



Your Ultimate Guide to Renovation Loans.

A GUIDE FOR FIRST-TIME HOMEBUYERS.

Buy and remodel with one loan.

www.ShieldGuardInspections.com

Amerifirst & Shield Guard Home Inspections LLC

Shield Guard Home Inspections LLC is a certified Hud Consulting Company for all of your Hud, 203k, VA, Fannie Mae Loans and MORE!

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**Choosing the right contractor can be just as important as the loan you choose.
We have a list of contractors who are ready to take on the project.**

Getting into the home of your dreams.

Buying your first home is exciting! And, if you're like many first-time homebuyers, you may not have the budget to buy the home of your dreams and are considering buying a fixer-upper. As you may already be aware, buying a home that needs some love can be a smart investment, as these properties are typically less expensive and rarely list at full market price. And once you snag a bargain, it can be exciting to imagine what you can do to make it your own – new kitchen and bath fixtures, an open floor plan, a dedicated home office – projects that will increase its value, make it a more enjoyable place to live, and show off your unique style and personality.

Paying for it may be easier than you think.



BUY & REMODEL TO GET WHAT YOU WANT.

Maybe you already have your eye on buying a house in a great neighborhood that needs some remodeling to make it your own. For example, let's imagine it's listed for \$100,000 and you estimate you'll need another \$50,000 for renovations. With a conventional mortgage, your lender is not going to approve a \$150,000 loan to buy a house that is appraising at \$100,000. This can be a major obstacle if you don't have the extra cash to make the needed renovations before moving in. Fortunately, a renovation loan can help.

WHAT'S SO SPECIAL ABOUT A RENOVATION LOAN?

You can finance both the purchase price of the property plus the funds needed for upgrades and home improvements – with just one loan. You get peace of mind knowing you can move into your newly purchased home with the financing in place to make those renovations. And you have the security of knowing that by receiving a higher loan amount to cover renovation costs, you're paying less out of your own pocket and sidestepping a route far too many new homebuyers take: piling up debt on high-interest-rate credit cards to pay for your remodeling projects.

AVOID HIGH INTEREST CREDIT CARD DEBT WITH A RENOVATION LOAN.

Below is an example of a borrower who chooses to pay for his home remodel with a renovation loan as compared to charging the project on a high interest credit card:

Renovation Loan

Home price: \$100,000
Remodeling costs: \$50,000
Total loan amount: \$150,000
Additional funds needed to remodel: \$0
6.625% Interest on \$50,000 for 15-year loan: \$33,423
Total renovation costs: \$83,423

Credit Card

Home price: \$100,000
Remodeling costs: \$50,000
Total loan amount: \$100,000
Additional funds needed to remodel: \$50,000
18% interest on \$50,000 for 15 years: \$94,398*
Total renovation costs: \$144,398

Borrower pays an additional \$60,975 using credit card to pay for remodeling project.

*Assumes borrower makes monthly payments of \$805.21. Interest above the fair market value is not tax deductible for federal taxes. Contact your tax preparer for more information. Source: creditcards.com, 11/12/18

3 ways a renovation loan can work for you.



Buy and remodel a home with one loan



Avoid plowing through your savings or maxing out your credit cards to cover renovations



Claim a larger tax deduction (renovation and home purchase interest combined)*

07 / just the details.

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Limited 203(k)

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Choosing the renovation loan for your needs.

Amerifirst offers two loan programs that can make your dreams of transforming a fixer-upper a reality: the 203(k) Renovation Loan and the Fannie Mae HomeStyle Renovation Loan. Because they have different requirements, let's look at both programs in more detail.



FHA 203(k) loan

With an FHA 203(k) loan, you can buy a home at a very reasonable price and remodel it to reflect your tastes and personality. This loan is unique because you can borrow the funds you'll need based on what your house is expected to be worth after the renovation is complete.

