

Rehab & Renovation Loan Products can Boost Sales and Help Communities

Wednesday, June 17th



Fannie Mae[®]

Freddie Mac
Single-Family



Planet Home Lending
WE'LL GET YOU HOME

Presented by
Raymond Leech, Fannie Mae
Simone Beaty, Freddie Mac
Jim Bopp, Planet Home Lending

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Wednesday, June 17th

Moderators:

Steve O'Connor, Senior Vice President for Affordable Housing Initiatives, MBA
Deveney Perry, Advocacy and Engagement Director, BLDG Memphis

Panelists:

Raymond Leech, Senior Business Manager, Fannie Mae
Simone Beaty, Director, Affordable Lending Product Development, Freddie Mac
Jim Bopp, VP, National Renovation Lending, Planet Home Lending

Raymond C. Leech

Raymond Leech is a Senior Business Manager on the Community Lending Team focused on Fannie Mae's affordable lending efforts such as the HomeReady product and our Duty To Serve commitments. Raymond has also worked on Fannie Mae's efforts in supporting housing counseling for the past several years.

Simone Beaty

Simone Beaty is the director of affordable lending strategy for Freddie Mac's Single-Family business. She focuses on housing policy to support underserved markets, including rural housing and manufactured housing as well as affordable housing preservation. Ms. Beaty has 23 years of experience in the mortgage industry.

Jim Bopp

Jim Bopp is the VP of National Renovation Lending at Planet Home Lending, LLC. In this role with Planet Home Lending, Jim is responsible for managing the sales and marketing functions of the Renovation Lending Programs such as the FHA 203(k), VA Alterations and Repair and Conventional Renovation loan programs.

Steve O'Connor

Steve O'Connor is Senior Vice President for Affordable Housing Initiatives at the Mortgage Bankers Association (MBA). He manages MBA's efforts to support the affordable housing policy and business objectives of our members. He is also responsible for outreach to industry groups, consumer organizations, and other key stakeholders.

Deveney Perry

Deveney Perry is the Advocacy and Engagement Director of BLDG Memphis (Build Live Develop Grow). She facilitates policy support, capacity building, and community engagement to community development corporations, stakeholders, and initiatives around equitable investment into Memphis neighborhoods.



Fannie Mae®

HomeStyle® Renovation Mortgage

Finance renovation into a single-
close home purchase or refinance
loan



An important note about the seminar content

While every effort has been made to ensure the reliability of the session content, Fannie Mae's *Selling* and *Servicing Guides* and their updates, including *Guide* Announcements and Release Notes, are the official statements of Fannie Mae's policies and procedures and control in the event of discrepancies between the information in this seminar and the *Guides*.





How we'll
spend our time
together today:

- **HomeStyle Renovation Mortgage Introduction**
- **Lender and Homebuyer Benefits**
- **Eligibility Parameters**
- **HS Renovation Process**
- **HS Renovation Resources**
- **Duty To Serve and Distressed Property Efforts**



Issues Facing Today's Housing Market



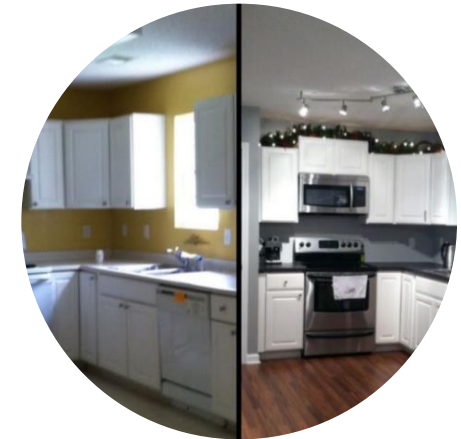
Homes are aging

- Housing stock is aging into disrepair; average age of a home is ~40 years*



Lack of new affordable inventory

- New affordable home production not keeping pace with demand
- Builder costs are up and builder economics restrict new affordable home production
- Conversion to rental (investor) removed inventory for purchase



Turnover at a 30-year low

- Americans are not moving at the same rate as in the past, reducing available housing supply
- Rising rate environment makes “trading up” less economically viable



*Source: American Housing Survey

What is HomeStyle Renovation?



