Single-Closing Construction to Permanent (C-to-P) Financing Transaction Process

Introduction

Single-close transactions allow lenders to underwrite and close on the construction loan and the permanent financing at the same time using one set of closing documents.

With a C-to-P transaction, lenders must review plans and manage the construction funds throughout the entire loan process. It's important to keep in mind that the loan closing covers the permanent, post-completion period as well as the construction period, so the loan must be underwritten and the data submitted with the final terms in mind. The construction loan must be structured as a temporary loan exempt from the ability to repay requirements under Regulation Z..

Process

The origination and delivery process can be broken down into three phases, shown below, though in practice some steps may overlap or be done at the same time.

In phase 1, the loan is underwritten, the construction and permanent terms are set, and the loan is closed.

In phase 2, construction funds are drawn and disbursed in accordance with the construction contract and the draw schedule. Periodic inspections should be made to confirm that work is progressing as scheduled prior to issuing draws, and undrawn funds are held back by the lender.

When construction is complete, the lender needs to obtain three key items to ensure that the permanent loan will be salable: 1) Form 1004D or if you are using UAD 3.6, the Restricted Appraisal Update Report (Update Report) and the Completion Report, which confirms that the home aligns with the assumptions laid out in the as- completed appraisal that was used to calculate LTV; 2) Lien waivers, to ensure that the first-lien status of the mortgage is preserved; and 3) a Certificate of Occupancy, to ensure that the home is livable and compliant with local requirements.

In phase 3, after construction is complete, the lender will convert the loan into its permanent structure. Depending on market conditions, the lender and borrower may wish to modify the permanent terms, such as to take advantage of lower interest rates. This is the stage at which those modifications would be made.

Remember that only the interest rate, loan amount, loan term, and amortization type may be modified. Credit documents may need to be refreshed and the borrower re-qualified.

Once the permanent terms are set, and as long as no eligibility issues arose as a result of the conversion/modification and document refresh (if needed), the loan is salable to Fannie Mae.

Phase 1 – Pre-Close	Phase 2 - Construction	Phase 3 -Conversion
1. Contractor underwriting and acceptance. 2. Project review and acceptance. 3. Construction phase and permanent phase rates set. 4. Credit underwriting and construction-to-permanent loan approval. 5. Loan terms closed for construction and permanent phases.	6. Contractor draw requests processed per contract draw schedule. 7. Inspections confirm progress in accordance with draw schedule. 8. Completion - Complete 1004D; obtain lien waivers and Certificate of Occupancy.	9. If necessary, refresh credit and appraisal documents to confirm eligibility. 10. Loan converts to permanent terms. 11. Permanent loan terms modified, if necessary; only rate, loan amount, loan term and amortization type may be modified. 12. Loan sold to Fannie Mae.