change permitted is from an adjustable-rate amortization to a fixed-rate loan.
3. Increases to the loan amount are permitted only as necessary to cover documented increases in costs of construction.

4. If modification results increase in loan amount, then an endorsement to title policy is required that:
   - Extends the effective date of the coverage to the date of Modification Agreement recording.
   - Increases amount of the title policy.
   - Confirms that the mortgage lien, as modified, continues to be first lien.

Age of Credit Documents

All credit documents must be no more than **four months old** on the note date (closing date of the construction loan). Additionally, income, employment, and credit report documents must be no more than **12-months old** at the time of the conversion to permanent financing UNLESS the loan was modified for any reason.

If loan terms were modified subsequent to the last DU **OR** the documents are more than 12 months old at time of conversion, then the following documentation is required:

1. Updated income documentation including pay stubs with year-to-date earnings or updated Verification of Income through Equifax.
2. Updated Credit Report.
3. Updated asset documentation IS NOT required unless (upon requalification) either of the following applies:
   - More reserves are required to maintain Approved/Eligible findings.
   - Borrower chooses to bring additional funds to the transaction – funds must come from an acceptable source and be documented.

Age of Appraisal

- The effective date of the appraisal must be no more than four months prior to the note date (closing date of the construction loan).
- Additionally, at the time of completion of construction, an Appraisal Update and/or Completion Report (Form 1004D) must be completed including the **appraisal update** and **certification of completion**. If the appraiser indicates on the Form 1004D that the property value has declined, then a new appraisal is required. Requalify the borrower using the updated LTV ratio per the below Requalification Requirements.

Requalification Requirements

Requalification of the borrower(s) is required at the time of conversion to permanent financing if:

- The LTV ratio increased due to a decline in property value.
- The loans terms were modified (see above).
- If credit documents exceed the four (or 12) month age of documentation requirement, then updated income, credit, and liability information must be considered.
- LOAN MUST MAINTAIN APPROVED/ELIGIBLE FINDINGS.

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BUILDER & PROJECT APPROVAL

Builder Requirements

- No "Self-Builds." Borrower may also not have any identity of interest with the builder (may not be a family member or employer).
- Builder must be fully licensed in the state the home is being built.
- Builder must have a minimum three years of experience in home-building.
- Builder must maintain unexpired liability insurance in the amount of at least $300,000 for the entire term of the project.
- Builder must maintain unexpired workman's Compensation policy (if state requires).
- Builder may not have any lawsuits or judgements pending and no history of bankruptcy.
- Builder must provide names and phone numbers of three recent references for homes built.
- Builder must maintain builders risk policy covering the home throughout construction.

Builder Documents Required

- Fully completed and signed Builder Questionnaire.
- Copy of unexpired Builder's License.
- Copy of unexpired Liability Insurance Policy.
- Copy of unexpired Workman's Compensation Policy (if required).

Additional Forms Required

- Draw Schedule Acknowledgment Form/Draw Request at Closing Form – signed by builder and borrower.
- Borrower's Equity Acknowledgement – Borrower's acknowledgment that prior to any advance of the Member First Mortgage Construction Loan, the amount equal to the equity position of the loan agreement must be paid directly to the builder. The borrower's "equity" is the amount of money paid toward the purchase of the land, and/or the money you are paying the builder if you own the land free and clear. Any funds intended to be used as a down payment or earnest money deposit already paid to the builder, is the borrower's equity position of the loan agreement. Signed by borrower.

Draws at Closing

Draws at closing are allowed for all soft costs (Architect fees, permits, surveys, blueprints) plus a maximum of 15% of the cost to construct the home for materials. Borrower's cash investment and earnest money is used first and subtracted from the 15%. The process of requesting a draw at closing is completed during the borrower's loan approval process. The borrower and builder will need to review and complete the Member First Mortgage Draw Schedule Acknowledgement.

Project Review

The following documentation is required for project approval:

- A Copy of the complete Building Contract signed by borrower and builder.
- Building Contract must be a **Fixed Price contract**. Cost Plus contracts are not allowed.
- Proposed Draw Schedule – 5 draws allowed (exception up to 8 draws on case-by-case basis).
- Architectural drawings (with plans and specifications).
- Copy of purchase contract for land or land contract (if applicable). Payoff letter at closing.
- Copy of Deed for land, if owned free and clear survey.