HomeStyle Renovation Mortgage provides borrowers the ability to:

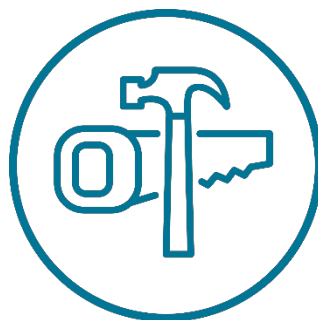
- Purchase and renovate a home by using a conventional first mortgage
- Refinance a mortgage on an existing home to make renovations using lower cost mortgage financing vs. credit cards or home equity lines



Benefits of HomeStyle Renovation for Homebuyers



Cost-effective way to renovate or repair a home, available at the time of purchase or refinance, without using a home equity line of credit or costly credit cards



Upfront draw up to 50% of material costs can help borrowers start projects without spending out-of-pocket



Borrowers can qualify for a CLTV of up to 105% with eligible Community Seconds® subordinate financing



HS Renovation Eligibility Parameters

Borrowers

- Individual home buyers or homeowners

Occupancy and Property Types

Occupancy Type

- 1- to 4-unit owner-occupied properties
- 1-unit second homes
- 1-unit investor properties

Property Type

- New or existing properties
- Condos, co-ops, and PUDs
- Manufactured Homes (refer to the *Selling Guide* for MH requirements)

Loan Type/Term

- FRM: 15-, and 30-year terms
- ARM: 3/1, 5/1, 7/1, 10/1, 5/5

Note: This summary is intended for reference only. All criteria are subject to the formal terms and conditions of the Fannie Mae Selling Guide and Servicing Guide. In the event of any conflict with this document, the Selling Guide and/or Servicing Guide will govern.



HS Renovation Eligibility Parameters (cont.)

Loan Purpose

- Purchase
- Limited Cash-out Refinance (LCOR)
 - Lesser of 2% of loan amount or \$2,000 back to borrower is not permitted
- Cash-out refinance is not permitted

Insurance

- Standard MI coverage applies and must cover as-completed value (ACV) and be in effect at closing
- Hazard insurance must be in effect at closing and cover ACV
- Title insurance policy must be dated concurrently with the recording of the mortgage, must equal the principal amount, and have the HomeStyle Renovation loan as first lien.

Subordinate Financing

- With eligible Community Seconds, CLTV can be 105%
- Subject to pricing adjustment

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HS Renovation Eligibility Parameters (LTV/CLTV)

Applies to loans processed through Desktop Underwriter

Principal Residence		
Purchase or Limited Cash-Out Refinance	1 Unit	FRM: 97%* ARM: 95%
	2 Units	FRM/ARM: 85%
	3-4 Units	FRM/ARM: 75%
Second Homes		
Purchase or Limited Cash-Out Refinance	1 Unit	FRM/ARM: 90%
Investment Property		
Purchase	1 Unit	FRM/ARM: 85%
Limited Cash-Out Refinance	1 Unit	FRM/ARM: 75%

**For LTVs > 95%, on purchase transactions, at least one borrower must be a first-time home buyer unless combined with HomeReady; for LCOR transactions, the loan must be owned or securitized by Fannie Mae.*

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Eligible Renovations

Renovations must:

- Be permanently affixed to the property, but do not have to be connected to the dwelling (such as a garage)
- Be compliant with state and local laws and building codes

Examples:

- Kitchen Renovation
- Bathroom Renovation
- Room Addition
- Detached garage
- Landscaping
- Pool



HomeStyle Renovation Process

Lenders must review plans and manage renovation funds



Loan Prep

1. Borrower works with contractor, who submits work plans and specifications to lender. (Form 1204 provides tips to consumers on working with contractors.)
2. Appraiser reviews plans and specifications, and determines “as-completed value” after improvements.
3. Lender uses Maximum Mortgage Worksheet (Form 1035) to determine mortgage amount.

Renovation

4. Loan is closed and may be sold to Fannie Mae. Funds for renovation are placed in custodial account.
5. Contractor begins work and requests funding.
6. Lender performs inspections to confirm work is completed, and gets lien waivers and title endorsements.
7. Lender funds draw requests with two-party checks or direct funding.

Completion

8. Once renovation is completed, lender orders final appraiser inspection, updates title policy, and obtains signed Completion Certificate.
9. Lender provides completion certificate to Fannie Mae to have the recourse removed.



