

# **Chapter 4602: Construction Conversion and Renovation Mortgages**

## **4602.1: Replacement of Interim Construction Financing overview (03/02/16)**

A transaction where Mortgage proceeds are used to replace Interim Construction Financing must meet requirements of this chapter to be eligible for sale to Freddie Mac.

## **4602.2: Eligible and ineligible Construction Conversion and Renovation Mortgages (04/02/25)**

Construction Conversion and Renovation Mortgages that are eligible for purchase must be First Lien Mortgages and may be any Mortgage Product or offering eligible under this Guide unless specifically described as ineligible in this chapter.

The following Mortgages are ineligible for delivery as Construction Conversion or Renovation Mortgages:

- Community Land Trust Mortgages
- Government Mortgages
- Mortgages secured by property subject to income-based resale restrictions

Certain types of refinance Mortgages and certain property types may also be ineligible for delivery as Construction Conversion or Renovation Mortgages. See Sections 4602.5(b) and 4602.7 for additional restrictions on the eligible Mortgage purpose and property types.

## **4602.3: Documentation of Permanent Financing (02/01/23)**

This section contains information related to:

- [Required Uniform Instruments; Uniform Security Instrument](#)
- [Types of documentation of Permanent Financing](#)
- [Construction Conversion Modification Agreements to be used under special circumstances](#)

With a Construction Conversion Mortgage or a Renovation Mortgage, conversion of the Interim Construction Financing to Permanent Financing may be accomplished using one of the following structures:

- Integrated Construction Conversion Documentation
- Separate Construction Conversion Documentation
- Modification Construction Conversion Documentation

**(a) Required Uniform Instruments; Uniform Security Instrument**

The Permanent Financing must be closed on the Uniform Instruments permitted under this Guide to be used with the applicable Mortgage Product being used for the Permanent Financing.

The Seller must use the most current version of the State-specific Fannie Mae/Freddie Mac Single-Family Security Instrument prepared for use in the jurisdiction in which the Mortgaged Premises are located and the most current version of any applicable property type riders. The most current version of the Uniform Instruments is the version in effect as of the date the Security Instrument for the Permanent Financing is executed. See Exhibit 4A, Single-Family Uniform Instruments, for the current dates of revisions of all Uniform Instruments. See Exhibit 5A, Authorized Changes to Notes, Riders, Security Instruments and the Uniform Residential Loan Application, for authorized changes to the Uniform Instruments.

**(b) Types of documentation of Permanent Financing**

The Interim Construction Financing and Permanent Financing of Construction Conversion and Renovation Mortgages must be documented as follows:

Type Mortgage	Documentation Structure	Closings	Required Documentation
Integrated Documentation	<p>Single set of Mortgage loan instruments with construction financing terms incorporated into the Note for the Permanent Financing</p> <p>No change to the Note at conversion of Interim Construction Financing except to reduce the principal balance</p> <p>No modification agreement</p>	Single closing at time of Interim Construction Financing to execute the Mortgage loan instruments	<ul style="list-style-type: none"> <li>• Uniform Security Instrument</li> <li>• Uniform Note applicable to the Permanent Financing Mortgage Product with changes needed for terms of the Interim Construction Financing. Interim Construction Financing terms should be in an addendum to the Note</li> </ul>
Separate Documentation	<p>Two sets of Mortgage loan instruments: one set for the Interim Construction Financing and a second set for the Permanent Financing</p> <p>No modification agreement</p>	Two closings: (i) to execute the Interim Construction Financing loan instruments, and (ii) to execute the Permanent Financing loan instruments	<ul style="list-style-type: none"> <li>• Interim Construction Financing may be documented using non-Uniform Instruments</li> <li>• Uniform Security Instrument for Permanent Financing</li> <li>• Uniform Note applicable to the Mortgage Product for Permanent Financing</li> </ul>

