Your Home Should Be
YOUR WAY
That's the FAIR WAY!
FAIRWAY
INDEPENDENT MORTGAGE CORPORATION
RENOVATION
DEPARTMENT
A Renovation Guide Made Simple

Table of Contents

The Renovation Loan: A Solution to a Problem 3

Options for Renovation 4–7

- FHA 203k Standard
- FHA 203k Limited
- FHLMC CHOICERenovation
- FNMA HomeStyle

Common Questions from Prospective Borrowers 8

Creating Value Through Renovation 9

The Renovation Loan Process from Start to Finish 10–11

Comparing Renovation Loan Options 12

What Makes Fairway Different? 13

Happy Customers, Happy Homes 14

Home Improvement is on the rise! In the U.S. in 2018, improvement and maintenance of owner-occupied homes was a $394 billion industry, up from $217 billion in 2001.

Source: Statista

The Renovation Loan

A Solution to a Problem

A renovation loan allows the borrower to finance both the cost of the home and the desired repairs all in one mortgage. To provide funds for the rehabilitation, the mortgage amount is based on the projected value of the property with the work completed. The work must begin within 30 days of the close of the loan and cannot cease for more than a 30-day period. Renovation loans require licensed professionals to complete the work. A loan officer can help determine which type of renovation loan is right for a buyer in any given scenario.

PROBLEM	SOLUTION
The neighborhood where we want to live has only older homes. We are torn between a new home and a desired neighborhood.	Don't settle for a new home in the wrong neighborhood. RENOVATION makes possible a seemingly new home in the right neighborhood. The sky is the limit with repairs ranging anywhere from new paint and countertops all the way to knocking down walls or putting in new septic and plumbing.
We just keep on renting because we worry that once we purchase a home, we won't have available funds to upgrade it the way we want.	You're not alone; most people don't have expendable funds right after they purchase a home. That's what makes a RENOVATION LOAN ideal. The cost of the renovation is absorbed right into your mortgage so you aren't scrambling to come up with additional funds post-closing.
We love our home, but we've outgrown it. We need another bathroom.	If you love your current home, then stay put, but renovate it to fit your growing needs. A RENOVATION LOAN potentially allows you to refinance your mortgage and wrap in the costs of the renovations. You could have your second bath or even a second story!
We've been working with a Realtor for months, and we don't seem to be making any progress. There's just not much inventory out there.	You can increase the inventory of homes you are looking at exponentially by considering a renovation! With renovation financing, you'll have more choices and inventory than you know what to do with.

So You Would Like to Renovate?

At Fairway, you have options. Your Loan Officer can help you select the type of renovation loan that fits your needs. Let's explore your options!

The FHA 203k Standard Loan

The FHA 203k Standard loan is used when a home needs structural work, involves non-safety related landscaping, or when the renovation costs exceed $35,000. This loan requires a minimum of $5,000 in repairs. There is no cap on the renovation budget (FHA maximum loan limits apply). You will be required to have a HUD Consultant in addition to a contractor. The HUD Consultant will help ensure that all minimum property standards are met and that your contractor has completed the work according to contract.

A few bright ideas this loan could accommodate:

- Add a sliding door where one did not exist
- Remove a wall to open up the floor plan
- Add square footage by making an addition
- Replace flooring, paint and fixtures

The FHA 203k Limited Loan

The FHA 203k Limited loan is used when a home needs non-structural/cosmetic work. The total renovation budget must be less than $35,000. There is no minimum dollar amount for repairs. The Limited loan does not require a HUD Consultant. As the borrower, you will complete a written work plan, which will demonstrate your understanding of the contractor's bid. Mortgage payments cannot be financed with this loan.

A few bright ideas this loan could accommodate:

- Add new kitchen cabinetry
- Update appliances
- Update plumbing
- Replace flooring, paint and fixtures

FHLMC

CHOICERenovation Loan

The CHOICERenovation loan is one conventional option at Fairway. It allows the borrower to make any repairs that are permanently affixed to the property. This loan allows both structural and non-structural repairs. Landscaping and site amenities are allowed. Second homes and 1-unit investment properties are also eligible.

