

Construction Conversion and Renovation Mortgages



Learning

Use this summary of requirements to help you process, underwrite, and deliver construction conversion and renovation mortgages. For complete information on construction conversion and renovation mortgages, refer to Freddie Mac's *Single-Family Seller/Servicer Guide* (Guide) Chapter 4602. The information in this reference is organized into the following sections: [Eligibility](#), [Data Requirements](#), [Documentation](#), and [General Delivery Information](#).

Note: Vertical revision bars " | " are used in the margin of this quick reference to highlight new requirements and significant changes.

Defined Terms		
Mortgage Description (Guide Glossary)	Construction Conversion Mortgage	Renovation Mortgage
	<p>A mortgage, the proceeds from which are used for the permanent financing that replaces the interim construction financing obtained by the borrower to:</p> <ul style="list-style-type: none">• Purchase or refinance, as applicable, the land on which the site-built home or manufactured home will be constructed or affixed, and• Construct a new site-built home, or• Purchase and permanently affix a new manufactured home to the site and convert to real property.	<p>A mortgage, the proceeds from which are used for the permanent financing that replaces the interim construction financing obtained by the borrower to purchase or refinance the land and an existing site-built home and to repair, restore, rehabilitate, or renovate the site-built home.</p>
Interim Construction Financing (Guide Glossary)	<p>Interim construction financing is the short-term financing that provides the borrower with funds to:</p> <ul style="list-style-type: none">• Build a new site-built home• Purchase and permanently affix to the site and convert to real property, a new manufactured home• Repair, restore, rehabilitate, or renovate an existing site-built home, and/or• Purchase or refinance the land on which the improvements, including the new manufactured home, will be situated <p>Note: Interim construction financing is replaced by permanent financing on the effective date of the permanent financing. Freddie Mac does not purchase the interim construction financing.</p>	



Eligibility		
Property Types (Guide Section 4602.7)	<ul style="list-style-type: none">• 1- to 4-unit newly built or constructed site-built home (single-family attached/detached)• 1-unit manufactured home (MH are not eligible for the Renovation Mortgage) <p>Note: Manufactured homes must be newly purchased and never previously attached to a foundation; and meet all requirements of Guide Chapter 5703, except as modified by Guide Chapter 4602.</p>	
Eligible Mortgages/Terms (Guide Sections 4602.2 and 4602.4)	<ul style="list-style-type: none">• Construction conversion and renovation mortgages that are eligible for purchase must be first lien mortgages and may be any product or offering eligible under the Guide except as stated in Guide Section 4602.2.• The term of the permanent financing begins on the effective date of permanent financing.• Construction conversion mortgages secured by manufactured homes must have a maximum original maturity not greater than that specified in Guide Section 5703.3(d).	
How to Structure a Construction Conversion or Renovation Mortgage Transaction		
Mortgage Purpose: Purchase or Refinance (Guide Section 4602.5)	If... Borrower is not the owner of record of the land (or if a site-built home is on a leasehold estate, is not the lessee of the leasehold estate) prior to the closing of the interim construction financing	Then... Purchase
	Borrower is the owner of record of the land (or if a site-built home is on a leasehold estate, is the lessee of the leasehold estate) prior to the closing of the interim construction financing	Refinance
Purchase Transaction (Guide Section 4602.5 and 4602.10)	<p>Proceeds from the Interim Construction Financing may be used to:</p> <ul style="list-style-type: none">• Purchase the land, or for a site-built home, acquire a leasehold interest in the land• For Renovation Mortgages, purchase the site-built home• Pay construction or renovation costs of the site-built home• For a manufactured home, acquire the manufactured home and pay construction costs, including costs to install and anchor the manufactured home on a permanent foundation system	



How to Structure a Construction Conversion or Renovation Mortgage Transaction (cont'd)

Purchase Transaction (cont'd)

