



AMERICAN FINANCIAL RESOURCES PRESENTS: RENOVATION LOANS

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BENEFITS OF RENOVATION LOANS

- Increase Market Opportunity
 - Help members truly get into the home of their dreams
- Boost relationships with real estate agents
- Multiple options available through Fannie and FHA

- Conventional
 - FNMA Homestyle Renovation-Standard and Limited
- Government
 - FHA 203(k)- Standard and Limited

TYPES OF RENOVATION LOANS

Purchases: Homes in need of major rehabilitation or are outdated and not desirable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- Improvements to outdated homes, kitchens, bathrooms, etc.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 major/structural repairs

Both Purchases and Refinances: Save loans where the appraisal uncovers unexpected property damage

RENOVATION LOANS EXPLAINED

Homestyle

FANNIE MAE HOMESTYLE[®] LOAN PROGRAM

HOMESTYLE MAX LTV

The same Fannie Mae credit and underwriting standards apply to the HomeStyle[®] program as the ordinary Fannie Mae program. For both Purchases and Refinances the ratios are as determined by AUS (Must receive DU Approve/Eligible).

- 95% LTV on a one-unit principal residence as a Purchase or Limited Cash Out Refinance
- 85% LTV on a two-unit principal residence as a Purchase or Limited Cash Out Refinance
- 90% LTV on a one-unit second home as a Purchase or Limited Cash Out Refinance
- 85% LTV on a one-unit investment property as a Purchase
- 75% LTV on a one-unit investment property as a Limited Cash Out Refinance
- Only 15 or 30 year amortization allowed
- **Cash back to the borrower is NOT allowed**

ELIGIBLE PROPERTY TYPES

HOMESTYLE

- 1-2 Unit Owner Occupied Properties
- 1 Unit Second Homes
- 1 Unit Investment Properties
- Warrantable Condo's
- PUD's
- REO's, Short Sales, Foreclosures are OKAY!



INELIGIBLE PROPERTY TYPES

HOMESTYLE

- Mixed-use properties
- Co-ops or non-warrantable condos
- Manufactured Homes
- Mobile homes
- 3-4 Unit Properties



IMPROVEMENTS ALLOWED

HOMESTYLE

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

IMPROVEMENTS NOT ALLOWED

HOMESTYLE

- 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

OVERLAYS

HOMESTYLE

620 Minimum FICO score required

No razing of homes. No demolition of a home down to its foundation

No physically relocating a home from one location to another

No “Self-Help”. The borrower/owner **may not** be involved whatsoever in any aspect of the construction his or herself- must use General Contractor

Adjustable Rate Mortgages are not allowed

All applicable AFR Standard Fannie Mae Program overlays apply

Certified HUD Consultants or Granite Inc. Inspections will be required for ‘Standard’ HomeStyle®

APPRAISALS

HOMESTYLE

- The GC Estimate is forwarded to the appraisal company upon the order (for both purchases/refinances)
- Appraiser does the appraisal “subject to” the completion repairs/improvements and will give an “after improved value” based upon the list of repairs
- The scope of the appraisal is the future value!

TOTAL REHAB COST ESCROWED

HOMESTYLE

Total rehabilitation cost escrowed may include all of the following:

- Estimated cost of Repairs/Improvements
- Contingency Reserve (10%-20% @ Consultant's recommendation)
- Draw Inspection Fees (Consultant's recommendation number & cost per)
- Up to 6 months mortgage payments (if home uninhabitable during rehab)
- Title update for each draw (\$60 held per draw)
- Consultant, Architectural, and Engineering fees (if applicable)
- Permits (if applicable)
- **Maximum cost of repairs is limited to 50% of the subject property's 'after improvements' value**

SUBMISSION/POST CLOSING PROCESS

HOMESTYLE

Underwriting

- Files registered like all other loans
- Loans approved by underwriter as typical conventional file
- After approval, the file is reviewed by the Renovation Department for a cursory review

Post-closing/Renovation

- Prior to closing the Renovation Department reviews the HUD and renovation plan
- Once the loan funds, the mortgage proceeds will either payoff the existing liens or the seller, and the Escrow Account will be established for construction funds

DIFFERENCE BETWEEN “STANDARD” AND “LIMITED”

HOMESTYLE

“Standard”