Type Mortgage	Documentation Structure	Closings	Required Documentation
Modification Documentation	<p>(i) One Security Instrument for both Interim Construction and Permanent Financing, (ii) the Note for Interim Construction Financing, and (iii) a 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 was for a different Mortgage Product</p> <p>Construction Conversion Modification Agreement used at time of conversion of Interim Construction Financing to Permanent Financing</p>	Two closings: (i) at the time of the Interim Construction Financing, to execute the Mortgage loan instruments, and (ii) at the time of Permanent Financing, to execute the Construction Conversion Modification Agreement and if necessary, a new Note	<ul style="list-style-type: none"> <li>• Uniform Security Instrument</li> <li>• Uniform Note applicable to Mortgage Product for Interim Construction Financing; non-Uniform Note may be used but must execute new Uniform Note with modification agreement</li> <li>• Construction Conversion Modification Agreement (see subsection (c) below for version of Construction Conversion Modification Agreement to be used)</li> <li>• New Uniform Note applicable to Mortgage Product for Permanent Financing if the Note used for the Interim Construction Financing was a non-Uniform Note or was for a different Mortgage Product</li> <li>• Additional riders to the Security Instrument if needed for the Permanent Financing Mortgage Product (for example, an ARM Rider may be needed)</li> </ul>

**(c) Construction Conversion Modification Agreements to be used under special circumstances**

The following requirements apply in these circumstances when using Modification Documentation:

<b>Interim Construction Financing is on Uniform Note for same Mortgage Product as the Permanent Financing</b>	<p>Borrower must execute Construction Conversion Modification Agreement applicable to the Mortgage Product; new Uniform Note not required.</p> <ul style="list-style-type: none"><li>■ As examples, see Freddie Mac Multistate Construction Conversion Modification Agreement - Fixed-Interest Rate (Modification of Note) (Form 5162), or Freddie Mac Construction Conversion Modification Agreement - Adjustable Interest Rate (Modification of Note) (Form 5163)</li></ul>
<b>Interim Construction Financing is on Uniform Note for different Mortgage Product from that used for Permanent Financing</b>	<p>Borrower must execute Construction Conversion Modification Agreement and new Uniform Note and any necessary Riders appropriate for the Mortgage Product being used for the Permanent Financing</p> <ul style="list-style-type: none"><li>■ As an example, see Freddie Mac Multistate Construction Conversion Modification Agreement (New Note) (Form 5164)</li></ul> <p>As an alternative, if the Interim Construction Financing was on a Uniform Note for a Mortgage Product other than a fixed-rate Mortgage and the Permanent Financing is fixed-rate financing, the Borrower may execute a Construction Conversion Modification Agreement with fixed-rate terms incorporated into the modification.</p> <ul style="list-style-type: none"><li>■ As an example, see Freddie Mac Multistate Construction Conversion Modification Agreement - Fixed Interest Rate (Embedded Fixed-rate Financing Terms for use with modification into a Fixed Interest Rate) (Form 5165)</li></ul>

<b>Interim Construction Financing is not on a Uniform Note</b>	<p>Borrower must execute Construction Conversion Modification Agreement and new Uniform Note and any necessary Riders appropriate for the Mortgage Product being used for the Permanent Financing.</p> <ul style="list-style-type: none"> <li>■ As an example, see Freddie Mac Multistate Construction Conversion Modification Agreement (New Note) (Form 5164)</li> </ul>
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The Seller may use the applicable Freddie Mac Construction Conversion Modification Agreement(s) described in the chart above or develop its own modification agreement using Freddie Mac's examples. However, the Seller's modification agreement must not incorporate the terms of the Note for the Permanent Financing in those situations where Freddie Mac requires that a new Uniform Note be used.

If the Seller uses a different Construction Conversion Modification Agreement than those described above to evidence the terms of the Permanent Mortgage, Seller represents and warrants that the instrument, when completed:

- Contains substantially identical provisions to the comparable Freddie Mac Construction Conversion Modification Agreement form, and
- Is appropriate for use to evidence the conversion of Interim Construction Financing to Permanent Financing

## 4602.4: Mortgage term for Construction Conversion and Renovation Mortgages (06/04/25)

For Construction Conversion Mortgages and Renovation Mortgages, 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 Section 5703.8(a).

## 4602.5: Mortgage purpose for Construction Conversion and Renovation Mortgages (07/06/22)

This section contains information related to:

- [Mortgage purpose](#)
- [Requirements for refinance transactions](#)

### (a) Mortgage purpose

Construction Conversion Mortgages and Renovation Mortgages may be for purchase transactions, “no cash-out” or cash-out refinance transactions as shown in the chart below. A Construction Conversion Mortgage or a Renovation Mortgage may not be used for the purpose of making a single disbursement of funds to a builder or contractor or for the assumption of an existing Mortgage.