PROS:

- Low 3.5% down payment option
- Lower credit score requirements
- Seller contributions of up to 6% of the purchase price
- 15- to 30-year term with fixed interest rate

CONS:

- Mortgage Insurance Premium (MIP) required (can be rolled into loan)
- Primary residence, owner-occupied only

TYPES OF PROPERTIES YOU CAN BUY:

- A one- to four-unit family home
- An individual condominium unit, meeting all FHA condo requirements
- A site condominium unit
- Mobile homes (manufactured housing) - excluding single-wide



TWO OPTIONS WITH THE 203(K).

The 203(k) loan is insured by the Federal Housing Administration (FHA), and offers two options: Limited and Standard. Finding the one that is right for you depends on how much you want to spend and what you intend to do.

Limited

The Limited 203(k) is an all-in-one loan used for homes that need minor repairs. It allows borrowers to finance the purchase of an existing home and make improvements or upgrades up to \$35,000 before move-in. There are no minimum repair costs and the borrower must occupy the property.

Standard

The Standard 203(k) is an all-in-one loan used when homes need major rehabilitation, or when repairs are structural, involves landscaping, or when the renovation costs exceed \$35,000. There must be a minimum of \$5,000 worth of repairs, and again, the borrower must occupy the property. The Standard 203(k) requires a HUD-approved 203(k) consultant to help in the process. The consultant will be a valuable member of your team as they work directly with your contractor and lender to ensure the required renovation is completed. Your loan officer will work with you to obtain the services of an experienced HUD-approved 203(k) consultant.

Limited 203(k)



The Limited 203(k) Loan may only be used for minor remodeling and non-structural repairs on existing properties and does not require the use of a 203(k) Consultant. The total renovation cost (bid amount, fees and contingency reserve) must not exceed \$35,000. There is not a minimum renovation cost.

ELIGIBLE IMPROVEMENTS.

- Eliminating health and safety hazards that would violate HUD's MPR
- Repairing or replacing wells and/or septic systems
- Connecting to public water and sewage systems
- Repairing/replacing plumbing, heating, AC and electrical systems
- Repairing or installing new roofing, provided the structural integrity of the structure will not be impacted by the work being performed
- Repairing or installing siding, gutters and downspouts
- Making energy conservation improvements
- Installing or repairing fences, walkways, driveways, exterior decks, patios and porches
- 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
- Covering pre-1978 lead-based paint stabilization costs (in accordance with the single-family mortgage insurance LBP rule and the US EPA rules)

INELIGIBLE IMPROVEMENTS.

The Limited 203(k) proceeds may not be used to finance major renovation or major remodeling. A repair is considered 'major' when:

- Renovation activities require more than two payments per specialized contractor
- The work requires a consultant
- The repair prevents the borrower from occupying the property for more than 15 days during the renovation period



Additionally, the Limited 203(k) may not be used to finance the following specific repairs:

- Converting a one-family structure to a two-, three- or four-family structure
- Decreasing an existing multi-unit structure to a one- to four-family structure
- Reconstructing a structure that has been or will be demolished
- Repairing, reconstructing or elevating an existing foundation
- Purchasing an existing structure on another site and moving it onto a new foundation
- Making structural alterations such as the repair of structural damage and new construction including room additions
- Landscaping and site improvements
- Constructing a windstorm shelter
- Making additions or alterations to support commercial use or to equip or refurbish space for commercial use
- Making recreational or luxury improvements, such as a new swimming pool, an exterior hot tub, spa, whirlpool bath or sauna, barbecue pits, outdoor fireplaces or hearths, bath houses, tennis courts, satellite dishes, tree surgery (except when eliminating a threat to existing improvements), photo murals and gazebos

TIMELINES AND DISBURSEMENTS FOR THE LIMITED 203(K).

