Every Home Is A Potential Renovation Project

Presented By: Paul J. Karas
VP of Mortgage Lending

September 22, 2020
Key Takeaways

1. Compared to “normal” loan, what are the main differences?
Key Takeaways

2. HGTV is the devil.

HGTV BE LIKE

I GLUE LEAVES BACK ON TREES IN THE FALL AND MY WIFE MAKES STILETOS FOR CATS. OUR BUDGET IS 1.2 MILLION DOLRS.
Key Takeaways

3. How to find a contractor that can handle the job
Key Takeaways

4. Cost does not equal value

Unrealistic buyers calculating repair costs after inspections
Key Takeaways

5. Why, What If, How

No meme. If a property can’t be financed with a traditional loan, you’ll know why. If you’re going to move forward and renovate a historic property, you’ll be able to learn about the possibilities. How you go about it will be discussed as well.
Key Takeaways

6. How to find me @AllYallCallPaul to obtain more information

Rate.com/PaulKaras

Facebook.com/AllYallCallPaul
Real Estate = Land + Sticks/Bricks

Improvements to Land

- Any value above and beyond the value of the land itself is due to improvements that were made to it
- the PRC's mission is to preserve New Orleans' historic architecture, neighborhoods and cultural identity
- This class will focus on taking an existing property and learning what it will take to improve the condition of it.
All Builder Projects

How to figure out the loan amount

• Acquisition Cost
• $$$ to build
• Contingencies

• Arrive at Project Cost

• Required down payment

• Closing Costs & Prepaid expenses
• Income Tax considerations

• Does it make sense to tackle this project?
Types of Loans used to renovate
Not just a 203k

• Cash out another property
• Lines of Credit (secured ex. HELOC or unsecured Personal Loan)
• Bridge or Interim Financing for commercial project
• FHA 203k program
• Fannie Mae HomeStyle
• VA Renovation
Monthly Payments

• Principal and Interest
• Property Tax – Approx 1.5% of market value
• Hazard Insurance – a good estimate is 1.2x the square footage
• Flood Insurance – as low as $500 but sky is the limit in Louisiana
• Private Mortgage Insurance – FICO score dependent

• On average, for every $100k in mortgaged property, with average property tax and average insurance, you'll spend approx. $750 per month. Could be lower or higher depending on many factors.. This is just an average. Did I mention this is just an average starting point?

• So.. $200k in home will run about $1,500 per month.
Resources and Tips

- Property Tax Reps or Title companies can estimate your future tax bills
- Google “LSU Ag Flood Map” for flood information that is more user friendly than the FEMA website
- Marshall & Swift cost estimator- great resource for current building costs
- Redfin.com search by “fixer upper”
- Another Paul Karas “average” tip- a gut rehab runs about $75 per square foot
- New Construction about $125 per foot

Example: 2,000 sq ft home that will be camelbacked, half of home is down to studs.
- 1000 sq ft x $75 = 75,000
- Other 1000 sq ft x $40 = 40,000
- 1,000 camelback x $125 = 125,000
- Grand total of renovation is $240,000
Renovation Loans
“A Face Lift, Reconfiguration or More”
Renovation Loans
Age of US Housing

Median Age of Housing Stock by State

Source: American Community Survey, 2015
Renovation Loans

Finding Opportunities – Homes that would not otherwise meet minimum property standards.

Get your Dream Home under contract, make loan app, develop your renovation plan, appraiser uses you plan to appraise the home, loan is underwritten for credit and collateral, loan closes, YOU’RE A HOMEOWNER! renovation work is THEN completed. Here is the simple math used to find your loan amount.

- Contract Sales Price

- Plus - Renovation Escrow amount

- Equals - All-in-Cost

- Multiply - by your proposed Loan-to-Value (i.e. 96.5% for FHA)

- Equals – Your Project’s Base Loan Amount
The FHA 203k Renovation Mortgage
**FHA 203k**

**What is FHA 203k?**

- Purchase or Refinance

- Two 203k loan programs – 203k Standard & the 203k Limited

- Properties that are sold “As-Is” often may not qualify for a standard FHA loan (203b). However, 203(k) loans are designed to improve, update, and modernize the home.

- Enables borrowers to purchase foreclosure properties that requires repairs. Most foreclosure properties could benefit form a 203(k) loan.

