

CONV :: FHLMC One-Time Close Construction Guidelines

Overview

A Conventional single-close construction program through Freddie Mac.

Base Program Guidelines

AFR's loan program is based on Freddie Mac's loan program. The base program guidelines can be found on Freddie Mac's website, here:

<https://guide.freddiemac.com/app/guide/chapter/4602>

AFR's Specifications & Overlays

<p>Channels</p>	<ul style="list-style-type: none"> • Broker • Correspondent Non-Delegated • Table Funded <p>Note: AFR must administer the Interim Construction Financing and provide the Permanent Financing.</p>
<p>FICO</p>	<ul style="list-style-type: none"> • 700 minimum qualifying credit score for all qualifying Borrowers • A minimum of two scores are required per borrower. If three scores are provided, the middle score will be used. If two scores are provided, the lower of the two is used; • The lower of the Borrower or Co-Borrower score, as determined above and by the credit report, will be viewed as the credit score for the loan; • Loans with mortgage insurance refer to the applicable MI Company's guidelines for MI credit score requirements.
<p>FICO and LTV/TLTV/HTLTV</p>	<p>Minimum Score is the minimum qualifying credit score for all qualifying Borrowers</p> <ul style="list-style-type: none"> • Site-Built, Modular or Manufactured Housing Primary Residences

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	<ul style="list-style-type: none"> • LTV/TLTV/HTLTV Ratios & Minimum FICO Scores: <ul style="list-style-type: none"> ◦ < or = to 80% <ul style="list-style-type: none"> ◦ 700 ◦ >80% to 90% <ul style="list-style-type: none"> ◦ 720 • Site-Built, Modular or Manufactured Housing Second Home <ul style="list-style-type: none"> ◦ LTV/TLTV/HTLTV Ratios & Minimum FICO Scores: <ul style="list-style-type: none"> ◦ < or = to 70%, <u>Max for Broker transactions</u> <ul style="list-style-type: none"> ◦ 700 ◦ >70% to 80%, <u>Max for Correspondent Non-Delegated and Table Funded transactions</u> <ul style="list-style-type: none"> ◦ 720 • CHOICEHome – Primary Residences <ul style="list-style-type: none"> ◦ LTV/TLTV/HTLTV Ratios & Minimum FICO Scores: <ul style="list-style-type: none"> ◦ < or = to 80% <ul style="list-style-type: none"> ◦ 700 ◦ > 80% to 95% <ul style="list-style-type: none"> ◦ 720 ◦ Max of 97% if combined with Home Possible or HomeOne mortgages <ul style="list-style-type: none"> ◦ 720
UW Method	<ul style="list-style-type: none"> • Loan Product Advisor (LPA)
AUS Recommendation	<ul style="list-style-type: none"> • LPA Risk Class Accept • LPA must indicate Construction to Permanent and Loan Purpose as: <ul style="list-style-type: none"> ◦ Purchase, or ◦ Refinance “No Cash-Out”
Eligible Terms	<ul style="list-style-type: none"> • 15Yr., 20Yr., and 30Yr. Fixed • Maximum loan amount \$726,200, the current years FHFA baseline conventional conforming loan limit for a 1-unit property. • Supper Conforming loan amounts not permitted
Eligible Transaction Types	<ul style="list-style-type: none"> • Construction Conversion (Single Closing)
Eligible Property Types	Primary or Second home:

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	<ul style="list-style-type: none"> • 1 Unit Stick Built – Temporarily suspended as of 10/27/2022 • Modular Homes • Multi-wide Manufactured Housing • FHLMC CHOICEHome - Primary Residence only <p>Note: Newly built or constructed 1 unit (detached), Modular, or a newly purchased manufactured home that has never been attached to a foundation.</p>
Maximum DTI	<ul style="list-style-type: none"> • Follow LPA
Age of Documents	<ul style="list-style-type: none"> • Income and asset documentation used for qualifying must be within 30 days of the Note date <ul style="list-style-type: none"> ◦ Except assets that are reported on a quarterly basis • Income documented for military leave and earning statement (LES), Social Security, Retirement, long-term disability, mortgage credit certificates, public assistance, foster care, or royalty payments will follow Fannie Mae or Freddie Mac Seller Guides pertaining to age of documents.
Eligible Transaction Types and Ownership Requirements	<ul style="list-style-type: none"> • Purchase <ul style="list-style-type: none"> ◦ All property types, Borrower is not the owner of record of the land prior to closing. • Refinance, No cash-out <ul style="list-style-type: none"> ◦ All property types, Borrower is the owner of record at the time of closing and no ownership seasoning requirements.
Calculating LTV Ratio	<ul style="list-style-type: none"> • <i>Transaction Type:</i> Purchase: 1-unit Site Built or Modular <ul style="list-style-type: none"> ◦ Lot Ownership: The borrower is not the owner of record of the lot at the time of closing. <ul style="list-style-type: none"> ◦ LTV Ratio Calculation: <ul style="list-style-type: none"> ◦ Lesser of: Purchase price (purchase price of the Land and total construction Costs), or Appraisal value, as completed. • <i>Transaction Type:</i> Purchase: CHOICEHome <ul style="list-style-type: none"> ◦ Lot Ownership: The borrower is not the owner of record of the lot at the time of closing. <ul style="list-style-type: none"> ◦ LTV Ratio Calculation: <ul style="list-style-type: none"> ◦ Lesser of: Purchase price of CHOICEHome and purchase price of the land, or the current appraised value of the CHOICEHome and land. • <i>Transaction Type:</i> Purchase: MH <ul style="list-style-type: none"> ◦ Lot Ownership: The borrower is not the owner of record of the lot at the time of closing. <ul style="list-style-type: none"> ◦ LTV Ratio Calculation:

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	<ul style="list-style-type: none"> ◦ Lesser of: The purchase price of the MH, plus the lowest purchase price at which the land was sold during the most recent 12-month period, or Appraised value of the Mortgaged Premises, as completed. • <i>Transaction Type: Refinance: All Property types</i> <ul style="list-style-type: none"> ◦ Lot Ownership: The borrower is the owner of record of the lot at the time of closing. ◦ LTV Ratio Calculation: <ul style="list-style-type: none"> ◦ Appraised Value of the Mortgaged Premises, as completed. • Gifted or Inherited Land <ul style="list-style-type: none"> ◦ If the Borrower acquired the land as a gift or by inheritance, the value of the land as reported on the appraisal may be used in lieu of the purchase price of the land. Obtain appropriate documentation to verify the acquisition and transfer of ownership of the land.
Mortgage Insurance	<ul style="list-style-type: none"> • Follow LPA • MI coverage must be active on the date of closing, to include the construction period. <ul style="list-style-type: none"> ◦ An MI reserve must be collected in prepaid equal to the estimated build time in months. • Follow specific PMI company requirements • MGIC • National MI • Enact • Arch <p>Borrower Paid Single Premium Option available for all listed MI companies</p>
Ineligible Mortgages	<ul style="list-style-type: none"> • FHA • VA • Section 502 GRH • Section 184 Native American • Community Land Trust • Mortgage secured by property subject to income-based resale restrictions
Eligible Borrowers	<ul style="list-style-type: none"> • The Borrower(s) on the Permanent Financing must be the Borrower(s) on, and obligated to repay, the interim construction financing. • A Borrower may be omitted in the event of death or divorce, or • A Borrower, who is a Related person may be added, provided that all Borrower(s) on the Permanent Financing are owner-occupants of the Mortgaged Premises and considered in the underwriting of the Permanent Financing.
Appraisal	<ul style="list-style-type: none"> • Appraiser’s opinion of value must provide the “as completed” value • Plans and specifications must be provided to the appraiser

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	<ul style="list-style-type: none"> • Follow Guide Chapter 5601 • Appraisal update and/or Completion report (form 442) <ul style="list-style-type: none"> ◦ including if the subject property market value has declined since the effective date of the original appraisal
Reverification of Employment	<p>Within 10 days of converting to Permanent Financing:</p> <ul style="list-style-type: none"> • Verbal or written VOE or a paystub dated within 30 days • Self-employed; verification of existence of the Borrower’s business through a third-party source. <p>Note: Any Credit and Capacity documentation greater than 365 days at the time of converting to permanent financing will require requalifying the Borrower’s.</p>
Construction on Land Owned	<ul style="list-style-type: none"> • Current mortgage liens encumbered by land and improvements are not eligible. Only unimproved lot/land liens maybe paid off in the transaction. • Tear down and rebuilds are not permitted.
Calculating Construction Costs	<p>Purchase:</p> <ul style="list-style-type: none"> • Purchase or acquire the land • Pay construction costs • MH, acquire the MH, and pay construction costs, including costs to install and anchor the MH on a permanent foundation system <p>Refinance:</p> <ul style="list-style-type: none"> • Pay off any existing liens on the land • Pay all closing Costs • Pay construction costs for the site-built home • MH, acquire the MH and pay construction costs, including cost to install and anchor the MH on a permanent foundation system on land owned by the Borrower <p>Eligible Costs:</p> <ul style="list-style-type: none"> • Materials, cost of labor associate with construction • Energy-efficient components, systems and installation • Grading, seed/sod, and other site improvements such as decks, porches, landscaping, etc. • Architectural, engineering, survey and legal fees • Water and sewer tap fees • Access fees to other utilities (gas, electric, telephone, and cable) • Utilities during construction • Permits, inspection and recording fees • Costs associated with construction loan including interest and points • If a refinance, closing costs associate with permanent mortgage <p>May be included if common to area:</p>

