

Construction Conversion and Renovation Mortgage

Financing that covers purchase and renovation/construction costs in a single loan closing

BACKGROUND AND PURPOSE

A Construction Conversion Mortgage provides permanent financing that replaces the interim construction financing on a new site-built home or a new manufactured home that will be permanently affixed to the property. A Renovation Mortgage is used to purchase or refinance land with an existing site-built home and repair, restore, rehabilitate, or renovate the site-built home.

Freddie Mac allows any of its other mortgage products to be originated for renovation and construction purposes. Construction Conversion and Renovation Mortgages must conform to the requirements of one of Freddie Mac’s other mortgage programs: Home Possible®; regular 15-, 20-, or 30-year fixed mortgage; most adjustable-rate mortgages (ARMs); super conforming mortgage (mortgages originated using higher-maximum loan limits permitted in designated

high-cost areas); and manufactured housing (construction conversion only).

BORROWER CRITERIA

Income limits: Income limits apply if the mortgage uses Home Possible® or HomeOneSM.

Credit: Any of Freddie Mac’s mortgage products may be delivered as a renovation mortgage and the applicable credit limits apply (credit scores as low as 660).

First-time homebuyers: For Home Possible® and HomeOneSM, when all the borrowers are first-time homebuyers, at least one qualifying borrower must participate in a homeownership education program before the note sale or effective date of permanent financing for Construction Conversion and Renovation Mortgages.

PROGRAM NAME	Construction Conversion and Renovation Mortgage
AGENCY	Freddie Mac
EXPIRATION DATE	Not Applicable
APPLICATIONS	No program-specific application is required. For information on becoming a Freddie Mac seller, see http://www.freddiemac.com/singlefamily/doingbusiness/
WEB LINK	Single-Family Seller/Servicer Guide Chapter K33 http://www.freddiemac.com/singlefamily/factsheets/sell/renovation.html
CONTACT INFORMATION	institutional_eligibility@freddiemac.com (ask for a call back in your email)
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

Occupancy and ownership of other properties: Generally, ownership of other properties is allowed with certain exceptions depending on the loan product, and primary residences, second homes, and investment properties are all allowed.

Special populations: Special population status confers no benefit.

Special assistance for persons with disabilities: Retrofitting a home for use by a person with a disability is an eligible use of this program.

Property type: One- to four-unit site-built homes are allowed. If secured by a manufactured home, only a construction conversion loan to cover the costs associated with permanent installation is allowed. This program may not be used to make a single payment to a builder or assume an existing mortgage, for instance if a builder has built on speculation.

LOAN CRITERIA

Loan limits: FHFA publishes Freddie Mac's conforming loan limits annually. See Resources for a link to the current limits. Certain high-cost areas are also taken into consideration.

Loan-to-value limits: The value is the lesser of the purchase price plus construction/renovation costs or the appraised value as completed. The LTV limits for the underlying mortgage program are applicable.

Adjustable-rate mortgages: All standard ARM products are allowed except that HomeOneSM may only be a fixed-rate mortgage. For Home Possible[®]: 5/1, 5/5, 7/1, or 10/1 ARMs with an original maturity not greater than 30 years are allowed on a one- to two-unit property. For manufactured homes, 7/1 and 10/1 ARMs are allowed.

Underwriting: The loan may be underwritten manually or in Loan Product Advisor[®], Freddie Mac's automated underwriting system. Documentation may be integrated with interim financing documentation (one closing), separate (two closings), or modified (two closings with a modification agreement).

The mortgage file must contain the following:

- evidence to support that the mortgage is a Construction Conversion or Renovation Mortgage;
- sufficient documentation to validate the actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.);
- document showing lender's calculation of the purchase price and/or cost to construct;
- all settlement/closing disclosure statement forms or other mortgage closing statements for interim construction financing and permanent financing;

POTENTIAL BENEFITS

Freddie Mac does not require special approval to originate renovation mortgages or additional experience with reviewing contractor work plans, construction draws, or appraisals. This product requires less contractor oversight. Freddie Mac does not have put-back provisions.

Cash-out refinance is permitted, which increases the borrower's flexibility to cover repairs outside of the scope of the interim construction financing.

POTENTIAL CHALLENGES

The loan to be sold to Freddie Mac cannot be closed until construction is finished, so there is the potential for risk in the transaction related to the interim construction financing.

To effectively market and use this product, lenders must partner with an entity that offers interim construction financing. In order to become an interim construction financing lender, additional expertise is needed.

- for a mortgage secured by a manufactured home, the manufacturer's invoice and the manufactured home purchase agreement; and
- appropriate documentation to verify the acquisition and transfer of ownership of the land if the borrower acquired the land as a gift or by inheritance.

The loan may need to be re-underwritten if property value, construction scope of work, schedule, or other substantive changes occurs during the term of interim construction financing and renovation work.

Delivery fee: The applicable delivery fee(s) is assessed based on the characteristics of the mortgage. There is no additional delivery fee for Construction Conversion and Renovation Mortgages.

Refinance: Refinancing is an allowable use of this product. If the borrower is the owner of record of the land (or is the lessee of the leasehold estate or if a site-built home is on a leasehold estate) before the closing of the interim construction financing, then the loan is a refinance transaction. Special purpose cash-out refinances (proceeds used to buy out the equity of a co-owner) are not eligible. Cash-out refinances are not eligible for manufactured homes. An amount used to pay off an unsecured lien or reimburse the borrower for construction costs paid outside of the secured interim construction financing is considered cash out if it is more than \$2,000 or 2 percent of the loan amount, whichever is less.

Completion status before delivery: All improvements must be fully completed before the sale of the mortgage to Freddie Mac unless a completion escrow account has been established. The installation of a manufactured home must be fully completed. The lender must provide Freddie Mac with evidence that the construction is complete.

Potential Benefits

- Freddie Mac does not require special approval to originate renovation mortgages or additional experience with reviewing contractor work plans, construction draws, or appraisals. This product requires less contractor oversight. Freddie Mac does not have put-back provisions.

- Cash-out refinance is permitted, which increases the borrower's flexibility to cover repairs outside of the scope of the interim construction financing.
- Community banks can market this product to existing customers who are homeowners.
- This product can be used for site-built homes on leasehold estates, making this product useable by community land trusts.

Potential Challenges

- The loan to be sold to Freddie Mac cannot be closed until construction is finished, so there is the potential for risk in the transaction related to the interim construction financing.
- To effectively market and use this product, lenders must partner with an entity that offers interim construction financing. In order to become an interim construction financing lender, additional expertise is needed.
- Renovation loans are likely to be more time intensive than purchase-only transactions because of the risk of changes to the scope of work or property value requiring re-underwriting.

SIMILAR PROGRAMS

- Fannie Mae HomeStyle® Renovation Loan
- FHA 203(k) Rehabilitation Mortgage Insurance
- FHA Property Improvement Loan Insurance (Title I)

RESOURCES

Direct access to the following web links can be found at <https://www.fdic.gov/mortgagelending>.

Construction Conversion and Renovation Mortgage summary

<http://www.freddiemac.com/learn/pdfs/uw/construction.pdf>

How to Enter Data for Construction Conversion and Renovation Mortgages

http://www.freddiemac.com/learn/pdfs/uw/LP_MNCH_fun_guide.pdf

Training Course for Construction Conversion and Renovation Mortgages

http://www.freddiemac.com/ontrack/html/LearningCenter/ClassDescription.jsp?crsNum=CC_RM

FHFA Conforming loan limits

<http://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx>

Delivery fees

<http://www.freddiemac.com/singlefamily/pdf/ex19.pdf>