

RENOVATION

Review



Planet Home Lending[®]
CORRESPONDENT DIVISION

VOLUME 8

Renovation Lending FAQs

Welcome to the latest volume of the Renovation Review! We receive a lot of interesting questions about renovation lending. In this Renovation Review, we share them along with our answers. This edition focuses on renovation-related queries and not on credit or income issues that arise in conjunction with a renovation loan. We'll tackle those topics in future editions of the Renovation Review and in our Seller Guide.

We truly hope that the information contained in this volume will assist you in your quest to originate and close additional renovation loans. If you have any queries that we don't cover in this volume, stay tuned for upcoming volumes of the Renovation Review or contact your Planet Regional Sales Manager or the Renovation Lending Team.

Q: Can a manufactured home be financed with a renovation loan?

A: Yes, Planet Home Lending allows for the financing of a manufactured home with all our renovation loan programs. These homes must be 1-unit, multi-wide dwellings classified as real estate and on a permanent foundation. The home must not have been occupied at any other site or location and must have been constructed on or after June 15, 1976.

Q: How many contractors can a borrower use on their project?

A: Renovation loans are intended to be professional home improvement loans where the borrowers use one general contractor to coordinate and complete the project. This is especially true on larger and more complex projects and when using the Standard FHA 203(k) or conventional loan programs. The Limited FHA 203(k) does allow for up to three specialty contractors when their work is unrelated and is for minor or cosmetic repairs. Planet Home Lending does not allow for self-help or general contractor for self.

Q: Can you use a renovation loan to complete unfinished new construction?

A: The FHA 203(k) program is used to renovate an existing structure that has been completed for at least one year prior to the case number assignment date. If you are unsure if it was completed for more than one year you must request a copy of a Certificate of Occupancy (CO) or equivalent document.

Conventional renovation loans may be used to complete the final work on a newly built home when the home is at least 90% complete. The remaining improvements must be related to completing non-structural items the original builder was unable to finish. Such work may include installation of buyer-selected items such as flooring, cabinets, kitchen appliances, fixtures, and trim.

Q: Can an Accessory Dwelling Unit (ADU) be financed with a renovation loan?

A: Yes, the FHA 203(k) Standard and our conventional renovation loan programs allow for the construction of an ADU with the following guidance:

- FHA allows for the creation of an attached ADU within the existing structure or via an expansion of the property.
- The construction of an ADU in connection with a conventional renovation loan is acceptable.
- ADUs are not permitted for 4-unit properties, second homes, or investment properties.

Q: What is the difference between a Supplemental Origination Fee and a Draw Management Fee?

A: FHA 203(k) loans allow for the financing of a Supplemental Origination Fee and it is calculated in "Step 1. Section D. 1. Financed Origination Fee" and is not to exceed the greater of \$350, or 1.5 % of the total of the Financeable Repair and Improvement Costs and Fees, Financeable Contingency Reserves and Financeable Mortgage Payment Reserves. A Draw Management Fee is financed on conventional renovation loans at the greater of \$500 or 1.5% of the Hard Costs (Labor and Materials). This fee can be shown on line "C.1.i. Other" of the FNMA Maximum Mortgage Worksheet form 1035, or on the Freddie Mac Maximum Mortgage Worksheet Line 24.

We hope you found these FAQs informative and helpful in your quest to close more renovation loans. With the current lack of inventory and affordable housing options, renovation loans provide a great opportunity for your customers to use renovation to fulfill their housing needs. By understanding more about the features and uses of these loan programs, you can increase the inventory and options available to your borrowers.

If you have any further questions or wish to learn more about our renovation lending programs and how to make them a significant and profitable portion of your business, please reach out to your Regional Sales Manager or the Renovation Lending Team. They'll be more than happy to assist you.