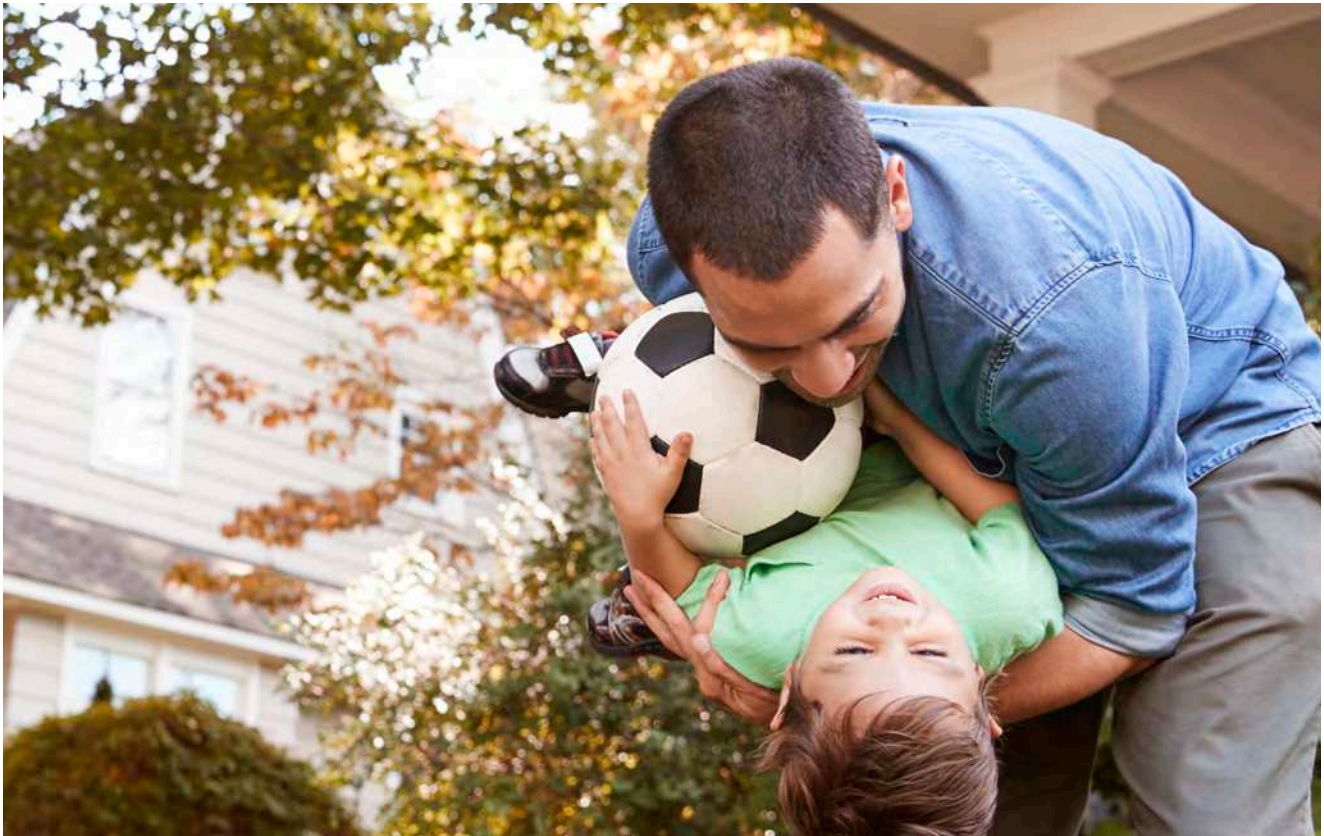
Timeline

When your loan closes, the mortgage proceeds will be used to pay the seller of the existing property and to establish your Rehabilitation Escrow Account. Depending on the type of improvements needed, you have up to six (6) months to complete your work.

Disbursements (Draws)

No more than two payments may be made to each contractor. The first payment is intended to pay material costs and cannot be more than 50% of the estimated costs of all repairs and improvements. As your lender, we will allow the first payment at closing to cover, and not exceed, actual required contractor deposits, building permits, and/or the cost of building materials purchased prior to construction. Before a final disbursement is made, the borrower must sign a statement acknowledging that the work has been completed in a satisfactory manner. A final inspection is required, regardless of the improvement or repair, and must be done upon completion before final payment is made. Any leftover funds are applied to the principal balance of your loan.

