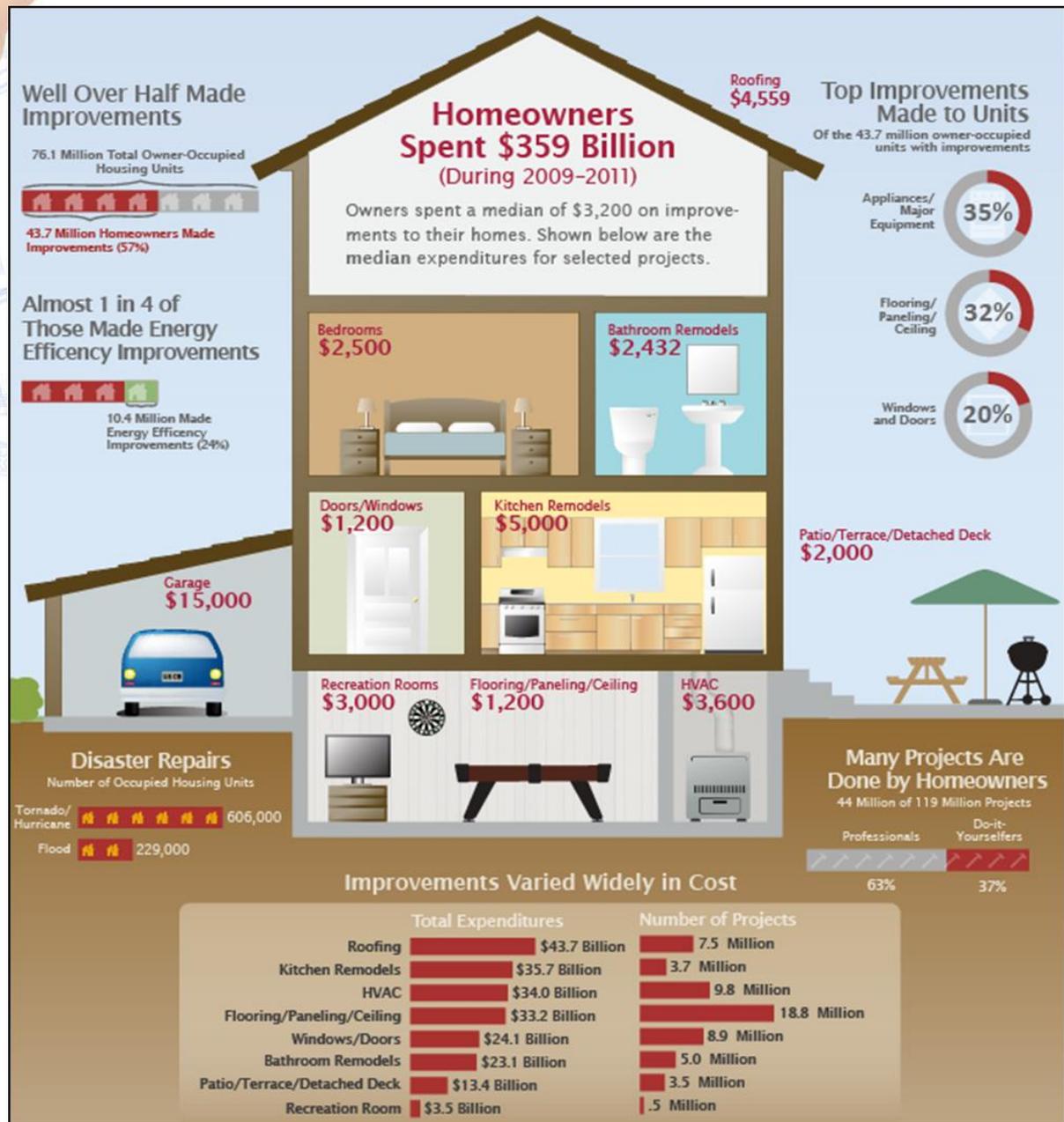




**CREATING VALUE**  
*through Renovation Loans*

# A look at the numbers -

- 2016 - 53% of home buyers undertook a home improvement project within 3 months of buying, typically spending \$4,550 in improvement projects.
- Of all remodeling projects or expenditures, 70% of projects exceeded \$5000, with the average being well above \$20,000.