Determining the Maximum Mortgage Amount: Purchase Transaction

Maximum Loan Amount based on LTV of the lesser of:

- “As-completed” appraised value *–or–*
- Purchase price + renovation cost

Use Form 1035 to calculate maximum mortgage amount

Renovation costs can be up to 75% of lesser of:

- Purchase plus renovation costs or,
- As-Completed value

Eligible renovation costs can include:

- Labor and Materials
- Soft costs (such as architect fees, required permits, title update fees, draw fees)
- Up to 10% Contingency reserve
 - Optional for 1-unit, owner-occupied properties
 - Mandatory for 2- to 4-unit properties
- Monthly PITI payments (up to six months) if borrower has to vacate the property



Let's Look at a Purchase Example

- 1 Determine total purchase price including renovation costs

				
Purchase Price		Renovation Costs	=	Total Price
\$190,000	+	\$ 45,870		\$235,870

↓

Labor/Material	\$39,500
Soft Costs	\$ 2,200 (Architect + License + Permit Fees)
10% Contingency	\$4,170 (10% x (Labor + Material + Soft Costs))
Monthly PITI	\$ 0 (Borrower stayed in home during renovation)

- 2 Compare total price vs. as-completed appraisal valuation

Purchase Price w Renovation= \$235,870

As-completed Value= \$245,000

- 3 Take lower amount from step above. Multiply by LTV to calculate maximum loan amount.

$\$235,870 \times 97\% = \$228,794$



HomeStyle Renovation and Realtors

One more thing---the Renovation product could be a key product for building relationships with realtors.



For example, a potential home buyer loves the house, the neighborhood, and the school district. But they want an updated kitchen, another bathroom, or another bedroom.

Instead of walking away from the deal, an informed realtor could offer a renovation loan—buy the house and finance the improvements that would make it their dream home.

ALSO—the Renovation loan can be used on NEW construction to finish a basement, add a deck, or a fence, or landscaping.

This benefits the lender (bigger loan balance) and the realtor (close the deal) and the home buyer (getting the home they have dreamed of owning).



HomeStyle Renovation Summary

Open up new possibilities for your clients to purchase the home they want.

Flexible

- Can be used on any renovation project to update a new or existing home
- Now allowed for use with eligible Manufactured Homes

Affordable

- Renovation funds are bundled into your client's purchase or refinance mortgage under one application giving them the benefit of the lower first mortgage rate, which may be better than HELOC or other more costly methods of financing
- Can be combined with a HomeReady mortgage

Simple

- Standard pricing and conventional execution
- Loans can be delivered even before the project starts and eligible for R&W relief once completed (conditions apply)
- Allows for upfront draw for materials to begin renovations and improvements without having to spend out-of-pocket



HomeStyle Renovation Resources

All resources for HomeStyle Renovation can be found on Fannie Mae's website

www.fanniemae.com/hsrenovation

HomeStyle® Renovation

Whether you're saving a deal with repair contingencies or helping to update a home to meet your client's evolving needs, HomeStyle Renovation can be a powerful product offering, allowing you to finance home improvements with a conventional mortgage.

What's New

Clarified fund As of 10/1/2018
disbursement requirements. HomeStyle Renovation funds may be disbursed via a wire transfer when certain requirements are met.

Training
HomeStyle Renovation Course

Marketing Center
Spread the word with customizable marketing materials. Log in or create a free account.
Marketing Center

Related Links
Mortgage Products and Options
HomeStyle Energy Construction Products

Give borrowers the option to renovate and rehab a new or existing home by including financing in their conventional purchase or refinance home loan. LTV is calculated taking the proposed project into account, giving borrowers more purchasing power and more options to make their home their own.

