HomeStyle® Renovation FAQs

The HomeStyle Renovation mortgage provides a simple and flexible way for borrowers to renovate or make home repairs with a conventional first mortgage, rather than a second mortgage, home equity line of credit, or other more costly methods of financing.

As announced in *Selling Guide* Announcement SEL-2018-02, we've simplified and expanded eligibility for HomeStyle Renovation to help lenders better meet the needs of today's borrowers. Enhancements include:

- The maximum allowable loan-to-value (LTV)/CLTV/and HCTLV ratio has been increased to 97% for 1-unit, principal residence, purchase and limited cash-out refinance transactions.*
- The limit on eligible renovation funds has been increased to 75% of the lesser of the purchase price plus renovation costs, or the "as-completed" appraised value for purchase transactions; and 75% of the "as-completed" appraised value for refinance transactions.
- Manufactured housing is eligible with HomeStyle Renovation, with the eligible renovation funds capped at the lesser of $50,000 or 50% of the "as-completed" appraised value.
- The new requirements for recourse removal are effective with deliveries on or after June 1, 2018.
- Once the recourse is removed, standard representation and warrant relief applies to all HomeStyle Renovation loans delivered to Fannie Mae, including those delivered prior to Announcement SEL-2018-02.
- Lenders may release material draws at the beginning of the project for the purpose of acquiring materials that are identified in the project estimate - up to 50% of the total up-front material costs. A portion of this 50% may be used to pay expenses associated with architect fees, design, and permits.

* For LTVs > 95%, on purchase transactions, the borrower must be a first-time home buyer unless combined with HomeReady®; for limited cash-out refinance transactions, the loan must be owned or securitized by Fannie Mae.

This document addresses common questions about the HomeStyle Renovation features and requirements.

General

Q1. Must a property be habitable at the time of closing?

No, Fannie Mae does not require the property to be habitable at the time of closing. If the home is not habitable, the borrower may finance up to six months of principal, interest, tax, and insurance payments to cover these costs while the home is uninhabitable.

Q2. Does the contingency reserve need to be 15% of total costs?

No. A contingency reserve is not required for a mortgage secured by a one-unit property, however the lender may choose to establish one. A contingency reserve equal to 10% of the total costs of the repairs and renovation work must be established and funded for a mortgage that is secured by a two- to four-unit property to cover required unforeseen repairs or deficiencies that are discovered during the renovation. The lender may increase the contingency reserve to 15% if it determines the higher reserve is appropriate given the scope and scale of the renovation.

Q3. Are "tear downs" allowed?

No, HomeStyle Renovation loans may not be used to tear down and reconstruct a home. A tear down would include removing the entire shell of the dwelling down to the foundation. Major renovations such as additions or multi-room rehabilitations are eligible projects, provided they meet the applicable LTV requirements.

Q4. Must the improvements add value to the property?

No. Fannie Mae does not require that the improvements add value to the property. The appraiser must evaluate the proposed renovation during the appraisal process. The "as completed" value of the property with the improvements will reflect any contributory value of the renovation.

Q5. Do utilities need to be on at time of inspection for the appraiser to assess that utilities/appliances are functioning for a HomeStyle Reno loan?

No. However, the appraiser or lender may observe something that could make it necessary for utilities to be turned on to confirm there is no issue, or to confirm that the construction plans include all the work that needs to be done on the property.

Q6. Can the loan include a special assessment for sewer?

No. Funds for HomeStyle Renovation may be used only to complete new improvements to the property. Funds cannot be used to pay off existing debt or special assessments.

Q7. Can lenders utilize HomeStyle Renovation financing on a manufactured housing property?

Yes, manufactured housing is eligible for HomeStyle Renovation financing, up to the lesser of 50% of the as-completed value or $50,000. The manufactured home must meet the applicable *Selling Guide* requirements in Section B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing.

Q8. Can an accessory unit be detached from the primary dwelling?

Yes, an accessory unit may be detached from the primary dwelling. All improvements related to accessory units must be in compliance with local and state codes and statutes. They also must meet the applicable *Selling* Guide requirements for accessory units in Section B4-1.3-05, Improvements Section of the Appraisal Report.

Q9. Can the financing be used to build another residential dwelling on the property parcel?

No. Funds may not be used to construct another residential dwelling on the property.

Q10. Can landscaping costs be covered?

Yes, provided that the improvements are permanently affixed to the property.

Q11. If the borrower funds a portion or all of their costs in cash (contingency or otherwise), can that amount be subtracted before calculating the 75% limit?

If the contingency reserve is not financed because the borrower funds the reserve, it does not need to be included in the total renovation costs toward the 75% limit as indicated on the 1035 worksheet ("if applicable and financed"). Borrower-provided funds for all other costs cannot be subtracted before calculating the 75%. The borrower bringing additional funds toward renovation would reduce the overall LTV ratio, but we expect it to be counted toward the total percentage of renovation.

Q12. If the appraiser signs off that the work has been completed, but is waiting for municipal/city inspections/health and safety, may the lender close the renovation phase?

All inspections must be completed when local code requires a post-completion inspection and/or a certificate of occupancy to be issued at the conclusion of the renovation. When these activities are required to satisfy local codes, the renovation phase may not be closed out until the lender has obtained evidence that these were completed. In all cases, the property must meet Fannie Mae's General Property Eligibility requirements, as described in *Selling Guide* B2-3-01, prior to the renovation phase being closed to allow for the removal of recourse. This includes the requirement that the property be safe, sound, and structurally secure.

