



Renovation Lending

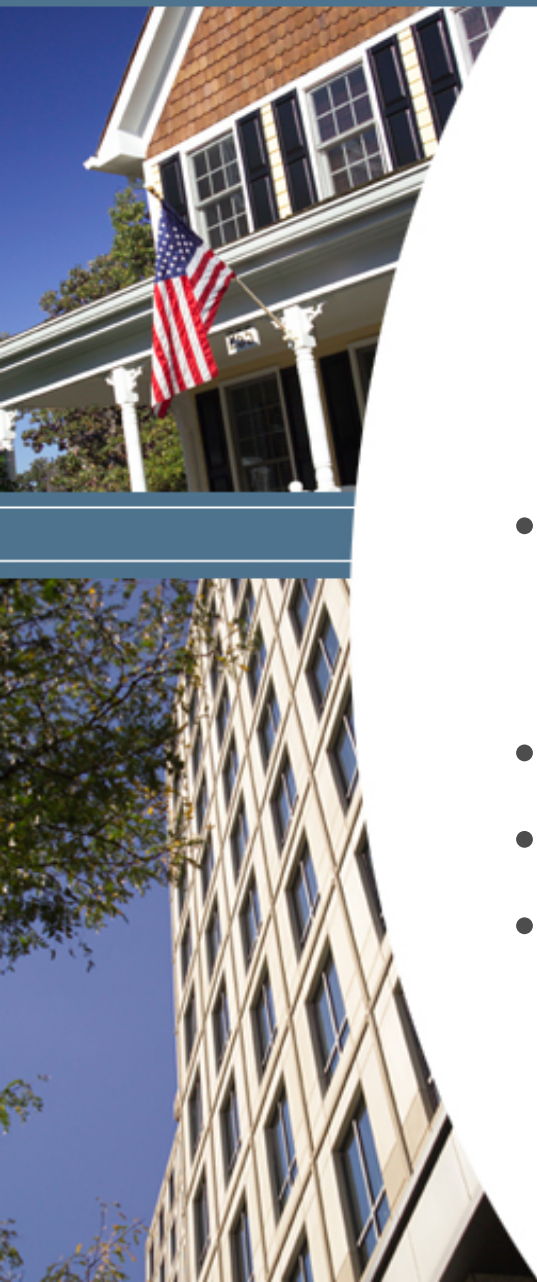
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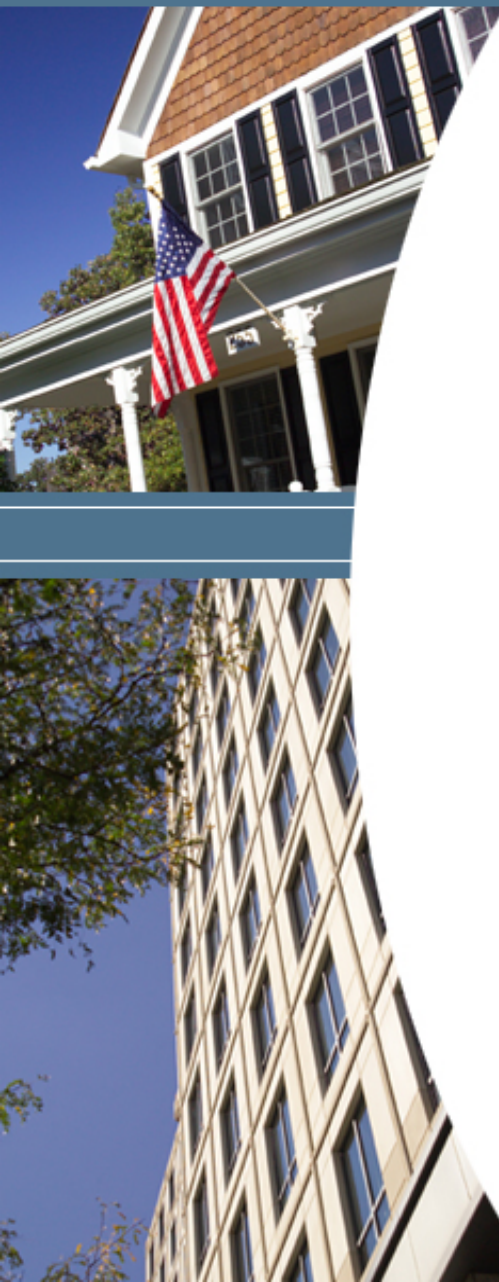
Renovation Lending