“HomeStyle Renovation has been somewhat of a secret weapon for us.”
— Landy Garcia, AnnaMae
[Read Case Study](#)

Why HomeStyle Renovation?
HomeStyle Renovation can make the difference between a house and a dream home, or a house that's desperately in need of repairs and a home that's habitable.
HomeStyle Renovation loans are:

- **Simple** – With standard pricing and conventional execution, loan funds can be delivered even before the project starts (subject to lender approval).
- **Flexible** – Updating a bathroom? Adding a mudroom? Replacing a roof? HomeStyle renovation can be used on any renovation project and can help save deals that have repair contingencies, up to 87% LTV or 105% CLTV with eligible Community Seconds™ financing.
- **Affordable** – Renovation costs may be approved up to the lesser of 75% of the purchase price plus renovation costs or the as-completed appraised value, and competitive rates that may be lower than a home equity line of credit (HELOC), personal loans, or credit cards.*

\$33,800

average amount spent by renovators who bought their first home in 2016

+22%

\$269B

increased remodeling market size in 2025 (up from \$225B in 2015)

6.8%

average growth projection for remodeling spend in major metro areas

Source: 2017 U.S. House & Home Renovation Trends Study | Source: “Demographic Change and the Remodeling Outlook” by the Joint Center for Housing of Harvard University, 2017

Get Started with HomeStyle Renovation

Fact Sheet
Learn the basics on financing for renovation projects

FAQs
Get the low down on features, requirements and benefits

Product Matrix
Understand eligibility, underwriting, and pricing guidelines

Bundle the Benefits
Combine HomeStyle Renovation with other Fannie Mae offerings to give borrowers more benefits:

- **HomeStyle Energy**: If energy or water efficiency upgrades, or resiliency upgrades, are part of your borrower's renovation plans, bundle your HomeStyle Renovation loan with HomeStyle Energy to qualify for a \$500 LPA adjustment credit.
- **HomeReady**: Our low down payment mortgage has lower rates and cancellable mortgage insurance (restrictions apply). Combine this mortgage with HomeStyle Renovation to make financing renovation projects even more affordable.

Become an Approved HomeStyle Renovation Lender
Deliver renovation loans prior to project completion by becoming an approved HomeStyle Renovation lender. Get started by completing form [1000A](#), or contact your Fannie Mae customer account team to learn more.
*Delivering loans post-completion does not require special approval.

Forms

Form	Title
Form 1035	HomeStyle Renovation Maximum Mortgage Worksheet
Form 1304	HomeStyle Renovation Consumer Tips
Special Purpose Documents	Find model legal documents that have been developed for a special purpose.
Riders and Addends	A list of model riders and addends to the security instrument.

*For manufactured housing, the eligible renovation funds capped at the lesser of \$50,000 or 50% of the "as-completed" appraised value.



HomeStyle Energy

- The HomeStyle Energy Loan allows homebuyers or homeowners to include energy and water efficiency improvements and/or disaster resiliency updates to their home as part of a home purchase or refinance loan.
- Homeowners can complete improvements that improve the energy efficiency of the home including heating and air conditioning, weatherization, renewables like solar panels, home resiliency measures and pay-off of energy improvement debt.

Community Seconds

- A Community Seconds mortgage is a subordinate mortgage that is used in connection with a first mortgage delivered to Fannie Mae.
- Although Fannie Mae does not purchase Community Seconds, we provide eligibility requirements for the subordinate Community Seconds product.
- Community Seconds mortgages permit Fannie Mae lenders to leverage public, nonprofit, and employer funds to finance a down payment and/or closing costs, thus helping more families achieve homeownership.



Opportunities with Distressed Properties

Open up new possibilities for your clients to get access to more affordable homes.

The majority of REO properties:

- Are affordable to low- and moderate-income buyers.
- Provide buyers with an avenue to purchase properties that they may not have considered previously due to needed repair
- May provide lower-income borrowers more options to access homeownership

HomeStyle renovation could be used in tandem with the financing of REO Properties:

- Contributes to the return of aging housing stock to viable use
- Increases affordable housing inventory
- Creates additional purchase options for homebuyers



Opportunities with Distressed Properties (cont.)

Open up new possibilities for your clients to get that “move-in ready” home they want.

Community First Platform: www.communityfirst.fanniemae.com

- Exclusive access to Fannie Mae properties before they are listed on MLS
- Public Entities, Non-profits and Community Minded Buyers can apply and are approved by Fannie Mae

HomePath Website: www.homepath.com

- Fannie Mae REO opened to Homebuyers, Investors, Public Entity and Non-Profits
- 20-Day (30 in NV) First look period for Owner Occupant, public entities and their partners, and some non-profits





Thank you for attending



CHOICERenovation®

June 2020



Today's Topics



- Market Environment

- CHOICERenovation 101

- Borrower Scenarios

- Q&A

Market Environment

DID YOU KNOW?

