

## RE106R19 Renovation Lending for Real Estate

This Renovation lending course discusses the different types of renovation loans available. These loan programs provide funds for the purchase, remodel and/or repair of a home, based on the eligibility of the client and the home.

### 1. Renovation loan -

A buyer may purchase or an existing homeowner may refinance a home and include additional money for repairs or renovations (25 minutes)

- A. Financing for both the purchase price of the house and the cost for repairs/upgrades
- B. Renovations may be required or optional
- C. The renovation and the loan amount are based on the “after-completed value” of the property
- D. A licensed contractor must complete the work
- E. A Renovation loan can be used to:
  - a. Purchase or refinance a property
  - b. Renovate or “update” a property - from minor cosmetic repairs/upgrades to complete tear-down/rebuild
  - c. Fix required repairs, which typically do not allow a home to comply with other loan products
  - d. Make optional improvements such as a room addition or landscaping
- A. Types of properties that qualify for Renovation loans
  - a. Single family
  - b. 2-4 unit multi-family
  - c. Mixed use (commercial and residential building)
  - d. Condominiums
  - e. Investment and second homes (single family and condo only)
- B. Advantages of Renovation loans
  - a. Solution for properties that need work - “handy person” specials, short sales, REO
  - b. Loans close prior to repairs being conducted
  - c. There is only one closing - money is disbursed on a draw basis after closing
  - d. The loan amount can be based on up to 110% of the “after-completed value”
  - e. Up to 6 months is permitted to complete renovations
  - f. The buyer may include optional renovations
  - g. Up to 6 months of mortgage payments can be financed

### 2. Loan programs (40 minutes)

#### A. FHA - 203(k) Renovation loans

- a. Limited
  - i. Work must begin within 30 days of loan closing
  - ii. All work must be completed within 4 months
  - iii. Two draws (50% disbursed at closing and 50% upon completion of work)
  - iv. Limit of up to \$35,000 total renovation costs (bids not to exceed \$30,000)
  - v. No minimum amount of repairs

- vi. No structural repairs
  - vii. If the file has a HUD Consultant, the HUD Consultant will complete the final inspection; if the file does not have a HUD Consultant, the appraiser will complete the final inspection
  - viii. Borrower should not pay for anything out of pocket
- a. Standard
    - i. Work must begin within 30 days of loan closing
    - ii. All work must be completed within 6 months
    - iii. No money will be disbursed at closing
    - iv. There is a 5-draw limit, which is determined prior to closing
    - v. General Contractor required
    - vi. HUD Consultant required - completes the draw inspections and final inspections
    - vii. Contractors General Liability Insurance must be valid through project completion
    - viii. Borrower should not pay for anything out of pocket
    - ix. No maximum renovation amount (minimum of \$5,000 in repairs)
    - x. Structural repairs/additions permitted
    - xi. Monthly mortgage payments can be financed if the property uninhabitable (up to six months)
- C. Fannie Mae - Homestyle
- b. Work must begin within 30 days of loan closing
  - c. All work must be completed within 6 months
  - d. No money will be disbursed at closing
  - e. There is a 5-draw limit, which is determined prior to closing
  - f. The HUD Consultant will complete the draw inspections and final inspections  
(If there is no HUD Consultant the appraiser will complete the inspections)
  - g. Contractors General Liability Insurance must be valid through project completion
  - h. Borrower should not pay for anything out of pocket
  - i. "Luxury items"
  - j. Loans without PMI
  - k. Investor Renovation Financing
  - l. 2nd Home Renovation Financing
  - m. Avoid many FHA property restrictions
- A. Contingency reserve
- a. "Safety net" for loans in the event that final renovation costs exceed the original budget
  - b. 10% of all utilities (electric, gas, oil, water, septic) are confirmed to be operational before closing
  - c. 15% of any utilities cannot be turned on and tested before closing
  - d. Can be increased to 20% at the discretion of the underwriter
  - e. Once complete, any left over, unused contingency funds are returned to the principle loan balance

3. HUD Consultant - for projects requiring a higher level of supervision throughout the project - from estimates through completion (10 minutes)
  - A. Required for:
    - a. Renovation costs > \$35,000
    - b. Properties requiring structural repairs
  - A. Responsibilities:
    - a. Meet with borrower at property to discuss repairs
    - b. Work together with contractor
    - c. Work together with lender
    - d. Complete the "Work Write Up"
    - e. Perform draw inspections after closing
  - B. Draw process - funds released based on Consultant's line item breakdown
    - a. 10% holdback on each draw
    - b. Holdback release after final inspection and title update
    - c. Consultant and draw center must approve change orders in advance of work
  
4. Items that a Renovation loan may be used for (10 minutes)
  - A. Structural alterations and reconstruction
  - B. Changes for improved functions and modernization
  - C. Elimination of health and safety hazards
  - D. Changes for aesthetic appeal and elimination of obsolescence
  - E. Reconditioning or replacement of plumbing
  - F. Installation of well and/or septic system
  - G. Major landscape work and site improvement
  - H. Roofing, gutters and downspouts
  - I. Flooring, tiling and carpeting
  - J. Energy conservation improvements
  - K. Improvements for accessibility to a disabled person
  
5. Process of obtaining a Renovation loan (25 minutes)
  - A. Pre-approval - qualification based on income and credit
  - B. Buyer selection of property
  - C. Contract acceptance - "renovation financing" language included in the contract
  - D. Initial underwrite
  - E. Inspections
  - F. Work write up or contractor bid
  - G. Appraisal performed - value based on ACV (after-completed value)
  - H. Final underwrite
  - I. Loan closes (45-60 day closing)
  - J. Account is created and funds are disbursed
  - K. Post Closing
    - i. All work begins after closing
    - ii. Draw disbursement (draw schedule determined by scope of work)

6. Licensee considerations (10 minutes)
  - A. 45-day closings (60 days preferable)
  - B. Assist buyer in obtaining contractor bids
  - C. Help prepare Contractor Package
    - a. License
    - b. Liability insurance
    - c. Workman's Compensation
    - d. Homeowner Contractor Agreement (HOCA)
    - e. Detailed bid