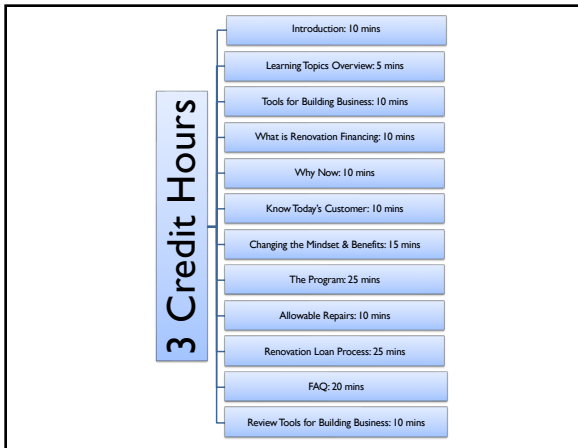




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3

About Me

CMG FINANCIAL

- Matt Hemphill
- CMG Financial Services Inc
- 32 Years in Mortgage Lending Industry

HOW ABOUT YOU?

4

Course Objectives

At the end of the course you will be able to:

- Define Renovation Financing
- Explain why now is a good time for customization financing
- Understand that this is one of the few products that benefits listing agents as well as sales agents
- Describe the characteristics of today's renovation consumer
- List the financing programs available to buyers and sellers who are considering renovating
- Open up new market opportunities
- Revitalize aging housing stock
- Inspire one single idea that will help you sell more homes

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Course Objectives Continued

- List the allowable repairs that may be completed with the renovation financing money received.
- Describe the steps of the loan process.
- Explain how an appraisal works as related to renovation financing.
- Explain how inspections play a part in renovation financing.
- Understand how to satisfy more buyers and sellers utilizing customization financing.
- Help Stabilize and improve home prices
- **And HOPEFULLY put a little fun into the market**

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7

What is Renovation Financing?

- Homebuyers select the perfect location and **customize** the less-than-perfect home
- Money to purchase or refinance
- Money to repair, upgrade or remodel
- All in **ONE** single mortgage transaction
- Appraisal based on improved property value – *Subject-To Improvements*
- All improvements are completed **AFTER** settlement



You Close NOW,
We'll Renovate LATER!

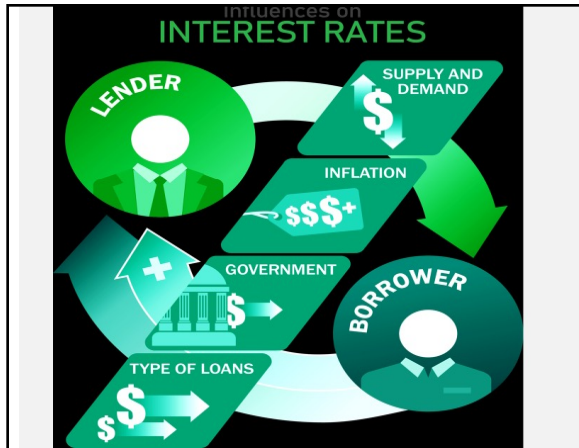
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Know Today's Customer

Top 5 factors why Homebuyers select a property

- Convenience to friends and family (Move away from cities 2020)
- Commuting distance/cost (first time ever 2018)
- Quality of neighborhood and schools
- Affordability
- Energy Efficient Features

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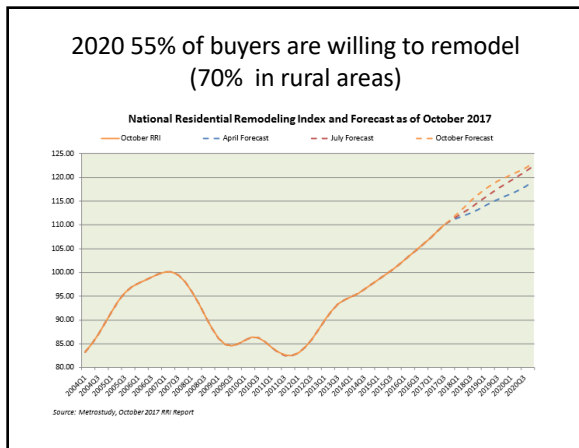
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Know Today's Customer