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	<ul style="list-style-type: none"> • Kitchen appliances • Intercom system • Wiring for media system, computer, cable or satellite that is hard-wired and made part of the premise • Security system • Water treatment system that is a part of the property's plumbing system <p>May not be included:</p> <ul style="list-style-type: none"> • If purchase, any financing costs for permanent Mortgage • Furniture • Electronics and home entertainment equipment that is not hard-wired and part of the premises (televisions, monitors, stereos, speakers, computers, satellite dishes, etc.) • Monthly maintenance fees • Other personal items
<p>Required Documentation of Construction</p>	<ul style="list-style-type: none"> • Evidence to support that Mortgage is a Construction Conversion, • Sufficient Documentation to validate actual cost to construct (e.g. purchase contracts, plans and specification, receipts, invoices, lien waivers, etc.) • Documentation showing your 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 <p>In addition, the Mortgage file must contain the following documentation, when applicable:</p> <ul style="list-style-type: none"> • For a Mortgage secured by a Manufactured Home, the manufacture's invoice and the Manufactures Home Purchase Agreement. • Refinance Mortgage secured by a Manufactured Home, documentation that supports at least one Borrower has been on title of the land for 12 months or more prior to the Effective Date of Permanent Financing. <p>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</p>
<p>Interim Construction Financing</p>	<ul style="list-style-type: none"> • Interest reserve accounts are not permissible; • Payment history must have no 30-day or more delinquencies in the past 12 months • Proof of payment history • The builder/developer must not be obligated to repay the Interim Construction Financing or any Mortgage on the Land or the Improvements.
<p>Documentation Type</p>	<ul style="list-style-type: none"> • Integrated Documentation • Disclosures must be as Construction to Permanent, with interest only payments (construction interest) made by the Borrower(s) during construction, disclosed as a single close transaction.

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	<ul style="list-style-type: none"> • Follow Appendix D to Part 1026; Multiple Advance construction Loans; Part II, Construction to Permanent Financing Disclosed as one Transaction (A)(1) • Permanent loan and construction interest rate must be the same Fixed Rate • Final 1003 must reflect the transaction as a Purchase or a No Cash-Out refinance. • Final Underwriting Transmittal must reflect Purchase or No Cash-Out and underwriter comments must reflect Construction Conversion.
<p>AFR FHLMC One-Time Close Restrictions</p>	<ul style="list-style-type: none"> • Follow all overlays outlined in the Freddie Mac Fully Amortizing Fixed Rate Program Matrix including: <ul style="list-style-type: none"> • Correspondent Delegated transactions are not eligible • Correspondent Table Funded and Correspondent Non-Delegated transactions must be purchased prior to construction. Construction administration and conversion to permanent financing must be managed by AFR. • AFR does not permit the installation or construction of a pool unless all the following are met: <ul style="list-style-type: none"> ◦ The pool contractor is a subcontractor of the General Contractor or the General Contractor is building the pool; ◦ The property state is one of the following: Nevada, Arizona, New Mexico, Texas, Louisiana, Mississippi, Alabama, Florida, or Georgia; ◦ Must be an in-ground pool, above-ground pools are not permitted, and ◦ Follow all other GSE, state and local requirements • AFR does not permit the Builder to also be the Borrower • AFR does not permit the construction of an Accessory Dwelling Unit (A.D.U.) • Proposed Site-Built times less than 8 months will require additional AFR review. • Site-Built, Modular and Manufactured homes: <ul style="list-style-type: none"> ◦ Maximum of \$250,000 disbursement at closing for land acquisition or payoff. • Building permits (where required by the jurisdiction): <ul style="list-style-type: none"> ◦ When land is owned by the Builder/retailer or Applicant, building permits are required prior to closing. ◦ When loan is owned by a 3rd party, AFR's Constructive Management Team can review submitted documentation for an exception. If an exception is granted the initial disbursement is a maximum of \$75,000. • Maximum of 10 months for construction completion. • Any loan that is classified as a Rebuttable Presumption must have all HPML provisions applied, follow revised General QM definition 43(e)(s)(vi) effective March 1, 2021 and adhere to the limits on points and fees as defined in 1026.43(e)(3)(i). • AFR will not originate loans as a high cost or predatory mortgage loans and will comply with all state/county requirements pertaining to high cost and predatory mortgage loans. • AFR requires a minimum five percent (5%) contingency of the total cost to construct be built into the contact price:

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	<ul style="list-style-type: none"> ◦ Manufactured Home transactions do not require the 5% contingency reserve. • Investment properties are not permitted. • Lagoons, cesspools, seepage pits or effluent (and similar) types of septic systems are not permitted. • Earnest money deposits must be allocated on the Cost Break Down sheet and part of the budget toward soft cost and/or materials and limited to \$20,000.00. • Maximum loan amount \$726,200
Geographic Restrictions	<ul style="list-style-type: none"> • New York State (Suspended 12/21/2022) • Hawaii <ul style="list-style-type: none"> ◦ AFR does not operate in the state of Hawaii and does not permit loans with a subject property in Hawaii for all programs in all channels with the exception of Correspondent Delegated UW transactions. • AFR requires the use of AFR’s Texas counsel on all Texas transactions with the exception of Correspondent Delegated loans. AFR utilizes this 3rd party for document preparation and require 48 hours for both title review and to generate a closing package.
Borrower Please Note: This section has been highlighted to inform you about recent changes to this program.	<ul style="list-style-type: none"> • 1 credit score required for all qualifying borrowers. Use the middle score if 3 credit scores or the lower of the two if 2 credit scores. Lowest representative score from all borrowers will be used for qualification purposes • Maximum of 5 borrowers permitted on one loan • Non-U.S. Citizen Borrowers must have a valid Social Security Number (S.S.N.)
Credit	<ul style="list-style-type: none"> • LP Accept Risk Class only; Caution, A-Minus and Refer Risk Class not permitted • Manual Underwrites not permitted • Non-traditional / alternative credit is not permitted with the exception of Correspondent Delegated UW transactions that have a LP Accept risk class • AFR will permit a private VOR only if 12 months cancelled checks are provided to support documentation. • AFR requires credit committee exceptions for any loan with significant derogatory credit that does not meet the Freddie Mac base waiting period requirements (Note: Any loan with an extenuating circumstance).
Property	<ul style="list-style-type: none"> • The following property types are not permitted: <ul style="list-style-type: none"> ◦ 2-4 Unit ◦ Attached ◦ Condo ◦ Co-Ops ◦ Mixed- Use ◦ Manufactured Housing that has been moved and/or traded ◦ Properties with commercial influence are subject to additional review.

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- Any property where marijuana is grown or processed inside the home or on the property, regardless of the quantity or state law is unacceptable
- Illinois Land Trusts not permitted
- Properties subject to an Energy Retrofit not permitted
- Energy Conservation Improvements not permitted
- Properties subject to an Energy Retrofit not permitted
- Off Grid
- Non-traditional heating methods (solar, wood burning stoves, etc.) without a heating back up source are not permitted. Off grid properties are not permitted.
- AFR requires a disaster report completed by a licensed appraiser on all properties on all transactions in a Presidentially Declared Disaster Area with individual assistance. If the loan is closed, AFR may require this report up to 60 days after the date of the disaster declaration. If the loan has not already closed and funded, AFR will not close or fund until the inspection report is completed to AFR's satisfaction. In all cases, the inspection must be dated after the affected incident period. The disaster report must comply with applicable GSE guidelines. On a case-by-case basis AFR may allow a loan to close and fund if the incident period was declared more than 14 days prior to the scheduled closing date. Originators are responsible for determining potential impact to a property located in an area where a disaster is occurring or has occurred. This is regardless of whether a property was included in the area covered by the declaration. If an originator has reason to believe that a property might have been damaged in a disaster the originator must work with AFR to ensure that the property is free from damage. Please note, that due to the nature of natural disasters AFR may amend this policy and add additional restrictions at any time without notice.
- AFR does not permit the use of a plat mat in lieu of a survey if a survey is required
- Vesting on the title commitment must remain unchanged/unaltered through the life of the loan. Any title transfer must be completed/recorded prior to the application.
- AFR requires a 48 hour turn time for title review and to generate closing packages for properties in the state of Louisiana and Texas
- Any loan with a resale restriction must be reviewed by the AFR Title Review Department
- AFR will not permit properties with more than 100 acres
- If the utilities are off at the time of the inspection, the Appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the utilities turned on, then a pressure test and electrical test is required and must be completed by an appropriately licensed professional.

