

Renovation Lending

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What is a Renovation Loan?

With a renovation loan a homebuyer finances both the purchase price of the house and the cost for repairs. The loan is based on the after-improved appraised value of the property.

- One application, one approval process, one loan closing and one monthly payment.

How Renovation Loans Work

- ▶ A renovation loan can go up to a 110% (FHA) of the after-improved appraised value
- ▶ All work is completed after closing by a buyer-selected contractor
- ▶ Renovation funds held and disbursed by the lender
- ▶ One loan, with your full payment beginning roughly within 45 of closing. For example if you close in June, your first full payment is August 1st
- ▶ Seller does not make repairs

Required or Optional Repairs

Renovations can be required repairs to bring the property up to minimum property standards. Or they can be optional repairs to “modernize” a property or bring the home up to date.

- Replace roof
- Upgrade electrical
- Plumbing repairs
- Repair termite damage
- Interior or exterior paint
- Mold remediation
- Room addition
- Kitchen update
- Bathroom remodel
- Paint
- Landscaping
- New carpet
- Finish basement

Renovation Loan Features

- ▶ Low down payment options; FHA is 3.5% and Conventional is 5%
- ▶ Credit qualifying; FHA or Conventional credit
- ▶ Finance up to 6 months of payments on large projects
- ▶ FHA county or Fannie Mae loan limits apply
 - Fannie Mae = \$453,100.00
 - FHA = \$294,515.00* – Higher for multi unit

Properties Allowed

- ▶ Single Family
- ▶ Condos (interior repairs only)
- ▶ 2-4 Units
- ▶ Foreclosure
- ▶ Short Sale
- ▶ Second Homes/Vacation Homes and Investment Properties (HomeStyle only)

Real Estate Purchase Contract

- ▶ As-is, no repairs made = No issues
- ▶ FHA or Conventional Renovation must be on the contract
- ▶ Home Inspection or Feasibility Study
- ▶ 45-60 days to close

Draw Phase Basics

- ▶ After closing the repairs begin, they must start within 30 days of the closing date and be completed within 6 months
- ▶ As construction is completed, an inspection of that completed work is done, and then a check is requested
- ▶ Draw requests are processed within 1 to 2 weeks
- ▶ The check is Processed payable to the borrower and contractor, and sent via UPS second day to the borrower's address
- ▶ A 10% holdback is retained until all the repairs are completed
- ▶ Depending on program version

Example of a Loan Amount Calculation:

Example: FHA 3.5% Down

Sales Price	\$200,000
Renovation	<u>\$30,000</u>

Base Loan Amount	\$230,000
Down Payment	\$8050

Loan amount	\$221,950
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Plus up front MI

Renovation Programs

Renovation Loans

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graph TD; A[Renovation Loans] --> B[203(K) Full]; A --> C[203(K) Limited]; A --> D[Fannie Mae Homestyle];
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203(K) Full

203(K)
Limited

Fannie Mae
Homestyle

What is a Full 203(K) Loan?

A Full 203(K) renovation loan allows for major or more complicated work to be done. For example, repairs that are structural like building an addition or foundation problems. Or maybe the repairs are extensive and cost over \$50,000.

With a full 203k, you have a HUD “consultant” on the project with you as your advisor.

What is a Limited 203(K) Loan?

A Limited(formerly Streamline) 203(K) renovation loan is intended for minor repairs requiring little expertise to manage. There is no HUD Consultant involved with a Limited 203(K) loan because this version is designed for a “limited” project where the repairs can be made easily and quickly.

A HUD Consultant can be used for a fee to perform a “feasibility study” to determine what MUST be repaired.

An example of this might be carpet, paint, light fixtures and appliances. Or maybe roof repairs and you are updating to central heat and air conditioning.

HomeStyle Renovation

- ▶ Conventional loan product
 - Conventional down payment
 - Conventional credit qualifying
 - Conventional seller contributions
- ▶ Renovations are limited to 50% of the as-completed value
- ▶ Allows for owner-occupied , 2nd home and investors
- ▶ As little as 5% down payment
- ▶ Conventional Mortgage Insurance if LTV is > 80%
- ▶ Consultant required

We are the Experts

I have almost 25 years Lending experience, with the past 14 years focused on Renovation Lending. Having been an owner/ operator of a mortgage company I am extremely well versed in all aspects of the loan process specifically the renovation process. I am here to assist you from pre-approval to final draw. Please feel free to look more at my experience:

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We fully understand the Renovation Loan process, and work to make it successful with every loan.

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