Establishing Value for LTV/TLTV/HTLTV Ratios (Guide Section 4602.10)	
Property Type	Value
1- to 4-unit site-built home	<p>Lesser of:</p> <ul style="list-style-type: none">• Construction Conversion: Purchase price (purchase price of the land* and total construction costs),• Renovation Mortgages: Purchase price prior to the renovation plus the renovation costs (costs of demolition and reconstruction), <p>or</p> <ul style="list-style-type: none">• Appraised value, as completed
1-unit manufactured home	<p>Lesser of:</p> <ul style="list-style-type: none">• The purchase price of the manufactured home, 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. <p>Note: The purchase price may include documented costs for delivery and setup, site development, installation, and permanent utility connections, including well and/or septic systems. Credits for wheels and axles, and any Manufactured Home retailer rebates, must be deducted from the purchase price along with any sales concessions in accordance with Section 5501.5. Financing of any forms of insurance, except for mortgage insurance, or other costs is not allowed for purchase transactions.</p>
<p>*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.</p> <p>Note: Any item that is included in the calculation of cost to construct or renovate the home must be commonly and customarily included in the cost to construct other homes in the area where the mortgaged premises is located. The cost to construct must not include items such as furniture, electronic and home entertainment equipment, or other personal items. For more examples, refer to the Calculating Constructions Costs section.</p>	



How to Structure a Construction Conversion or Renovation Mortgage Transaction (cont'd)

Refinance Transactions (Guide Section 4602.5, 4602.10 and 5703.4)

- Proceeds from the Interim Construction Financing may be used to:
- Pay off any existing liens on the land and on the improvements, if the mortgage is a Renovation Mortgage
 - Pay off any existing liens on the land if the mortgage is a Construction Conversion Mortgage
 - Pay all closing costs
 - Pay construction or renovation costs of the site-built home
 - For a manufactured home, acquire the manufactured home and pay construction costs, including costs to install and anchor the manufactured home on a permanent foundation system on land owned by the Borrower.

No Cash-out Transaction

Property Type	Requirements
1-to 4-unit site-built home 1-unit manufactured home	<p>Must meet the requirements in Section 4301.4, except as stated below.</p> <ul style="list-style-type: none"> • For purposes of Section 4301.4, the amount of the Interim Construction Financing secured by the mortgaged premises is considered an amount used to pay off the first Mortgage as described in Section 4301.4. • Note: The proceeds of the Permanent Financing may be used to pay off a junior lien(s) secured by the mortgaged premises provided the lien(s) were used in their entirety for the construction and/or renovation of the subject property, as applicable, as documented in the mortgage file. <p>Note: Paying off unsecured liens or construction costs paid by the Borrower outside of the secured Interim Construction Financing is considered cash out to the borrower, if above \$2,000 or 1% of the loan amount, whichever is greater.</p>

Establishing Value for LTV/TLTV/HTLTV Ratios (Guide Section 4602.10)

Property Type	Construction Conversion/Renovation	Value
1-to 4-unit site-built home	<ul style="list-style-type: none"> • Construction Conversion • Renovation Mortgage 	<ul style="list-style-type: none"> • Appraised value, as completed
1-unit manufactured home	<ul style="list-style-type: none"> • Construction Conversion 	<ul style="list-style-type: none"> • Appraised value, as completed



How to Structure a Construction Conversion or Renovation Mortgage Transaction (cont'd)

Refinance Transactions (cont'd)	Cash-out Refinance Transactions	
	Property Type	Requirements
1-to 4-unit site-built home Note: Manufactured homes are not eligible for a cash-out refinance		<ul style="list-style-type: none">Cash-out refinance transactions must meet the requirements in Section 4301.5.At least one borrower must have been on the title to the land for six months or more prior to the Effective Date of Permanent Financing.Special purpose cash-out refinance mortgages are ineligible as Construction Conversion Mortgages and Renovation Mortgages
Establishing Value for LTV/TLTVA/HTLTV Ratios (Guide Section 4602.10)		
Property Type	Construction Conversion / Renovation Mortgages	Value
1- to 4-unit site-built home	Construction Conversion and Renovation Mortgages	Appraised value of the mortgaged premises, as completed
Maximum LTV/ TLTVA/ HTLTV	Reference individual product offerings for applicable LTV/TLTVA/HTLTV and other financing terms not specifically described in Guide Chapter 4602.	



