Rural Lending Initiatives
Certified Loan Application Packaging Process
Single Close Construction to Perm Financing

Presented by the Mike Buethe Single Family Housing Program Director
March 13, 2018
THE FACES OF LENDING

WHEN THE UNDERWRITER ASKS HOW YOU CAME UP WITH THE QUALIFYING INCOME

AND YOU CHANGED JOBS THE WEEK BEFORE

YOUR LOAN CLOSED?
What is the Certified Loan Packaging Process?

- Develop PARTNERSHIPS with qualified third parties to package home loan applications for low income households for eligibility for the Rural Development 502 Direct loans.
- PACKAGERS receive a fee for loans closed submitted through the certified packaging process.
- Application packages received by Rural Development (RD) have undergone a Quality Assurance Review (QAR) thru an INTERMEDIARY.
- RURAL DEVELOPMENT underwrites and funds loan...
Why partner with third parties?

- Agency staffing losses in SFH Programs and presence in rural areas
- Leverage partnerships to reach areas RD SFH does not have a presence (2004 18 offices, 2018 4 offices)
- Partner agencies are located in rural areas working with clients thru their housing programs – align similar type of missions
- Increased “face to face” interaction with the applicant
- Quality Control component built into packaging
- RD staff can focus more on loan making activities
The 3 parties involved in the certified packaging process:

**Agency-certified loan application packager:** An individual that meets the requirements of § 3550.75 (b)(1).

**Qualified employer:** An affordable housing nonprofit organization, public agency, tribal housing authority, or State Housing Finance Agency that meets the requirements of § 3550.75 (b)(2).

**Agency-approved intermediary:** An affordable housing nonprofit, public agency, or State Housing Finance Agency approved by RD to perform quality assurance reviews on packages prepared by certified packaging bodies.
<table>
<thead>
<tr>
<th>Packaging Type</th>
<th>Permissible Packaging Fee</th>
<th>Regulated by 7 CFR Part 3550</th>
<th>Eligible Loan Purpose?</th>
<th>Distinct Access to National Office Reserve?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certified Packaging Body Via An Intermediary</td>
<td>Up to $1,500 split between certified packaging body and intermediary</td>
<td>Yes 3550.52 (d)(6) and 3550.75</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Certified Packaging Body Without An Intermediary</td>
<td>Up to $1,250</td>
<td>Yes 3550.52 (d)(6) and 3550.75</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Intermediary Acting As Certified Packaging Body</td>
<td>Up to $1,250</td>
<td>Yes 3550.52 (d)(6) and 3550.75</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Approved Non-Certified Application Packager</td>
<td>Up to $350</td>
<td>Yes 3550.52 (d)(6)</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Other Packaging Arrangements</td>
<td>Not regulated and discouraged when a fee is charged</td>
<td>No</td>
<td>No. The Agency will review the impact of the fee and will make the determination if it adversely impact the applicant’s qualification.</td>
<td>No</td>
</tr>
</tbody>
</table>
When the packaging fee is an eligible loan purpose, how is the packaging fee paid?

(maximum fee cannot exceed $1,500)

• Included in the loan (if supported by the appraisal)
• Seller concession
• Outside source of funds
• Paid by the borrower

RD instructs the closing agent to pay the fee, which is paid at the time of loan closing.
Key Roles in the packaging process:

**Packager**

1. Market the Direct Loan Program
2. Meet with potential applicants
3. For eligible applicants – submit all Documentation via Intermediary
4. Work with the Intermediary to help ensure quality loan applications

**Rural Development**

Communication & feedback to packager

Receive incoming loan applications

Proceed in processing / Underwriting the application as per our HB and regs
How do you become a certified packager?

- Have at least one year of affordable housing loan origination and/or affordable housing counseling experience.

- Complete an Agency approved training course.
  - 3-day classroom session.
  - Packagers have one year from the date of being added to the certified packaging process to complete the course and pass the test.