- At closing/funding only the Consultant Fee, Permits, Engineering, or Architectural Fees may be disbursed to the appropriate party with an invoice. The borrower can only be reimbursed any costs if proof fees were POC by the borrower
- **No funds are ever given in advance to the General Contractor**
- Draws to the contractor are made as work progresses and phases are completed based upon the Consultant’s write-up and verified through draw inspections by the Consultant
- A maximum of 5 disbursements/draws are allowed
- Construction can commence immediately and should within 30 days of the closing and the homeowner has up to 6 months to complete the work
- Borrowers will make their regular mortgage payments throughout the course of construction unless they are escrowing them due to the home being uninhabitable

“Limited”

- Contractor may receive first draw (up to 50% of repair costs) at closing/funding in order to buy materials and start the renovations
- The renovations should begin within 30 days of closing
- Borrowers will make their regular mortgage payments throughout the course of construction

RECAP

HOMESTYLE

	Standard	Limited
Structural Changes	YES	NO
Min/Max Repair Amount	No Minimum & 50% of total after improvements value	No Minimum & 35k Maximum Escrow
Landscaping/ Hardscaping	YES	YES
HUD Consultant	YES	NO
Mortgage Payments Financed	Up to 6 months	NO
Draws	5 maximum	2 (Initial & Final)
Initial Disbursement	NO	Half of Estimate
Max Completion Time	180 days (6 months)	90 days (3 months)



OVERVIEW OF 203(K)

RENOVATION LOANS EXPLAINED

203(K)

WHY A FHA STANDARD 203(k)?

Purchases: Homes in need of major rehabilitation

- Perfect for HUD REOs, foreclosures, and short sales
- Improvements to outdated homes, kitchens, bathrooms, etc.
- Structural deficiencies
- Additions and expansions

Refinances: Make improvements

- Improve instead of move
- Necessary or optional major/structural repairs

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

OVERLAYS

FHA Standard 203(k) Renovation Mortgages must follow all AFR Overlays outlined in the FHA 203(b) program with the addition of the following:

- The Borrower must sign off on the interim draws as per FHA guidelines; AFR will not accept an assignment
- The contractor bid cannot exceed the consultants write up and it must be within the contingency percentage
- Program cannot be used in conjunction with the FHA \$100 Down Program or the FHA 203(b) Repair Escrow Program
- Razing/demolition of home down to its foundation is not permitted
- Physical relocation of a home from another location is not permitted
- Self-Help is not permitted. The borrower/owner may not be involved whatsoever in any aspect of the construction/rehabilitation

Reminder: At minimum, all FHA guidelines must be met

CREDIT/RATIO GUIDELINES

203(K)

MINIMUM QUALIFYING CREDIT SCORE

- DU Approve Eligible or LP Accept: **600**
- DU or LP Refer Eligible or Manual Downgrade: **620**
- Correspondent Delegated DU Approve Eligible/LP Accept: **580**
- Correspondent Delegated DU Refer Eligible/LP Refer Eligible/Manual Downgrade: **620**

MINIMUM QUALIFYING RATIOS

- DU Approve Eligible or LP Accept: **Follow AUS**
- DU Refer Eligible/LP Refer Eligible/Manual Downgrade: **31/43%**



ELIGIBLE IMPROVEMENTS

203(K) STANDARD

Types of eligible improvements include, but are not limited to:

- Converting a one-family Structure to a two-family Structure
- Decreasing an existing multi-unit Structure to a one- two-family Structure
- 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
- Eliminating health and safety hazards that would violate HUD's Minimum Property Requirements (MPR)
- Installing or repairing wells and/or septic systems
- Connecting to public water and sewage systems
- Repairing/replacing plumbing, heating, AC and electrical systems
- Making changes for improved functions and modernization
- Making changes for aesthetic appeal
- Repairing or adding roofing, gutters and downspouts
- Making energy conservation improvements
- Creating accessibility for persons with disabilities
- Installing or repairing fences, walkways, and driveways
- Installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven, and washer/dryer
- Repairing or removing an in-ground swimming pool
- Installing smoke detectors
- Making site improvements
- Landscaping
- Installing or repairing exterior decks, patios, and porches
- Constructing a windstorm shelter
- Covering lead-based paint stabilization costs, if the Structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule (24 CFR 200.805 and 200.810(c)) and the U.S. Environmental Protection Agency's (EPA) Renovation, Repair, and Painting Rule (40 CFR 745, especially subparts E and Q)

Reminder: The Standard 203(k) requires a minimum of \$5,000 in eligible improvements

