

# Renovation Review

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## Disbursing Renovation Funds at Closing

Renovation Loan Program guidelines for releasing money at closing from repair escrow funds differ from program-to-program. Closing disbursements help move the project forward because they cover the cost of purchasing materials for initial tasks and, in some cases, for labor.

This handy list shows the rules for the most popular renovation home loans from FHA, VA, Fannie Mae, and Freddie Mac. Understanding the differences can help you find the right loan for your customers, which leads to better loan performance and customer satisfaction.

### **FHA Limited 203(k):**

Mortgagees may disburse the following at closing:

- Permit fees (the permit must be obtained before work commences)
- Origination fees
- Discount points
- Up to 50% of estimated materials and labor costs before beginning construction only when the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction. A statement from the contractor is sufficient to document.

### **FHA Standard 203(k):**

Mortgagees may disburse the following at closing:

- permit fees (the permit must be obtained before work commences)

- Prepaid architectural or engineering fees
- Prepaid Consultant fees
- Origination fees
- Discount points
- Materials costs for items, prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date
- Up to 50% of materials costs for items, not yet paid for by the borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date. For any Disbursements paid to the contractor, the Mortgagee must hold back 10% of the draw request in the Contingency Reserve.

### **Fannie Mae HomeStyle and Freddie Mac CHOICERenovation:**

The lender may advance up to 50% of the cost of the materials to secure suppliers for the project. A portion of these funds may be used to pay for architect, design and plan development, and permitting fees. The borrower may not directly receive any funds. The funds provided for renovation are placed in an interest-bearing escrow account (Renovation Escrow Account).

### **Freddie Mac ChoiceReno eXpress:**

ChoiceReno eXpress mortgages allow for initial disbursement at closing as follows:

- For contractor(s) and/or tradespersons chosen by the Borrower to complete renovations, up to 50% of the cost of materials may be advanced to the contractor(s) and/or tradespersons.
- For renovations purchased from a home improvement store, the contractor can receive up to 100% of the cost of materials as long as the transaction is a No-Cash Out Refinance and meets the Contractor Requirements.

### **VA Alteration and Repair Program:**

There are no provisions for release of material and/or labor monies at closing for the VA Reno program.

- Planet will establish a custodial draw account to deposit alteration/repair funds in.
  - These funds may not be commingled with other lender funds.
- A maximum of 4 disbursements allowed (draws)
  - Initial draw upon 50% completion
  - Final draw at project completion

**Please Note:** All renovation costs paid from the repair escrow account must be established at the time of closing and then disbursed as outlined above. An easy way to remember this concept: All repair funds need to go into the repair escrow account before they can be disbursed from it.

The Renovation Lending Department has developed a Renovation Escrow Validation form and process to help ensure funds are accounted for and released at the right time, either at closing or by our RenoStar Home Services Team as the project progresses. Questions? Contact your Renovation Account Manager.