A few bright ideas this loan could accommodate:

- Replace windows to add light
- Add a fireplace
- Remove a ceiling to give height
- Replace flooring, paint and fixtures

The FNMA HomeStyle Loan

The HomeStyle renovation loan is the other Conventional mortgage at Fairway. It allows the borrower to make any repairs that are permanently affixed to the property. This loan allows both structural and non-structural repairs. Landscaping and site amenities are allowed. Second homes, 1-unit investment properties and 2- to 4-unit investment properties are also eligible.

A few bright ideas this loan could accommodate:

- Add a pool
- Improve landscaping
- Add a fence
- Replace flooring, paint and fixtures

Common Questions From Prospective Borrowers

If we renovated the fixer-upper we saw, repairs could take months and we couldn't live in the home during rehab. Would we need to start making the mortgage payments right away?

The loan is fully disbursed at closing, meaning all monies for repairs are placed in escrow. The borrower pays full principal and interest throughout rehabilitation. Please note that on 203k Standard k loans and conventional loans, if the home is deemed uninhabitable, you have an option to finance up to six months of mortgage payments in the loan.

What if something unexpected happens and the contractor discovers more needed repairs than were planned for?

In order to allow for unforeseen needed repairs, a contingency is required on every loan. The contingency will be 15% if the home is unoccupied or the utilities are off. It will be 10% otherwise. The contingency money is set aside just for those unexpected emergencies. Any unused contingency can go toward paying down the principal loan amount.

How long will a renovation loan take to close at Fairway?

We recommend planning on a close that is between 45 and 60 days. Renovation loans are slightly more complex than non-renovation loans, so there are times when it takes between 45 and 60 days to close. Oftentimes, renovation loans close faster than the 45 days; there are many factors that can speed it up or slow it down.

Can I be my own contractor if I am a general contractor?

At Fairway, no self-help is allowed on renovation loans. This means that even if the borrower is professionally qualified to be the contractor, they cannot be their own contractor.

Renovation is trending upward! Projected future growth for residential remodeling will put the industry at 4 billion dollars in 2022, up from approximately 2 billion in 2017.

Source: Anything Research

Your home, your way. That's the **FAIR WAY.**

Creating Value Through Renovation:

As a homeowner, you want to know that you are making a good investment when you purchase a home. Consider the following points:

Are you making the most of YOUR investment? – Rather than paying a premium for changes made by the previous owners, you want to invest in improvements that suit your personal tastes and lifestyle needs.

SCENARIO WITHOUT A RENOVATION LOAN:	SCENARIO WITH A RENOVATION LOAN:
You buy a recently remodeled home in the neighborhood you want. The home is priced on the high end because it is recently remodeled. The previous owners chose to remodel using dark countertops and cabinetry. The finishes are new but they are not what you would have chosen. You settle for it and hope to have funds in the future to make your desired changes.	You buy a fixer-upper in the neighborhood you want. The home is priced right because it hasn't been updated in decades. You choose the finishes that appeal to you and create the kitchen you've always dreamed of. You are paying for exactly what you want and you aren't settling for what someone else wanted.

Good things come to those who RENOVATE! – You can get what you want now. Get cozy in your new home, which actually feels "new."

SCENARIO WITHOUT A RENOVATION LOAN:	SCENARIO WITH A RENOVATION LOAN:
You buy a home. It is outdated, and the carpet is permanently stained. You find that after making your down payment to get into the home, you don't have extra funds to update the home and replace the carpet. After being in the home for a year, you determine that you will need to borrow the money. You go to your local home improvement store and take out a line of credit for $15,000 and hire one of their contractors. You now make a mortgage payment plus a credit card payment monthly.	You buy a home that is outdated and the carpet is permanently stained. You opt to do a Limited K loan so you can wrap in new carpet and other cosmetic updates. You research contractors and hire the one you feel best about. He begins the work within 30 days of the close of your loan. He completes the work quickly in order to get paid the 50% balance he is owed. You now have the home you wanted and you make one convenient payment to your mortgage company.