Standard 203(k)



The Standard 203(k) may be used for remodeling and repairs on newly purchased properties. There is a minimum repair cost of \$5,000 and the use of a 203(k) Consultant is required.

ELIGIBLE IMPROVEMENTS.

- Converting a one-family structure to a two-, three- or four-family structure
- Decreasing an existing multi-unit structure to a one- to four-family structure
- Reconstructing a structure that has been or will be demolished, provided the complete existing foundation system is not affected and will still be used
- 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 modernizations
- 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 pre-1978 lead-based paint stabilization costs (in accordance with the single-family mortgage insurance LBP rule and the US EPA rules)

INELIGIBLE IMPROVEMENTS.

You cannot use the Standard 203(k) for the purchase or repair of any luxury item, any improvement that does not become a permanent part of the property or improvements that solely benefit commercial functions within the property, including:

- Installation of swimming pools
- Above ground pools
- An exterior hot tub, spa, whirlpool bath or sauna
- Barbecue pits, outdoor fireplaces or hearths
- Bath houses
- Tennis courts
- Satellite dishes
- Tree surgery (except when eliminating a threat to existing improvements)
- Photo murals
- Gazebos

TIMELINES, DISBURSEMENTS AND INSPECTIONS FOR THE STANDARD 203(K).

Timeline

When the loan closes, the funds will be used to pay the seller of the existing property and to set up a Rehabilitation Escrow Account that will be used to complete repairs on your home. Once renovation begins, you will have up to six (6) months to complete the work, depending on the extent of work that needs to be done.

Disbursements (Draws)

As portions of the project are completed, and it passes inspection by a HUD-approved inspector, the contractor will receive payment. A maximum of five (5) draws (cash disbursements) are allowed. Draw amounts may vary and are based on the work performed. Disbursements are made as each phase of the project is completed based on the draw paperwork provided by the consultant. Inspections are required prior to each disbursement. A ten (10) percent holdback is required on each disbursement released from the Rehabilitation Escrow Account.

The Holdback/Contingency Fee

- Used as an incentive to insure all work is completed and to cover health, safety and unplanned issues that arise during construction.
- Required on Standard 203(k); recommended on Limited.
- Required on properties older than 30 years and/or over \$7,500 in rehabilitation costs.
- A minimum of 10% of the cost or rehabilitation and maximum of 20%.

If not used (after all construction is complete), the remaining amount will be applied to pay down the principal balance of your loan.





6 steps to buying your first home with a 203(k) loan

1

Find a property and make the offer.

Once you have made the offer to purchase the home, your real estate agent will complete a Preliminary Market Analysis to help get an estimate of what the property's projected value might be after renovation is complete.

2

Meet with your team.

Meet with your Amerifirst 203(k) specialist (we're an approved FHA lender) and choose a licensed contractor. Your contractor will provide written estimates showing the scope of the work to be done, including a cost estimate on each repair or improvement of the project.

3

Appraise the property.

An appraisal is performed to determine the value of the property after renovation. The appraiser will also determine if there are any additional repairs necessary for the property to meet minimum FHA property guidelines.

4**Loan is approved and closed.**

The borrower, property and improvements are approved for an amount that will cover the purchase of the property and improvement costs. The loan will include a reserve of 10 – 20% of the total remodeling costs to pay for extra work needed to complete the project. At closing, the seller of the property is paid and the remaining funds are put in an escrow account to pay for the project during the work period.

5**Work begins on the property.**

The mortgage payments and renovation begin after the loan closes. You can decide to have up to six mortgage payments (PITI) put into the cost of rehabilitation if you are not going to be living in the home during construction, but it cannot exceed the length of time it is estimated to complete the rehab.

6**Disbursements and payment (draws).**

Escrowed funds are released to the contractor during construction through a series of draw requests for completed work. To ensure completion of the job, 10% of each draw is held back; this money is paid after we determine there will be no liens on the property. As the borrower, you will always approve the release of funds to the contractor.





