

# *HomeStyle Renovation Mortgage Buyers Guide*

**Buy Any Home And  
Customize It To Your Style**



*After*



*Before*

## **Home Buyers Guide to Buying A Fixer Upper**

**You don't have to compete for the move in ready homes. Buy the ugliest house, get a good deal, and make it your dream home with our Renovation Mortgage Program**

# *HomeStyle Renovation Mortgage Buyers Guide*

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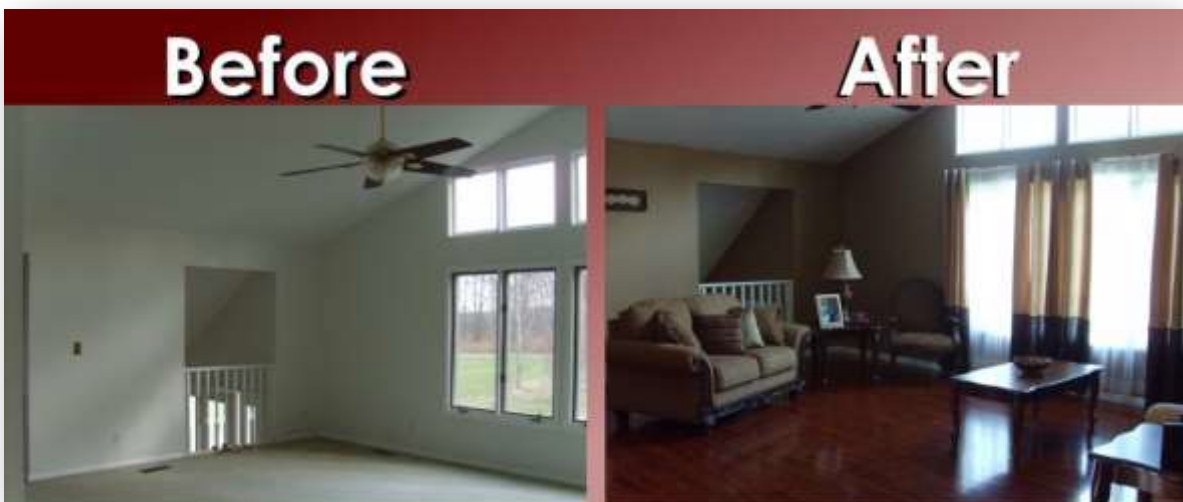
## What is a Renovation Mortgage?

Some housing stock needs work. It's a fact of life in any housing market, especially today's market. Some homes need major repairs to bring them up to inspection standards. Other homes need a little updating to bring them into the new century. Still others may just need a touch up or style change to meet the buyer's desires.

In the not-so-distant past, when a house needed some remodeling, a buyer would just use a home equity loan or line of credit, do the work on their own and call it "sweat equity." However, in the current market of low home values and no equity, a HELOC becomes difficult (at best) to secure.

In addition to financing, many home buyers and investors simply do not have the time to put into fixing up a home. We all work full-time jobs and have families or other activities keeping us busy. Working on a house in the evenings and on the weekends is simply too much to handle.

Hiring a professional to remodel a home becomes a much more desirable route. So...how do you finance the work of a professional alongside the purchase of a home? That's where a renovation mortgage comes into play.



A renovation mortgage allows a home buyer to purchase a property and roll the cost of certain home improvements directly into the mortgage loan. This is not a second mortgage or separate line of credit. This is one mortgage, one (low and tax deductible†) interest rate and one monthly payment.

A renovation mortgage allows the home buyer to amortize the cost of renovations over the "life of the loan." You get to spread the cost of a \$20,000 kitchen remodel over your 30-year mortgage. The nice thing about doing it this way rather than a credit card or HELOC is that the work is tied to the equity of the home, so it becomes part of the future sale price if you're considering moving someday.

Home buyers have several choices when it comes to renovation mortgages. In this guide, we'll cover the HomeStyle Renovation mortgage loan option. You'll see how HomeStyle Renovation works, what you'll need to do during the process and how it's helping the housing market. As always, you can find help in this process through an Service First Mortgage Branch or call The Richard Woodward Mortgage Team in the Dallas regional office at (214) 945-1066 or toll Free: (888) 419-0706

## What is a HomeStyle Renovation Mortgage?

[HomeStyle Renovation](#) is a financing option offered through Fannie Mae. According to Fannie Mae:

The HomeStyle Renovation mortgage enables a borrower to obtain a purchase transaction mortgage or a limited cash-out refinance mortgage and receive funds to cover the costs of repairs, remodeling, renovations or energy efficient improvements to the property.

There are no required improvements or restrictions on the types of repairs allowed or a minimum dollar amount for the repairs. Repairs or improvements, however, must be permanently affixed to the real property and add value to the property.