<b>If, prior to the closing of the Interim Construction Financing, the Borrower is . . .</b>	<b>Then the transaction is a . . .</b>	<b>And proceeds from the Interim Construction Financing may be used to . . .</b>
Not the owner of record of the land, or  If the home is on a leasehold estate, not the lessee of the leasehold estate	Purchase transaction	<ul style="list-style-type: none"><li>■ Purchase the land or acquire a leasehold interest in the land</li><li>■ For Renovation Mortgages, purchase the site-built home</li><li>■ Pay construction or renovation costs of the site-built home</li><li>■ 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</li></ul>

If, prior to the closing of the Interim Construction Financing, the Borrower is . . .	Then the transaction is a . . .	And proceeds from the Interim Construction Financing may be used to . . .
<p>The owner of record of the land, or</p> <p>If the home is on a leasehold estate, the lessee of the leasehold estate</p>	<p>Refinance transaction</p>	<ul style="list-style-type: none"> <li>■ Pay off any existing liens on the land and on the improvements, if the Mortgage is a Renovation Mortgage</li> <li>■ Pay off any existing liens on the land, if the Mortgage is a Construction Conversion Mortgage</li> <li>■ Pay all Closing Costs</li> <li>■ Pay construction or renovation costs of the site-built home</li> <li>■ 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</li> </ul>

**(b) Requirements for refinance transactions**

**(i) “No cash-out” refinance transactions**

“No cash-out” refinance transactions must meet the requirements in Section 4301.4, except as stated below.

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. 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.

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.



**(ii) Cash-out refinance transactions**

Cash-out refinance transactions must meet the requirements in Section 4301.5. Cash-out refinance Mortgages that are Construction Conversion Mortgages and Renovation Mortgages may not be secured by Manufactured Homes.

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.

## **4602.6: Eligible Borrowers for Construction Conversion and Renovation Mortgages (03/02/16)**

The Borrower on a Construction Conversion Mortgage or a Renovation Mortgage must satisfy the following requirements:

- 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:
  - ❑ 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 Borrowers on the Permanent Financing are owner-occupants of the Mortgaged Premises and considered in the underwriting of the Permanent Financing
- The builder/developer must not be obligated to repay the Interim Construction Financing or any Mortgage on the land or the improvements except when the builder/developer is the Borrower on the Permanent Financing and will occupy the Mortgaged Premises as his or her Primary Residence

## **4602.7: Eligible property for Construction Conversion and Renovation Mortgages (07/06/22)**

Construction Conversion Mortgages and Renovation Mortgages must be secured by Mortgaged Premises that satisfy the following requirements.

- The Mortgaged Premises must be:

<b>Construction Conversion Mortgage</b>	<p>A newly built or constructed 1- to 4-unit site-built home, or</p> <p>A newly purchased Manufactured Home that has never been attached to a foundation.</p>
<b>Renovation Mortgage</b>	An existing 1- to 4-unit site-built home

- Prior to the start of construction or renovation work, the Borrower must own the land in fee simple or have a leasehold estate meeting the requirements of Chapter 5704. The Borrower may have acquired the land through a purchase, inheritance, gift or divorce settlement.

### **Completion status as of sale of the Mortgage to Freddie Mac**

All improvements must be fully completed before the sale of the Mortgage to Freddie Mac except for Mortgages secured by site-built homes meeting the requirements in Section 5601.3 and for which completion escrows are established in accordance with the requirements of Section 5601.3.

For a Manufactured Home, the installation must be fully complete, including permanent utility connections and construction of any site-built improvements such as garages, decks, or porches, before the Mortgage can be sold to Freddie Mac as evidenced by a satisfactory completion report.

For both site-built homes and Manufactured Homes, Sellers must provide evidence that the property is complete. See the requirements in Section 5605.8.

## **4602.7: Eligible property for Construction Conversion and Renovation Mortgages (Future effective date 01/26/26)**

**Refer to Bulletin 2025-7, which announced the policy requirements for Uniform Appraisal Dataset (UAD) 3.6. Sellers may submit to the Uniform Collateral Data Portal® appraisal reports that use UAD 3.6 before the mandatory effective November 2, 2026 version of this section.**

Construction Conversion Mortgages and Renovation Mortgages must be secured by Mortgaged Premises that satisfy the following requirements.

- The Mortgaged Premises must be:

<b>Construction Conversion Mortgage</b>	<p>A newly built or constructed 1- to 4-unit site-built home, or</p> <p>A newly purchased Manufactured Home that has never been attached to a foundation.</p>
<b>Renovation Mortgage</b>	An existing 1- to 4-unit site-built home

- Prior to the start of construction or renovation work, the Borrower must own the land in fee simple or have a leasehold estate meeting the requirements of Chapter 5704. The Borrower may have acquired the land through a purchase, inheritance, gift or divorce settlement.