Calculating Construction Costs

Items included in the calculation of cost to construct or renovate the home must be commonly and customarily included in the cost to construct other homes in the area where the mortgaged premises is located.

Examples of costs that may or may not be included		
May be included:	May be included if common to area:	May not be included:
<ul style="list-style-type: none">• Materials, cost of labor associated with construction• Energy-efficient components, systems, and installation• Grading, seed/sod, and other site improvements such as decks, porches, landscaping, etc.• Demolition expenses (renovation mortgages only)• 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 associated with the permanent mortgage	<ul style="list-style-type: none">• Kitchen appliances• Intercom system• Wiring for media system, computers, 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	<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 premise (televisions, monitors, stereos, speakers, computers, satellite dishes, etc.)• Monthly maintenance fees• Other personal items



Data Requirements

Loan Application – Borrower Information (Form 65) Incl., adding and removing a borrower	<p>Under Loan and Property Information for Loan Purpose indicate either purchase or refinance, as applicable.</p> <p>The borrower on the permanent financing must be the borrower on, and obligated to repay, the interim construction financing, and any other outstanding prior financing, including installation financing or outstanding prior Mortgages except as follows:</p> <ul style="list-style-type: none">• A borrower may be omitted in the event of death or divorce, or• A borrow who is a related person may be added, provided that all borrowers on the permanent financing are owner-occupants of the mortgaged premises and considered in the underwriting of the permanent financing. <p>Note: the builder/developer must not be obligated to repay the interim construction financing or any mortgage on the land or the improvement except when the builder/developer is the borrower on the permanent financing and will occupy the mortgaged premises as his or her primary residence.</p>
Loan Application – Lender Loan Information (Form 65)	<p>Under Property and Loan Information Transaction Detail select Construction-Conversion/Construction-to-Permanent, indicate Single-Closing or Two-Closing, as applicable. Complete the Construction/Improvements Costs, Lot Acquired Date and Original Cost of Lot.</p> <p>If applicable, select Refinance Type (No Cash-out or Cash-out).</p>
Loan Product Advisor® Data Fields for direct access users using Freddie Mac Loan Advisor® single sign-on portal	<p>Enter the following in the Loan Product Advisor data fields:</p> <ul style="list-style-type: none">• Mortgage Type - Select Conventional• Loan Purpose - Select Purchase or Refinance, as applicable. Purchase or refinance depends on whether the borrower owned the land (or the land and improvements) at the time of the closing on the interim construction financing (see Purchase or Refinance, page 2)• Refinance Type, as applicable - Select Cash-out or No Cash-out (see Purchase or Refinance, page 2)• Appraised Property Value - Enter the determined value, see Determining Value for LTV/TLTV/HTLTV Ratios• Construction Loan – Select “Yes”• Construction Closing Type – Select Single-Closing or Two-Closing, as applicable, see Documentation Types for Permanent Financing• Construction/Improvement Costs – Enter the amount of the costs to construct• Original Cost of Lot, as applicable - Enter the purchase price of the lot, see Establishing Value Ratios