Millennials

- Ages 18-36 (born 1983-2004)
- Account for 1 in 3 adults in 2020
- Most educated BUYER in U.S. History
- Completely internet savvy and driven
- Largest pool of home buyers in the market (40%)
- Nearly 75 million want to purchase a home
- 32% of buyers last year who obtained financing purchased homes \$250-\$500k
- Recession Minded
- Prefer to communicate via text
- Want service and want it now
- Do not like surprises
- Want us to streamline the process and provide information – not sell them

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Interior Projects

<p>REALTOR® rank of projects' appeal to buyers (highest to lowest)</p> <ul style="list-style-type: none"> • Complete Kitchen Renovation • Kitchen Upgrade • HVAC Replacement • New Wood Flooring • Bathroom Renovation • Hardwood Flooring Refinish • New Master Suite / Owners' Suite • Add New Bathroom • Basement Conversion to Living Area • Attic Conversion to Living Area • Insulation Upgrade • Closet Renovation 	<p>REALTOR® rank of projects' likely value to the home for resale (highest to lowest)</p> <ul style="list-style-type: none"> • Complete Kitchen Renovation • Kitchen Upgrade • HVAC Replacement • New Master Suite / Owners' Suite • Bathroom Renovation • Basement Conversion to Living Area • Add New Bathroom • New Wood Flooring • Hardwood Flooring Refinish • Attic Conversion to Living Area • Insulation Upgrade • Closet Renovation
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2019 Remodeling Impact Report

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Exterior Projects

<p>REALTOR® rank of projects' appeal to buyers (highest to lowest)</p> <ul style="list-style-type: none"> • New Roofing • New Vinyl Windows • New Vinyl Siding • New Garage Door • New Fiber-Cement Siding • New Wood Windows • New Fiberglass Front Door • New Steel Front Door 	<p>REALTOR® rank of projects' likely value to the home for resale (highest to lowest)</p> <ul style="list-style-type: none"> • New Roofing • New Vinyl Windows • New Fiber-Cement Siding • New Wood Windows • New Vinyl Siding • New Garage Door • New Steel Front Door • New Fiberglass Front Door
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2019 Remodeling Impact Report

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FHA 203K

**ONE
PRODUCT
WITH
TWO
OPTIONS**

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Programs

FHA 203(k)

- Loan Amount – up to county limits
- No minimum repairs
- Primary residence only
- Credit Scores will vary
- Property – SFR, 1-4 units, mixed-use
- No Maximum Renovations (up to FHA loan limits)
- Purchase & Refinance
- Structural work allowed
- Work completed within 6 months
- All standard FHA guidelines apply
- Borrower may finance up to 6 mortgage payments on the FHA Standard
- No "Luxury Items" allowed



**Don't let Repairs
Hold Up Your
Closing**

**THINK MINIMUM
CASH
INVESTMENT**

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FHA LOAN LIMITS

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

MSA Name	MSA Code	Division	County Name	County Code	State	One-Family	Two-Family	Three-Family	Four-Family
ALBANY-SCHENECTADY-TROY, NY	10580		ALBANY	001	NY	\$472,030	\$604,600	\$730,525	\$907,900
NONMETRO	99999		ALLEGANY	003	NY	\$472,030	\$604,600	\$730,525	\$907,900
NEW YORK-NEWARK-JERSEY CITY-NEWARK	35620	35614	BROXK	005	NY	\$1,089,300	\$1,394,775	\$1,685,850	\$2,095,200
BINGHAMTON, NY	13780		BROOME	007	NY	\$472,030	\$604,600	\$730,525	\$907,900
OLEAN, NY	36480		CATTARAUGUS	009	NY	\$472,030	\$604,600	\$730,525	\$907,900
ROSELAND, NY	12180		CAYUGA	011	NY	\$472,030	\$604,600	\$730,525	\$907,900
JAMESTOWN-SUNNYSIDE-FREDONIA, NY	27480		CHAUTAUGUS	013	NY	\$472,030	\$604,600	\$730,525	\$907,900
ELMIRA, NY	21300		CHEMUNG	015	NY	\$472,030	\$604,600	\$730,525	\$907,900
NONMETRO	99999		CHENANGO	017	NY	\$472,030	\$604,600	\$730,525	\$907,900
PLATTSBURGH, NY	36460		CLINTON	019	NY	\$472,030	\$604,600	\$730,525	\$907,900
HUDSON, NY	26460		COLUMBIA	021	NY	\$472,030	\$604,600	\$730,525	\$907,900
CORTLAND, NY	18660		CORTLAND	023	NY	\$472,030	\$604,600	\$730,525	\$907,900
NONMETRO	99999		DELAWARE	025	NY	\$472,030	\$604,600	\$730,525	\$907,900
POCONO-KEESIC-NEVERUSH-INDIANTOWN, NY	39100		DUTCHESS	027	NY	\$472,030	\$604,600	\$730,525	\$907,900
BUFFALO-CHEEKTOWAGA, NY	10360		ERIE	029	NY	\$472,030	\$604,600	\$730,525	\$907,900


