
**FHA Standard 203(k)
FHA Limited 203(k)
Homestyle Renovation
VA Renovation**



Overview

Section 203(k) insurance enables homebuyers and homeowners to finance both the purchase (or refinancing) of a house and the cost of its rehabilitation through a single mortgage or to finance the rehabilitation of their existing home.

A Standard 203(k) allows for major rehabilitation or improvements, including structural repairs. There is a minimum of \$5,000 of FHA mandatory repairs and the use of a 203(k) Consultant is required.

Purchase:

- Homes in need of major improvement
- Much needed updates
- Structural deficiencies
- Additions and expansions

Refinance:

- Make improvements
- Improve. Don't Move
- Additions and Expansions
- Necessary or optional/structural repairs

If unexpectedly, the appraisal is subject to major and/or structural repairs, the loan can be converted to a Standard 203(k)



Eligible Properties

- Primary Residence
- 1-4 unit
- Manufactured Homes – single/double/triple wide
- FHA approved condos
- Site condos
- PUDs
- HUD REO
- Mixed-use

Manufactured Homes:

Where the rehabilitation does not affect the structural components of the structure that were designed and constructed in conformance with the FMHCSS and must comply with all other requirements for manufactured housing.



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Eligible Improvements:

- Making structural alterations such as the repair or replacement of structural damage, additions to the structure, and finished attics and/or basements
- Rehabilitating, improving or constructing a garage – attached or detached but it must have its own permanent foundation
- Repairing or replacing plumbing, heating, AC and electrical systems
- Making changes for improved functions and modernization
- Making energy conservation improvements
- Creating accessibility for persons with disabilities
- Installing or repairing fences, walkways and driveways
- Installing new appliances
- Making site improvements
- Landscaping
- Installing or repairing exterior decks, patios and porches



Ineligible Improvements:

- Swimming pools
- An exterior hot tub, spa, whirlpool, bath houses or saunas
- Tree surgery, except when eliminating an endangerment to existing improvements
- The purchase of an existing structure on another site, moving it onto a new foundation and repairing/renovating it



Time Period for Construction:

- The work must begin within 30 days of the execution of the Agreement
- The work must not cease prior to completion for more than 30 consecutive days
- The work is to be completed within the time period shown on the Agreement (not to exceed six months)



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Role of the 203(k) Consultant:

- Prepare a Feasibility Study
- Inspect the property
- Identify all the required architectural exhibits, if applicable (well, septic, etc)
- Inspect the work for completion and quality of workmanship at each draw request
- Review the proposed changes to the Work Write Up and prepare a change order, if applicable
- Ensure that the Property will comply with HUD's MPR after the improvements have been completed
- Prepare an unbiased Work Write-Up and Cost Estimate (without the use of the contractor's estimate)
- Their fee depends on the cost of the repairs



Contractors:

- There can be no identity of conflict between the Borrower and the Contractor
- All transactions must be arm's length
- Family members are not eligible, nor can the borrower be employed by or be an owner in the contractor's business
- Only one General Contractor is allowed – others to be subcontractors
- Only one bid is required
- It must show all the other subcontractor's bids



The Appraisal:

- The appraisal is ordered as a 203(k) appraisal
- The bid and the consultant's specifications of repairs is given to the appraiser
- The appraisal is done "subject to" completion per the contractor bid and will give an "after improved value"
- When an 'as is' appraisal is needed a second appraisal is ordered as an "as is" report
- The same appraiser can do both reports and the borrower may be charged for the 'as is' appraisal when it is not required for property flipping guidelines



Bid Requirements:

- Contractor's Name
- Business Name
- License number
- Contact info
- Date Bid was completed
- Borrower's name
- Subject Property address
- Repair Items with Labor and Material costs separated
- Signed by borrower and contractor



FHA LIMITED 203(k) LOAN



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Overview:

- Enables borrowers to either purchase or refinance their home while including minor remodeling or non-structural repairs
- Total rehab cost must not exceed \$35,000
- There is no minimum rehab cost
- It does not require a HUD Consultant



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Eligible Properties:

- 1-4 units
- Manufactured Homes – single/double/triple wide
- FHA approved condos
- Site condos
- PUDs
- HUD REO

Manufactured Homes:

Where the rehabilitation does not affect the structural components of the Structure that were designed and constructed in conformance with the FMHCSS and must comply with all other requirements for manufactured housing.