No SWEAT! – While professional contractors do the work, you can earn "sweat equity" in the process.

SCENARIO WITHOUT A RENOVATION LOAN:	SCENARIO WITH A RENOVATION LOAN:
You buy a home with a sales price of $250,000. It meets minimum property standards but has no garage and only one bathroom. Your appraisal comes in at $250,000 as expected. You continue to scrape snow off your car each morning and share a bathroom with your teenagers.	You buy a home with a sales price of $250,000. It meets minimum property standards but has no garage and only one bathroom. You opt to do a HomeStyle loan and wrap in the cost of adding a garage and a bathroom. The cost of your repairs is $40,000. Your after-improved value comes in at $310,000! You have earned yourself some "sweat equity" without the sweat.

Where do I Start?

STEP 1:

You indicate an interest in renovating a home, and you meet with a Fairway Loan Officer to discuss which renovation product best suits your needs. You will be given some items to pass on to your contractor once you have decided on one.

STEP 2:

Your Loan Officer pre-qualifies* you for a mortgage, giving you various sales prices and renovation amounts. This will give you options as you are shopping for a home.

STEP 3:

While looking for the perfect home, you are also interviewing contractors. You will select the home and the contractor just right for you.

STEP 4:

Congratulations on finding the perfect home! During your inspection period, you will work with your contractor to review items that might be required to meet minimum property standards while adding anything else that you want to be done on your new home.

STEP 5:

You will provide the sales contract and contractor's estimated bid to your Fairway Loan Officer so you can get your loan disclosed.

STEP 6:

If you are using a Standard 203K loan, a HUD Consultant is hired and they will perform an inspection and provide a written report on their findings.

STEP 7:

Once the bid has been finalized and approved, your appraisal can be ordered. Specs and plans are required if you are making changes to the floor plan.

STEP 8:

The appraisal is reviewed and the file is submitted to Underwriting.

STEP 9:

Your loan closes and the contractor can start the renovation work.

Many homes need a facelift: According to the 2018 Census, the median age of homes in the U.S. was 38.2.

Source: U.S. Census Bureau

*A pre-qualification is not an approval of credit and does not signify that underwriting requirements have been met.

My Loan Is Finished,

But My Home Isn't. What Now?

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!

Your home, your way. That's the **FAIR WAY.**

Comparing Renovation Loan Options

	LIMITED 203K	STANDARD 203K	HOMESTYLE*	CHOICE RENOVATION***
ELIGIBLE REPAIRS	Non-structural	Structural and non-structural	Structural and non-structural	Structural and non-structural
INSTALLATION OF IN-GROUND SWIMMING POOL	Not allowed	Not allowed	Allowed	Allowed
MAX ALLOWABLE TOTAL RENOVATION REPAIR BUDGET	$35,000	No limit to max FHA loan limits	**Purchase:** Lesser of 75% of total acquisition cost or as-completed appraised value **Refi:** 75% of the as-completed value	**Purchase:** Lesser of 75% of total acquisition cost or as-completed appraised value **Refi:** 75% of the as-completed value
FICO	620	620	620	620
TEARDOWN	Not allowed	Allowed (foundation to remain intact)	Not allowed	Not allowed
PRIMARY RESIDENCE PURCHASE DOWN PAYMENT AND LTV**	3.5% (96.5% LTV)	3.5% (96.5% LTV)	3% (97% LTV) for first-time homebuyers 5% (95% LTV) for non-first-time homebuyers	5% (95% LTV)
PRIMARY RESIDENCE REFINANCE LTV	97.75% LTV	97.75% LTV	97% LTV if FNMA loan pay-off 95% LTV if non-FNMA loan pay-off	95% LTV
ELIGIBLE PROPERTY TYPES	1- to 4-unit primary	1- to 4-unit primary	1- to 4-unit primary 1- to 4-unit investment 1-unit second home	1- to 4-unit primary 1-unit investment 1-unit second home
ADVANCES AT CLOSE AND MATERIAL DRAWS	50% of the total bid can be advanced at close of the loan	No advances and no material draws	50% of materials budget can be disbursed after close	50% of materials budget can be disbursed after close
DRAW HOLDBACKS	No holdbacks on draws	10% holdback on all draws except final draw	10% holdback of the total bid paid out with final draw	10% holdback of the total bid paid out with final draw
RENOVATION COMPLETION TIME	Within 6 months of the close date	Within 6 months of the close date	Within 6 months of the close date	Within 6 months of the close date
BORROWER RELATED TO CONTRACTOR	Not allowed	Not allowed	Allowed	Allowed

