

# FHA :: One-Time Close Construction Guidelines

## Overview

American Financial Resources, Inc. (AFR) offers Construction to Permanent loans for new manufactured, modular homes, and one unit stick built homes. Our One Time Close program provides construction financing, lot purchase and Permanent loan, all wrapped up in one loan. Why worry about re-qualifying, re-appraisals or incurring additional costs?

AFR provides interim financing and administration for true one-time close staged funded construction-to-permanent loans. Designed for manufactured housing, modular housing, and stick built housing, this programs allows American Financial Resources, Inc. the ability to offer our Wholesale clients this unique loan product.

American Financial Resources, Inc. (AFR) underwrites and approves the permanent portion of the loan before the construction begins. The construction portion of the loan is also underwritten and approved. When all conditions for closing are cleared with AFR, other than the final construction related conditions, the closing will be coordinated. Once closed, construction can begin.

Because the permanent loan is closed before construction begins, there is no “re-qualifying” the borrower. This is a true one-time close; therefore, the borrowers will not need to return to the settlement agent for a second closing once construction is complete.

## Base Program Guidelines

AFR’s loan program is based on HUD’s FHA 203(b) program. The base program guidelines can be found on HUD’s website in the 4000.1 handbook, here:

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/handbook\\_4000-1](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1)

## AFR's Specifications & Overlays

<b>Channels</b>	<ul style="list-style-type: none"><li>• Broker</li><li>• Correspondent</li></ul>
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	<ul style="list-style-type: none"> <li>◦ Table Funded</li> <li>◦ Non-Delegated UW</li> <li>◦ AFR must draw/prepare all Correspondent Non-Delegated closing packages</li> </ul> <p><b>Important:</b> Correspondent Delegated UW Transactions are <b>not</b> permitted</p> <p><b>Note:</b> Correspondent Table Funded and Correspondent Non-Delegated partners must complete the AFR One-Time Close Programs webinar and pass a test prior to submitting an OTC transaction.</p>
<b>FICO</b>	<ul style="list-style-type: none"> <li>• Minimum 620 FICO for all qualifying borrowers</li> <li>• 620-659: A minimum of 2 credit scores are 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.</li> <li>• 660+: A minimum of 1 credit score is required for all required borrowers</li> <li>• 1 Unit Stick Built Housing: 660 Minimum FICO</li> </ul>
<b>UW Method</b>	<ul style="list-style-type: none"> <li>• Desktop Underwriter (DU)</li> <li>• Loan Product Advisor (LPA)</li> </ul>
<b>AUS Recommendation</b>	<ul style="list-style-type: none"> <li>• Approve/Eligible – DU</li> <li>• Risk Class Accept – LPA</li> </ul> <p><b>Important:</b> AFR does not permit Refer or Caution AUS recommendations</p>
<b>Eligible Terms</b>	<ul style="list-style-type: none"> <li>• 15Yr., 30Yr. Fixed</li> <li>• Maximum loan amount per <a href="#">FHA county loan limits</a>. High Balance loans are permitted.</li> </ul>
<b>Eligible Transaction Types</b>	<ul style="list-style-type: none"> <li>• Purchase</li> </ul>
<b>Eligible Property Types</b>	<ul style="list-style-type: none"> <li>• Multi-Width Manufactured Housing</li> <li>• Modular Homes</li> <li>• 1 Unit Stick Built Housing - Suspension removed as of 9/26/2023 <ul style="list-style-type: none"> <li>◦ Min FICO 660</li> <li>◦ Borrower paid compensation only</li> <li>◦ Should the borrower Opt for Interest Only Payments during the construction phase, AFR will also evaluate the Borrower(s) total monthly income in relation to their existing housing expense, projected taxes, other liabilities, and the interest-only payment. The</li> </ul> </li> </ul>

