



Planet Home Lending®
CORRESPONDENT DIVISION

RENOVATION REVIEW



VOLUME 16



GROW PRODUCTION WITH MULTI-UNIT RENO LOANS

Rising Prices, Creative Solutions

Affordability pressures are changing how people think about homeownership. Today's buyers aren't just looking for a place to live—they're looking for ways to offset their mortgage with rental income. That shift is driving interest in homes with income potential, including 2-4-unit properties, single-family homes converted into multi-units, and properties with accessory dwelling units (ADUs).

A Market Ready for Growth

Whether they're purchasing or refinancing, these buyers often need financing that allows them to modernize the property and make it tenant-ready. Renovation loans offer a streamlined way to do that—all in a single loan. That opens the door for lenders to grow volume, close higher-dollar loans, and build long-term customer relationships.

What You'll Learn in This Issue

In this issue of The Renovation Review, we'll walk through how to use [Fannie Mae HomeStyle® Renovation](#) and [FHA 203\(k\)](#) loans to fund multi-unit property updates. We'll cover down payment options, rental income considerations, underwriting best practices, and a step-by-step guide to executing these loans smoothly.

PROGRAM HIGHLIGHTS

To help you quickly compare and reference the key features and benefits of each renovation financing option, we've distilled the essential loan parameters and outlined them in our [Renovation Comparison Matrix](#) and into concise highlights below. These overviews can help you match programs to borrowers and maximize the power of these great renovation products.



Fannie Mae HomeStyle® Renovation

- **Maximum LTV/CLTV/HCLTV:** 95% on both purchase and limited-cash-out refinance of 2-, 3-, and 4-unit principal residences and up to 97% for first time home buyers or HomeReady® eligible homeowners.
- **High Balance loan amounts limited to:**
 - 2 unit- 85% LTV/CLTV
 - 3-4 unit- 75% LTV/CLTV
- **Financeable costs:** Hard costs (materials, labor), soft costs (architectural, engineering, permit fees), a contingency reserve (10% of renovation costs), and — if the property must be vacant during work — a payment reserve of up to six months PITI.

FHA 203(k) Standard & Limited Loans

- **Maximum LTV of 96.5%** on purchase and **97.75% on** limited-cash-out refinance transactions for 2-, 3-, and 4-unit principal residences.
- **Standard 203(k):** covers structural and non-structural work typically required for conversions, requires the use of an FHA 203(k) Consultant, and allows for up to four draws plus a final draw. Ability to finance up to 12 mortgage payments if property cannot be occupied during the construction period.
- **Limited (Streamline) 203(k):** covers non-structural repairs up to a \$75,000 total repair escrow with optional use and financing of an FHA 203(k) Consultant if desired. Allows for one initial draw and one final disbursement.
- Both programs allow for up to 110% of the “as completed/as repaired” value of the home.



STEP-BY-STEP FINANCING PROCESS

To guide you through each milestone of the financing journey—from initial feasibility to renovation draw management—here's a clear, step-by-step roadmap. Use this process to keep loans on track, meet investor requirements, and deliver a seamless experience for your borrowers.

01

PRE-QUALIFICATION & PROGRAM SELECTION

Start by determining your borrowers' overall credit profile as either FHA or Conventionally qualified. Then complete either the [FHA 203\(k\) Calculator](#) or for HomeStyle® the [Fannie Mae HomeStyle® Renovation Maximum Mortgage Worksheet](#) to determine their maximum buying power. Confirm the property type—whether it's a single-family being converted or an existing 2-4-unit you're acquiring or refinancing.

02

RENTAL INCOME QUALIFICATION

Rental income must be calculated for each rental property. To determine the amount of monthly rental income from the extra units that can be used for qualifying purposes, please refer to the agency guides. Note that the method for calculating rental income (or loss) for qualifying purposes is dependent upon the documentation that is being used.

HomeStyle® Renovation

Fannie Mae allows you to include up to 75% of the documented gross monthly rent from additional units in a 2–4-unit property when the borrower occupies one unit as their primary residence. Rental income cannot exceed 30% of the borrower's total qualifying income.

You must report rents for all units in the delivery data and retain one of these in-order-of-preference documents in the file:

- Appraisal report or Form 1007 Single-Family Comparable Rent Schedule (dated within 12 months of note date)
- Appraiser's opinion of market rent
- Signed lease or borrower's written statement of rent (listed separately per unit)

Review the [Fannie Mae Seller Guide](#) for additional details.

FHA 203(k) Renovation

FHA permits up to 75% of estimated rental income from accessory dwelling units or multi-unit properties to qualify the borrower, provided you document it via Schedule E of the borrower's tax return (when there's a rental history), an appraisal-based rent schedule, or a lease/borrower statement.

If there's no rental history, use 50% of the lesser of appraiser-reported market rent or proposed rent. All rental income must be supported by inspection, appraisal addenda, or FHA Connection documentation.

Once you've established the allowable rental income, plug the net amount into your DU/LP or FHA Calculator inputs to determine the borrower's true maximum buying power.

Reference HUD handbook II.A.4.C for additional details.