**For HomeStyle Energy Efficient Mortgage, 2- to 4-unit Investment Variance and HomeReady HomeStyle, see complete UW guidelines.*
***Loan-to-Value (LTVs) and Combined Loan-to-Value (CLTVs) may vary by loan amount.*
****For CHOICERenovation HomePossible, see complete UW guidelines.*

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 setup, 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.

Happy Customers,

Happy Homes.

"We purchased our home in June of 2014 with the intention of putting our own stamp on it. After watching countless episodes on HGTV we decided to give it a go. We had done a few DIY projects already but this one seemed over our head. I happened to give a loan officer at Fairway a call to see if he had any home loan options. He explained this renovation loan to us and it seemed like the perfect fit. He was so helpful in leading us in the right direction. We felt so comfortable with our contractor and his crew and they did a fantastic job. Anytime we had a question about the paperwork regarding the loan, Fairway was right there to help. It is never "fun" living in a home during a major kitchen demo/ renovation, but it was so worth it. I would absolutely recommend this type of loan. We actually gave the information to two of our friends for their home renovation projects."

— *Meghan P., Massachusetts*

"I wouldn't have bought this great house without the 203K loan to update it. Thank you!!"

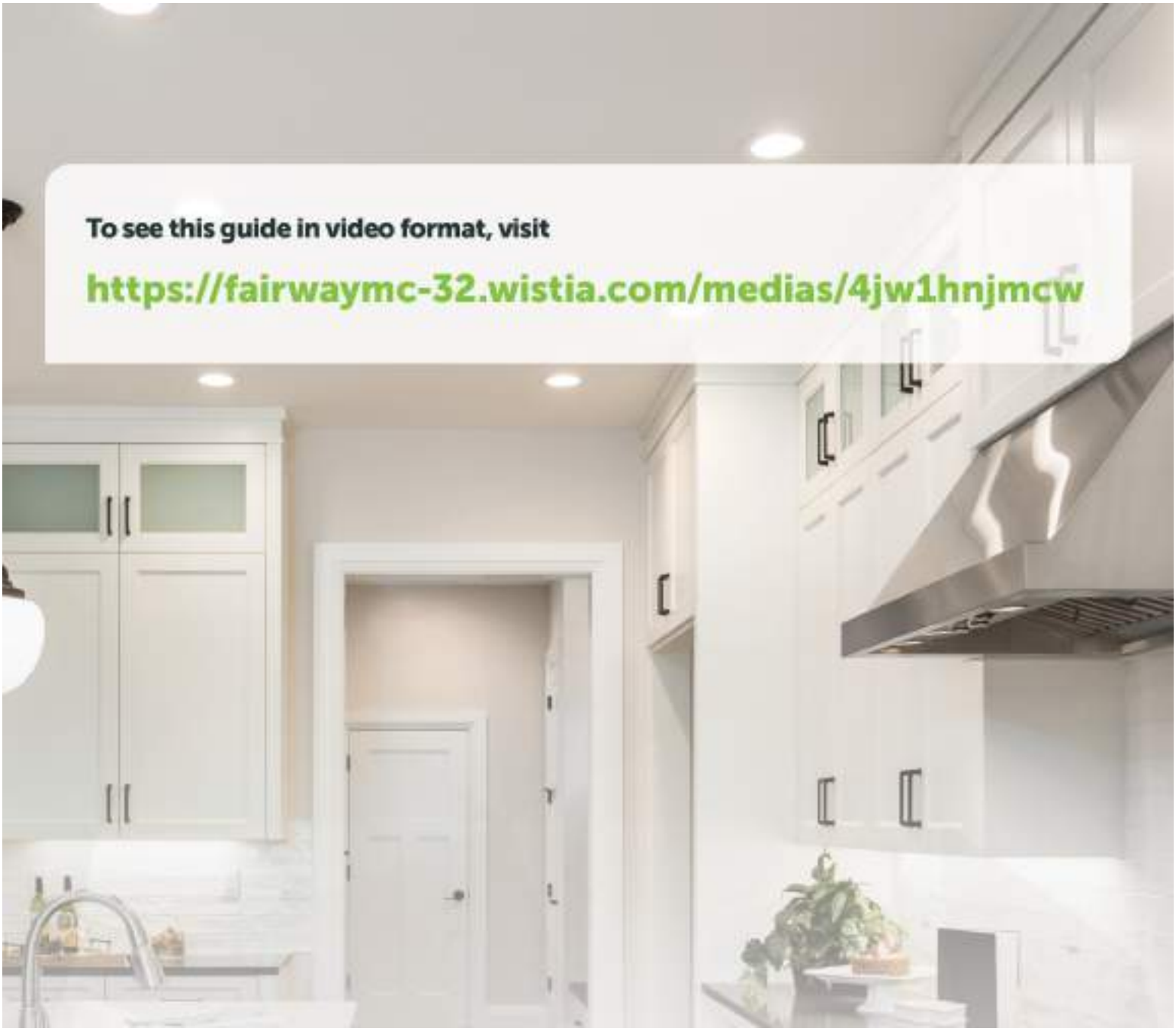
— *Anonymous*

"As a first time home buyer, the ability to purchase a home is very difficult in a market with a lot of competition. Finding homes within my budget that were semi or fully move in ready was a challenge. The best options were to look at foreclosures or homes that needed some TLC. The ability to obtain a renovation loan made prospecting a bit easier, but still competitive. The key for me was having an experienced team that