

Every Home Is A Potential Renovation Project

Presented By: **Paul J. Karas**
VP of Mortgage Lending

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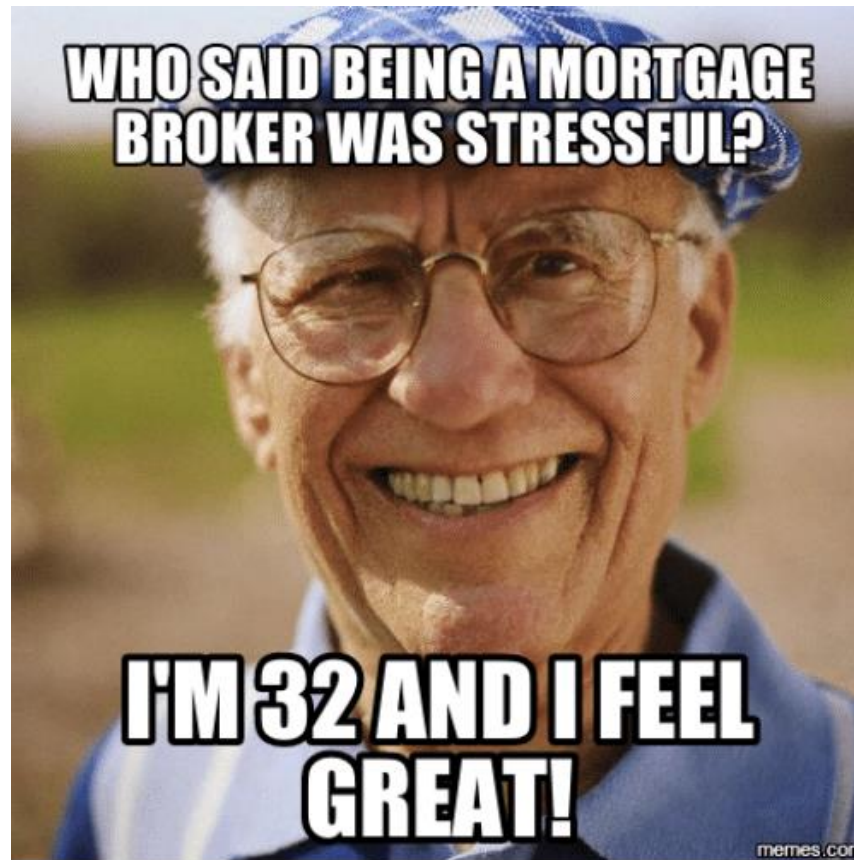


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Key Takeaways

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



Key Takeaways

2. HGTV is the devil.



Key Takeaways

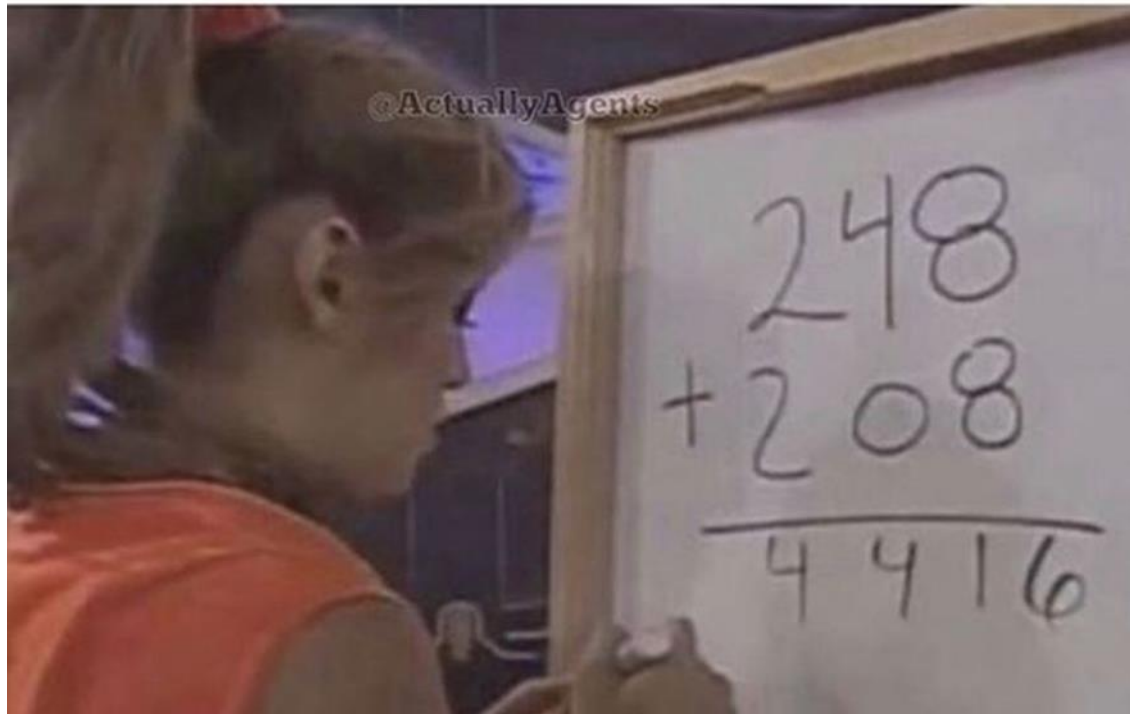
3. How to find a contractor that can handle the job