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	<p>ration must not exceed 45%. If the ration surpasses this threshold, the application will undergo a re-underwriting process, and there's a possibility that the Borrower may receive a counteroffer that excludes the option for interest-only payments during construction.</p> <p><b>Reminder:</b> Single Width Manufactured Housing is not permitted</p>
<b>Maximum LTV/CLTV/HCLTV</b>	Purchase 96.50%
<b>Maximum DTI</b>	Follow AUS Findings
<b>Special Feature Options</b>	<p>Consumer has the option to make interim construction payments or have the loan set up with no interim construction payments:</p> <ul style="list-style-type: none"> <li>• No interim construction payments, <b>or</b></li> <li>• Construction to Permanent loan with interest only payments (constructions interest) made by the Borrower(s) during construction, disclosed as a single close transaction: <ul style="list-style-type: none"> <li>◦ No construction LE or CD</li> <li>◦ Follow <a href="#">Appendix D to Part 1026</a>: Multiple Advance construction Loans; Part II, Construction to Permanent Financing Disclosed as one Transaction (A)(1)</li> <li>◦ Permanent loan and construction interest rate must be the same Fixed Rate.</li> <li>◦ 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.</li> </ul> </li> </ul>
<b>Appraisal</b>	<b>Note:</b> The appraised value determined by the Appraiser must be the “as completed” appraised value of the Property after completion of construction
<b>AFR FHA OTC Restrictions</b>	<ul style="list-style-type: none"> <li>• Correspondent Delegated UW transactions are not permitted</li> <li>• Correspondent Table Funded and Correspondent Non-Delegated partners must complete the AFR One-Time Close Programs webinar and pass a test prior to submitting an OTC transaction</li> <li>• All Correspondent Non-Delegated closing packages will be drawn/prepared by AFR</li> <li>• 620 minimum qualifying credit score.</li> <li>• 15 Yr. and 30 Yr. Fixed only; ARMs are not permitted</li> <li>• The Borrower cannot perform any of the work (“Self-Help” is not permitted)</li> <li>• Singlewide Manufactured housing is not permitted</li> </ul>

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- AUS Refer Recommendations are not permitted
- AFR requires a Final Inspection performed on the HUD Form 92051 accompanied by interior and exterior pictures of the subject property
- AFR does not permit the installation or construction of a pool unless all the following are met:
  - 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 HUD, state and local requirements.
- 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.
- AFR permits the construction of an Accessory Dwelling Unit (A.D.U.) if accompanied with the construction of a one-unit single-family site-built primary residence:
  - AFR does not permit the ADU to be a Manufactured House, or
  - Converting an existing outbuilding on the property to an A.D.U, or
  - **Rental income from an A.D.U is not permitted when the debt-to-income ratio excluding the projected rent exceeds 50%.**
- Proposed Site-Built Build construction times less than 8 months will require additional AFR review.
- Site-Built, Modular and Manufactured homes:
  - Maximum of \$250,000 disbursement at closing for land acquisition or payoff.
- Building permits (where required by the jurisdiction):
  - When land is owned by the Builder/Retailer or Applicant, building permits are required prior to closing.
  - When land is owned by a 3rd party, AFR's Construction Management Team can review submitted documentation for an exception. If an exceptions is granted the initial disbursement is a maximum of \$75,000.
- AFR requires a minimum five percent (5%) contingency of the total cost to construct be built into the contract price.
  - Manufactured Home transactions do not require the 5% contingency reserve.
- Lagoons, cesspools, seepage pits or effluent (and similar) types of septic systems are not permitted.
- Earnest Money Deposits (EMDs) must be allocated on the Cost Break Down sheet (or contract) and part of the budget toward soft costs and/or materials. Draws cannot be requested until the deposit money is exhausted.
- 1 Unit Stick Built Housing - Suspension removed as of 9/26/2023:
  - Min FICO 660
  - Borrower paid compensation only
  - Should the borrower Opt for Interest Only Payments during the construction phase, AFR will also evaluate the Borrower(s) total