Homestyle Renovation

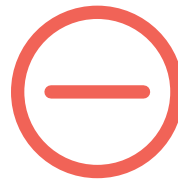
The Fannie Mae HomeStyle Renovation loan is a good choice for buyers with good credit and a healthy down payment. Like the FHA 203(k) loan, you can buy a home and receive funds to cover the costs of repairs, remodeling, renovations or energy efficient improvements to the property. Unlike the FHA 203(k) loan, however, you can use the HomeStyle Renovation loan to finance primary, vacation and rental properties. Private mortgage insurance is also lower, compared to the 203(k).

Other advantages of the HomeStyle loan include higher loan limits and no 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. Allowable improvements can include landscaping, appliances, swimming pools and more.

You can also use gift funds from family or friends for your down payment and closing costs for your owner-occupied, primary residence after you contribute a minimum 3% down payment. The seller can also contribute 3% towards closing costs.

**PROS:**

- Minimum 5% down payment (10% for second homes)
- Wide range of uses
- Gift funds can be used for portion of down payment and closing costs

**CONS:**

- Private Mortgage Insurance (PMI) required for down payment under 20%

Like the 203(k) loan, the HomeStyle Renovation loan is a solution to the current problem in housing: finding older, often neglected properties, that are in highly desirable neighborhoods. These homes are often passed over because buyers are often overwhelmed by the amount of work that is needed to bring them up to code and to suit their style and personality. However, buying a house with "good bones" and turning it into the home of your dreams - new kitchen, bathroom, room addition or energy efficient upgrades - is a path many homebuyers travel. And you can do it with as little as 5% down for primary single-family residences with the HomeStyle loan (10% down for second homes).

20 / breaking it down.

21 / **COMPARE YOUR OPTIONS**

Which loan is right for you?

Which loan is right for you?

| LOAN TYPE | FHA 203(K) STANDARD | FHA 203(K) LIMITED | FANNIE MAE HOMESTYLE® |
|---|--|--|--|
| Property Type | Purchase and renovate most residential properties | Purchase and renovate most residential properties | Purchase and renovate most residential properties |
| I-4 Unit Primary Residence | Yes | Yes | Yes |
| I-Unit Second Home | No | No | Yes |
| I-Unit Investment Properties | No | No | Yes |
| Minimum Down Payment | 3.5% of total acquisition cost (sale price + renovation costs) or for refinancing (mortgage balance + renovation costs) | 3.5% of total acquisition cost (sale price + renovation costs) or for refinancing (mortgage balance + renovation costs) | 10% minimum down payment for primary, single-family residences (as little as 5% down for well-qualified borrowers). |
| Gift Funds | Allowed per FHA guidelines | Allowed per FHA guidelines | Allowed per Fannie Mae and Mortgage Insurance guidelines |
| Mortgage Amount | Based on after improved appraisal value or total acquisition (lower of the two) (total acquisition = sales price + renovation costs) | Based on after improved appraisal value or total acquisition (lower of the two) (total acquisition = sales price + renovation costs) | Based on after improved appraisal value or total acquisition (lower of the two) (total acquisition = sales price + renovation costs) |
| Mortgage Insurance (MI) Required | Yes | Yes | Down payments less than 20% on a purchase; loan amounts greater than 80% of the appraised value on refinance. |
| Maximum Renovation Amounts | No maximum as long as mortgage amounts are within county guidelines for FHA loans | Up to \$35,000 | 75% of the as-completed value |
| Allowable Repairs | Sidewalk/driveway repair; structural changes, landscaping, new appliances, basement waterproofing, room addition and more | Flooring, painting, non-major remodeling kitchen/bath, appliances, energy efficient upgrades and more | Remodeling kitchen/bath, structural changes, room addition, energy efficient upgrades, pool and spa addition and more |

*Not intended as accounting or investment advice. Interest above the fair market value is not tax deductible for federal taxes. Contact your tax preparer for more information.