# What do you think creates more value?



OR



OR



*Creating Value through Renovation Loans*

# Co-Branded "Before and After" Flyers Available

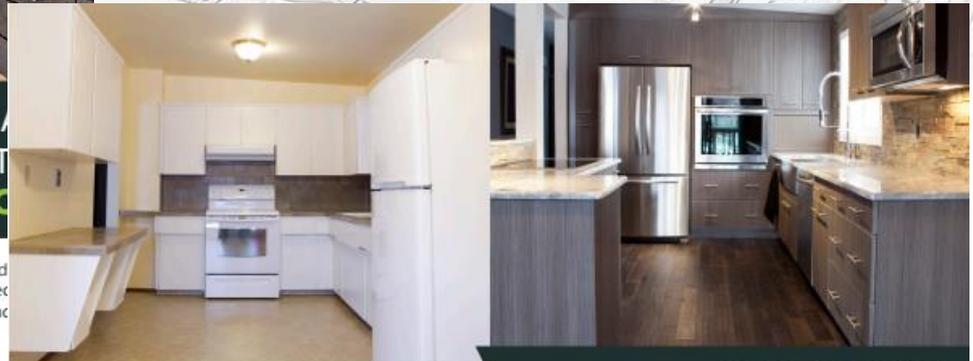



**UPDATE ANY BATHROOM WITH A RENOVATION LOAN**

At Fairway Independent Mortgage Corporation, we have renovation mortgages available to qualified borrowers. A HomeStyle Mortgage or FHA 203k loan can be used for repairs and improvement projects that are permanently affixed to the property. This means your dream bathroom may be eligible for financing under a mortgage program today!

**Eligible property bathroom improvements include:** **Product details:**

- Update vanities and sinks
- Upgrade lighting and fixtures
- Create a custom tile tub surround
- Convert ½ bathroom to full bathroom\*
- Remediate mold
- Primary occupancy on FHA, and second home and investment on HomeStyle
- As low as 3.5% down payment on FHA products and 3% on primary HomeStyle
- Appraised value determined on the after-improved property characteristics




**UPDATE ANY KITCHEN WITH A RENOVATION LOAN**

At Fairway Independent Mortgage Corporation, we have renovation mortgages available to qualified borrowers. A HomeStyle Mortgage or FHA 203k loan can be used for repairs and improvement projects that are permanently affixed and add value. This means your dream kitchen may be eligible to finance under a mortgage program today!

**Eligible property kitchen improvements include:** **Product details:**

- Correction of health and safety concerns
- Opening up of the floor plan\*
- Installation of new appliances
- Upgraded lighting
- Additional countertop or cabinetry space
- Primary occupancy on FHA, and second home and investment on HomeStyle
- As low as 3.5% down payment on FHA products and 5% on primary HomeStyle
- Appraised value determined on the after-improved property characteristics

# How can Renovation Lending help Create Value?

- Ability to market distressed properties to the general public instead of to cash only buyers
- Expand the pool of properties to show prospective buyers, give options
- Provide a vehicle for properties labeled “Needs TLC, As Is Condition and Fixer Upper” scenarios
- Play an instrumental role in re-vitalizing neighborhoods and communities
- Seller does not need to make or pay for any repairs prior to close. Don't delay, renovate today!!!
- Out of pocket costs for minimum property requirements are no longer an issue
- **Help your clients envision walking into their home, the way they want it**



# Renovation Programs

- **FHA 203K Limited**

Non-structural improvements only, total renovation budget under \$35,000.

- **FHA 203K Standard**

Structural and non-structural improvements are allowed. No cap on the renovation budget. FHA Maximum Loan limits apply.

- **Conventional HomeStyle**

Must be permanently affixed to the property. The renovation budget is limited to 75% of the as-completed value, capped at conforming and high balance loan limits.