- Recreational or luxury improvements, such as:
 - Swimming pools (existing in-ground swimming pools can be repaired)
 - An exterior hot tub, spa, whirlpool bath, bath houses or sauna
 - Barbecue pits, outdoor fireplaces or hearths
 - Tennis courts, gazebos
 - Photo murals
 - Satellite dishes
 - Tree surgery (except when eliminating an endangerment to existing improvements)
 - Additions or alterations to support commercial use or to equip or refurbish space for commercial use
- The purchase of an existing structure on another site, moving it onto a new foundation and repairing/renovating it

INELIGIBLE IMPROVEMENTS

203(k) standard

ELIGIBLE PROPERTY TYPES

203(K)

The Property must be an existing Property that has been completed for at least one year prior to the case number assignment date (Certificate of Occupancy may be required to evidence completion for at least one year). Properties must be Primary residences and can be attached or detached.

ELIGIBLE PROPERTY TYPES

- 1-2 Unit Properties
- Manufactured Housing (Singlewide, Doublewide, and Triplewide)
 - The rehabilitation must 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
- FHA Approved Condominiums and Site Condominium Units
 - The rehabilitation and improvements are limited to the interior of the unit, except for the installation of firewalls in the attic of the unit
- HUD REO Property
 - The property must be identified as eligible for 203(k) financing as evidenced on the sales contract or addendum

Reminder: A refinance on a property with an existing 203(k) Mortgage is not eligible to be refinanced until all repairs are completed and the case has been electronically closed out

INELIGIBLE PROPERTY TYPES

- Demolished Homes
- Razed Homes
- Structures relocated to/from another location
- Mixed-use properties
- Co-ops
- Non-FHA approved condominiums
- Investment properties
- Mobile homes
- 3-4 Unit Properties

Important: Homes that have never been completed cannot be accepted into the 203(k) program; construction of the property must have been completed for at least one year. Evidence of completion would be a Certificate of Occupancy or other similar documentation from the local jurisdiction

Reminder: A Borrower may not own more than 1 additional property at the time of closing

APPRAISAL

203(K)

- The appraisal is ordered as a FHA 203(k) appraisal. The general contractor bid and consultant's specification of repairs is forwarded to the appraisal company upon the order, for both refinances and purchases
- The appraiser does the appraisal report "subject to" completion per the contractor bid and will give an "after improved value". Note: For Standard 203(k) refinances, both an "as is" value – the appraised value before the repairs are completed AND the "after improved value" – the appraised value upon completion of all repairs is required
- The scope of the appraisal is the future value
- Any additional repairs notated by the appraiser must be addressed and completed either prior to close and verified with a certificate of completion or must be included in the 203(k) repairs
- Any modifications and/or changes to the contractor bid or the consultant's specification of repairs must be reviewed and included in the appraisal report

COST OF REPAIRS

- Estimated costs of Construction, Repairs and Rehabilitation
- Contingency Reserve (10%-20% @ Consultant's recommendation)
- Draw Inspection Fees (Consultant's recommendation number & cost per)
- Up to 6 months mortgage payments (if home uninhabitable during rehab)
- 1 Final title update of \$60
- Consultant, Architectural, and Engineering fees (if applicable)
- Permits (if applicable)
- Supplemental Origination Fee (if applicable)

SUBMISSION/POST CLOSING PROCESS

FHA 203(K)

Underwriting

- The loan is reviewed by the AFR Underwriter
- After approval, the file is escalated to the AFR Renovation Department for vetting of the Contractor and Consultant
- Prior to the loan being Cleared to Close the AFR Renovation Department will contact the Consultant, Contractor and Borrower to discuss the project and explain all post closing steps

Post-closing/Renovation

- Once the loan funds, the mortgage proceeds will either payoff the existing liens or the seller, and the Accounting Department will establish an Interest Bearing Escrow Account for the remaining construction/rehabilitation funds
- At closing/funding only the HUD Consultant Fee, Permits, Engineering, or Architectural Fees may be disbursed to the appropriate party with an invoice. The borrower can only be reimbursed any costs if proof fees were POC by the borrower
- No funds are ever given in advance to the General Contractor
- Draws to the Contractor are made as work progresses and phases are completed based upon the Consultant's write-up and verified through draw inspections by the Consultant
- Construction/Rehabilitation must commence within 30 days of closing and completion of all repairs must be within 6 months of the Note date
- Borrowers will make their regular mortgage payments throughout the course of construction/rehabilitation unless they are escrowing them due to home being uninhabitable