Key Takeaways

4. Cost does not equal value

Unrealistic buyers calculating repair costs after inspections



Key Takeaways

5. Why, What If, How

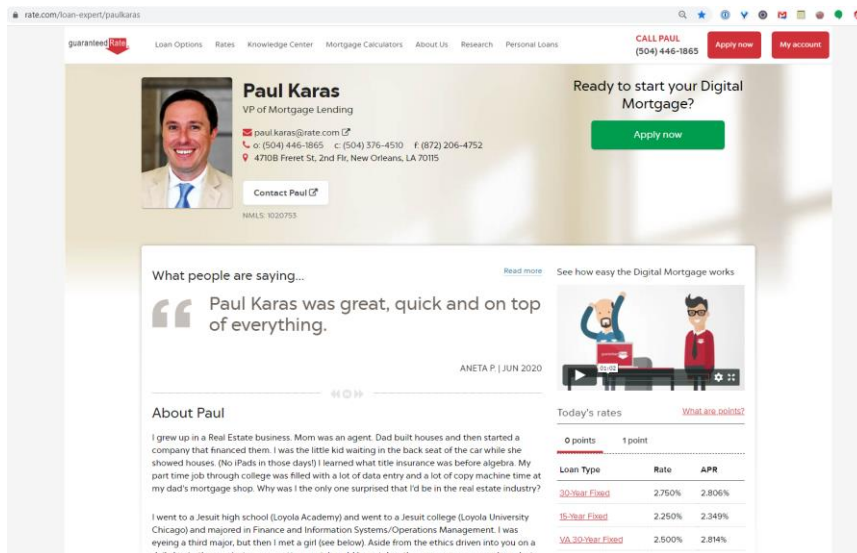
No meme. If a property can't be financed with a traditional loan, you'll know why. If you're going to move forward and renovate a historic property, you'll be able to learn about the possibilities. How you go about it will be discussed as well.

Key Takeaways

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

[Rate.com/PaulKaras](https://rate.com/loan-expert/paulkaras)

[Facebook.com/AllYallCallPaul](https://facebook.com/AllYallCallPaul)



The screenshot shows Paul Karas' profile on Rate.com. He is the VP of Mortgage Lending. His contact information includes an email address, phone numbers, and a physical address in New Orleans, LA. There is a 'Contact Paul' button. Below the profile, there is a testimonial from ANETA P. dated JUN 2020, stating 'Paul Karas was great, quick and on top of everything.' To the right, there is a section titled 'Today's rates' with a table of mortgage rates.

Loan Type	Rate	APR
30-Year Fixed	2.750%	2.806%
15-Year Fixed	2.250%	2.349%
VA 30-Year Fixed	2.500%	2.814%



The screenshot shows Paul Karas' Facebook profile. The profile picture is a headshot of Paul. The cover photo features the Guaranteed Rate logo over a house. The profile name is 'Paul Karas - Guaranteed Rate' with the handle '@AllYallCallPaul'. There is a 'Create a Page' button. The posts section shows a post from 11 hours ago with a video thumbnail of a dog and the text 'If mortgage rates were dogs: 1981' and '2020'. The right sidebar shows a 5-star rating and a 'Learn More' button.