03

LOAN SETUP & DISCLOSURE

Prepare your Loan Estimate that details all renovation and non-renovation related fees. Your renovation loan fees can be found in Step 1 of the FHA 203(k) Calculator or in the "C" Section of the FNMA HomeStyle® Maximum Mortgage Worksheet (Form 1035).



04

CONTRACTOR SELECTION & VALIDATION

Use [Planet's contractor toolkit](#) or your company's contractor screening forms to confirm the contractor chosen by the borrower has the required license, insurance, references, and experience.

05

FHA 203(K) CONSULTANT OR INDEPENDENT COST ESTIMATE REVIEW

If the program you selected requires the use of an FHA 203(k) Consultant or other independent third-party validation of the construction cost estimate, your next step will be to locate that resource for your borrower. For FHA 203(k) Consultants you can use this link:

<https://renovationlendingsoftware.com/find-a-consultant/> or the [Approved 203\(k\) Consultants Search from the HUD.gov website](#), where you'll also confirm the consultant has an Active Status with FHA.

For HomeStyle® loans, companies such as Land Gorilla, Trinity Real Estate Solutions, Granite Risk Management, or others can be used to inspect the property and validate the home improvement budget.

06

APPRAISAL & SUPPORTING DOCUMENTATION

For Standard FHA 203(k) loans, use the FHA 203(k) Consultants Specification of Repairs to order a “subject-to, as-completed” appraisal. On Limited 203(k)s and certain HomeStyle® loans, the appraiser can use the contractor’s bid or estimate to determine the “as repaired” value.

07

FINAL UNDERWRITING & DISCLOSURE

Next, your loan is ready for final underwriting. Ensure all documentation supports the combined purchase/refinance and renovation loan amount and verify zoning and utility capacity for the planned work.

Re-check the numbers and run through your FHA 203(k) Calculator or HomeStyle Max Mortgage Worksheet to confirm your loan still is approvable. Issue a revised LE, initial, or final CD based on the numbers from the appraisal and loan calculations to avoid any possible RESPA cures due to numbers that changed during processing and qualification.

08

AT CLOSING, POST CLOSING BEST PRACTICES & DRAW MANAGEMENT

Previous volumes of our Renovation Review newsletter cover these topics:

- [Volume 1 – Disbursing Funds at Closing](#)
- [Volume 2 – Post-Closing Best Practices](#)
- [Volume 9 – RenoStar Q&A – Planet Home Lending Draw Department](#)

By following the steps outlined above your loan process and closing should run smoothly and result in closing renovation loans that provide all the benefits to you and your borrower as described in the opening of this newsletter. Upon successful completion of the planned repairs and improvements, additional referrals are sure to come from borrowers, real estate agents, and contractors.



BEST PRACTICES FOR MULTI-UNIT RENOVATION LENDING

To maximize efficiency and borrower satisfaction, apply these proven tactics as you manage HomeStyle® and 203(k) renovation loans for 2–4 units:

Coordinate Early with Contractors

Engage contractors during pre-qualification to verify bids, credentials, and timelines so draw schedules match construction milestones and funding delays are avoided.

Combine Disclosures

Package acquisition/refinance and renovation fees on a single Loan Estimate to give borrowers one clear view of all costs and to reduce compliance risk.

Leverage Contingency & Payment Reserves

Maintain a 10% contingency reserve for HomeStyle® projects and include a payment reserve if the property will be vacant during the renovation process. Also, if utilities are off and/or mechanical systems cannot be tested a 15% contingency is required.

Educate on Value Uplift

Share rent-up and resale projections with borrowers to demonstrate how modernized multi-unit finishes may drive higher rental income and boost property values.

DRIVE GROWTH AND PROFITABILITY WITH MULTI-UNIT RENOVATION FINANCING

Renovation financing for 2–4-unit properties offers a powerful way to address today's affordability challenges while growing your renovation loan business. By combining acquisition or refinance with rehab into a single HomeStyle® or 203(k) transaction, you simplify the process for borrowers and help unlock higher rents, property values and potential instant equity and wealth creation.

To get started, let your real estate and contractor contacts know these low-down-payment renovation solutions are available. Educating your network about HomeStyle® and FHA 203(k) financing can generate more qualified leads and help you fill your pipeline with multi-unit renovation loans.





Reach out to Planet's Renovation Lending Team for tailored guidance on underwriting requirements, documentation and support. Also note that non-delegated renovation underwriting is an option as a great way to confidently add these great programs to your product mix and can be a great way to get started.

Together, we can turn the demand for multi-unit renovations into a revenue driver for your company. Contact your Planet Regional Sales Manager today to unlock exclusive training, marketing materials, and explore our flexible operating templates so you can expand your renovation offerings and capture more of this fast-growing market.

QUESTIONS?

CONTACT US

For any questions or scenarios related to renovation loans please email them to renovationscenario@planethomelending.com

BECOME A RENOVATION LOAN SELLER

Apply today at:
www.PHLCorrespondent.com.



This is a business to business communication meant for use by mortgage professionals only. It is not intended for distribution to consumers or other parties. It is not an "advertisement" as defined in Section 1026.2(a)(2) of the Truth-in-Lending Act. Product information is subject to change without notice. © 2025 Planet Home Lending, LLC. NMLS ID# 17022. All rights reserved.