When HomeStyle is used for energy-related improvements, borrowers are required to obtain an energy report to identify recommended energy improvements to the property and the estimated cost savings associated with those improvements.

Essentially, HomeStyle Renovation is a solution to the current problem in housing that home buyers often see: finding houses that aren't yet "home." You can buy a house with potential and turn it into your home with your style, without breaking the bank. With a minimum of 5% down\*, you can finance the purchase and remodeling of your dream home.



## HomeStyle Highlights

With as little as a 5% down payment you can add your taste & style to a house to make it your home with remodeling projects like a new kitchen, bathroom, room addition or energy efficient upgrades. HomeStyle Renovation allows you to buy a home and fix it up, or refinance and remodel your current home.

- Purchase or refinance & remodel
- 5% minimum down payment for primary, single-family residences (10% for second homes, 20% for investment Properties)
- You can use gift funds for down payment & closing costs for owner occupied, primary residences after you contribute a minimum 5% down payment
- 3% seller contribution allowed
- Cosmetic and structural renovations allowed
- Allowable improvements can include landscaping, appliances, swimming pools and more

## Borrower Requirements

An individual home buyer or homeowner that purchases or refinances an existing dwelling for renovation is an eligible borrower for a *HomeStyle* renovation Mortgage.

Fannie Mae's *HomeStyle Renovation Consumer Tips* (Form [1204](#)), is a checklist for the key facts that need to be disclosed to the borrower, and the borrower's signature will serve as an acknowledgment of his or her understanding of these facts.

Transaction Type	Number of Units	Maximum LTV,CLTV,HCLTV Fixed Rate Only	FICO Score Requirement***
<b>Principal Residence</b>			
Purchase	1 Unit	95%	660
**Limited Cash-Out Refinance	2 Units	80%	660
	3-4 Units	75%	680
<b>Second Homes</b>			
Purchase	1 Unit	90%	680
**Limited Cash-Out Refinance			
<b>Investment Property</b>			
Purchase	1 Unit	80%	680
**Limited Cash-Out Refinance	1 Unit	75%	680

\*\* No cash back at closing is allowed on any refinance transactions.

## Number of Financed Properties

On a second home or investment property, Fannie Mae limits the number of residential properties the borrower may currently be financing to four (4) properties, including his or her principal residence. This limitation is based on the total number of properties financed regardless of units but is cumulative for all borrowers on the loan. For example: a borrower may own 4 single family properties; 2 two-family properties and 2 single-family properties; one co-borrower may own 1 single-family property and the other co-borrower may own 3 two-family properties; a borrower may own 4 four-family properties; etc.

## HomeStyle Renovation Property Requirements

The subject property for a HomeStyle Renovation mortgage must be:

- A one-to-four unit principal residence
- A one-unit second home
- A one-unit investment property
- Note: manufactured homes and co-ops are not permitted

The property for a HomeStyle Renovation mortgage may be a unit in an eligible PUD or Fannie Mae Warrantable Condo unit. When the subject property is a unit in a condo, the project must be one for which the proposed renovation work is permissible under the bylaws of the homeowners' association.



## Renovation Requirements

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### Appraisal

The appraisal report for a *HomeStyle* Renovation Mortgage must provide an “as completed” appraised value that estimates the value of the property after completion of the renovation work. The appraisal fee may be included in the amount of total renovation related costs of the loan.

There are no required improvements or restrictions on the types of repairs allowed or a minimum dollar amount for the repairs. Repairs or improvements, however, must be permanently affixed to the real property and add value to the property. There is a maximum amount of repairs or improvements subject to 50% of the after improved appraised value.

### Contractor Requirements

All renovation work must be completed by a licensed/approved contractor. The borrower must choose their own contractors; the lender may not choose the contractor or refer the borrower to any one specific contractor. All contractors will be validated by Interlinc Mortgage.

### Construction Contract

The construction contract must:

- Itemize specific work the contractor agrees to perform for the borrower.
- State the agreed-upon cost of the renovation.
- Identify all subcontractors and suppliers.
- Include an itemized description establishing the schedule for completing each stage of the work and the corresponding payments to be made to the contractor.
- Comply with all building codes and zoning regulations including obtaining any building permits or certificate of occupancy, if required.
- Provide for appropriate remedies for resolving disputes (including an agreement to indemnify the borrower for all property losses or damages caused by the contractor’s employees or subcontractors).
- Be signed by both the buyer and the contractor.
- Be on the approved form 3734, *HomeStyle Renovation Construction Contract*.

You can use a HomeStyle Renovation Mortgage on a primary residence, a second home or an investment property. No other renovation mortgage has this much flexibility.

## How to Get Started on a HomeStyle Renovation Loan

When buying a home, the process should start with mortgage pre-approval. Getting pre-approved ensures that your budget and your credit are ready for a mortgage loan. A mortgage consultant will look at your situation – your income, debt and FICO score – and let you know whether you qualify for a mortgage and just how much you should plan on spending.