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<p><b>Please Note: This section has been highlighted to inform you about recent changes to this program.</b></p>	<p>monthly income in relation to their existing housing expense, projected taxes, other liabilities, and the interest-only payment. The ratio must not exceed 45%. If the ration surpasses this threshold, the application will undergo a re-underwriting process, and there's a possibility that the Borrower may receive a counteroffer that excludes the option for interest-only payments during construction.</p>
<p><b>Geographic Restrictions</b></p>	<ul style="list-style-type: none"> <li>• New York State (Suspended 12/21/2022)</li> <li>• Hawaii <ul style="list-style-type: none"> <li>◦ AFR does not operate in state of Hawaii and does not permit OTC loans with a subject property in Hawaii</li> </ul> </li> <li>• AFR requires the use of AFR's Texas counsel on all Texas transactions. AFR utilizes this 3rd party for document preparation and require 48 hours for both title review and to generate a closing package.</li> </ul>
<p><b>Borrower</b></p>	<ul style="list-style-type: none"> <li>• AFR does not permit nonprofit organizations and state and local government agencies to purchase rental properties</li> <li>• A borrower with more than 4 financed properties requires a second level review by management.</li> <li>• AFR requires each MyLoanCenter account (borrower, co-borrower, spouse, third party, etc.) to have a unique email address regardless of their marital status.</li> </ul>
<p><b>Credit</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Mortgage Sanctions and defaulted CAIVRS are not permitted</li> <li>• Non-traditional credit is not permitted with the exception of Correspondent Delegated UW transactions that have an AUS Approve/Eligible or Accept recommendation.</li> <li>• Housing History: <ul style="list-style-type: none"> <li>◦ If the loan is manually Underwritten and/or mortgage is not analyzed through AUS, 0x30 required for the most recent 12 months</li> <li>◦ As a reminder, if, in AFR's judgement, the applicant does not have the ability or willingness to repay the loan, the DE Underwriter does have the ability reject the application regardless of written guidelines being met.</li> </ul> </li> </ul>
<p><b>Property</b></p>	<ul style="list-style-type: none"> <li>• Follow ML <a href="#">2022-11</a> for Appraisal Validity periods</li> <li>• Escrow holdbacks not permitted with the exception of cold weather (adverse weather) related repairs. Borrower(s) are required to enter into an escrow agreement and in most cases require a contractor bid. AFR will determine an acceptable contingency reserve. This should not be confused with a Repair Escrow.</li> <li>• AFR will not permit a property with an individual residential water purification system</li> <li>• The following property types are not permitted: <ul style="list-style-type: none"> <li>◦ Non-FHA Approved Condominiums</li> <li>◦ Co-Ops</li> <li>◦ Manufactured Housing that has been moved and/or traded</li> </ul> </li> </ul>

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	<ul style="list-style-type: none"> <li>◦ AFR will not permit properties with more than 100 acres</li> <li>• 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 agency 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.</li> </ul>
<b>Assets</b>	<ul style="list-style-type: none"> <li>• Sweat Equity not permitted</li> <li>• Private Savings Clubs or Pooled Savings Accounts are not permitted</li> </ul>
<b>Income</b>	<ul style="list-style-type: none"> <li>• Marijuana income is unacceptable income regardless of state law.</li> <li>• AFR does not allow amended tax returns after application date. All amended tax returns within 90 days of the application date must be stamped and signed by the IRS or have transcripts.</li> <li>• AFR follows income calculations guidance from <a href="#">ML 2022-09</a></li> </ul>
<b>Programs</b>	<ul style="list-style-type: none"> <li>• AFR does not participate in the following Programs: <ul style="list-style-type: none"> <li>◦ Energy Efficient Mortgage Program</li> <li>◦ Hope for Homeowners (H4H) Program</li> <li>◦ Negative Equity Positions Program (Short Refi)</li> <li>◦ Indian Land Program (Section 248)</li> <li>◦ Indian Home Loan Guarantee Program (Section 184)</li> <li>◦ Home Equity Conversion Mortgage (HECM) Program (Section 255)</li> <li>◦ Graduated Payment Mortgages (GPMs) and Growing Equity Mortgages (GEMs) Program (Section 245(a))</li> <li>◦ Single Family Cooperative Program (Section 203(n))</li> <li>◦ Home Mortgage Insurance for Outlying Areas Program (Section 203(i))</li> <li>◦ HUD Section 8 Homeownership Program</li> <li>◦ Temporary Interest Rate Buydowns not permitted</li> </ul> </li> </ul>
<b>Ownership Types</b>	<ul style="list-style-type: none"> <li>• The following are ineligible for submitting/delivery to AFR: <ul style="list-style-type: none"> <li>◦ Life Estate</li> <li>◦ Blind Trusts</li> <li>◦ Irrevocable Trusts</li> <li>◦ 1031 Exchanges</li> </ul> </li> </ul>