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203k OPTIONS

- The **Limited 203(k)** is intended to help facilitate, uncomplicated improvements or repairs and non luxury items such as stove, dishwasher kitchen countertops etc. 
- The **Standard 203(k)** is designed for more complicated projects that many times require detailed plans, permits, inspections, structural changes 
- Luxury items are not eligible with Limited or Standard 203(k)
 - Examples are: adding swimming pools, hot tubs, tennis courts, gazebos, barbecue pits, saunas or alterations to support commercial use. 

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203k LIMITED



- ❖ Up to \$35,000 max in total rehab costs
- ❖ (No minimum rehab amount)
- ❖ A max of 3 contractors are allowed to be used for repairs
- ❖ Contractors will be paid:
 - ❖ 50% at time of closing (with a letter of need)
 - ❖ Once all work is completed, remaining draw will be distributed (1 draw post-closing)

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203K Limited Eligible Repairs

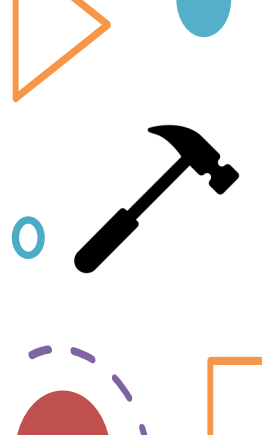
Some examples are listed below:



- ❖ Repair/replace roofs, gutters and down spouts
- ❖ Repair/replace existing HVAC system
- ❖ Repair/replace plumbing and electrical system
- ❖ Repair/replacement of carpet and flooring
- ❖ Minor remodeling, such as kitchens & baths, that does not involve structural repairs
- ❖ Painting interior and / or exterior
- ❖ ENERGY EFFICIENCY REPAIRS

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203K Limited Eligible Repairs



- ❖ Lead paint stabilization / abatement
- ❖ Repair /Accessibility improvements for persons with disabilities
- ❖ replace exterior decks, patios, porches (as long as not structural in nature)
- ❖ Basement finishing, waterproofing and remodeling (no structural repairs allowed)
- ❖ Window and door replacement
- ❖ Exterior wall re-siding

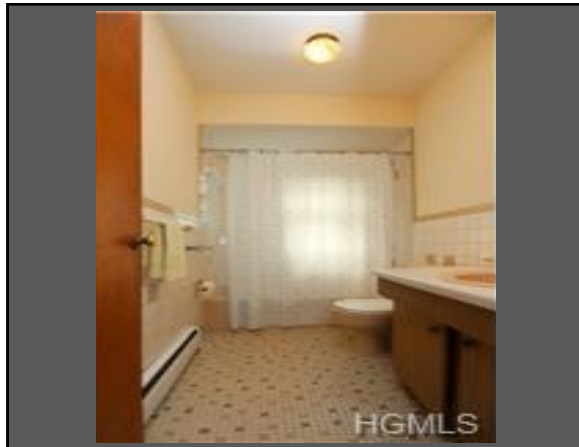
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203K Limited Not Eligible