- Overview of renovation products
- Identifying the right borrower
- Identifying the right property
- Evaluating the project
 - » Consultant
 - » Streamline vs. Regular 203k
- Closing and forms
- Draw administration

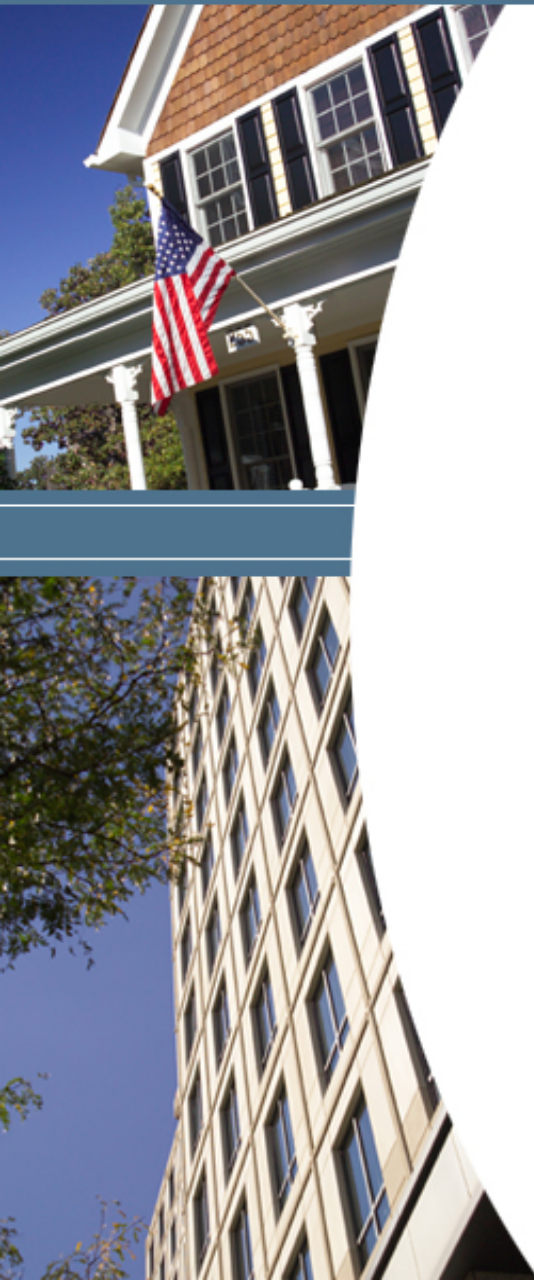


Renovation lending programs use an acquisition cost and 'as completed value' to determine the maximum loan amount. The cost of the renovation/repair/rehabilitation as well as other costs can be included in the acquisition cost.

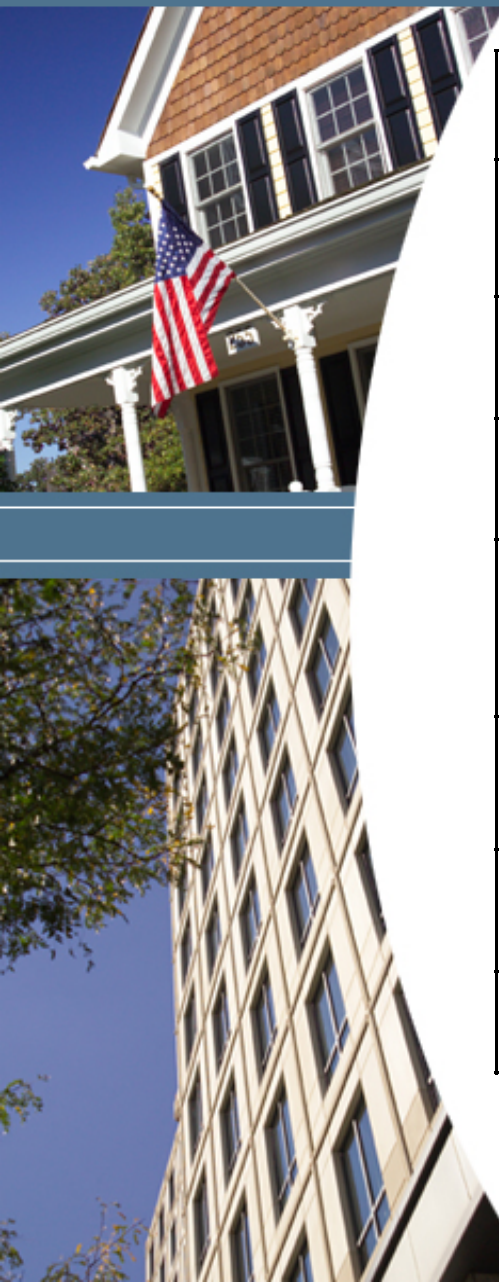
- FHA 203k
 - » Regular
 - » Streamline K (baby k)
- Fannie Mae HomeStyle®
- Freddie Mac
- Portfolio