- Borrowers can purchase a home that does not require repairs and finance the cost of “modernization” or cosmetic repairs (see eligible improvements).
FHA 203k

The Result

Before

After
FHA 203k

Eligible Property Types

Listed below are the property types eligible for the 203k program:

- Construction status on the appraisal must be “Existing” as defined by FHA (e.g. Certificate of Occupancy issued at least one year prior to Appraisal).
- 1-4 Unit Properties
- Condominiums - garden style
- Mixed use properties per FHA guidelines
- Manufactured Homes - while allowed by FHA guidelines, we do not currently offer 203(k) financing for manufactured homes.
- Modular Homes are eligible for 203(k) financing.
FHA 203k
Loan Terms

• Standard FHA loan limits apply to 203(k) loans.

• Higher loan amounts available for 2-4 family units.

• As little as 3.5% down payment

• GR Minimum Credit Score: 620

• FHA Mortgage Insurance applies

• No Investors or Second Homes
203k Standard Program
The 203k Standard Program

Program Description

• The Standard Program is designed for those projects requiring a higher level of supervision throughout the project from estimates through completion.

• Renovation funds may only be reallocated with a change order through the guidance of the Consultant and Manager in Guaranteed Rate’s Draw Department.
## The 203k Standard Program

### Standard Eligible & Ineligible Repairs

<table>
<thead>
<tr>
<th>Eligible</th>
<th>Ineligible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structural alterations and additions</td>
<td>New tennis court</td>
</tr>
<tr>
<td>Garage (attached/detached/new)</td>
<td>Gazebo or bathhouse</td>
</tr>
<tr>
<td>Remodel kitchen or bathroom</td>
<td>Additions or alterations to provide for commercial use</td>
</tr>
<tr>
<td>Install appliances</td>
<td>Photo mural</td>
</tr>
<tr>
<td>Changes to eliminate deterioration and reduce maintenance</td>
<td>Television antenna or satellite dish</td>
</tr>
<tr>
<td>Repair swimming pool</td>
<td>Outdoor fireplace/hearth /barbeque pit</td>
</tr>
<tr>
<td>Modernize plumbing/heating/air conditioning/electrical systems</td>
<td></td>
</tr>
<tr>
<td>Install or repair well/septic</td>
<td></td>
</tr>
<tr>
<td>Install or repair roofing/gutters/downspout</td>
<td></td>
</tr>
<tr>
<td>Install flooring/tile/carpet</td>
<td></td>
</tr>
<tr>
<td>Energy conservation improvements</td>
<td></td>
</tr>
<tr>
<td>Major landscaping/decks/fencing</td>
<td></td>
</tr>
<tr>
<td>Improvements for accessibility (e.g. handicapped ramp)</td>
<td></td>
</tr>
<tr>
<td>Interior and exterior painting</td>
<td></td>
</tr>
<tr>
<td>Improvements that are a permanent part of real estate</td>
<td></td>
</tr>
</tbody>
</table>
The 203k Standard Programs

Don’t Forget This Unique Property Feature!

Foundations – with approved engineers report

• You can tear down a home and rebuild on an existing foundation

• You can move a home to a new location with a new foundation
The 203k Standard Program

HUD Approved Consultant Required on 203k Standard

- HUD Consultant manages the entire project.
- Works directly with the borrower & contractor(s)
- Provides initial Work Write-Up or “Specification of Repairs” report
- Provides draw schedule
- Performs draw inspections to approve disbursements to General Contractor
- Provides the Contingency Reserves Amount to be established
203k Limited Program
The 203k Limited Program

Program Description

- The Limited Program is for limited repairs requiring relatively little expertise to manage (HUD refers to “uncomplicated repairs”).

- Maximum renovation escrow amount: $35,000, no structural repairs allowed.

- A distinguishing feature of the limited 203(k) is that there is no Consultant managing the project.

- This program is primarily designed for a “limited” project where the home can be occupied immediately after closing.

- The contractor will receive 50% of the repair funds 5-7 business days after closing and 50% at completion. One site inspection to confirm repairs.