Today's housing supply is aging.

80%
are at least
20 years old*



40%
are at least
50 years old*



*Based on the nation's 137 million homes; Harvard Joint Center for Housing Studies

Today's Housing Challenges



- Aging housing stock
- Shortfall of affordable homes for sale
- Growing number of millennials looking for more affordable homebuying options
- Increasing number of 55+ and retirees opting to downsize or age in place

CHOICERenovation 101

CHOICERenovation Highlights

Freddie Mac's newest solution for the growing home improvement market that includes the renovation costs in the mortgage loan amount.

- Finances the cost of renovations up to 75% of the "as-completed" value of property; can draw 50% of the material costs at closing
- Allows a single closing on renovations and home purchase or no cash out refinance with no interim financing
- Requires a minimum contingency reserve of 10% of the financeable repair and improvement costs to be held in an escrow account; 15% for non-working utilities
- Supports a broader range of renovations and greater amount of financing
- Funds can be used to cover up to 6 monthly payments of principal, interest, taxes and insurance (PITI)

Product Features

Property Eligibility	<ul style="list-style-type: none"> • 1- to 4-unit primary residence • 1-unit second home • 1-unit investment property • Unit in PUD, condo, co-op, or leasehold estate • Manufactured home (funding limits: lesser of \$50,000 or 50% of “as completed” value)
Maximum Financing	$\leq 75\%$ of as-completed property value; custodial account required for escrow account; renovation must be completed within 365 days of the Note Date
Lender Approval	All Freddie Mac sellers may deliver loan after the renovations are complete without recourse. Approved sellers may deliver loan before renovations are complete with recourse; prior approval required.
Loan Transaction Type	Purchase or no cash-out refinance
Eligible Mortgage Products	Most of our eligible FRMs and ARMs; may be combined with Home Possible [®] , super conforming, and HomeOne SM mortgages; Affordable Seconds allowed to 105% on Home Possible and HomeOne.
Contingency Reserve	Minimum $\geq 10\%$ of the total renovation costs (if utilities not operable $\geq 15\%$). Maximum $\leq 20\%$ of the total renovation costs.

Eligible Renovations

1. Proceeds must only be used to finance renovations that are made to an existing dwelling.

2. Proceeds may be used to renovate or repair a property that has been damaged in a disaster or for renovations that will protect the mortgaged premises in case of a future disaster (e.g., storm surge barriers, foundation retrofitting for earthquakes, retaining walls, etc.)

3. Proceeds may not be used to raze an existing structure and build a new dwelling.

4. Proceeds may not be used for personal property with the exception of new appliances.

Renovations must comply with all applicable state and local laws and regulations, including zoning regulations. All required permits and approvals must be obtained.



Low Down-Payment Mortgage Products

Home Possible[®]

- First-time homebuyers and homebuyers with very low to low incomes
- Down payment as low as 3%
- Flexible down payment and closing funding options
- Non-occupying co-borrower who is not part of the household is allowed

HomeOneSM

- First-time homebuyers who need low down-payment options; no income restrictions
- Down payment as low as 3%
- All borrowers must live in the home
- Fixed-rate terms only

HFA Advantage[®]

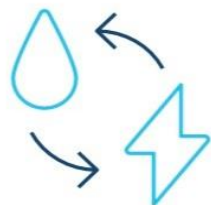
- Based on Home Possible underwriting requirements
- 1-unit primary residence; all borrowers must occupy
- State/Local HFA's down payment assistance and guidelines
- Minimum MI coverage required



GreenCHOICE MortgagesSM

Our Solution for Energy-Efficient Home Improvements

GreenCHOICE Mortgage offers new flexibilities, including:



Ability to finance the cost of energy and/or water efficiency improvements up to 15 percent of the “as completed” value of the property.



Ability to close the mortgage prior to the completion of the improvements.

Borrower Scenarios

Scenario #1: First-time Homebuyers | Millennials



Scenario #1: Sample Calculation*

	Property Sales Price	\$75,000
+	Improvements	\$175,000

Total Acquisition Cost = \$250,000

'As-Completed' Value = \$250,000



LTV is based on the lesser of these two values, which will not always be the same.

