



Renovation Review

VOLUME 5

Allowable Repairs and Improvements

In this volume of the Planet Home Lending Renovation Review, we will provide you with the information you will need to fully take advantage of all the benefits of originating renovation loans, not only for your customers, but for you — allowing you to finance all the improvements your borrowers might seek while hopefully making larger loans and creating more satisfied customers.

The list of eligible repairs and improvements is almost unlimited depending on which renovation loan program your borrowers qualify for. When originating renovation loan programs, lenders should provide a complete list of eligible and ineligible repairs as part of selecting the right program for your borrowers and by providing these lists you will open their eyes to all the possibilities these great loan programs can provide to repair, improve, upgrade, expand, or significantly change their current or prospective home.

The following lists will provide you with a closer look at the options available to you and your borrowers. For a more comprehensive list, you are encouraged to reach out to your Planet Regional Sales Manager, the Renovation Lending Team, or refer to agency guidelines. We are always available to assist you.

FHA Standard 203(k) Eligible Improvements

A minimum of \$5,000 in eligible improvements. This program requires the use of an FHA 203(k) Consultant to prepare a Specification of Repair (SOR). The SOR is in effect an independent third-party construction cost estimate that is required to ensure that all FHA Minimum Property Requirements are met. All health, safety, and energy conservation items must be addressed prior to completing general home improvements. **Items eligible for 203(k) funds include, but are not limited to:**

- Changes to improve function/modernization (bath/kitchen remodel)
- Converting single family to 2, 3, or 4 unit dwelling or from a multi-family to a 1-4 unit
- Elimination of health/safety hazards (lead-based paint, mold, etc.)
- Creating accessibility for persons with disabilities
- Interior/exterior painting
- Landscaping that adds permanent value to the property and/or corrects fire, health, or safety issues
- Structural alterations/additions (room/garage additions, bedrooms, finish attics/basements, repair of termite damage)
- Rehabilitating, improving, or constructing a garage
- Repair/replace flooring, new appliances
- Repair/replace roofing, siding, windows, doors, gutters, and down spouts
- Repair/replacement/upgrade of plumbing, heating, air conditioning, and electrical systems
- Repairing or removing an in-ground swimming pool
- Installing or repairing wells and/or septic systems and connecting to public water and sewage systems
- Reconstructing a structure that has been or will be demolished, provided the complete existing foundation system is not affected and will still be used
- Repairing, reconstructing, or elevating an existing foundation where the structure will not be demolished
- Purchasing an existing structure on another site, moving it onto a new foundation, and repairing/renovating it
- Installing or repairing fences, walkways, and driveways
- Installing or repairing exterior decks, patios, and porches

INELIGIBLE IMPROVEMENTS (STANDARD AND LIMITED 203(K))

Luxury items and improvements that do not become part of the real property are not eligible. Examples of items not eligible as an improvement or for repair, include, but are not limited to:

- Additions or alterations to allow for commercial use
- Barbeque pits, outdoor fireplaces, or hearths
- Exterior hot tubs, saunas, spas, whirlpool baths, or gazebos
- Photo murals
- Swimming pool installation
- Satellite dishes
- Tennis courts
- Tree surgery (except when eliminating a endangerment to existing improvements)

See Section II.A.8 of the [HUD Handbook 4000.1](#) for complete eligible and ineligible improvement details.

FHA Limited 203(k) Eligible Improvements

The Limited 203(k) may only be used for minor remodeling and non-structural repairs. The total rehabilitation costs may not exceed \$35,000 and has no minimum repair cost. All improvement to existing structures must comply with HUD's MPR and meet or exceed building codes. **Items eligible for 203(k) funds include, but are not limited to:**