	REGULAR 203(K)
Maximum loan amount	Can include repair and renovation costs in calculating the maximum allowable loan amount. LTV's up to standard 203(b) requirements
Transaction types	Purchase and no cash out refinances
Minimum amount of repairs	\$5,000
Maximum amount of repairs	None
Type of repairs allowed	Very few limitations. Almost all home improvements can be financed.
Rehabilitation consultant	Required
Contingency reserve	10% required

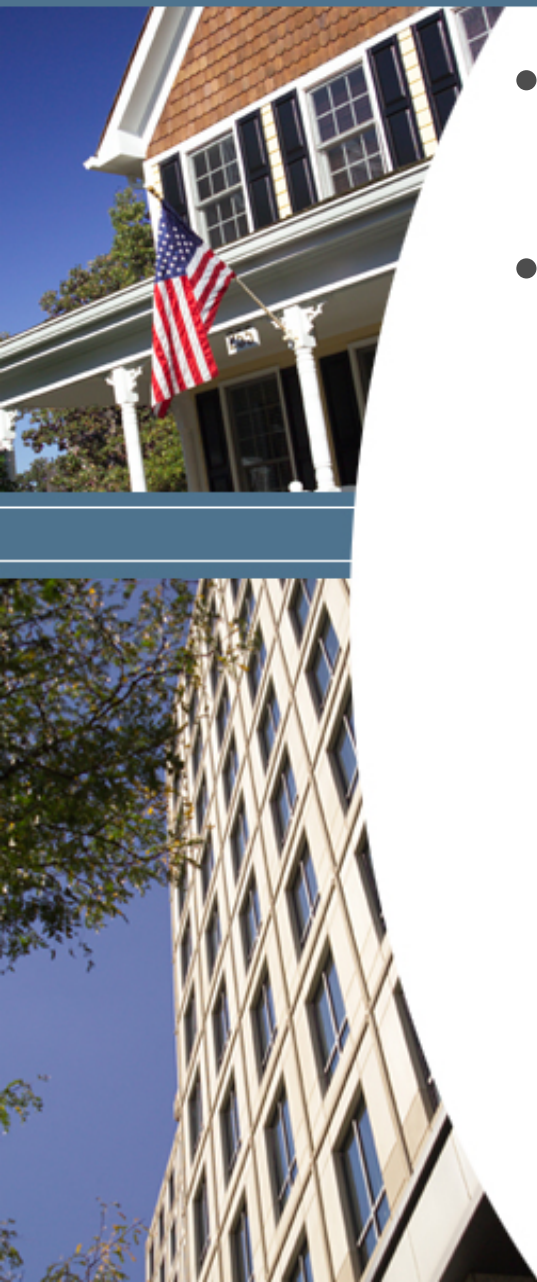


	STREAMLINE 203(K)
Maximum loan amount	Same
Transaction types	same
Minimum amount of repairs	None
Maximum amount of repairs	\$35,000
Type of repairs allowed	Must be 'non-permit', minor items that can be completed in six months or less and will not require plans and specifications to complete.
Rehabilitation consultant	Not Required
Contingency reserve	Not required in all cases



	Fannie Mae HomeStyle®
Maximum loan amount	\$417,000
Transaction types	Purchase and NO cash out refinance only
Minimum amount of repairs	None*
Maximum amount of repairs	Renovation work can not exceed 50% of the 'as completed' value
Type of repairs allowed	No restrictions
Rehabilitation consultant	Not Required
Contingency reserve	Not required in all cases