# 203K Limited vs. Standard

## Limited 203K

- 1-4 unit allowed
- No minimum, maximum rehab amount is \$35,000, including soft costs
- Minor Remodeling, must be Non-Structural
- Not eligible for financed PITI payments
- 50% draw available at close, contractor must indicate a need
- Installing a well and/or septic system
- HUD Consultants are not required – borrower written work plan is

## Standard 203K

- 1-4 unit allowed
- Minimum of \$5000, no maximum up to FHA max mortgage amount
- Up to 6 months PITI can be financed if the home is not habitable during renovation
- No upfront draw allowed, inspections are required prior to each disbursement
- Structural alterations and reconstruction
- HUD Consultant and WWU required
- Must have a certificate of occupancy for 12 months (both Standard and Limited)

# 203K Your-Way Loan

- Housing inventory is limited and homes are generally priced at a fair market value.
- Structurally the homes are in good shape but a little out dated.
- Borrowers like the floor plan but a generally unenthusied by the overall appearance.
- Original paint, HVAC, roof, flooring, cabinets, bathroom, appliances etc... could all use updates.
- 203K financing allows us to lend up to 110% of the subject to value, means we have options.

Purchase Price	\$250,000
As-Is Appraised Value	\$250,000

## Your-Way Improvements –

Refinish Cabinets	\$2,500
Countertops	\$3,000
Kitchen Flooring	\$3,000
Carpeting	\$6,000
Paint Interior / Exterior	\$4,000
Plumbing fixtures	\$1,000
New lighting / fans	\$1,000
Roof repairs	\$1,000
Miscellaneous Repairs	\$2,000
<b>Total Repairs Budget</b>	<b>\$23,500</b>
Contingency	\$2350
Other Soft Costs	\$750
<b>Total Renovation Budget</b>	<b>\$26,600</b>
<b>Total Acquisition Cost</b>	<b>\$276,600</b>
<b>110% without Adjustment</b>	<b>\$275,000</b>
<b>With Adjustment to Value</b>	<b>\$257,750</b>
<b>203K 110% Subject to Value</b>	<b>\$283,525 Max</b>

<b>Required Down Payment</b>	<b>\$9,681 / \$8,750 (\$931)</b>
<b>Difference in Payment</b>	<b>\$140 / month (\$500)</b>

# The FHA 203k Standard Loan

## Common Questions From Prospective Borrowers



### **IS THERE A MAXIMUM DOLLAR AMOUNT FOR REPAIRS?**

There is no maximum repair amount. However, your loan amount will be determined by several factors, including the FHA County Loan Limit.

### **IF WE RENOVATED THE FIXER-UPPER WE SAW, REPAIRS COULD TAKE MONTHS, AND WE COULDN'T LIVE IN IT WHILE IT WAS BEING RENOVATED. WOULD I NEED TO START MAKING THE MORTGAGE PAYMENTS RIGHT AWAY?**

With the Standard 203k, you can finance up to six months of mortgage payments into your loan, providing that the HUD Consultant (a third-party plan reviewer required on Standard 203k Loans) determines that the home is uninhabitable. This would eliminate the need for you to make two housing payments at once.



### **WHEN AND HOW DOES MY CONTRACTOR GET PAID FOR THE WORK?**

With this loan, no funds are given to the contractor in advance; there is no disbursement at the close of the loan. Draws to the contractor are made as work progresses and phases are completed. Draw inspections will verify that the work has been completed. Up to five draws can be taken.

The FHA 203k

Limited Loan

## Common Questions From Prospective Borrowers

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### **CAN THE CONTRACTOR GET PAID IN ADVANCE OF THE WORK WITH THIS LOAN?**

On the Limited 203k loan, the contractor can request 50% of the total bid amount at the close of the loan. The contractor receives the other 50% upon final inspection of the completed work.

### **SINCE MY CONTRACTOR WOULD ONLY BE COMPLETING COSMETIC REPAIRS, MY APPRAISED VALUE MAY NOT REFLECT ADDED VALUE. IN THIS CASE, WOULD I HAVE TO COME IN WITH MONEY OUT OF POCKET TO COVER THE COST OF THE REPAIRS?**

Very often, you will see dollar-for-dollar value reflected on your appraisal. In the event that your appraisal does not reflect dollar-for-dollar value on your repairs, FHA allows you to take the appraised value and multiply it by 110% to determine your maximum loan amount. This allows room in the loan for repairs that do not add dollar-for-dollar value.