### **Completion status as of sale of the Mortgage to Freddie Mac**

All improvements must be fully completed before the sale of the Mortgage to Freddie Mac except for Mortgages secured by site-built homes meeting the requirements in Section 5601.3 and for which completion escrows are established in accordance with the requirements of Section 5601.3.

For a Manufactured Home, the installation must be fully complete, including permanent utility connections and construction of any site-built improvements such as garages, decks, or porches, before the Mortgage can be sold to Freddie Mac as evidenced by a satisfactory completion report.

For both site-built homes and Manufactured Homes, Sellers must provide evidence that the property is complete. See the requirements in Section 5605.8.

## **4602.7: Eligible property for Construction Conversion and Renovation Mortgages (Future effective date 11/02/26)**

Construction Conversion Mortgages and Renovation Mortgages must be secured by Mortgaged Premises that satisfy the following requirements.

- The Mortgaged Premises must be:

<b>Construction Conversion Mortgage</b>	<p>A newly built or constructed 1- to 4-unit site-built home, or</p> <p>A newly purchased Manufactured Home that has never been attached to a foundation.</p>
<b>Renovation Mortgage</b>	An existing 1- to 4-unit site-built home

- Prior to the start of construction or renovation work, the Borrower must own the land in fee simple or have a leasehold estate meeting the requirements of Chapter 5704. The Borrower may have acquired the land through a purchase, inheritance, gift or divorce settlement.

### **Completion status as of sale of the Mortgage to Freddie Mac**

All improvements must be fully completed before the sale of the Mortgage to Freddie Mac except for Mortgages secured by site-built homes meeting the requirements in Section 5601.3 and for which completion escrows are established in accordance with the requirements of Section 5601.3.

For a Manufactured Home, the installation must be fully complete, including permanent utility connections and construction of any site-built improvements such as garages, decks, or porches, before the Mortgage can be sold to Freddie Mac as evidenced by a satisfactory completion report.

For both site-built homes and Manufactured Homes, Sellers must provide evidence that the property is complete. See the requirements in Section 5605.9.

## **4602.8: Underwriting the Permanent Financing (07/06/17)**

This section contains requirements related to:

- [Original and subsequent underwriting](#)
- [Resubmission of Loan Product Advisor® Mortgages](#)

### **(a) Original and subsequent underwriting**

The Seller is required to underwrite the Mortgage for the Permanent Financing that will be sold to Freddie Mac prior to the Effective Date of the Permanent Financing. For Construction Conversion Mortgages and Renovation Mortgages, underwriting may occur prior to or after closing of the Interim Construction Financing.

Changes in the terms of the financing or in the Mortgage Product are permitted prior to the Effective Date of the Permanent Financing. A change in Borrowers is permitted provided that requirements of Section 4602.6 are met. If there are changes in the terms of the Permanent Financing or if the property value has declined after the Mortgage has been underwritten, then:

If a Non-Loan Product Advisor Mortgage, it must be re underwritten, or

If a Loan Product Advisor Mortgage, it may require resubmission of the Mortgage to Loan Product Advisor as described in Section 4602.8(b).

### **(b) Resubmission of Loan Product Advisor Mortgages**

Loan Product Advisor Mortgages must meet the requirements in Chapter 5101 including the resubmission requirements in Section 5101.6 except that resubmission of a Mortgage to Loan Product Advisor is not required if there is:

- A change from the previous submission if the change involves one of the exceptions in Section 5101.6
- A decrease in the loan amount, provided the Permanent Financing complies with the following conditions:
  - ❑ When there is an increase in the Down Payment, all funds used to reduce the loan amount must meet the requirements of 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. For example, if the property value is \$120,000 and the loan amount is \$114,000 (which equals a 95% loan-to-value (LTV) ratio), the loan amount may decrease to \$109,200 (91% LTV ratio). However, if the loan amount decreases to \$108,000 (90% LTV ratio) the loan must be resubmitted.
- A change from an ARM to a fixed-rate Mortgage, provided the Permanent Financing complies with the following conditions:
  - ❑ 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 that the amount of verified reserves is no less than the reserves required to be verified on the Feedback Certificate

## **4602.9: Appraisal requirements for Construction Conversion and Renovation Mortgages (03/31/22)**

The Seller must obtain an appraisal with an interior and exterior inspection that meets Freddie Mac requirements.