** A traditional repair escrow will be more beneficial for exterior and/or smaller repairs*

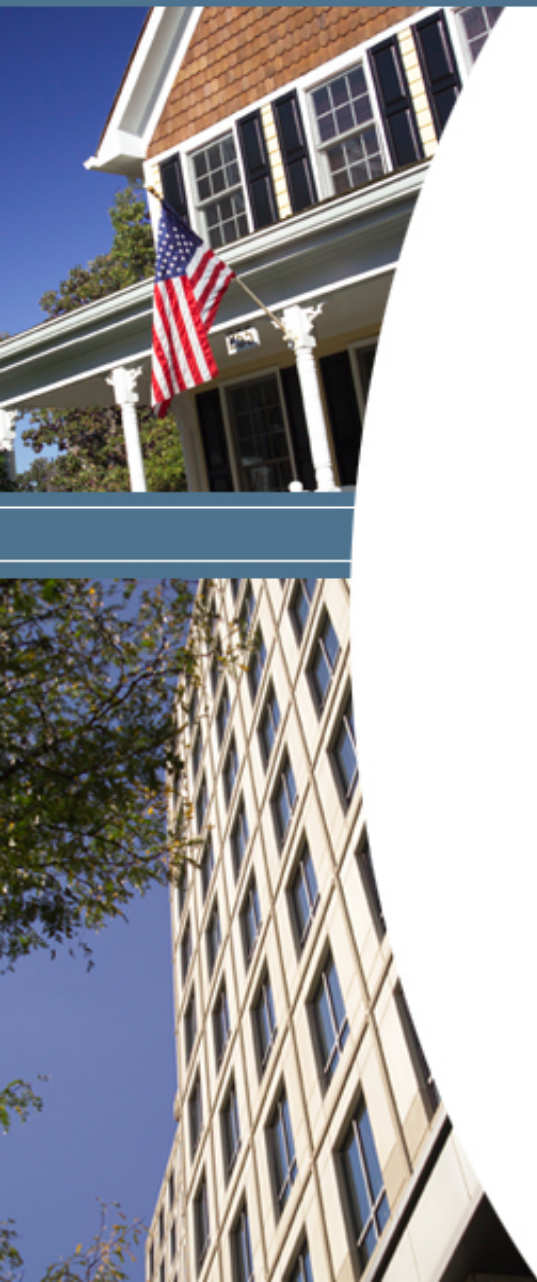


- Freddie Mac
 - » Similar to Fannie Mae – LCO permitted
- Portfolio
 - » Flexibility to establish own guides for renovation phase

- The borrower needs money up front!

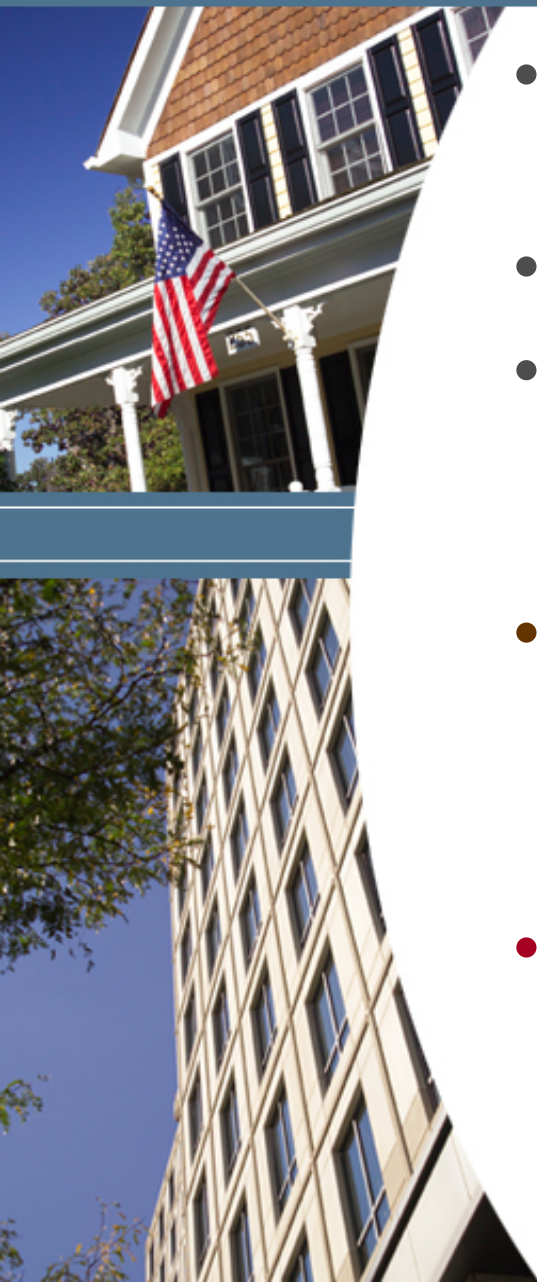
Many lenders set a minimum credit score and minimum reserve requirements that apply regardless of the automated underwriting findings.