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	<ul style="list-style-type: none"> <li>◦ LLCs, Corporations and Partnerships</li> <li>◦ Community Land Trusts</li> <li>◦ Leasehold – Manufactured Housing</li> <li>• 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.</li> </ul>
<p><b>Compliance</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• If the APR at the time of commitment cannot be determined AFR will not proceed with or purchase a Correspondent (Table Funded, Non-Delegated UW or Delegated UW loan.</li> <li>• Any loan that is classified as Rebuttable Presumption or a Higher-Priced Mortgage Loan (HPML) must have all HPML provisions applied. AFR follows Regulation Z requirements for Higher-Priced Mortgage loans. <ul style="list-style-type: none"> <li>◦ Loans must have an ability to repay (loan must be full income/credit qualifying transaction)</li> <li>◦ Loan must have an established escrow account (with the exception of Condos and PUDs where the consumer must participate in a governing association that is required to purchase a master policy insuring all dwellings) – see the TILA HPML Escrow Rule for more guidance.</li> <li>◦ Loan cannot have a prepayment penalty (AFR does not permit prepayment penalties)</li> <li>◦ 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.</li> </ul> </li> <li>• All loans must provide evidence of the borrower’s compliance of QM/ATR with a compliance report.</li> <li>• All loans must provide evidence of the borrower’s ability to repay with a fully completed/executed Ability to Repay Worksheet. Note: Correspondent Delegated UW transactions must have a fully completed/executed Ability to Repay Worksheet showing evidence the borrower meets the ability to repay requirements.</li> <li>• AFR will not originate loans as a high cost or predatory mortgage loan</li> <li>• AFR will comply in all respects with CFPB’s Rule on TILA-RESPA Integrated Disclosures. AFR will not originate, close, fund, or purchase any loan that does not adhere to the Rule.</li> </ul>
<p><b>Miscellaneous</b></p>	<ul style="list-style-type: none"> <li>• AFR requires all Correspondent Delegated (CDE) transactions to be purchased within 90 days of the Note date.</li> </ul>
<p><b>Temporary COVID-19 Guidance</b></p>	<p><b>Reference Mortgagee Letters:</b></p> <ul style="list-style-type: none"> <li>• <a href="#"><u>2020-05</u></a></li> <li>• <a href="#"><u>2020-14</u></a></li> <li>• <a href="#"><u>2020-20</u></a></li> <li>• <a href="#"><u>2020-23</u></a></li> </ul>

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- [2020-24](#)
- [2020-28](#)
- [2020-30](#)
- [2020-37](#)
- [2020-40](#)
- [2020-46](#)
- [2020-47](#)
- [2021-06](#)
- [2021-07](#)
- [2021-16](#)
- [FHA FAQ's](#)

**Self-employment 10-day preclosing verification ensuring the business is currently operating:**

**Note: For case numbers assigned on or before September 30, 2021**

- Evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the verification is completed),
- Evidence of current business receipts within 10 days of the note date (payment for services performed,
- Documented certification that the business is open and operating (through a phone call or other means); or
- Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

**Housing Obligations / Mortgage Payment History:** For FHA transactions and due to the CARES Act, AFR requires additional documentation for all borrower(s) who have existing mortgage obligations to ensure those obligations are current. Documentation includes the following:

- 12-month payment history provided by the servicer(s) for each existing mortgage, or
- Third-party verification service to confirm 12-month mortgage/rent payment history.

Note: Follow current 4000.1 for Housing Obligations/Mortgage Payment History requirements.

**Rental Income Used to Qualify:** For case number assignment on or after **8/12/2020 through 9/30/2021** AFR will following guidance announced in [ML 2020-24](#) and extended in [ML 2020-40](#), [ML 2020-46](#), [ML 2021-07](#) and [ML 2021-16](#) where a borrower is qualifying utilizing rental income, for each property generating rental income the lender must either:

- Reduce the effective income associated with the calculation of rental income by 25%, or
- Verify 6 months PITI reserves, or
- Verify the borrower has received the previous 2 months rental payments as evidenced by borrower's bank statements showing the deposit. (This



option is applicable only for borrowers with a history of rental income from the property).

Note: Follow all other guidelines outlined in 4000.1

**Note: This temporary policy guidance expires September 30, 2021**

**Pervious Mortgage Payment Forbearance ([ML 2020-30](#))**

Borrower(s) who experience significant reduction in income due to either a Presidentially Declared Major Disaster (PDMD), or some other hardship including the COVID-19 National Emergency and was granted Mortgage Payment Forbearance is eligible for a new FHA insured mortgage provided:

- The borrower continued to make regularly schedule payment and the Forbearance Plan is terminated, or
- For Cash-Out refinances, the borrower has completed the Forbearance Plan and made at least 12 consecutive monthly payments post forbearance; or
- For Purchase and No Cash-Out refinances, the borrower has completed the Forbearance Plan and made at least three consecutive monthly payments post forbearance; or
- For Credit Qualifying Streamline refinance, the borrower has completed the Forbearance Plan and made less than three consecutive monthly payments post forbearance; and
- For all Streamline refinance transactions, the borrower has made at least six payments on the FHA-insured mortgage being refinanced (where the FHA insured Mortgage has been modified after forbearance, the Borrower must have made at least six payments under the Modification).

See ML [2020-30](#) for documentation requirements per transaction type.

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