Construction-to-Permanent Financing: Single and Two-Closing Transactions

Frequently Asked Questions (FAQs)

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This FAQ document provides responses to common questions related to Fannie Mae's Construction-to-Permanent Financing: Single and Two-Closing Transactions.

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For additional information about Fannie Mae's, Construction–to–Permanent financing polices refer to the Selling Guide.

FAQs

Single-Closing Transaction

Q1. Can the Construction-to-Permanent transaction be used to finance manufactured homes?

Yes, manufactured homes are eligible for both one-close and two-close Construction-to-Permanent transactions. Additionally, Fannie Mae's Manufactured Housing guidelines allow for new construction financing including lot and unit purchase, site preparation, and site installation including the addition of structures included in the construction contract such as landscaping, hardscaping, porches, decks, and garages. For more information about new construction and manufactured homes see Selling Guide B5-2-03, Manufactured Housing Underwriting Requirements.

Q2. Is it possible for a borrower who started a single-closing transaction as a Limited Cash-Out Refinance (LCOR), to change to a single-closing cash-out-refinance?

No. Single-closing transactions are only for purchase or LCOR. However, if the borrower wants to convert the transaction to a two-closing transaction and he or she meets the criteria for a cash-out refinance under the two-closing transaction guidelines, then it would be acceptable to restructure the transaction to accommodate the request. To be eligible for a cash-out refinance, the borrower must have held legal title to the lot for at least six months prior to the permanent loan closing.

Q3. Can a single-closing LCOR be used when the borrower already owns the lot and needs financing to pay for the construction of a home on that lot?

Yes.

Q4. Is the three day right of rescission required on a single-closing LCOR transaction?

Yes. Permanent financing guidelines must be followed, so right of rescission must be provided.

Q5. When a borrower is doing a single-closing transaction, the initial DU submission had a 30 year term and the borrower instead wants a loan term of 15 years, does the lender have to re-rerun DU?

Yes. The final DU submission should match the final terms of the loan as it is delivered to Fannie Mae.

Q6. May a borrower do a single-closing transaction when the borrower would like to tear down an existing house on the borrower owned lot and build a new home?

Yes. There are no restrictions on tearing down existing structures to rebuild. The loan cannot be delivered to Fannie Mae until the construction is completed and the terms of the construction loan have converted to permanent financing.

Q7. Can the Construction-to-Permanent transaction be used to finance condos or co-ops?

Only detached condo units are eligible for construction-to-permanent financing. All other condos and co-ops are ineligible for construction-to-permanent financing.

Q8. At the time of conversion to permanent financing, the borrower's credit documents have expired. What documentation needs to be obtained?

If the borrower's credit documents are more than 120 days old at the time of conversion to permanent financing (or more than 12 months old, for qualifying transactions*), income, employment, and credit report documents must be updated (no more than 120 days prior to conversion to permanent financing), and the borrower requalified based on the updated information.

Asset documentation does not need to be updated unless:

- upon requalification, the borrower's required reserves have increased, ***or***
- the borrower is bringing additional funds to the transaction.

*Note: credit documents may be up to 12 months old at the time of conversion to permanent financing if the representative credit score is >=700, the LTV <=95%, and the loan received an Approve/Eligible DU recommendation.

Q9. A borrower is doing a single-closing transaction and is bringing additional funds to the transaction at the time of conversion to permanent financing. The asset documents obtained at the time of closing reflected sufficient assets to cover the additional funds. Does the asset documentation still need to be updated at conversion?

Yes. Unless the original asset documentation has not yet expired at conversion, updated asset documentation is required when the borrower brings additional funds to the transaction. The additional funds need to be documented and must come from an eligible source.

Additionally, updated asset documentation would also be required if a borrower is requalified, and more reserves are required than were at the time of the original qualification. The full amount of the reserves needs to be verified.

Q10. The construction phase of the borrower's single closing construction-to-permanent transaction will exceed 18 months. Will this borrower still be able to do a single closing construction-to-permanent transaction?

No. The transaction would have to be converted to a two-closing transaction.

Two-Closing Transaction

Q11. May a borrower do a LCOR on a two-closing transaction and also pay off a builder for overruns?

Yes. Documented construction cost overruns occurring outside of the interim construction loan may be included in the loan amount for a two-closing construction- to- permanent transaction as long as the overrun costs are paid directly to the builder at closing.

Q12. How long must a borrower own the land before it can be eligible for a cash-out transaction for a two-closing Construction-to-Permanent transaction?

The borrower must have held legal title to the lot for a least six months prior to the closing of the permanent mortgage.

Limited Cash-Out Refinance

Q13. May a borrower finance a construction loan and a second mortgage taken for cost overruns as an LCOR?

Yes. The lender must document that the proceeds of the second mortgage were only used to pay for the cost of construction.

Q14. May a borrower be reimbursed for self-financed cost overruns by financing the construction loan and cost overruns into a LCOR?

No. The borrower must meet the cash-out refinance construction-to permanent financing eligibility since they are receiving funds back for the cost overruns.

Q15. If the borrower started a LCOR construction loan, and would now like to deed the lot to the builder and treat the transaction as a purchase, does the lot have to be deeded to the builder prior to application?

Yes. For a purchase transaction, the borrower may not be the owner of the lot at the time of the first advance of the interim construction financing in a single-closing transaction.