The Seller represents and warrants that the originating lender provided the appraiser with all the appraisal information required in Topic 5600, including plans and specifications.

The appraiser's opinion of value must provide the "as completed" value.

The effective date of the appraisal must be prior to the Effective Date of Permanent Financing and the appraisal must meet the requirements of Topic 5600, including Section 5604.3.

## **4602.10: Calculation of value for Construction Conversion and Renovation Mortgages (09/01/21)**

Value used to determine the loan-to-value (LTV), total LTV (TLTV) and Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratios must be established as follows:

<b>Purchase Transaction</b>		
<b>Property Type</b>	<b>Value</b>	
	<b>Construction Conversion Mortgages</b>	<b>Renovation Mortgages</b>
<b>1- to 4-unit site-built home</b>	Value is the lesser of: <ul style="list-style-type: none"> <li>• The purchase price of the Mortgaged Premises (the purchase price of the land* and total construction costs), or</li> <li>• Appraised value of the Mortgaged Premises, as completed.</li> </ul>	Value is the lesser of: <ul style="list-style-type: none"> <li>• The purchase price of the Mortgaged Premises prior to the renovation plus the renovation costs (costs of demolition and reconstruction), or</li> <li>• Appraised value of the Mortgaged Premises, as completed.</li> </ul>
<b>1-unit Manufactured Home</b>	Value is the lesser of: <ul style="list-style-type: none"> <li>• 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</li> <li>• Appraised value of the Mortgaged Premises, as completed.</li> </ul>	Not eligible

\* 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.

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.

<b>“No Cash-out” Refinance Transactions</b>		
<b>Property Type</b>	<b>(c) Value</b>	
	<b>Construction Conversion Mortgages</b>	<b>Renovation Mortgages</b>
1- to 4-unit site-built home	Appraised value of the Mortgaged Premises, as completed	
1-unit Manufactured Home	Appraised value of the Mortgaged Premises, as completed	Not eligible

<b>Cash-out Refinance Transactions</b>		
<b>Construction Conversion and Renovation Mortgages</b>		
<b>Property Type</b>	<b>Value</b>	
1- to 4-unit site-built home	Appraised value of the Mortgaged Premises, as completed	
1-unit Manufactured Home	Not eligible	

## **4602.11: Seller-Owned Modified and Seller-Owned Converted Mortgages (07/29/18)**

The Seller-Owned Modified and Seller-Owned Converted Mortgage offering described in Chapter 4402 may not be used to convert or modify the Interim Construction Financing to Permanent Financing.

After the Effective Date of Permanent Financing, if the terms of the Permanent Financing have been modified or if an ARM converted to a fixed-rate Mortgage, the resulting Mortgage is a Seller-Owned Modified or Seller-Owned Converted Mortgage that must meet the requirements of Chapter 4402 and other provisions related to these Mortgages, including requirements excluding the Home Possible® Mortgages, HomeOne® Mortgages and Mortgages secured by



Manufactured Homes from eligibility as Seller-Owned Modified or Seller-Owned Converted Mortgages.

## **4602.12: Mortgage file documentation for Construction Conversion and Renovation Mortgages (07/07/21)**

The Mortgage file for each Construction Conversion or Renovation Mortgage must contain:

- Documentation that supports classification of the Mortgage as a Construction Conversion or a Renovation Mortgage
- Sufficient documentation (for example: purchase contracts, plans and specifications, receipts, invoices, lien waivers etc.) on which to validate the actual cost to construct or renovate the home
- A document that clearly shows the Seller's 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 homebuyer and property seller at closing of the Interim Construction Financing
- The Settlement/Closing Disclosure Statement for the closing of the Permanent Financing

In addition, the Mortgage file must contain the following documentation, when applicable:

- 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

## **4602.13: Residential loan application and uniform underwriting and transmittal summary forms for Construction Conversion and Renovation Mortgages (03/01/21)**

Effective for Mortgages with Application Received Dates on or after March 1, 2021, Section 4602.13 is deleted.

## **4602.14: Delivery requirements for Construction Conversion and Renovation Mortgages (03/02/16)**

See Section 6302.28 for delivery and pooling requirements for Construction Conversion and Renovation Mortgages.

## **4602.15: Credit Fees for Construction Conversion and Renovation Mortgages (05/04/22)**

The Seller must refer to Exhibit 19, Credit Fees, for Credit Fees related to Construction Conversion and Renovation Mortgages. Credit Fees are paid in accordance with the Credit Fee provisions stated in Chapter 6303.