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Ineligible Properties:

- Demolished homes
- Razed homes
- Mixed-use properties
- Investment properties
- A property with an existing 203(k) mortgage



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Eligible Improvements:

- Repairing or replacing plumbing, heating, AC and electrical systems
- Making changes for improved functions and modernization
- Making energy conservation improvements
- Eliminating obsolescence
- Repairing or installing new roofing, provided the structural integrity will not be impacted
- Creating accessibility for persons with disabilities
- Installing or repairing fences, walkways and driveways
- Installing new appliances
- Making site improvements
- Landscaping
- Installing or repairing exterior decks, patios and porches



Ineligible Improvements:

- Repairs that will take longer than three months
- Rehab activities that require more than two payments per specialized contractor
- Repair prevents the borrower from occupying the property for more than 15 days
- Structural modifications
- Mold remediation



Time Period for Construction:

- The work must begin within 30 days of the execution of the Agreement
- The work must not cease prior to completion for more than 30 consecutive days
- The work is to be completed within the time period shown on the Agreement (not to exceed three months)



Contractors:

- There can be no identity of conflict between the Borrower and the Contractor
- All transactions must be arm's length
- Family members are not eligible, nor can the borrower be employed by or be an owner in the contractor's business
- Only one General Contractor is allowed – others to be subcontractors
- Only one bid is required
- It must show all the other subcontractor's bids
- Responsible for distributing all funds to the subcontractors
- Must carry sufficient insurance equal to or greater of \$100,000 or the loan amount



Bid Requirements:

- Contractor's Name
- Business Name
- License number
- Contact info
- Date Bid was completed
- Borrower's name
- Subject Property address
- Repair Items with Labor and Material costs separated
- Signed by borrower and contractor



The Appraisal:

- The appraisal is ordered as a 203(k) appraisal
- The bid is given to the appraiser
- The appraisal is done “After Improved Value” and make the appraisal “subject to” the following repairs
- Any additional repairs must be noted and addressed and completed prior to close



Sales Contract:

- The contract must include a provision that the borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements



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FANNIE MAE HOMESTYLE RENOVATION LOAN



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Overview

The Fannie Mae HomeStyle® program, enables borrowers to either purchase or refinance their home while including renovation costs in the same loan.

This program offers the borrower the ability to finance the cost of a renovation project ranging from a simple remodel through structural improvements and upgrades including luxury items.



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Why?

Purchases:

- Homes in need of major or minor renovation or are outdated and not desirable
- Perfect for HUD REOs, foreclosures, and short sales
- Improvements to outdated homes, kitchens, bathrooms, etc.
- Structural deficiencies
- Additions and expansions
- Addition of decks, pools, and improved landscaping



Refinances:

- Make improvements
- Improve instead of move
- Necessary or optional minor updates/repairs
- Major/structural repairs or renovations

Both Purchases and Refinances:

Save loans where the appraisal uncovers unexpected property damage



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Terms:

- 1-unit principal residence, Purchase of Limited Cash out Refinance - 97% LTV
- 2-unit principal residence, Purchase of Limited Cash out Refinance - 85% LTV
- 1-unit second home as a Purchase or Limited Cash out Refinance – 85% LTV
- 1-unit investment property as a Purchase – 85% LTV
- 1-unit investment property as a Limited Cash out Refinance – 75% LTV

Reminder: The original principal amount of the mortgage + renovation costs + MI if applicable, may not exceed Fannie Mae's maximum allowable mortgage amount for a conventional first mortgage. (See Eligibility Matrix)
AFR utilizes the MMW to determine the mortgage amount.



Eligible Properties:

- 1–2 unit primary residences
- 1-unit second homes
- 1-unit investment properties
- FNMA approved condos
- PUDs
- Manufactured Homes
- REOS, Short Sales, Foreclosures



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Ineligible Properties:

- Mixed-use
- Co-ops or Non-warrantable condos
- Mobile Homes
- 3-4 unit primary residences and 2-4 unit non-owner-occupied residences are not permitted



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Eligible Improvements:

- Structural alterations and additions
- Upgrade or modernization of central air/heat, plumbing, and electrical systems
- Minor repairs to existing septic systems
- Repair termite or moisture damage
- Remodeling of kitchen and baths
- Energy conservation improvements
- New permanently affixed appliances
- Addition or replacement of exterior decks, patios, and porches
- Major landscaping and permanent hardscape such as driveways, walkways, retaining walls and fences



Ineligible Properties:

- Improvements that are not permanently attached to the property
- Improvements for business or commercial purposes
- Items that will not increase the value of the subject property
- Energy Efficiency repairs which would require additional inspections per Fannie Mae



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Maximum Cost for Renovations:

- Purchase: 75% of the lesser of the sum of the purchase price of the property plus renovation costs, or the “as-completed” appraised value of the property
- Refinance: 75% of the “as-completed” appraised value of the property
- Manufactured Homes: The lesser of \$50,000 or 50% of the “as-completed” appraised value



Role of the HUD Consultant:

- Provides the “Specification of Repairs” Report which determines the scope of the work, number of draws required, total estimated costs
- Assists in determining both the required and desired repairs
- Responsible for interim and final inspection reports in order to approve disbursements to the General Contractor
- Adds extra layer of protection for both the lender and the borrower by evaluating the merit of the offer submitted by the GC



Contractors:

- There can be no identity of conflict between the Borrower and the Contractor
- All transactions must be arm's length
- Family members are not eligible, nor can the borrower be employed by or be an owner in the contractor's business
- Only one General Contractor is allowed – others to be subcontractors
- Only one bid is required
- It must show all the other subcontractor's bids
- Responsible for distributing all funds to the subcontractors
- Must carry sufficient insurance equal to or greater of \$100,000 or the loan amount



The Appraisal:

- The scope of the appraisal is the future value
- The bid is given to the appraiser
- The appraisal is done “subject to” the completion of repairs/improvements and will give an “as completed” value



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	Standard:	Limited
Structural Changes	Yes	No
Min/Max Repair Amount	No Minimum/75% of Total As-Completed Value	No Minimum/\$35k escrow
Landscaping/Hardscaping	Yes	Yes
HUD Consultant	Yes	No
Mortgage Payments Financed	Up to 6 Months	No
Draws	5 Max	2 (Initial and Final)
Initial Disbursement	10% of Estimate	Half of Estimate
Max Completion Time	180 days (6 months)	90 Days (3 months)



VA RENOVATION LOAN



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Overview

- The VA Renovation Program is a single-close loan that enables borrowers to purchase a home that needs repairs or refinance their existing home and include the necessary funds for renovation in the loan balance.
- There are no required improvements or a minimum dollar amount for the repairs. Repairs or improvements, however, must be permanently affixed to the real property.
- Renovations greater than \$50,000 require the use of an AFR approved 203(k) HUD Consultant.
- Repairs exceeding \$200,000 require a second level project review.



Program Specifications:

- 10-, 15-, 20-, 25-, 30-Year fully amortized fixed
- Purchase
- Cash out Refinance
- 580-659: A minimum of 2 qualifying credit scores are required for all qualifying borrowers. Use the middle score if 3 credit scores or the lower of the two if 2 credit scores.
- 660+: A minimum of 1 qualifying credit score is required for all required borrowers.
- Lowest representative score from all borrowers will be used for qualification purposes.
- Follow AUS Recommendation for DTI purposes:
 - Approve/Eligible –DU
 - Refer/Eligible –DU
 - Accept/Accept–LP
 - Refer/Accept–LP



Eligible Improvements:

The VA Renovation Program can only be used for minor repairs and structural modifications.

- Eliminating health and safety hazards
- Connecting to public water and sewerage systems
- Repairing/replacing plumbing, heating, AC and electrical systems
- Making changes for improved functions and modernization
- Eliminating obsolescence
- Making energy conservation improvements
- Creating accessibility for persons with disabilities
- Installing or repairing fences, walkways and driveways
- Installing new appliances
- Installing, replacing or repairing exterior decks, patios and porches
- Siding, gutters and downspouts



Eligible Structural Alterations:

- Removing of an interior load bearing wall
- Repairing some structural components of the roof
- Attached additions
- Repair/installation of private water systems
- Minor repairs to Septic systems



Ineligible Improvements:

- Mold remediation
- Any repair that will take more than 9 months to complete
- The repair prevents the Borrower from occupying the Property for more than 15 days during the renovation period
- Any repair that is done as self help



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Time Period:

- The work must begin within 30-days of the execution of the Agreement
- The work must not cease prior to the completion for more than 30 consecutive days
- The work is to be completed within the time period shown on the Agreement (not to exceed 9 months from closing)



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The Appraisal:

- The appraiser must provide an “After Improved Value” and make the appraisal subject to the repairs or alterations
- The appraiser must also provide the “As Is” value of the property in the addendum or comments section of the report
- Value must be up to 100% of the “as is” value plus renovation costs



Required Documentation:

Sales Contract:

The Mortgagee must obtain a copy of the sales contract and ensure that the sales contract includes a provision that the Borrower has applied for VA financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by the Mortgagee.



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Eligible Properties:

- 1-unit primary residence
- 2-unit primary residence
- Manufactured Homes



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Ineligible Properties:

- 3-4 Unit Properties
- Demolished Homes
- Razed Homes
- Structures relocated to/from another location
- Mixed-Use Properties
- Co-Ops
- Condos
- Investment Properties
- Mobile Homes

Important: Homes that have never been completed cannot be accepted into the VA Renovation program; construction must be complete. Evidence of completion would be a Certificate of Occupancy or other similar documentation from the local jurisdiction.



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