Data Requirements

Loan Product Advisor Resubmission Requirements (Guide Chapter 5101, Sections 4602.8 and 5501.2)	<p>Loan Product Advisor mortgages must meet the requirements in Guide Section 5101 including the resubmission requirements in Guide Section 5101.6 except that resubmission of a mortgage to Loan Product Advisor is not required if there is:</p> <ul style="list-style-type: none">• A change from the previous submission if the change involves one of the exceptions in Guide Section 5101.6• A decrease in the loan amount, provided the permanent financing meets the following conditions:<ul style="list-style-type: none">◦ When there is an increase in the down payment, all funds used to reduce the loan amount must meet the requirements of Guide Chapter 5501.◦ When there is a decrease in the reserves amount, the amount of verified reserves is no less than the reserves required to be verified on the Feedback Certificate.◦ The decrease in the loan amount does not change the level of mortgage insurance coverage.
Loan Product Advisor Resubmission Requirements (Guide Chapter 5101, Sections 4602.8 and 5501.2)	<ul style="list-style-type: none">• A change from an ARM to a fixed-rate mortgage, provided the permanent financing complies with the following conditions:<ul style="list-style-type: none">◦ The permanent financing is not subject to a temporary subsidy buydown plan.◦ In the prior submission, the borrower was qualified with an ARM monthly housing expense payment equal to or greater than the fixed-rate monthly housing expense.◦ The mortgage term of the fixed-rate mortgage is the same as the mortgage term for the ARM.• A decrease in the reserves amount, provided the amount of verified reserves is no less than the reserves required to be verified on the Feedback Certificate.



Documentation

Age of Documentation (Guide Section 5102.4)	<ul style="list-style-type: none">Verifications of employment, income, current receipt of income, source of funds and payment history must be made no more than 120 days before, as applicable, the effective date of permanent financing for construction conversion and renovation mortgages. <p>Any information verified more than 120 days before, as applicable, the effective date of permanent financing for construction conversion and renovation mortgages, must be reverified. Verifications made after the effective date of permanent financing do not satisfy the requirements of Guide Section 5102.4.</p>
Mortgage File Documentation (Guide Section 4602.12)	<p>Mortgage file must contain:</p> <ul style="list-style-type: none">Documentation supporting classification of the mortgage as a construction conversion or a renovation mortgage.Sufficient documentation to validate the actual cost to construct or renovate the home (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.)A document clearly showing your calculation of the purchase price and/or cost to construct.The settlement/closing disclosure statement or an alternative form required by law evidencing all costs to the homebuyer and property seller at the closing of the interim and permanent construction 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 manufacturer's invoice, and the Manufactured Home Purchase Agreement.For a cash-out refinance mortgage, documentation that supports at least one borrower has been on title to the land for six months or more prior to the effective date of permanent financing.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.
Appraisal Requirements (Guide Section 4602.9)	<ul style="list-style-type: none">The Seller must obtain an appraisal with an interior and exterior inspection that meets Freddie Mac requirements.The Seller must represent and warrant that the originating lender provided the appraiser with all the appraisal information required in Guide Chapter 5601, including plans and specifications. <p>The appraiser's opinion of value must provide the "as completed" value.</p>
Appraisals Completed subject to Completion (Guide Section 5605.8)	<p>Appraisals that are made subject to completion per plans and specifications you may use one of the following completion reports to verify the completion of the property:</p> <ul style="list-style-type: none">Form 442, Appraisal Update and/or Completion Report, provided by an appraiser documenting that the property has been completed. The completion report must be:<ul style="list-style-type: none">Dated before the Settlement Date unless the requirements for incomplete improvements, or GreenCHOICE® Mortgages or CHOICERenovation® Mortgages have been met.Retained in the mortgage file.



Documentation

Appraisals Completed subject to Completion (cont'd)

- Form 400, Warranty of Completion of Construction, or other substantially similar form, provided by the Seller and signed by the borrower(s) and the builder confirming that the property has been completed as appraised. By providing this completion report, the Seller represents and warrants that the property has been completed in accordance with the plans and specifications and that there were no material or significant changes to the plans and specifications after completion of the appraisal report. The completion report must:
 - Be dated before the Settlement Date unless requirements for incomplete improvements have been met
 - Not be used for GreenCHOICE or CHOICERenovation mortgages
 - Not be used for manufactured homes, including CHOICEHome® Mortgages
 - Be retained in the mortgage file