Q13. Are lenders required to use the HomeStyle Mortgage Maximum Mortgage worksheet?

No. Fannie Mae does not mandate use of the worksheet (Form 1035). The form is provided as a tool for optional lender use. Lenders must retain any document or worksheet that was used to calculate the maximum mortgage amount in the loan file.

Q14. May a lender pay additional monies (after applying escrowed funds to principal) to bring the LTV ratio into eligibility on an early close out?

No. Lenders must submit these cases to Fannie Mae via the Fannie Mae HomeStyle mailbox (fanniemae_x_homestyle@fanniemae.com) to determine acceptable remedies based on the specific scenario and its impact to loan eligibility.

Q15. If the appraiser checks off that the work is complete per the work order but the borrower is unsatisfied and engages in litigation with the contractor, may the lender close out the renovation?

If the work was complete per the work order and the property is safe, sound, and has no compromises to the structural integrity, the litigation will not prevent closing out the renovation. However, the lender must determine if the litigation is related to a matter that suggests the property does not meet our basic property requirements regarding safety, soundness, or structural integrity. To the extent the lender has specific loan scenarios in mind, they should contact Fannie Mae's HomeStyle mailbox (fanniemae_x_homestyle@fanniemae.com) to determine if additional steps are needed to close out the renovation.

Q16. Please explain the payment history requirement for removal of lender recourse.

If during the renovation period the loan is ever 60 or more days delinquent or has more than one 30-day delinquency, the loan is not eligible for removal of lender resource until the loan has had 36 months of clean (no 30-day late or greater) payment history. The loan must be current at the time of recourse removal.

Q17. If the loan is delivered after the renovation is complete, is there a limit on the amount of time a renovation can take?

No. However, all loans delivered to Fannie Mae after one year past the first payment date must meet our requirements for seasoned mortgages as stated in *Selling Guide* section B2-1.4-02, Mortgage Loan Eligibility.

Q18. According to *Selling Guide* Announcement SEL-2018-02, servicing may not be transferred during the renovation period. May lenders sell loans originated through a correspondent network?

Yes, loans originated through a correspondent or third-party originator channel are eligible for delivery. The restriction on servicing transfers applies only to Fannie Mae sellers/ervicers and is effective once the loan is delivered to us through the completion of the project.

Q19. Is homeownership education required for mortgage qualification?

Fannie Mae believes that access to quality homeownership education and counseling can provide borrowers with the important information and resources to make informed decisions that support long-term homeownership sustainability.

For purchase transactions with LTV, CLTV, or HCLTV > 95%, if ALL occupying borrowers are first-time homebuyers, then at least one borrower must complete the Framework® online education program, regardless of the product chosen. The Framework course, available in English and Spanish, meets or exceeds industry standards and consistently receives high marks from learners.

Exceptions to the Framework course requirement:

- For loans that involve a Community Seconds® or down payment assistance program, buyers may instead complete the homeownership education course or counseling required by the Community Seconds or down payment assistance program as long as it is provided by a HUD-approved agency and completed prior to closing.
- The presence of a disability, lack of Internet access, and other issues may indicate that a consumer is better served through other education modes (for example, in-person classroom education or via a telephone conference call). In such cases, lenders should direct buyers to Framework's toll-free customer service line (855-659-2267), which can refer consumers to a HUD-approved counseling agency.
- Finally, buyers who have already completed housing counseling prior to entering into a sales contract (as evidenced by a completed Fannie Mae Form 1017) are not required to complete the Framework course.

For more information, refer to the homeownership education FAQs.

Combining HomeStyle Renovation and HomeStyle Energy Features

Q20. Can the lender combine other home renovations with the HomeStyle Energy product?

Yes, only when those improvements are done through HomeStyle Renovation. The lender must have special lender approval to sell and service HomeStyle Renovation loans when the lender delivers HomeStyle Renovation loans to Fannie Mae prior to the completion of the renovation.

Q21. Is an energy report required when using HomeStyle Renovation for energy-related improvements?

The requirement to obtain an energy report depends on how the transaction is structured as well as the types of energy improvements completed.

If energy-related improvements are financed through the HomeStyle Renovation product without using HomeStyle Energy, an energy report is not required. In that case, the lender will not deliver the loan with Special Feature Code 375 and will not receive the $500 LLPA credit.

When combining HomeStyle Renovation with HomeStyle Energy, lenders will receive the $500 loan-level price adjustment (LLPA) credit if Special Feature Code 375 is delivered. The transaction will also be subject to the requirements under HomeStyle Energy when this option is used. Some improvements under HomeStyle Energy require the borrower to obtain and energy report while others do not. For additional information about when energy reports are required for HomeStyle Energy loans, see *Selling Guide* section B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties.

Q22. May a HomeStyle Renovation loan be used to pay off a Property Assessed Clean Energy (PACE) loan greater than 15% of the "as completed" appraised value of the property?

No. HomeStyle Renovation funds are to be used for new improvements, repairs, and renovations to the property. The funds may not be used to pay off existing debt. Homeowners seeking to pay off PACE debt may use HomeStyle Energy (not combined with HomeStyle Renovation) or a standard cash-out refinance transaction.