- Non-structural changes to improve function/modernization (bath/kitchen remodel)
- Elimination of health/safety hazards (lead-based paint, mold, etc.) that violate HUD's MPR
- Connecting to public water and sewage systems
- Repair/replacement/upgrade of plumbing, heating, air conditioning, and electrical systems
- Repair/replace/install roofs, sidings, gutter, down spouts, flooring, new appliances, windows, and doors
- Eliminating obsolescence
- Repairing or removing an existing in-ground swimming pool
- Creating accessibility for persons with disabilities
- Installing or repairing fences, walkways, and driveways
- Installing, replacing, or repairing exterior decks, patios, and porches
- Repairing or replacing wells and/or sewage systems

INELIGIBLE IMPROVEMENTS

- The repair or improvements are expected to require more than six months to complete
- The rehabilitation activities require more than two payments per contractor
- The repairs prevent the borrower from occupying the property for more than 15 days during renovation
- The required repairs are such that a HUD Consultant would need to prepare a Work Write Up or require plans or architectural exhibits
- Landscaping or site improvements
- Structural repairs of any type

See section II.A.8 of the [HUD Handbook 4000.1](#) for complete eligible and ineligible improvement details.

Conventional Renovation Loans

Fannie Mae HomeStyle® and HomeReady®HomeStyle®, and Freddie Mac CHOICERenovation® and Home Possible®

ALLOWABLE IMPROVEMENTS

- No minimum dollar amount required for renovations
- Repairs, remodeling, renovations, or energy improvements to the property
- Any type of renovation or repair if the improvements are permanently affixed to the real property (either dwelling or land)
- The purchase of appliances as part of the overall remodeling project is permitted
- Construction of various outdoor buildings and structures according to local zoning regulations
 - o Examples of acceptable structures include, but are not limited to:
 - Accessory Dwelling Units
 - Garages
 - Recreation rooms
 - Swimming pools
- Completion of the final work on newly built homes are permitted when the cost to complete the incomplete items does not exceed 10% Fannie Mae, to 15% Freddie Mac of the “as completed” value
 - o The remaining improvements must be related to completing non-structural items the original builder was unable to finish. Work may include installation of buyer-selected items such as:
 - Flooring, cabinets, kitchen appliances, fixtures, doors, and trim
- Renovation loans can be used to repair damages from a natural disaster and to install preventative items such as:
 - o Storm surge barriers
 - o Foundation retrofitting
 - o Hazardous brush and trees in fire zones
 - o Retaining walls to address mud or water flow
 - o Items specifically need to repair or prevent damages from environmental hazards like hurricanes and earthquakes

NOTE: Complete tear downs and reconstruction of the dwellings are not permitted.

VA Alterations and Repair

ELIGIBLE ALTERATIONS AND REPAIRS

Alterations and/or repairs are limited to \$50,000, must meet VA Minimum Property Requirements, and must be non-structural. **Items eligible for alterations and/or repair funds include, but are not limited to:**

- Elimination of health/safety hazards (lead-based paint, mold, etc.) that violate VA's MPR requirements
- Connecting to public water and sewage systems
- Repair/replacement/upgrade of plumbing, heating, air conditioning, and electrical systems
- Repair/replace/install roofs, sidings, gutters, down spouts, flooring, appliances, windows, and doors
- Handicap accessibility (wheelchair ramps, widen doorways, expand showers, and lower countertops)
- Repairs to existing swimming pool
- Well or septic repair/replacement
- Additional exterior repairs including fences, decks, patios, and porches

INELIGIBLE VA ALTERATIONS AND REPAIRS

Structural Repairs which require an engineer report or architectural exhibits.

Opportunities for Your Borrowers

As we have shown, the eligible improvement options are much greater than the limitations (outside of the property needing to achieve a "Subject To" appraised value that will support those repairs and credit qualifications of borrower.)

Within these parameters, there truly is an opportunity to help homeowners turn a house they like into a home they will love. We believe that presenting the list of eligible improvements to your borrowers will result in more satisfied customers, and greater referrals for our lending partners.

Reach out to your Regional Sales Manager or the Renovation Lending Team should you have any questions, or wish to learn more about these programs and how to make them a significant and profitable portion of your business.



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