If you're already considering a renovation loan to buy your house, then let your mortgage consultant know. You can talk with them about options like HomeStyle and where you need to be with your credit score and the cash-in-hand you may need.

*Let's look at how this works with a HomeStyle Renovation mortgage.*

When you're considering buying a home, the first step is to find out how much house you can afford. A mortgage consultant will help you plan out a comfortable monthly house payment that you can afford. For instance, your consultant may say you're able to afford a house payment that adds up to a \$130,000 home. Your consultant would likely go over some of your financing options like renovation mortgages. Armed with this knowledge, you head out house hunting with your real estate agent.

As you search for "just the right home," you realize that if you qualified for a \$130,000 mortgage, you could actually look at homes in the \$100,000 sale price range, and afford around \$30,000 in renovations. Because you're educated on what a renovation loan is, you're ready to find a fixer-upper and make it your own.

Next, you find a home you want, and take the information to your mortgage consultant for final approval on financing. If you're heading down the renovation road with HomeStyle, you'll then bring your renovation contractor and an Service First Mortgage Approved home inspector or FHA Consultant into the mix. This consultant will help you and your contractor gather the information on renovation cost for the bid. An appraiser will use the bid to come up with the after-improved value of the home. This step also helps set up your contingency fee.

Now we head to closing. After closing on your loan, the work begins. Your approved FHA consultant or inspector will oversee the work on the house, perform draw inspections on the renovations and ensure you're looped into a successful process.

Once the work is done and everyone is paid, it's time to move into your new house! Welcome home.

*A contingency fee is like an escrow account, funded from your loan. The contingency covers things that may pop up like health & safety repairs, potential cost overruns or other unforeseen issues during the process. Your contingency fee with a HomeStyle Renovation Mortgage is 10% of the bid amount.*



## HomeStyle Renovation Consumer Tips from Fannie Mae

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Please review the important tips listed below about Fannie Mae HomeStyle Renovation Mortgages and home improvement projects.

- For the HomeStyle Renovation Mortgage, you do not receive any cash at the loan closing. The funds provided for renovation are placed in an interest-bearing escrow account (Renovation Escrow Account).
- The lender may require that a contingency reserve be placed in the Renovation Escrow Account to cover unforeseen repairs or deficiencies during the renovation. If funds remain after the renovation is complete, they can be applied to additional elective repairs or improvements or can be used to reduce the principal balance. If you deposit funds into the account, the funds you deposited can be paid directly back to you at your option.
- When selecting a contractor, always review the contractor's references, licensing, and financial background. Ask the lender for a Contractor Profile form to assist in your review, or locate one at [www.efanniemae.com](http://www.efanniemae.com).
- You are responsible for negotiating any agreements or warranties with the contractor. The lender does not provide any warranty on the contractor's work.
- You are responsible for overseeing the renovation and ensuring that it is done as specified in the Construction Contract with the contractor. If work stops for an extended period of time, or there are problems with the work performed that may cause significant delays, you must contact the lender.
- If you are purchasing a home to renovate it, please note that the lender does not warrant or guarantee the condition of the property being purchased or the renovation.
- You are responsible for making the mortgage payment each month, even if the renovation is not satisfactorily completed.
- Funds for the renovation are paid in accordance with a schedule acceptable to you, the contractor, and the lender. Funds are released to the contractor after an inspection of each phase of the renovation. The funds are provided in a check made payable jointly to both you and the contractor. You request these payments on a draw request form submitted to the lender.
- Do not approve funds to be released to the contractor if you are not happy with the work. Do not accept unsatisfactory work.
- Do not pay the contractor "up front" out of your own funds before the renovation is satisfactorily completed.
- The lender may withhold some of the funds from each Draw Request. These funds are paid to the contractor when the work is completed. This helps to protect you from a contractor failing to complete the renovation.
- If you would like to revise the original approved renovation, you must submit a Change Order Request to the lender for approval, and deposit any additional required funds (including contingency reserve) in the Renovation Escrow Account.
- When the renovation is completed, you and the contractor sign a Completion Certificate. The lender should provide you an accounting for all distribution of funds in the Renovation Escrow Account.



## Potential Home Checklist

Organizing yourself during the house hunting process can help make a smoother experience. Having a record of what each home offers can make your final decision much easier. Print out a few copies of this checklist to use as you visit prospective homes.