Assets

- All loans that have a purchase money grant/silent (or soft) second must get an approval from the AFR Title Review Department prior to underwriting approval/AFR purchase
- Trade equity is not permitted
- Anticipated Savings is not permitted
- Sweat Equity is not permitted
- Bridge/Swing loans not permitted
- Payment Abatements are not permitted
- Pooled Savings not permitted

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	<ul style="list-style-type: none"> • Interest Rate buydowns not permitted • AFR does not offer lender incentives • Employer Assistance not permitted • Interest Rate buydowns not permitted • Cash on Hand not permitted
Income	<ul style="list-style-type: none"> • AFR does not permit amended tax returns if they are dated 90 days of application date. All amended tax returns must be more than 90 days of the application date and acknowledged (stamped and signed by the IRS or with the transcripts) • Employer Assistance is not permitted • AFR requires 2 years receipt of OT and Bonuses to be used as qualifying income; anything less than 2 years will not be eligible for income. • AFR does not permit voluntary agreements for child support, maintenance and alimony. • Marijuana income is unacceptable income regardless of state law.
Programs	<ul style="list-style-type: none"> • AFR requires an approved closing attorney in NY to conduct all NY settlements. You or the borrower may choose from the list below: <ul style="list-style-type: none"> ◦ Richard H. Lovell, Esq. ◦ Jared Kaplan, Esq. • AFR does not participate in the following Programs: <ul style="list-style-type: none"> ◦ Adjustable Rate Mortgages (ARMs) ◦ RHS Leveraged Seconds ◦ Section 184 Native American Mortgages
Ownership Types	<p>The following are ineligible for submitting/delivery to AFR:</p> <ul style="list-style-type: none"> • Life Estate • Blind Trusts • Irrevocable Trusts • 1031 Exchanges • LLCs, Corporations and Partnerships • Community Land Trusts
Compliance	<ul style="list-style-type: none"> • AFR does not close and/or purchase any New York loan that is a subprime home loan. All NY Loans must be tested the time the commitment is prepared. <ul style="list-style-type: none"> ◦ If the APR at the time of commitment cannot be determined AFR will not proceed with or purchase a Correspondent loan (Table Funded or Non-Delegated). • Any loan that is classified as a Rebuttable Presumption must have all HPML provisions applied, follow revised General QM definition 43(e)(s)(vi) effective March 1, 2021 and adhere to the limits on points and fees as defined in 1026.43(e)(3)(i). <ul style="list-style-type: none"> ◦ Loans must have an ability to repay (loan must be a full income/credit qualifying transaction) ◦ Loan must have an established escrow account

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	<ul style="list-style-type: none"> ◦ Loan cannot have a prepayment penalty (AFR does not permit prepayment penalties) • File remains subject to all Qualified Mortgage (“QM”) and Ability-to-Repay (“ATR”) underwriting guidelines, including Points and Fees thresholds through consummation. AFR will not originate, close, fund, or purchase any loan that is not legally deemed as a QM. • All loans must provide evidence of the borrower’s compliance of QM/ATR with a compliance report. • AFR will not originate loans as a high cost or predatory mortgage loan • AFR will comply in all respects with CFPB’s Rule on TILA-RESPA Integrated Disclosures (“TRID”). AFR will not originate, close, fund, or purchase any loan that does not adhere to the Rule.
Miscellaneous	<ul style="list-style-type: none"> • Flexible Mortgage Insurance Options/Custom Coverage not permitted; Standard Coverage is required • Temporary Interest Rate Buy downs are not permitted. • Prepayment penalties are not permitted. • Lender-Purchased Mortgage Insurance (LPMI) not permitted. • Buy downs not permitted

Note: All overlays above are subject to change by AFR without notice.