- Additional risks to consider:
 - » Will the borrower incur expense because they can not occupy the property during renovation?
 - » Will your PMI company insure the loan during the renovation phase?

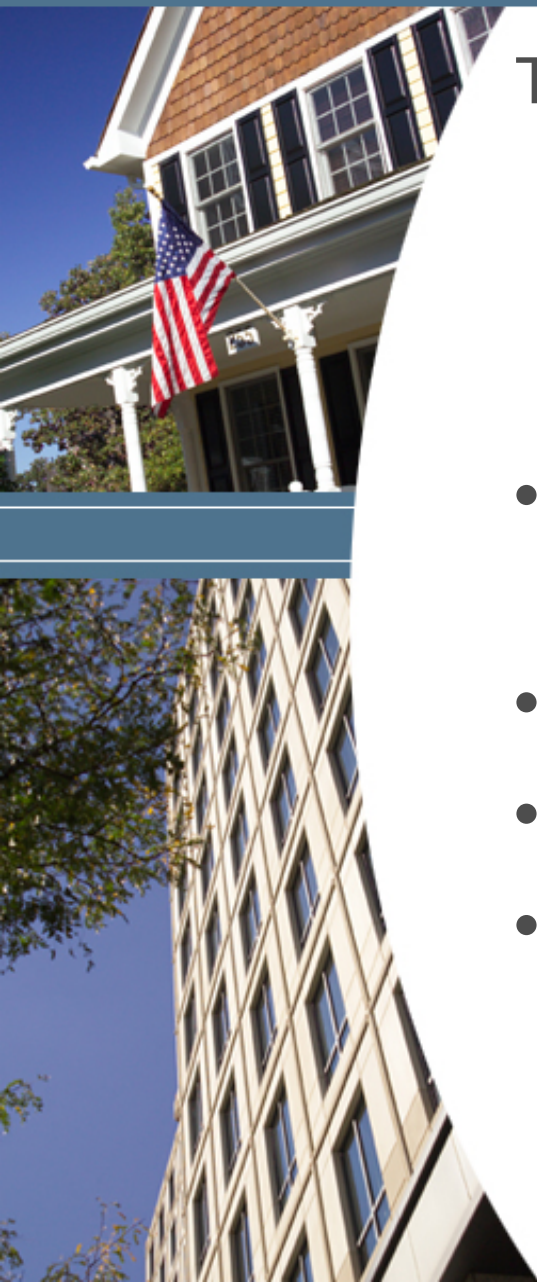


The type of renovation project should be weighed with the overall risk of the loan. Automated underwriting will not be able to consider:

- Whether the costs have been calculated correctly
- whether the scope of the project has the potential for cost overruns or delays
- whether the contractor is capable of completing the project in budget and on time