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# Conventional HomeStyle

- 1-4 unit allowed (LTV depends on the number of units)
- Purchase 97% LTV 1 Unit Primary (*at least one borrower must be a first time homeowner*)
- Purchase 95% LTV 1 Unit Primary
- Purchase 90% LTV Second Home
- Purchase 85% LTV 1 Unit Investment – Refinance investment to 75% LTV
- Structural and Non-Structural repairs allowed
- Landscaping and/or site amenities are allowed, must be permanently affixed to the property
- Detached garages or accessory dwelling units
- Add a swimming pool
- Material draws allowed, capped at 50% of the total material budget
- For condos, interior rehabilitation is permitted only (no common areas)
- Partially completed projects are allowed with prior approval
- Can be used to finish new construction, when the home is at least 90% complete

*Creating Value through Renovation Loans*

# The HomeStyle Renovation Loan

## Common Questions From Prospective Borrowers



### **SINCE THIS LOAN IS CONVENTIONAL, WHAT WILL MY DOWN PAYMENT LOOK LIKE AND COULD I POTENTIALLY USE THIS LOAN TO RENOVATE AN INVESTMENT PROPERTY?**

For first-time home buyers on a primary home, a borrower can have as little as a 3% down payment. For repeat buyers on a primary home, a borrower can have as little as a 5% down payment. And yes, this loan can be utilized for second homes and 1-unit investment properties (these will require higher down payments than primary homes).

### **CAN THE CONTRACTOR GET PAID IN ADVANCE OF THE WORK WITH THIS LOAN?**

No draws are permitted without an inspection on the HomeStyle loan. A maximum of 5 draws are allowed. In some cases, a contractor may be allowed a draw for materials at the start of the project.



### **HOW ABOUT A HUD CONSULTANT? WOULD I NEED ONE WITH THIS LOAN?**

A HUD Consultant is not required with this loan, but a borrower can employ one and finance the cost into the loan if desired.

# Comparing Renovation Loan Options

	LIMITED 203K	STANDARD 203K	HOMESTYLE
<b>EXAMPLES OF ELIGIBLE REPAIRS</b>	<ul style="list-style-type: none"> <li>• Updating a kitchen or bathroom</li> <li>• Adding new floor</li> <li>• Purchasing new appliances</li> <li>• Repairing the roof</li> <li>• Upgrading HVAC system and other energy efficient upgrades</li> </ul>	<ul style="list-style-type: none"> <li>• Building an addition</li> <li>• Building a new garage</li> <li>• Tearing down and rebuilding</li> <li>• Upgrading mechanical systems</li> <li>• Installing a well and/or septic system</li> <li>• Updating the interior</li> </ul>	<ul style="list-style-type: none"> <li>• Renovating kitchens and bathrooms</li> <li>• Updating landscaping and site amenities</li> <li>• Adding square footage to the home</li> <li>• Putting in new flooring</li> <li>• Repairing pool and/or spa</li> </ul>
<b>DOWN PAYMENT AND LOAN-TO-VALUE (LTV)*</b>	3.5% (96.5% LTV)	3.5% (96.5% LTV)	1 Unit Primary - 3% (97% LTV) [At least one borrower must be a first-time homebuyer] 1 Unit Primary - 5% (95% LTV) 1 Unit Second Home - 10% (90% LTV) 1 Unit Investment - 15% (85% LTV)  Mortgage Insurance (MI) is required for any LTV that exceeds 80%.
<b>ELIGIBLE PROPERTY TYPES</b>	<ul style="list-style-type: none"> <li>• 1-4 unit properties</li> <li>• Condominiums (internal repairs only)</li> <li>• Townhomes (internal repairs only)</li> </ul>		<ul style="list-style-type: none"> <li>• 1-4 unit properties</li> <li>• Condominiums (internal repairs only)</li> <li>• Townhomes (internal repairs only)</li> </ul>
<b>ELIGIBLE OCCUPANCY TYPES</b>	Primary	Primary	Primary, Secondary, Investment
<b>NUMBER OF DRAWS</b>	1 initial and 1 final draw per contractor	Up to 5 draws	Up to 5 draws
<b>ADVANCES</b>	Up to 50% of repair cost can be distributed at closing when requested in writing prior to close.	Not allowed	Not allowed
<b>MATERIALS DRAWS</b>	Not allowed	Not allowed	Case by case, up to 50% of total materials budget, based on need
<b>PROOF OF PERMITS</b>	Required within 30 days of loan closing	Required on or before first draw	Required on or before first draw
<b>HOLDBACKS</b>	No holdbacks on draws	10% holdback on all draws, except final draw	10% holdback paid out with final draw
<b>CONTINGENCY FUNDS AND CHANGES TO SCOPE OF WORK</b>	Contingency funds are intended for unforeseen repairs. Once all items on the bid are completed, contingency funds may be used for additional repairs or applied as a principal reduction.		
<b>COMPLETION DATE</b>	Work must begin within 30 days of loan closing, may not cease for any 30 consecutive day period and must be completed within 6 months of loan closing.		