- Renovation funds may NOT be reallocated. Renovations must be in accordance with bid.
## The 203k Limited Program
### Limited Eligible & Ineligible Repairs

<table>
<thead>
<tr>
<th>Eligible</th>
<th>Ineligible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repair/replace roof, gutters and downspouts</td>
<td>Major rehabilitation or major remodeling, such as relocation or a load bearing wall</td>
</tr>
<tr>
<td>Repair/replace/upgrade of existing HVAC systems</td>
<td>New construction, including room addition</td>
</tr>
<tr>
<td>Repair/replace/upgrade of plumbing and electrical systems</td>
<td>Repairs of structural damage</td>
</tr>
<tr>
<td>Repair/replace/upgrade of existing floors</td>
<td>Repairs requiring detailed drawings or architectural exhibits</td>
</tr>
<tr>
<td>Minor remodeling, such as kitchen, which does not involve structural repairs</td>
<td>Any rehabilitation activities that require more than 2 payments per specialized contractor</td>
</tr>
<tr>
<td>Exterior/Interior painting- including Lead-Based Paint Stabilization</td>
<td>Landscaping or similar site amenity improvements</td>
</tr>
<tr>
<td>Weatherization: including storm windows and doors, insulation, weather stripping, etc.</td>
<td>Work that would cause the borrower to be displaced from the property for more than 30 days during the time of rehabilitation</td>
</tr>
<tr>
<td>Repair/replace/upgrade of appliances (may include ranges, refrigerators, washer/dryers, dishwashers and built-in microwaves)</td>
<td>Any repair or improvement requiring a work schedule longer than 6 months</td>
</tr>
<tr>
<td>Improvements for accessibility for persons with disabilities</td>
<td>Luxury items: tennis court, gazebo or bathhouse; photo mural; television antenna or satellite dish; outdoor fireplace/BBQ Pits</td>
</tr>
<tr>
<td>Basement finishing/remodeling/waterproofing (not requiring structural repairs).</td>
<td>Additions or alterations to provide for commercial use</td>
</tr>
<tr>
<td>Repair/replace/add decks, patios and porches</td>
<td>New swimming pool</td>
</tr>
<tr>
<td>Window &amp; door replacements, &amp; exterior wall re-siding</td>
<td></td>
</tr>
<tr>
<td>Septic and/or well repair or replacement</td>
<td></td>
</tr>
<tr>
<td>Swimming pool repairs</td>
<td></td>
</tr>
</tbody>
</table>
The 203k Limited Program

Kitchen Remodels
# The 203k Standard and Limited Programs

Comparison of Features

<table>
<thead>
<tr>
<th>Topic</th>
<th>Standard - Consultant</th>
<th>Limited – No Consultant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of Project</td>
<td>Substantial Rehabilitation/Renovation (see Consultant Eligible Improvements)</td>
<td>Repair &amp; Remodel (see Limited Eligible Improvements)</td>
</tr>
<tr>
<td>Purchase/Refinance</td>
<td>Either</td>
<td>Either</td>
</tr>
<tr>
<td>Repair cost</td>
<td>Min $5,000 max as supported by appraisal value</td>
<td>No Min., $35,000 Max total costs</td>
</tr>
<tr>
<td>Self-Help (owner performing work)</td>
<td>Yes if Borrower is Contractor by Trade- Max $30,000; 10% of repairs in cash reserves</td>
<td>No</td>
</tr>
<tr>
<td>Owner GC (multiple contractors)</td>
<td>Yes- 2 maximum</td>
<td>Yes- 3 maximum</td>
</tr>
<tr>
<td>Max Number Draws</td>
<td>5 (plus final release)</td>
<td>1 per contractor</td>
</tr>
<tr>
<td>Initial draw/release for materials</td>
<td>For kitchen cabinetry, finish flooring, windows &amp; roofing only</td>
<td>50% 5-7 business days after closing, balance on completion</td>
</tr>
<tr>
<td>Max Financed Mortgage Payments</td>
<td>6 with DE UW approval</td>
<td>0</td>
</tr>
<tr>
<td>HUD PD Sales</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
HomeStyle Renovation
HomeStyle Renovation

What is HomeStyle Renovation?

- HomeStyle® Renovation combines a home purchase or refinance with home improvement financing in one loan with one closing.

- Maximum loan amount is: $510,400.00 for a single family renovation. High Balance allowed where applicable.

- Higher loan amounts available for 2-4 family units.
  - 2 unit - $653,550
  - 3 unit - $789,950
  - 4 unit - $981,700

- Private Mortgage Insurances – applies.
HomeStyle Renovation

Features of HomeStyle Loans

• Loan amount is based on the lower of “as completed value” (ACV) or acquisition (purchase price + renovation escrow).