- Pass the corresponding test.
  - Open book exam requiring a score of 70% or better.
  - May take up to 3 times.
  - If unable to pass after 3 attempts, the course must be taken again.
What is the role of the Intermediary?

- Conduct quality assurance reviews on all loan application packages submitted by the certified packaging body within 5 business days of receipt
- Submit loan application packages electronically via eForms to the designated RD office location in each state
<table>
<thead>
<tr>
<th>Intermediary</th>
<th>States Served</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federation of Appalachian Housing Enterprises, Inc.</td>
<td>Alabama, Delaware, Florida, Georgia, Indiana, Kentucky, Maryland, Michigan, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia and West Virginia</td>
</tr>
<tr>
<td>Little Dixie Community Action Agency, Inc.</td>
<td>Arkansas, Kansas, Louisiana, Missouri, <strong>Nebraska</strong> and Oklahoma</td>
</tr>
<tr>
<td>NeighborWorks Dakota Home Resources</td>
<td>North Dakota and South Dakota</td>
</tr>
<tr>
<td>Northeast South Dakota Community Action Program</td>
<td>North Dakota and South Dakota</td>
</tr>
<tr>
<td>Northwest Regional Housing Authority</td>
<td>Arkansas, Louisiana, Mississippi, Missouri, and Oklahoma</td>
</tr>
<tr>
<td>Rural Community Assistance Corporation</td>
<td>Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Western Pacific and Wyoming</td>
</tr>
<tr>
<td>Texas Community Capital</td>
<td>Texas</td>
</tr>
<tr>
<td>Tierra del Sol Housing Corporation</td>
<td>Arizona, Colorado, New Mexico, and Texas</td>
</tr>
</tbody>
</table>
Upon receipt of a packaged loan application, the Agency will:

- Process the application in accordance with program guidance.
- Underwrites loan (disclosures, orders credit report, appraisal, funding)
- Issues Certificate of Eligibility for eligible applicants (max loan amount)
- Inform the packager or intermediary (if present) when critical processing activities have occurred.
- Maintain continuous and open lines of communication and feedback between the Agency and the loan application packager or intermediary.
Other Packaging Arrangements

- Section 504 Home Repair LOAN program for Very Low Income Households. The 504 Loan Program is not part of the certified packaging process and no intermediary is involved.

<table>
<thead>
<tr>
<th>504 Loan Packaging Type</th>
<th>Permissible Packaging Fee</th>
<th>Regulated by 7 CFR Part 3550</th>
<th>Eligible Loan Purpose?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public and private nonprofit organizations that are tax exempt under the Internal Revenue Code</td>
<td>Up to $500</td>
<td>Yes 3550.102 (d)(5)</td>
<td>Yes (Section 504 loan only)</td>
</tr>
</tbody>
</table>
Combination Construction and Permanent Loan
Single Family Housing Guaranteed Loan Program
Need for Workforce Housing

Dilapidated Housing Stock

Lack of affordable housing

Workforce Housing Initiative

target housing 80% - 120% AMI

Provide housing in $155,000 – $241,500 price
Single Family Housing Guaranteed Loan Program

• 100% Financing
• Eligible families up to 115% AMI
• No Mortgage Limits
• Over 80 approved lenders participate
• Expand access to affordable housing and increase financing opportunities
Combination Construction to Permanent Financing
(Single Close Loan)

- Combines features of a construction loan (short term construction financing) with traditional long term permanent mortgage (30 yr)
- ONE Closing prior to start of construction
- At closing, funds disbursed to cover cost of land and applicable closing costs
- Lender responsible for managing disbursement to contractor for balance of mortgage proceeds as construction progresses
- Interest rate established at closing
- Loan Note Guarantee may be issued once the interim construction loan is closed without waiting for completion of subject property
LENDER REQUIREMENTS

• Approved lender for Guarantee Loan Program
• Have two or more years experience making and administering construction loans
• Lender responsible for approval of construction contractors
• Disburse funds for cost of land and allowed closing costs. Balance of mortgage proceeds including “lenders construction holdback” must be placed into an escrow account
• Approved lender will be responsible for approval and disbursement in accordance with construction loan agreement and maintain a draw and disbursement ledger.
CONTRACTOR/BUILDER REQUIREMENTS