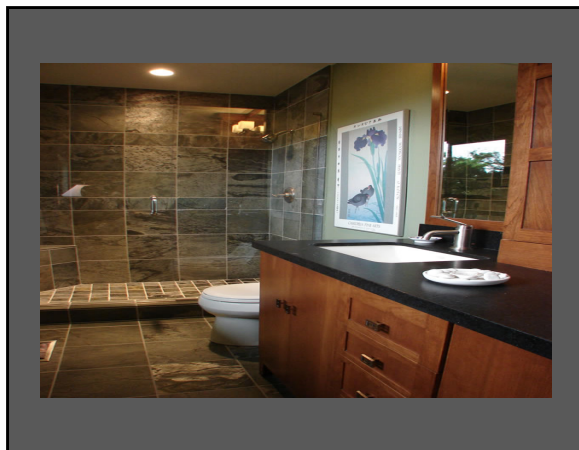


- ❖ Major rehabilitation
 - ❖ Relocation of load bearing walls
 - ❖ Room Additions
- ❖ Repairs of any structural damage
- ❖ Repairs requiring detailed plans, drawing, etc
- ❖ Landscaping on-site amenity improvements
- ❖ Work requiring six (6) months or longer to complete
- ❖ Activities requiring more than two (2) draw payments

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203K Standard Consultant 

- ❖ The **Standard/Consultant Option** is designed for more complicated projects
 - Can used for cosmetic features but is the only option available for major renovation projects
- ❖ When in doubt, use the consultant option
- ❖ The minimum cost of repairs is \$5,000 and there is no maximum amount (up to FHA loan limits and renovation over \$75,000 may involve additional contractor requirements)
- ❖ Borrowers can finance up to 6 months of PITI if home is uninhabitable
- ❖ Work to start within 30 days of closing and completed within 6 months
- ❖ Up to 5 draws permitted

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203K Standard Eligible Repairs



The Standard 203(k) is used for more complicated projects such as:

- ❖ Major structural alterations and additions
- ❖ Major landscaping and site improvements
- ❖ Repair swimming pool
- ❖ Install well and/or septic
- ❖ Relocation of load bearing walls
- ❖ Other major improvements permanently fixed to the existing foundation or structure
- ❖ Converting multi-unit to a single unit or a single unit to a multi-unit
- ❖ Improvements for disabled persons allowed for certain therapeutic items, such as special baths and tubs
- ❖ All repairs on Streamline 203(k) eligible list as well

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PROPERTY TYPE

- ❖ Eligible properties - 1 to 4 unit detached and attached (FHA approved condos) primary residences , double wide manufactured
 - ❖ New construction is not eligible; all properties must be considered existing and completed for at least 1 year with a certificate of occupancy previously issued
- ❖ Demolished homes or homes that will be tore down during the rehab process **are eligible** provided some of the existing foundation system remains in place
- ❖ Conversion of single family to multi and vice versa is acceptable
- ❖ All health and safety issues must be addressed
- ❖ Eligible properties

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East Montpelier

Purchase Price \$92,000

Renovations \$54,000

Total Acquisition \$146,000


Appraised Value (2012)
\$220,000
 Appraised Value (2020)
\$450,000

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Programs

HUD \$100 Down Payment + FHA 203(k)

- Loan Amount – up to county limits
- NO minimum repairs
- Primary residence only
- Credit will vary by Lender
- Property – SFR, 1-4 units, mixed-use
- HUD-owned CONDO's Allowed
- Structural work allowed
- Work completed within 6 months
- All standard FHA guidelines apply
- New Appraisal will be ordered



THINK LOW
CASH BUYER

33

FNMA HOMESTYLE AND FFLMC CHOICE RENOVATION

- Property – SFD, 1-4 unit, condos, manufactured
- Loan Amount – up to State Limits
 - single family \$726,200
 - 4-unit \$1,396,800
- High Balance
 - Single Family \$1,089,300
 - 4 unit \$2,096,200
- Second Homes, Investment Properties (single family only)
- Credit Score will vary by Lender
 - 77% LTV Primary (w/ Income Limitations);
 - 90% LTV 2nd Homes; (1-Unit Only)
 - 80% LTV Investment (1 unit only)
- Max Renovations – 75% of After-Improved Value
- Appraisal – After Improved Value
- Condos – Interior Only and HOA approval
- Luxury Items – pools, docks, summer kitchens, bulkheads Detached Structures
- Purchase & Refinance
- Borrower may finance up to 6 payments