The following photographs indicating completion must be included with Forms 442 and 400 if not already part of the original appraisal report:

- A front view of the subject property
- A rear view of the subject property
- A street scene identifying the location of the subject property and showing neighboring improvements
- The kitchen of the subject property
- All bathrooms of the subject property
- The main living area of the subject property
- For a manufactured home, the HUD Data Plate, HUD Certification Label(s) and CHOICEHome® notice, if applicable



Permanent Financing Documentation

Documentation Types for Permanent Financing (Guide Section 4602.3)	<p>Convert the interim construction financing to permanent financing with one of the following structures:</p> <ul style="list-style-type: none">• Integrated Documentation<ul style="list-style-type: none">○ Single set of loan instruments with the terms of the interim construction financing provided in an addendum or otherwise incorporated into the note for the permanent financing○ No change to the note or security instrument at conversion of interim construction financing except to reduce the principal balance○ Single closing at time of interim construction financing to execute the mortgage loan instruments○ No modification agreement is executed• Separate Documentation<ul style="list-style-type: none">○ Separate sets of loan instruments (note and security instrument) for interim construction financing and permanent financing○ Two closings: first, to execute the interim construction financing; and second, to execute the permanent financing loan instruments○ No modification agreement is executed• Modification Documentation<ul style="list-style-type: none">○ One security instrument for both interim construction financing and permanent financing, a note for the interim construction financing, and a construction conversion modification agreement (which may include a new note for permanent financing if different from the interim construction financing, the note used for the interim construction financing was a non-Uniform Instrument or the note used was for a different mortgage product)○ Construction Conversion Modification Agreement used at time of conversion of interim construction financing to permanent financing.○ Two closings: first, at the time of the interim construction financing to execute the mortgage loan instruments; and second, at the time of permanent financing to execute the Construction Conversion Modification Agreement and, if necessary, a new note. <p>Note: Refer to Guide Section 4602.3(C) for Construction Conversion Modification Agreements to be used under special circumstances.</p>
Required Uniform Instruments (Guide Section 4602.3)	The permanent financing must be closed on the most current version of the applicable Uniform Instruments as permitted in the Guide. Refer to Guide Exhibit 4A, <i>Single-Family Uniform Instruments</i> , for the current dates of revisions of all Uniform Instruments; and Guide Exhibit 5A, <i>Authorized Changes to Notes, Riders, Security Instruments, and the Uniform Residential Loan Application</i> , for authorized changes to the Uniform Instruments.



General Delivery Information

Seller-Owned Modified/ Seller-Owned Converted Mortgages (Guide Section 4602.11)	<p>Seller-owned modified and Seller-owned converted mortgages may not be used to convert or modify the interim construction financing to permanent financing.</p> <ul style="list-style-type: none">• The mortgage is a Seller-owned modified/Seller-owned converted mortgage if after the effective date of permanent financing, the terms of the permanent financing have been modified, or an adjustable-rate mortgage (ARM) converted to a fixed-rate mortgage• Seller-owned modified mortgages must meet the requirements of Chapter 4402
Delivery Requirements (Guide Section 6302.28)	<p>For delivery requirements, refer to Guide Section 6302.28. If a Seller-owned converted mortgage or Seller-owned modified mortgage, also refer to Guide Sections 6302.19 and 6302.27, respectively.</p> <p>For a Renovation Mortgage the related ULDD valid value is <i>Construction to Permanent</i>.</p>

Revision History

Guide Bulletin June 7, 2023	Update to Form 400 to provide greater clarity as to who is required to sign the form and attesting to the property's completion.
Guide Bulletin 2023-9	Introducing Form 400 as an option for confirming the completion of proposed properties where the appraisal report was completed "subject to completion per plans and specifications."

This information is not a replacement or substitute for the requirements in the Freddie Mac *Single-Family Seller/Service Guide* and your other Purchase Documents.

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