- Participating builders must be approved by the lender to meet the requirements including:
  - Two or more years of experience in SFH construction
  - State-issued construction or contractor license as required by state law
  - Commercial general liability insurance with min coverage of $500,000
  - Contractor must have acceptable credit history free of collections or liens related to previous projects. Individual and commercial credit report obtained. No previous felony criminal record.
  - Contractors building their own residence is ineligible
ELIGIBLE COSTS

• Finance construction of new single family housing residence, including modular or manufactured
• All costs subject to maximum loan to value as established by an appraisal
• Land
• Construction hard Costs based on construction contract between builder and borrower and costs outside the contract to subcontractors such as well, septic, utility hook-ups, landscaping, etc
• Construction Soft Costs: Appraisal fees, inspection fees, survey, permits, title updates, lender construction admin fees, contingency reserve, interest reserve, tax and insurance reserve and other reasonable and customary costs

Typical Construction Contract Budget

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>$40,000</td>
</tr>
<tr>
<td>Materials</td>
<td>$40,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>$10,000</td>
</tr>
<tr>
<td>Subcontractors</td>
<td>$10,000</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$100,000</td>
</tr>
<tr>
<td>Overhead @ 10%</td>
<td>$10,000</td>
</tr>
<tr>
<td>Profit @ 5%</td>
<td>$5,000</td>
</tr>
<tr>
<td>Contract Amount</td>
<td>$115,000</td>
</tr>
</tbody>
</table>
CLOSING

- Date of Closing will be the date the interim construction loan is closed.
- Construction rider to the note and construction loan agreement is required.
- Interest on the construction loan is payable monthly from the borrower or established interest reserve. Interest rate during construction must be a fixed rate.
- Term is 30 years.
- Excess funds will be applied as principal curtailment.
- When construction complete, loan is reamortized via a modification and can reduce the permanent interest rate over the remaining term.
- Borrower begins making regular (amortized) P&I on the loan after the construction is complete. Only interest payments on the advanced construction loan will be due and payable during the construction phase.
COMMUNITY MEETINGS

TARGETED COMMUNITIES:

- Hickman, Waverly, Friend
- Fairbury, David City,
- Louisville, Eagle, Auburn,
- Superior, Falls City, Wahoo
- Milford, Wayne, Schuyler,
- Central City, Ainsworth, West Point, Minden, Kimball, Imperial
STAKEHOLDER ANNOUNCEMENT

USDA Offers Technical Assistance to Preserve Affordable, Rural Multi-Family Housing

WASHINGTON, Feb. 27, 2018 – Assistant to the Secretary for Rural Development Anne Hazlett today announced that USDA is seeking applications for grants to help preserve affordable, rural rental housing.

USDA plans to provide up to $1 million in financial and legal technical assistance to help nonprofit groups and public housing authorities buy and operate apartments in rural areas at risk of losing affordable housing. Many of these complexes have owners who are about to pay off their Rural Development mortgages and afterward are no longer required to maintain them as affordable housing. Others are so small that they generate little buyer interest or generally aren’t attractive to investors who can secure tax credits to help keep ownership costs low. Helping nonprofit groups and public housing agencies buy these properties will help maintain the supply of affordable rural rental housing.

USDA is interested in applications highlighting creative ways to leverage federal resources with public and private-sector financing. The Department also is interested in applications highlighting ways to work with USDA Rural Development state directors to identify and preserve needed affordable rental housing properties with expiring Rural Development mortgages.

Applications are being accepted regionally – in the Northeast, South, Midwest and West. The maximum award is $250,000 per region.

The application deadline is March 29, 2018. For more information on the Multi-Family Housing Non-Profit Technical Assistance grant program, see page 8418 of the Feb. 27 Federal Register.
Contact Information

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