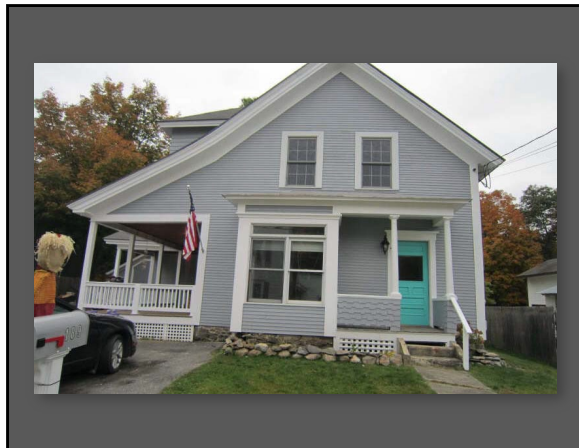


**THINK PMI SENSITIVE
HIGHER DOWN PAYMENT
BUYER**

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Morrisville VT	Contract Price \$125,000
	Total Labor & Material Costs \$25,000
	Total Acquisition \$150,000
	Appraised Value (2021) \$420,000

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Rochester NY (2019)

Purchase Price
\$205,000

Renovation Cost
\$45,000

After Completed
Value \$285,000

40

Renovation Loan Process

1. Pre-Approval / Credit Application
2. Find property
3. Loan – Initial Credit Underwriting
4. Make offer (45-60 days to close)
5. Ratify contract
6. Inspections (7 days)
7. Choose contractor & secure bids
8. Order appraisal with consultant report or final contractor bid
9. Submit appraisal, bids, etc. to underwriting with other loan conditions
10. Close – \$ PAY DAY FOR AGENTS \$
11. Work begins

Home Buying & Reno Process

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HUD Consultant

- Required on 203(k) Standard and Fannie Mae Home Style (with some Lenders)
- Replaces Home Inspector
- Feasibility inspection lists required repairs
- Reviews bid
- 30 day progress reports
- Inspections & approves draws
- Resolves conflicts


Repair Amount	Consultant fee
\$5,000 - \$7,500	\$400
\$7,501 - \$15,000	\$500
\$15,001 - \$30,000	\$600
\$30,001 - \$50,000	\$700
\$50,001 - \$75,000	\$800
\$75,001 - \$100,000	\$900
\$100,001 and up	\$1,000

Inspection Fees Are Included In The Loan

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Typical Inspections


- **FHA Feasibility Inspections**
- **Home Inspections** – allowed but not always required
- **Well / Septic Inspections** – if home is vacant for 30 days or not functioning properly
- **Specialty Inspections**
 - Structural Engineer, Lead Based Paint, Roof, Mold, Pool
- **Renovation Inspections**
 - HUD Consultant – Creates Specification of Repairs document
 - Conventional – Feasibility Report



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Contractor Bid

- Name of company, address, contact person, phone number, email address
- Name of customer, address of property, current date
- Very detailed on each line item
- Square footage for flooring, etc.
- Specify location, manufacture, model number of materials
- Labor and material cost broken out
- Signed by contractor & buyer



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Post-Close Process

203K Limited	203K Full	FNMA
50% paid at closing	Upfront money for materials only	Upfront monies (50% direct to supplier if ordered and not yet paid)
50% after final inspection & title update	Up to 5 draws total	Up to 5 draws total
Appraiser performs inspection	Consultant performs inspections	Consultant performs inspections
	Final payout after final inspection & title update	Final payout after final inspection & title update
		Appraiser performs final inspection

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Changing the Mindset


Buyers – Envisioning the Dream Home

Benefits for Buyers:

- Obtain loan covering mortgage & improvement to the new home
- 3.5% down payment on TOTAL with FHA and 3% with conventional
- Create DREAM home without huge out of pocket costs
- BUILD immediate equity after renovation
- Take advantage of "AS-IS" properties priced below market value
- Instant improvements to QUALITY of LIFE
- No minimum work \$\$\$ - appliances and pools
- Energy EFFICIENCY – cut utility costs