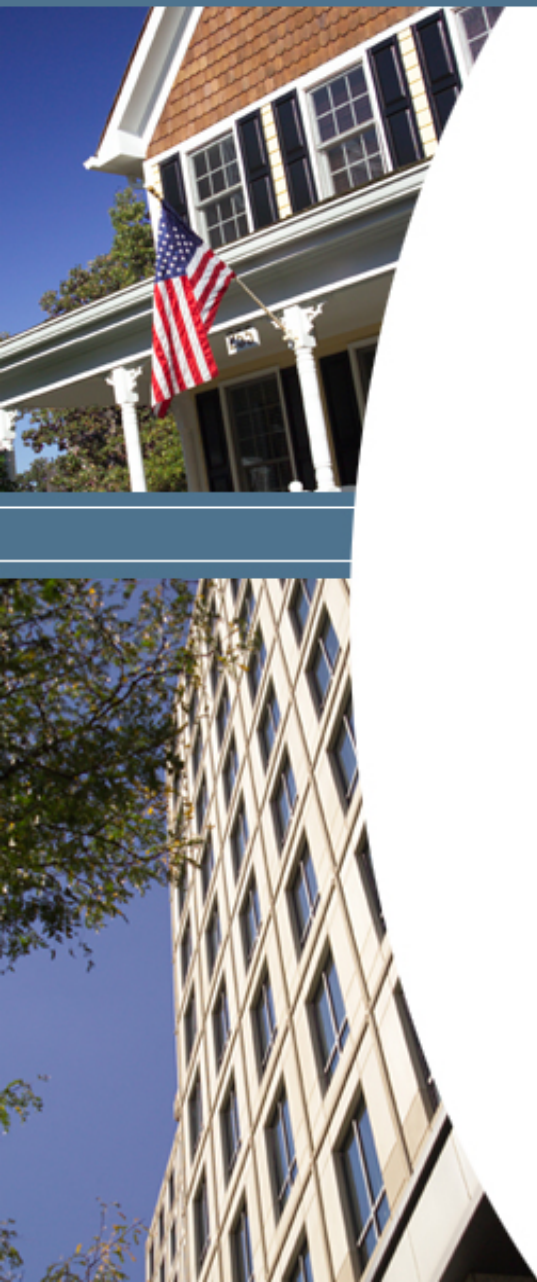


- Appraiser MUST have experience with renovations!
- Borrower as contractor (!?@\$%)
- Estimates for “non-permit work” and streamline K
 - » Consult experts – don’t assume!
- **The role of the consultant**
 - » Preliminary review
 - » Feasibility study
 - » Work write up
- **The lender is ultimately responsible!**

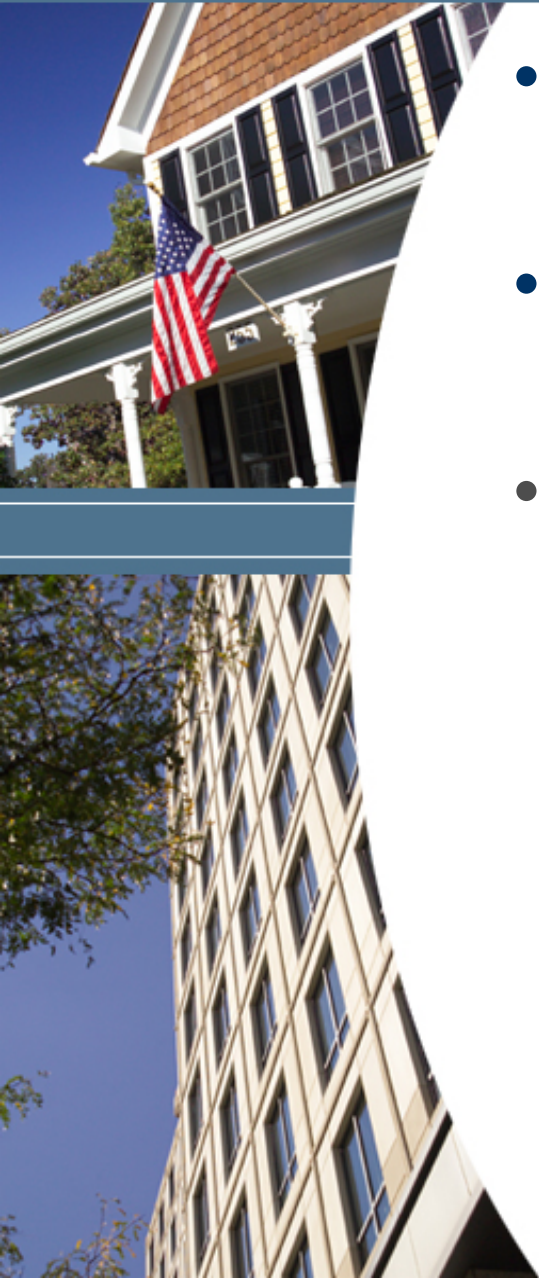


The **work write-up** package provided by the consultant to the borrower should include (but is not limited to) the following items:

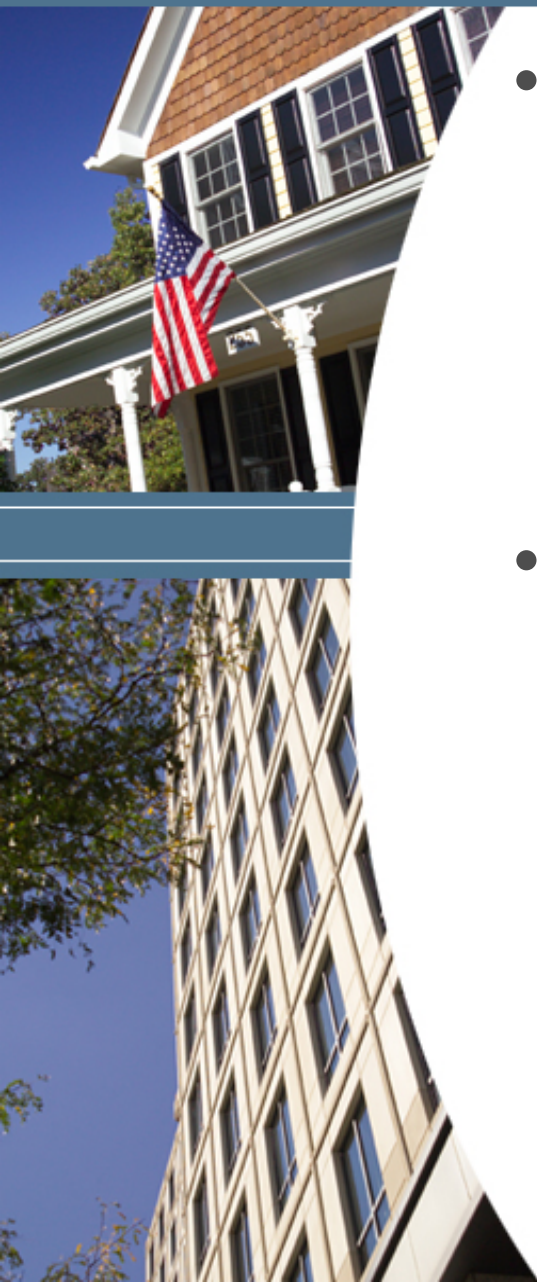
- *Clearly defined project specifications (the work write up)*
- *Construction estimate/cost analysis*
- *Consultant agreement*
- *Preparation of contractor bid package*



- Unlike a construction to permanent loan, the loan amount is technically **fully disbursed** at a one time closing, with the renovation funds set up in a renovation escrow account.
- Underwriting conditions should be cleared **PTC** and must clearly state what disbursements are authorized at closing
- Underwriters must be familiar with **construction lien laws** for the subject property state and municipality.



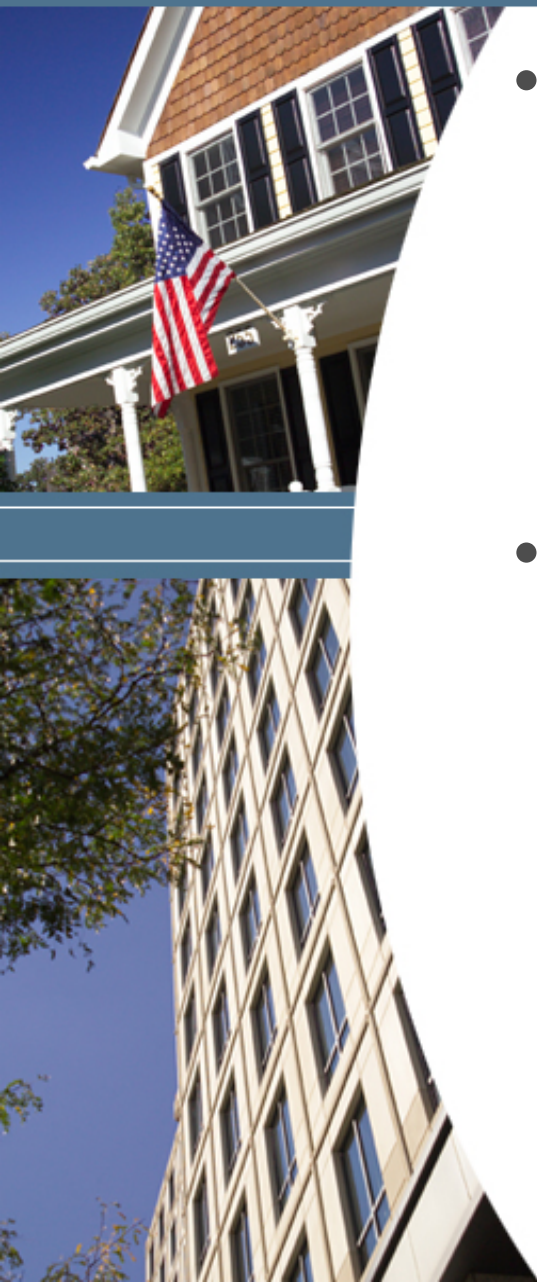
- **Survey:** Required if the footprint will change
- **Hazard Insurance:** Should cover the as completed value
- Evidence of **Builder's Risk** or general liability insurance with mortgagee clause