worked fast. When a great opportunity comes available, you need to be ready to move and move quickly. I appreciated the honesty and direct nature of the team and I liked knowing exactly what was needed of me and when. This allowed me to put perspective on the housing environment and the expectation of the process. With that being said, being prepared and not getting overwhelmed made the process go very smooth. My realtor and mortgage team set the expectation of the process and there was very little deviation from it. In the future, I will consider this type of loan."

— *Contessia E., Washington*

Your home, your way. That's the **FAIR WAY.**

Notes



FAIRWAY® INDEPENDENT MORTGAGE CORPORATION | MEDINA TEAM

Dave Medina
Area Manager, NMLS #395424

Office: 951-387-6077
Cell: 951-858-4761
Fax: 866-562-3743
dave.medina@fairwaymc.com
medinateammortgage.com
28475 Old Town Front Street, Suites M & N Temecula, CA 92590

Copyright© 2021 Fairway Independent Mortgage Corporation. NMLS #2289. 4750 S. Biltmore Lane, Madison, WI 53718, 1-866-912-4800. All rights reserved. This is not an offer to enter into an agreement. Not all customers will qualify. Information, rates and programs are subject to change without prior notice. All products are subject to credit and property approval. Not all products are available in all states or for all dollar amounts. Other restrictions and limitations may apply. Equal Housing Opportunity. Licensed by the Department of Financial Protection and Innovation under the California Residential Mortgage Lending Act, License No 41DBO-78367. Licensed by the Department of Financial Protection and Innovation under the California Financing Law, NMLS #2289. Loans made or arranged pursuant to a California Residential Mortgage Lending Act License. Fairway Independent Mortgage Corporation is not affiliated with any government agencies. Materials are not from HUD or FHA.

232636