Date Seen: \_\_\_\_\_ Address: \_\_\_\_\_ Price: \_\_\_\_\_  
 Property Taxes: \_\_\_\_\_ Seller: \_\_\_\_\_ Age of House: \_\_\_\_\_  
 Style of home     Two Story     Ranch     Split Level     Traditional     Contemporary  
                           Cape cod     Townhouse     Condo  
 Type of construction     Wood     Brick     Stone     Stucco     Vinyl Siding     Aluminum Siding

### Exterior Features

Landscaping     Good     Fair     Poor  
 Fencing     Good     Fair     Poor     Nonexistent  
 Porch     Good     Fair     Poor     Nonexistent  
 Paint     Good     Fair     Poor  
 Patio     Good     Fair     Poor     Nonexistent  
 Deck     Good     Fair     Poor     Nonexistent  
 Garage     1 car     2 car     3 car     Detached  
                           Good     Fair     Poor  
 Roof Condition     Good     Fair     Poor  
 Sidewalks     Yes     No  
 Well-maintained neighborhood     Yes     No

### Interior Features

Kitchen Size \_\_\_\_\_  
 Eat-in     Yes     No  
 Flooring     Ceramic     Vinyl     Wood     Carpet     Good     Fair     Poor  
 Appliances     Good     Fair     Poor     Nonexistent  
 Cabinets     Good     Fair     Poor  
 Windows     Good     Fair     Poor  
  
 Dining room Size \_\_\_\_\_  
 Flooring     Carpet     Hardwood     Tile     Good     Fair     Poor  
 Lighting fixtures     Good     Fair     Poor     Nonexistent  
  
 Living room Size \_\_\_\_\_  
 Flooring     Carpet     Hardwood     Tile     Good     Fair     Poor  
 Lighting fixtures     Good     Fair     Poor     Nonexistent  
 Fireplace     Good     Fair     Poor     Nonexistent  
  
 Hallway Flooring     Carpet     Hardwood     Tile     Good     Fair     Poor  
  
 Linen closet     Good     Fair     Poor     Nonexistent  
  
 Total bedrooms \_\_\_\_\_  
 Bedroom 1 Size \_\_\_\_\_  
 Flooring     Carpet     Hardwood     Tile     Good     Fair     Poor  
 Closet     Good     Fair     Poor     Nonexistent



*Interior Features Continued*

Bedroom 2 Size \_\_\_\_\_

Flooring Carpet Hardwood Tile Good Fair Poor  
 Closet Good Fair Poor Nonexistent

Bedroom 3 Size \_\_\_\_\_

Flooring Carpet Hardwood Tile Good Fair Poor  
 Closet Good Fair Poor Nonexistent

Total Bathrooms \_\_\_\_\_

Master Bath Size \_\_\_\_\_

Flooring Ceramic Vinyl Wood Carpet Good Fair Poor  
 Tub Good Fair Poor  
 Fixtures Good Fair Poor

Guest Bath Size \_\_\_\_\_

Flooring Ceramic Vinyl Wood Carpet Good Fair Poor  
 Tub Good Fair Poor  
 Fixtures Good Fair Poor

Laundry room Location \_\_\_\_\_

Washer Good Fair Poor Nonexistent  
 Dryer Good Fair Poor Nonexistent

Good closet space Yes No

Basement Yes No Finished Carpet Hardwood Tile

**Utilities**

Type of heating Hot water Gas Electric Oil  
 Insulation Fiberglass Cellulose Foam Nonexistent  
 Central Air Yes No  
 Plumbing Condition Good Fair Poor  
 Sump pump/drainage system Yes No  
 Connected to sewer system Yes No  
 Age of heating system \_\_\_\_\_  
 Age/capacity of water heater \_\_\_\_\_  
 Age of electrical wiring \_\_\_\_\_

Easy proximity to:

Work Schools Shopping Airport Area Industry Highways  
Houses of worship Train station Public transportation Doctors/dentists

**Recent sales in neighborhood:**

Address: \_\_\_\_\_ Size: \_\_\_\_\_ Price: \_\_\_\_\_

Address: \_\_\_\_\_ Size: \_\_\_\_\_ Price: \_\_\_\_\_

Address: \_\_\_\_\_ Size: \_\_\_\_\_ Price: \_\_\_\_\_



## More Resources for Renovation Mortgages

From HomeStyle to HomePath Renovation to FHA 203k, you have options for financing the purchase and remodeling of a home. The guides below will help you learn about what's available, and how it all works. Education is important to us here at Interlinc Mortgage. Download the guides and become a more powerful, educated home buyer.

Visit [www.MortgageProsUs.com](http://www.MortgageProsUs.com) for details.



**ServiceFirst™**  
MORTGAGE

# Need renovations?

*Our HomeStyle Renovation Program is a convenient way to make repairs or improvements to your home.*

**Call me to learn more!**



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## Let Us Know How We Can Help

Service First Mortgage has helped first time home buyers realize the dream of leaving that rental behind, and owning a house. Whether it's conventional lending, an FHA program, VA loan, USDA Rural Development or a renovation mortgage loan, The Richard Woodward Mortgage Team is here to find the right mortgage for you.



### Copyright Notice & Legal Notice

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