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- Key Forms:
 - » Fannie Mae 'Consumer Tips'
 - » Construction/Rehab Loan Agreement
 - Terms and conditions for repayment to the lender
 - » Homeowner/contractor agreement
 - Terms and conditions related to project
 - Product Specific:
 - » Note Addendum/Rider
 - » HomeStyle Maximum Loan Amount Worksheet
 - » 203k Maximum Mortgage Worksheet
 - » 203k Borrower's Acknowledgment
 - » 203k Draw Request



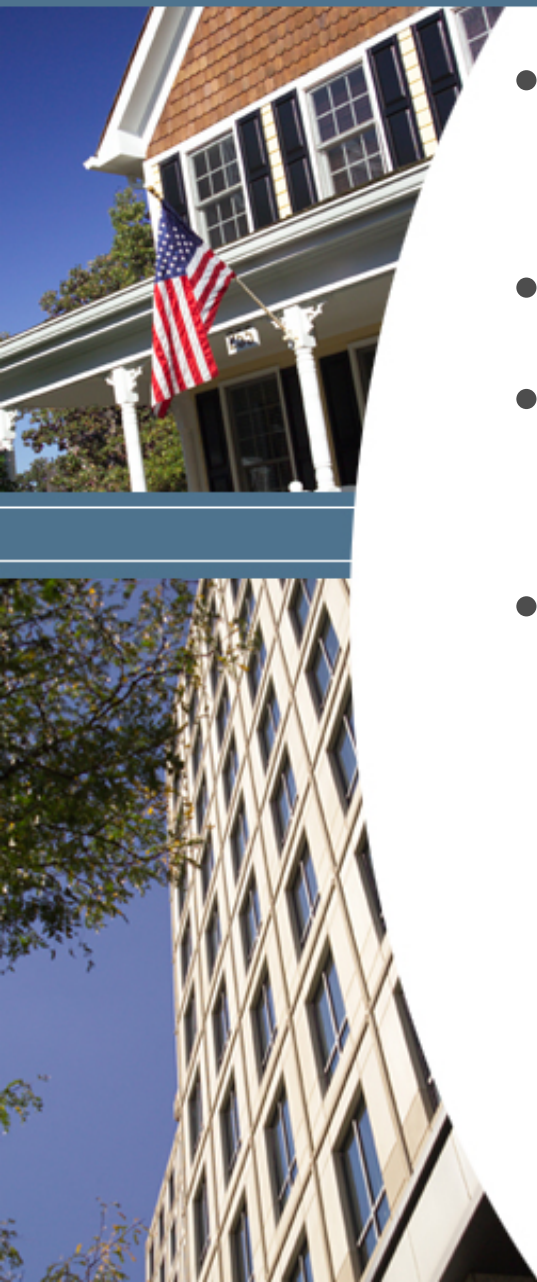
It's a reimbursement process!

- Organize a draw management file (*What does that have to do with underwriting?*)
- Work **MUST** begin within 30 days of closing!
- Draw requests:
 - » Compare draw request to draw schedule/work write up
 - » All permits attached?
 - » Sworn statement/lien waivers
 - » Photos?
 - » Updated title?
 - » Hazard insurance valid?

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- Contingency reserve funds and/or 10% holdback
 - » Must have a contingency reserve as required
 - » 10% holdback on each draw
 - Change orders must be reviewed by underwriting to determine if there is an impact to AUS findings and/or verification of funds.

- **Final Draw Sample Checklist:**

- » Draw Check Instruction Form
- » Draw Request Form with sworn statement and waivers
- » Title update
- » Invoice for title update fees if they have been escrowed and payment is due
- » Final Release Approval signed and dated by manager and borrower
- » Inspection (photo required for Fannie Mae)
- » Occupancy permit
- » Hazard insurance verification up to full 'as completed' value or loan amount
- » Final survey, if applicable



- Renovation lending is a great niche that opens doors for new clients!
- Understand the unique risks in underwriting
- Monitor consultants and appraisers to maintain quality
- Have well defined procedures before starting!



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