Imagine the Possibilities

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Changing the Mindset

Sellers – Marketability

Benefits for Sellers:

- Market the amenities of neighborhood, not the condition of the home
- Reduce time home is on the market
- Sell "AS-IS" with reduced costs to bottom line
- NO work required until AFTER settlement
- Increase pool of buyers
- Provide more financing options for potential buyers

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Benefits to Your Business

Benefits to your business:

- Differentiate yourself from the competition
- Take MORE listings with property challenges
- Sell more homes "As-Is" which means FASTER sales
- INCREASE your buyer pool
- Reduce time listings are on the market
- QUICKER decisions by Buyers
- Provide a solution to distressed sellers who don't have the funds to make additional improvements
- Convert more homes with potential into CLOSED deals
- No work required until AFTER closing
- Confront the inventory shortage
- Satisfy the champagne taste with a beer budget

Get in front of the Threat

48

FAQ


How does the appraisal work?

- The valuation of the property is **“subject to”** the repairs and improvements to be made after closing per the contractors bid
- A copy of the work estimate provided by the contractor is provided to the appraiser
- The appraiser selected to perform valuations on these properties have been trained to calculate the **after improved value that is “subject to”** the repairs and remodeling of the home.
- On FHA, we can use **110% of the “after-improved value”** or FHA loan limits if needed to meet requirements.
- Conventional – one appraisal **after improved value only 50% of after appraisal can be renovation. Self Funding additional renovation work is prohibited**

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FAQ

- **Rates**
 - One competitive government-insured **fixed rate mortgage**
- **Closing Time**
 - Generally 30-45 days from the date the buyer has selected qualified contractor and completed bid
- **Insurance**
 - Knowledgeable agents will know if additional insurance is required for larger projects
- **Contracts**
 - Talk with your broker but generally you will disclose it's a renovation loan in the financing addendum



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FAQ

- **When do payments start?**
 - Payments due per loan; can finance up to 6 months on FHA 203(k) Standard & Conventional
 - Are FHA Inspectors Required?
 - Yes on FHA Standard & Conventional options
- **How is the contractor approved?**
 - Lender validates each contractor
- **Do we get typical inspections?**
 - Borrowers generally get regular inspections; additional may be required and/or requested to expedite the process

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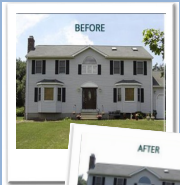

FAQ

- **Occupancy**
 - FHA – Primary residence
 - Conventional – Primary, 2nd home, Investment properties
- **Appraised Values**
 - Agent plays a key role in understanding comps in the area
 - Who chooses the contractor?
 - The buyer

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FAQ


- **What is Cost of Renovation**
 - Work, inspections, title updates, consultant fees
- **What happens to left over funds?**
 - Unused funds are applied to principal balance
- **Can I get money before the work is done?**
 - Draws are paid after the work is completed & inspected. No disbursements for work done prior to closing
- **When can the work begin & end?**
 - Begin within 30 days after closing, complete within 6 months
- **Is Self Help Allowed?**
 - Yes but there are limitations

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FAQ

- **Does this apply to refinances?**
 - Yes, each loan applies to refinancing & renovating
- **What if the work costs more than the bid?**
 - Ultimately, the buyer is responsible for cost of renovations
- **When can the work begin & end?**
 - Begin within 30 days after closing; complete within 6 months
- **What if buyer does not want to finance the work?**
 - No, buyer can increase the down payment



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FAQ

- **What if the utilities can't be turned on?**
 - We will collect at least 15% contingency funds
- **What if a contractor places a lien on the home?**
 - The lender orders updated title search before paying the contractor
- **When is the appraisal ordered on a reno loan?**
 - At application however cannot be completed until contractor is selected and bids are finalized
- **Can a buyer change contractors after closing?**
 - Yes, with good cause, we must mediate and pay out for completed work; new contractor must be validated
- **Are there 2 appraisals on reno loans?**
 - On a purchase loan no, there is one "subject to" appraisal on a purchase based on the after improved value
 - If the homeowner wishes to finance closing costs on a FHA 203(k) a "as is" appraisal is required

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Thank you!

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