Maximum Allowable Renovation Cost: \$187,500
(75% of \$250,000)

*Sample calculation not applicable for a standard manufactured home titled as real property.

Scenario #2: Aging in Place | Current Homeowners



Scenario #3: Multi-generational Family | Current Homeowners



Scenario #4: Property in Natural Disaster-Prone Area | Current Homeowners



Additional Resources



- CHOICERenovation Community Classroom Training

- Freddie Mac Learning Center

- Freddie Mac Single-Family website



Convergence Memphis and FHA 203(k)

A Proven Affordable Housing & Revitalization Solution



Planet Home Lending



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Purpose of FHA 203(k) Rehabilitation Program

- FHA 203(k) is HUD's primary program for the rehabilitation/repair of 1-4 family homes
- Promotes and facilitates the restoration and preservation of existing housing stock
- Important tool for neighborhood revitalization and expanding home ownership
- Excellent tool for lenders to use in conjunction with state, local, and nonprofit organizations
- State and local government agencies can combine 203(k) with other borrower-assistance programs
- Can use the expertise of local housing agencies and nonprofits to help manage rehabilitation processing

*FHA Mortgagee Letter 94-11 www.hudclips.org



Purpose of FHA 203(k) Rehabilitation Program (CONTINUED)

- Department believes program allows lenders to demonstrate commitment to lower-income communities
- HUD is committed to homeownership in areas covered by the Community Reinvestment Act (CRA) & in Qualified Opportunity Zone's (QOZ's – FHA Mortgagee Letter 2019-18 www.hudclips.org)
- FHA 203(k) is a strong option to use in conjunction with CRA-type lending programs
- Strong primary & secondary market for Section 203(k) mortgages exists
- Many secondary lenders will assist originating lenders with 203(k) program development

**EXPLORE THESE
OPPORTUNITIES
FOR PARTNERSHIP
AND AFFORDABLE
HOUSING**



What is a 203(k) Rehabilitation Loan?

- One-time close Home Improvement Loan with a defined construction plan & budget
- A fully-disbursed first mortgage with escrow established for repairs and improvements
- Repair escrow funds disbursed at or after closing with six months to complete work
- Virtually any repair or improvement imaginable allowed
- Building permits required for all work prior to release of funds
- Note: Not an open-ended equity loan/line



Features and Design

- 1-4 Unit Max DTI per AUS
- Minimum FICO 620
- Loan based off 110% “After Improved Value”
- 10% to 15% contingency reserve
- Inspection and title update fees
- Payments escrowed for up to 6 months
- Architectural and engineering fees
- FHA 203(k) consultant fees
- Building permits fees
- Supplemental origination fee

A woman is sitting at a workbench in a workshop, looking at a laptop screen. The workshop is filled with various tools and equipment. A green horizontal line is positioned above the text.

**EXPLORE THESE
OPPORTUNITIES
FOR PARTNERSHIP
AND AFFORDABLE
HOUSING!**

FHA Standard and Limited 203(k)

- Purchase or refinance
- Good Neighbor Next Door program
- HUD REO \$100.00 Down program
- 1-4 units allowed
- Mixed-use properties
- HUD and other REO properties
- Manufactured homes on land
- Fixed and adjustable rates
- Limited 203k to \$35,000
- Limited 203k to \$50,000 in Qualified Opportunity Zones (QOZ's)



Selecting a Lending Partner

Look for a partner that:

- Will help you build your program with both technical training and product support
- Offers flexible operating templates
- Minimizes risks for all parties
- Works to create real community partnerships and satisfied homeowners
- Protect consumers while attaining homeownership & community revitalization goals



Resources

Helpful Links:

- FHA Mortgage Limits: <https://entp.hud.gov/idapp/html/hicostlook.cfm>
- Limited 203(k) QOZ's: <https://www.hud.gov/sites/dfiles/OCHCO/documents/19-18hsgml.pdf>
- Opportunity Zones Resources: <https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx>
- 203k Calculator: <https://entp.hud.gov/idapp/html/f17203k-look.cfm>
- FHA 203(k) Consultants: <https://entp.hud.gov/idapp/html/f17cnsldata.cfm> OR
- <http://www.203khudconsultants.com/Search?address=Memphis+TN>



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We will donate 3 trees to the
National Forest Foundation
for every loan closed.