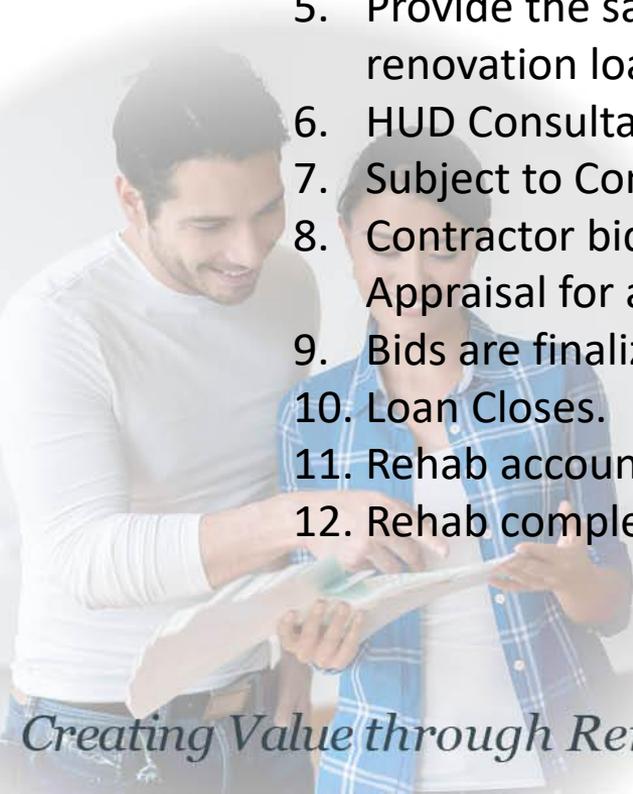
# Additional Referral Sources

1. Contractors – Bids out but homeowners are not able to get financing
2. Contractors can increase their bids because more funds are available
3. Understanding your area may create opportunities – steam heater conversions, lead piping, storm damage...
4. Interior decorators, architects, structural engineers...
5. Insurance companies – uncovered claims
6. Pool installation
7. Listing agents
8. Revitalized neighborhoods – help current owners get more value from their homes
9. Local municipalities – housing initiatives
10. New homeowner seminars



# Purchase Loan Cycle

1. Buyer indicates an interest in renovating a home.
2. Introduce the buyer to a renovation loan expert to determine the best renovation program and get a pre-qualification.
3. Buyer starts interviewing contractors while home shopping, contractor can be approved as soon as he is selected.
4. Select home, work with your contractor to review minimum property standards and the desired renovation work.
5. Provide the sales contract and an estimated bid to your renovation loan expert to get the loan disclosed.
6. HUD Consultant is hired if required, depending on program.
7. Subject to Completion appraisal is ordered.
8. Contractor bid is compared to HUD Consultant WWU and Appraisal for any additional required repairs.
9. Bids are finalized, loan is underwritten and approved.
10. Loan Closes.
11. Rehab account is created and disbursed as work is completed.
12. Rehab complete, borrowers enjoy their newly renovated home.



# Where do clients start?



# When Loan is finished, but home is not...



**STEP 1:** If your home was determined to be uninhabitable during renovation, you will be living elsewhere during the rehabilitation. If not, you will move into your new home.



**STEP 2:** Soon after your loan closes, you and your contractor will be contacted by Draw Administration with instructions on how to request inspections and draws.



