



Rehab Financing

Renovation Financing

A Guide for
Real Estate
Professionals

Rehab Financing



Introduction:

I've done scores of these loans, ranging from appliances-only to complete tear-downs and rebuilds. Their ability to provide both the purchase money financing as well as the construction funds all in one transaction is unique. The secret sauce that makes these work is that they are based not on the purchase price but the "after-improved" value.

In the wrong hands, these mortgages create a lot of heartache: busted contract dates; frustrated sellers, buyers, and agents; and deals that never close. It's no wonder they aren't the most-loved mortgage available and it's no wonder that few mortgage lenders offer this solution.

The goal of this Guide is not to turn you into renovation mortgage experts but, rather, to provide an overview of the programs, process, and pitfalls so that you may confidently approach clients who are interested in properties that need some TLC.

The Program Options:

Smaller and Simpler: There are 2 program options designed for smaller projects that don't involve structural elements (this is a key concept). I've included a partial list of eligible improvements at the end of this Guide to help identify what may be considered.

My first choice is the Fannie Mae HomeStyle "Streamline" loan program. This offers up to \$15,000 for a wide range of improvements with a minimum of contractor documentation. The maximum loan amount is \$417k.

My second choice is the FHA 203k Streamline program. This offers up to \$35,000 for a wide range of improvements with a minimum of contractor documentation. The maximum loan amount is based on the County limit.

The key factors for me in recommending one over the other will be the amount of money needed for repairs, the amount of down-payment funds available (3.50% minimum for FHA vs 5.00% minimum for Fannie), the credit scores for the buyer, the debt-to-income ratio, and whether there's a relationship between the buyer and the contractor.



The Program Options *(cont.)*:

Larger and More Complex: There are also 2 program options designed for more involved projects that either require a larger investment or involve structural alterations. I've included a partial list of eligible improvements at the end of this Guide to help identify what may be considered.

My first choice is the Fannie Mae HomeStyle loan program. This solution offers up to 95% financing (up to a maximum loan of \$417,000) for virtually every type of renovation project.

My second choice is the FHA 203k Traditional program. This offers up to 96.50% financing (up to the county limit; Hartford is presently \$353,050) for virtually every type of renovation project, including tear-downs.

The documentation process is more rigorous, as you might expect. In addition to needing supporting documentation from the contractor, both programs require a HUD-Consultant to review the project and generate a scope of work report. That report, together with the contractor's quote, goes to the appraiser to determine the after improved-value.

The key factors for me in recommending one over the other will be the amount of money needed for repairs, the percentage of the home's after-improved value that will go towards renovations, the amount of down-payment funds available (3.50% minimum for FHA vs 5.00% minimum for Fannie), the credit scores for the buyer, the debt-to-income ratio, and whether there's a relationship between the buyer and the contractor.

The Process:

The main reasons that renovation loans fail are 1) the buyer or contractor doesn't provide the documentation I need in a timely manner; 2) the value added by the scope of work isn't sufficient to carry the amount of financing needed; 3) the cost of the renovations exceeds what the buyer can afford to invest, or 4) the scope of work neglected to address an item that must be included in order to meet minimum property condition requirements.



The Process *(cont.)*:

The answer to these challenges is for both you, as the Real Estate Professional, and me, as the mortgage originator, to inform and nurture the buyer right from the outset. By setting the right expectations as to what information is needed and when it is needed, we can ensure that our client is fully committed to the process.

During the initial pre-approval process, I establish a borrower's financing capacity and provide them with the tools they need in order to assess how much financing they can take on. That helps ensure that we identify *before* the buyer is under contract projects that are unaffordable for the buyer.

Similarly, I get involved early in the process to review the scope of work and identify whether there may be an *As-Completed* value issue. That's not generally a problem, however, it becomes a factor in projects where there's either very little work being done or it's a major rehab that approaches the financing limits.