MATRIX

203(K)

Structural Changes	Permitted
Minimum/Maximum Repair Amount	\$5,000 Minimum No Maximum (up to loan limit)
Landscaping/Hardscaping	Permitted
203(k) Consultant	Required
Mortgage Payments Financed	Permitted – up to 6 months
Draws	A maximum of 5 disbursements/draws are permitted
Initial Draw to Contractor	Not Permitted
Maximum Completion Time	180 days (6 months)

DRAW REQUESTS

HOMESTYLE

- All correspondence and questions should be directed to AFR's Renovation Department as they are the administrators of the borrower's rehabilitation escrow account
- Consultants are to forward their draw requests directly to Renovation@afrwholesale.com for processing
- All draws checks will be mailed, payable directly to the contractor
- The Consultant confirms all work completed with final inspection
- Upon the receipt of the acceptable final inspection, a final disbursement will be made to the contractor
- All remaining unused funds in escrow will be made as a principal reduction to the mortgage

203(K)

- Same as Homestyle
- All draws checks will be payable to both the Borrower(s) and Contractor



LIMITED 203(K)

DIFFERENCES BETWEEN 203(K) STANDARD AND LIMITED

AT A GLANCE

Standard

Structural Changes	Permitted
Minimum/Maximum Repair Amount	\$5,000 Minimum No Maximum (up to loan limit)
Landscaping/Hardscaping	Permitted
203(k) Consultant	Required
Mortgage Payments Financed	Permitted – up to 6 months
Draws	A maximum of 5 disbursements/draws are permitted
Initial Draw to Contractor	Not Permitted
Maximum Completion Time	180 days (6 months)

Limited

Structural Changes	Not permitted
Minimum/Maximum Repair Amount	No minimum \$35,000 maximum (total renovation cost)
Landscaping/Hardscaping	Not permitted
HUD Consultant	Not required
Mortgage Payments Financed	Not permitted
Draws	2 (initial and final)
Initial Draw to Contractor	Permitted (up to 50% of estimate)
Maximum Completion Time	90 days

RESOURCES AVAILABLE

- Complimentary full rehabilitation trainings at [AFR University](#)
 - Learn how to calculate the Maximum Mortgage Calculation Worksheet
 - Dive deeper into the guidelines
 - Q & A opportunity with our renovation experts
- Certification Tests
 - Test your knowledge and get certified
- [AFR Programs and Guidelines](#)
 - Guidelines and overlays available online
 - Non-branded marketing flyers available online

ABOUT US

AMERICAN FINANCIAL RESOURCES, INC.

American Financial Resources, Inc. (AFR) www.afrwholesale.com, is a national residential mortgage lender dedicated to helping homeowners, home buyers, and mortgage professionals achieve their financing goals by delivering innovative mortgage solutions and an unparalleled customer experience.

Based in Parsippany, NJ and established in 1997, we are a Ginnie Mae, Fannie Mae and Freddie Mac Seller/Servicer, FHA Mortgagee, USDA National Lender and VA Automatic Lender. We provide Wholesale and Correspondent mortgage solutions by offering an extensive product catalog with competitive pricing, unique partnership opportunities, and flexible business relationships.

We strive to exceed the expectations of our lending partners and nurture healthy, profitable relationships, ultimately providing a simplified mortgage process with the highest levels of customer service.

COMPANY HIGHLIGHTS

- **FULL SERVICE MORTGAGE LENDER NATIONWIDE**
- **SERVICING WHOLESALE AND CORRESPONDENT CHANNELS**
- **DIVERSE DELIVERY OPTIONS INCLUDING FHA, VA, USDA, FANNIE MAE AND FREDDIE MAC**
- **RANKED #1 IN 203(k) LENDING FOR SPONSORED ORIGINATIONS***
- **ONE OF THE NATION'S LEADING RENOVATION AND MANUFACTURED HOME LENDERS**
- **DEDICATED SALES AND OPERATIONS SUPPORT**

**Neighborhood Watch, US Department of Housing and Urban Development, January 31, 2016*

CONNECT WITH US

AMERICAN FINANCIAL RESOURCES, INC.

If you are a mortgage professional new to American Financial Resources, Inc. Wholesale and Correspondent Division, we welcome the opportunity to discuss our programs with you. For our current Lending Partners, we want to hear from you. Please contact us directly with your comments, questions, and feedback.



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THANK YOU

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