The Home Purchase Experts®

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”

Before



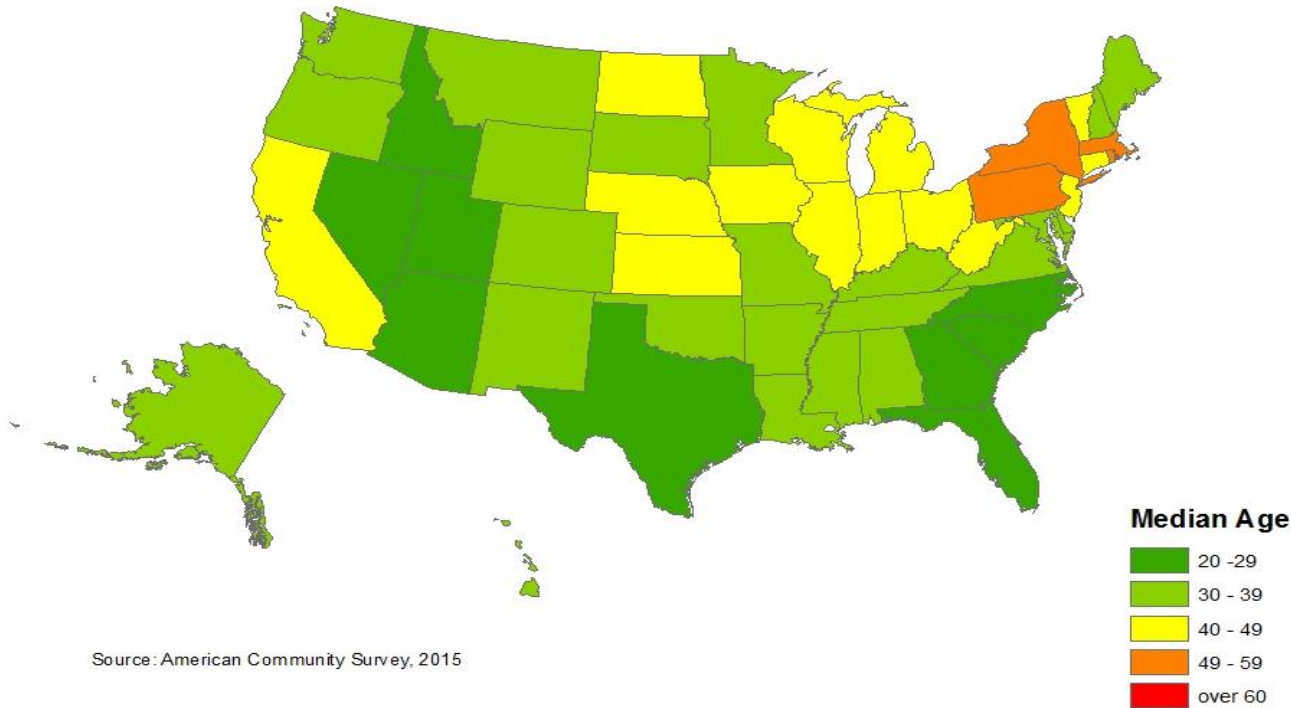
After



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

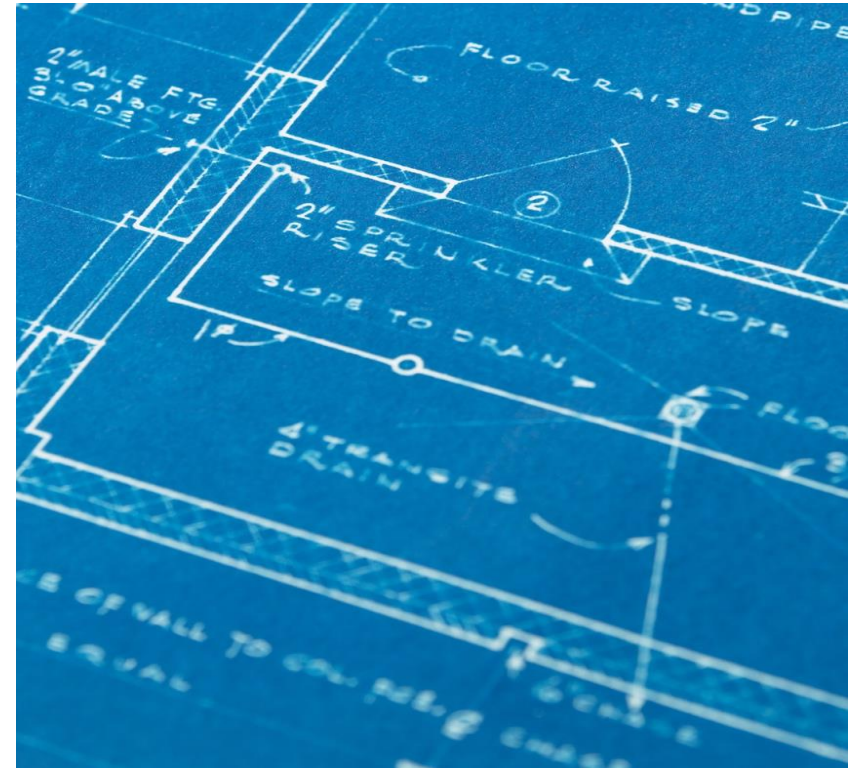


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The 203k Standard Program

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

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

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



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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

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

The 203k Limited Program

Kitchen Remodels



The 203k Standard and Limited Programs

Comparison of Features

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

HomeStyle Renovation

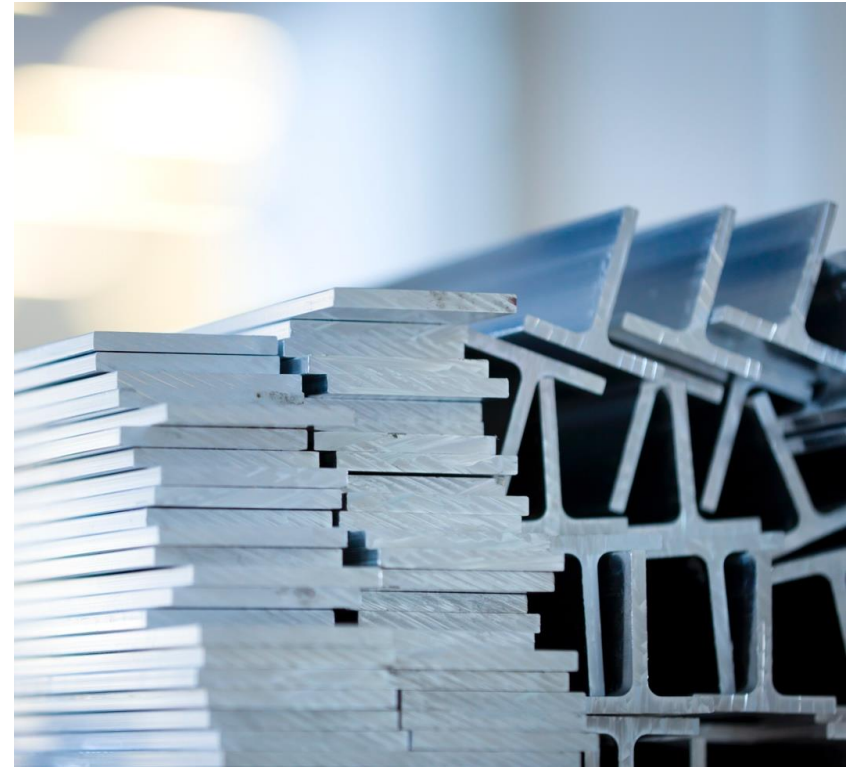


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HomeStyle Renovation

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

Residential Values		
Property type	LTV	CLTV
1 unit Owner Occupied	95%	95%
2 Unit Owner Occupied	85%	85%
3-4 Unit Owner Occupied	75%	75%
1 unit Second Home	90%	90%
1 unit Investor Property	85%- Purchase 85%- Refinance	85%- Purchase 85%- Refinance

HomeStyle Renovation

The Result



HomeStyle Renovation

HomeStyle Eligible & Ineligible Repairs

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

Renovation Loans Overview

Reference Guide: GR Renovation Loan Programs

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

Renovation Loans: See the Opportunity!

Q & A



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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.



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