The steps, then, should be:

- Identify a property
- Obtain written contractor estimate(s)
- Determine amount of financing required and obtain buyer agreement to proceed
- Negotiate Purchase contract with seller
- Obtain complete contractor bid package
- Mortgage application completed and submitted
- HUD-Consultant report obtained, if needed
- Appraisal completed
- Loan conditions cleared
- Closing
- Renovation funding commences (based on loan type)



Rehab Financing

The Matrix:

The table below highlights the major elements of each of the financing programs.

	203k Streamline	HomeStyle Streamline	203k Full	HomeStyle Full
Occupancy	Owner	Owner, 2nd, Investor	Owner	Owner, 2nd, Investor
Max LTV	96.50%	95%	96.50%	95%
Max Repair Amount	\$35,000	\$15,000	No limit	50% of After-Improved Value
Min Repair Amount	None	None	\$5,000	None
PMI/MIP	Always	>80% LTV	Always	>80% LTV
Borrower-Contractor Relationship	No	Allowed	No	Allowed
Type of Repair Allowed	Non-Structural	Non-Structural	All Types	All Types
Outbuildings	No	No	Yes	No
Pools	No	No	\$1,500 for repairs only	Yes
Building Additions	No	No	Yes	Yes
Mold/Lead/Environmental	Yes	Yes	Yes	Yes
Foundation Work	No	No	Yes	Yes
Tear-Down & Re-build	No	No	Yes	No



Eligible improvements for Streamline Programs:

The FHA Streamline 203(k) and Fannie Mae HomeStyle Streamline programs are designed specifically to make upgrades and improvements to existing square-footage in homes. Almost all rehab projects are allowable with the exception of additions and structural alterations. The following is a partial list of allowable items:

- Remodel Kitchen
- Bathroom remodel
- New roof
- HVAC systems
- Windows & Doors
- Flooring
- Plumbing upgrade
- Insulation
- Siding & Painting
- Exterior decks and walks
- Electrical upgrade
- Well & Septic
- Driveways
- Basement refinishing
- Waterproofing
- Mold abatement
- Handicap access improvements
- New Appliances
- Gutters & downspouts
- Other non-structural repairs

Note: There is a Contingency Fund requirement with both programs. The minimum (U/W discretion) amount is 10% of the budget amount. If the utilities are not on and functioning, the minimum amount is 20%. This lowers the effective amount available to the contractor to:

- 203k Streamline = \$35,000—\$3,500 = \$31,500
- HomeStyle Streamline = \$15,000—\$1,500 = \$13,500



Eligible improvements for Full Rehab Programs:

The FHA Traditional 203(k) and Fannie Mae HomeStyle programs are designed specifically to provide construction funds to perform major renovations. Almost all rehab projects are allowable up to complete tear-downs with the FHA program. The following is a partial list of allowable items:

- Gut Renovations
- Bathroom remodel
- New roof and Dormers
- HVAC systems
- Windows & Doors
- Flooring
- Plumbing & Electrical upgrade
- Insulation
- Siding & Painting
- Exterior decks and walks
- Tear-down and Rebuild
- Well & Septic
- Driveways
- Basement refinishing
- Waterproofing
- Mold and Environmental abatement
- Handicap access improvements
- New Appliances
- Gutters & downspouts
- Additions

Note: There is a Contingency Fund requirement with both programs. The minimum (U/W discretion) amount is 10% of the budget amount. If the utilities are not on and functioning, the minimum amount is 20%. This impacts the effective amount available to the contractor. It may be funded in cash, if desired, in which case, the unused portion will be returned to the borrower upon completion.

Rehab Financing



How to Get More Information:

If you are interested in learning more about this program, please contact me either by phone at 860-989-3287 or via e-mail at kit@righttracfg.com.

You may also find valuable information at my renovation loan website www.CTRehabLoans.com.

The screenshot shows the website for Right Trac Financial Group, titled "Renovation Financing Solutions". The navigation menu includes Home, About, Services, and Contact. The main content area features three sections: "I'm Buying" (red background), "I'm Fixing" (teal background), and "I'm Helping" (olive green background). Each section has a brief description and a "Learn more >" link. Social media icons for Facebook, Twitter, and Google+ are visible at the bottom right of the page.

Thank you

Kit Crowne, CMPS
NMLS: 49595