• The cost of renovations is limited to 75% of the ACV.

• GR Minimum Credit score: 620- Primary, 2nd homes and investment properties.

• Can finance up to 6 months of mortgage payments to cover non-occupancy costs during renovations. Consultant must be used (owner occupied properties only).

• Generally, no consultant on renovation cost less than $50,000.
HomeStyle Renovation

Property Eligibility & Maximum LTVs

- Purchase Transactions – determined by ACV or acquisition, whichever is less
- Refinance Transactions – determined by ACV

<table>
<thead>
<tr>
<th>Property type</th>
<th>LTV</th>
<th>CLTV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 unit Owner Occupied</td>
<td>95%</td>
<td>95%</td>
</tr>
<tr>
<td>2 Unit Owner Occupied</td>
<td>85%</td>
<td>85%</td>
</tr>
<tr>
<td>3-4 Unit Owner Occupied</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>1 unit Second Home</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>1 unit Investor Property</td>
<td>85%- Purchase</td>
<td>85%- Purchase</td>
</tr>
</tbody>
</table>
HomeStyle Renovation

The Result
# HomeStyle Renovation

## HomeStyle Eligible & Ineligible Repairs

<table>
<thead>
<tr>
<th>Eligible</th>
<th>Ineligible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repair/replace/install roof, gutters, downspouts</td>
<td>Any repair or improvement requiring a work schedule longer than 6 months (9 months by exception for projects over $75,000)</td>
</tr>
<tr>
<td>Repair/replace existing HVAC systems</td>
<td></td>
</tr>
<tr>
<td>Repair/replace/upgrade plumbing and electrical</td>
<td>Any additions or alterations to provide for commercial use</td>
</tr>
<tr>
<td>Repair/replace existing flooring</td>
<td></td>
</tr>
<tr>
<td>Kitchen remodeling including structural repairs</td>
<td></td>
</tr>
<tr>
<td>Exterior and interior painting</td>
<td></td>
</tr>
<tr>
<td>Window and door replacement</td>
<td></td>
</tr>
<tr>
<td>Weatherization: including storm windows and doors</td>
<td></td>
</tr>
<tr>
<td>Build in-ground pool</td>
<td></td>
</tr>
</tbody>
</table>
# Renovation Loans Overview

Reference Guide: GR Renovation Loan Programs

<table>
<thead>
<tr>
<th>Features</th>
<th>FHA 203(k)</th>
<th>HomeStyle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Max Loan Amount</td>
<td>FHA County Limits/ High Balance Limits</td>
<td>FNMA Conventional / High Balance Limits</td>
</tr>
<tr>
<td>Occupancy</td>
<td>Primary Residence only</td>
<td>Primary, Second Home, Investment</td>
</tr>
<tr>
<td>Minimum Down</td>
<td>3.5%</td>
<td>1 unit: 5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 units: 15%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3-4 units: 25%</td>
</tr>
<tr>
<td>DTI</td>
<td>&gt;50% with comp factors</td>
<td>50% or DU approval</td>
</tr>
<tr>
<td>Mortgage Insurance</td>
<td>FHA upfront and monthly MIP required</td>
<td>MI required above 80% LTV</td>
</tr>
<tr>
<td>Consultant</td>
<td>Required on standard 203(k)</td>
<td>Can be waived up to $50k</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Required if structural repairs</td>
</tr>
<tr>
<td>Condo Restrictions</td>
<td>Must be FHA approved, 4-unit max, Interior only</td>
<td>Must be FNMA warrantable Interior only</td>
</tr>
<tr>
<td>HUD Minimum Standards</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Improvement Eligibility</td>
<td>No luxury improvements</td>
<td>Must be affixed and add value</td>
</tr>
<tr>
<td>Non-Occupying Co-Borrowers</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Renovation Loans: See the Opportunity!

Q & A
Paul J. Karas
VP of Mortgage Lending
O: 504-446-1865  M: 504-376-4510
Paul.Karas@Rate.com
Rate.com/PaulKaras

NMLS ID: 1020753

Not all applicants will be approved for financing. Receipt of application does not represent an approval for financing or interest rate guarantee. Restrictions may apply, contact Guaranteed Rate for current rates and visit www.guaranteedrate.com/restrictions for more information.

Credit score and down payment requirements higher for 2-4 unit, investment properties and renovation products.