**STEP 3:** Your contractor will apply for and obtain all needed permits.



**STEP 4:** Your contractor will begin work within 30 days of the close of the loan.



**STEP 5:** You or your contractor will request a draw inspection once a particular phase of the work is complete.



**STEP 6:** The inspector will sign off on the work (this will be your HUD Consultant if you have one).



**STEP 7:** This process continues until all work on your bid is completed. If there is any unused contingency at completion, you may elect to use it for additional repairs.



**STEP 8:** After final inspection your contractor will receive any held back funds so that he is paid in full.



**STEP 9:** You will be the proud owner of a home, custom made just for you!



# What Makes Fairway

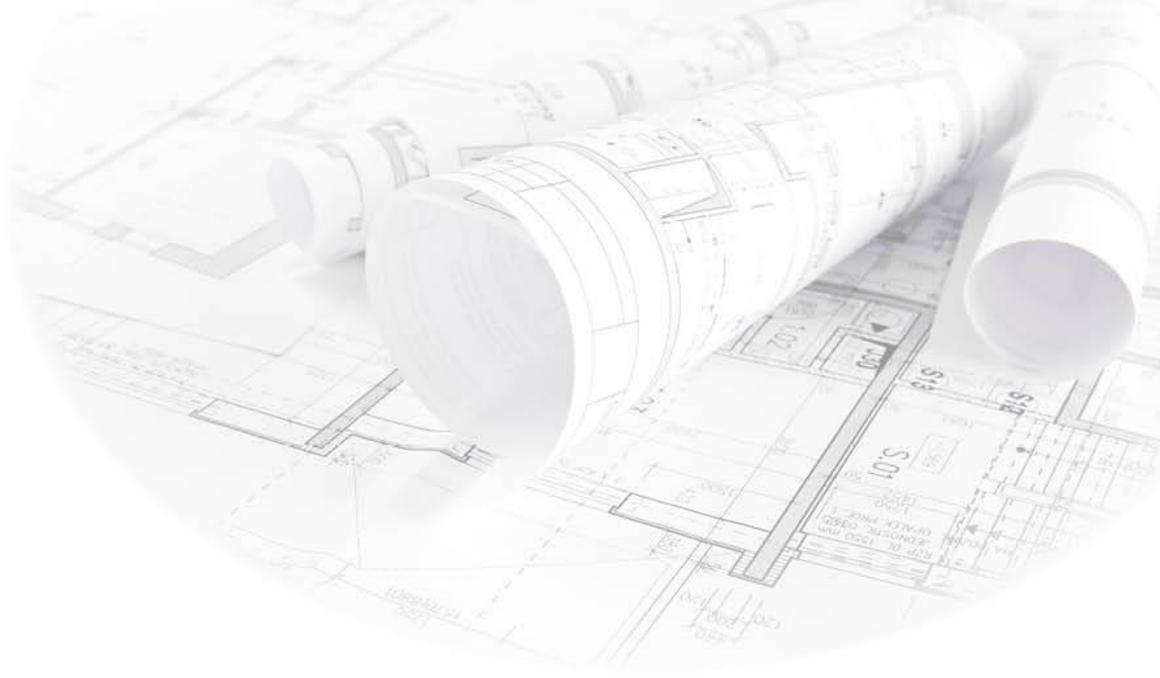
# Different?

- **FAIRWAY HAS A RENOVATION DEPARTMENT:** Unlike many other lenders, Fairway has an entire department dedicated to helping Loan Officers during renovation loan transactions.
- **THE RENOVATION DEPARTMENT IS HERE TO HELP EVERY STEP OF THE WAY:** Fairway's Renovation Department has people in place to help with loan set-up, pre-disclosure review, appraisal order, contractor approval, document preparation and preparation for Underwriting.
- **THE RENOVATION DEPARTMENT HOUSES EXPERTS:** The experts in the Renovation Department have the knowledge to help resolve complex borrower and contractor situations and provide guidance for difficult property scenarios.
- **IT'S NOT OVER 'TIL THE CONTRACTOR GETS PAID:** The Renovation Department will continue to work internally and with investors to ensure contractors get paid on time.

*Creating Value through Renovation Loans*



We are here  
for you!



## Monica Rucker

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