

Navigating Renovation Mortgage Loans



**The AmeriFirst Home
Mortgage HomePath®
Renovation Buyers Guide**

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AmeriFirst Home Mortgage Buyers Guide for HomePath® Renovation

This Buyers Guide

Today's housing market offers a diverse selection of homes for buyers. Whether it's your first home mortgage or your fifth, you have a lot of choices. One option is a HomePath-eligible home. These are Fannie Mae-owned properties. A HomePath Renovation-eligible house is a Fannie Mae-owned home that needs a little TLC. Buying a HomePath-eligible home will include some nuances other mortgage loans will not, so AmeriFirst Home Mortgage offers this buyers guide to help understand the process.

This Buyers Guide –while it doesn't cover everything – should better prepare you to consider and assist you with the purchase of a Fannie Mae-owned home. More information is also available online at www.HomePath.com and www.AmeriFirst.com.

Fannie Mae Owned Properties

Fannie Mae-owned properties are on the market today. It's a fact of life in real estate. Fannie Mae wants to move

these homes from the “for sale” market into the hands of qualified home buyers. That's why Fannie Mae offers the HomePath® Mortgage. This option offers several benefits including low down payment and flexible mortgage terms and a break on mortgage insurance. However, sometimes a foreclosed home ends up in need of repair. Fannie Mae makes repairs like painting, replacing carpeting and other work, but sometimes the home needs more work. This is where HomePath Renovation takes over.

Why does Fannie Mae have properties for sale?

While Fannie Mae works with its partners to help homeowners avoid foreclosure, sometimes foreclosures are unavoidable. When they do occur on mortgages in which Fannie Mae is the investor, its

goal is to sell those properties in a timely manner in order to minimize the impact on the neighborhood.

How does Fannie Mae sell its homes?

Fannie Mae uses local real estate professionals to prepare, maintain and list its properties for sale. All of its properties are listed on Fannie Mae's website. Most have photographs, property descriptions and other details like school and neighborhood information.

Do I have to use a special real estate agent?

No. You may work with any real estate sales professional to submit an offer on Fannie Mae-owned properties. However, Fannie Mae only accepts offers through its real estate listing agents. Also, it's a good idea to pick an agent who has some experience with foreclosure sales.



What is a Renovation Mortgage?

In today's housing market, you will find a variety of homes in all conditions: new construction, historic homes and fixer-uppers. Sometimes a fixer-upper is listed at an affordable price "as-is." This means you buy the home in the condition it's in, and will assume responsibility for making repairs and renovations on it. The problem many home buyers face is financing that works. This is where a "Renovation Mortgage" comes into play.



You can borrow money to pay for the home and repairs all in one loan. This means the cost of the home improvements, repairs, renovations or rehabilitation work is amortized over the life of the home mortgage loan. Benefits of this include the tax write-off* that comes with mortgage interest payments. It's also a way to finance work without using consumer credit at much higher rates. A renovation mortgage also takes into account the after-improved value of the home. This means you can buy a house at a "good deal," put the work into the home to improve the value and create instant equity in the home.

Here's an example:

- A home is listed for \$50,000
- The home needs \$20,000 in work to make it livable
- The after-improved value of the house would be about \$70,000
- Other similar homes in the area are appraised for \$75,000-\$80,000
- With your renovation mortgage of \$70,000 you could have \$5,000-\$10,000 in equity depending on the value of the work done

*Interest above the fair market value is not tax deductible for federal taxes. Consult a tax advisor for more information.

A renovation mortgage allows you to buy a home, make repairs or improvements through a licensed contractor and make one monthly mortgage payment.

What Projects Would Make a Home a Renovation Mortgage Candidate?



Finding a home you like “[but it’s not quite right](#)” can be frustrating. You could always move onto another home, but you may find the same issue at the next stop. Maybe you find a home that looks nice, but it’s missing that deck you want. Some buyers find a great-looking house but it’s the wrong color, and painting an entire house seems daunting. Some homes on the market today are missing appliances, a furnace, a water heater or central air conditioner. Maybe the home you’re considering needs a makeover in the basement, including waterproofing.

All of these scenarios could kill a deal for any home buyer. The other thing these all have in common? They’re all great projects for a home renovation mortgage loan!

Instead of running into the same problem over and over, consider a renovation mortgage to turn the house you like into the home you love.

Here’s a look at some of the issues that would make a home a renovation mortgage loan candidate:

Renovation Mortgage Projects

Repair/replace roof, gutters and downspouts

Repair/replace/upgrade existing HVAC systems

Repair/replace plumbing and electrical systems

Repair/replace flooring

Minor renovations in kitchen or bathrooms

Interior or exterior painting

Weatherization including storm doors or insulation

Repair/replace septic system and/or well

Disability access like wheelchair ramps, elevator

Abatement or stabilization of lead-based paint hazards

Build/repair/replace outside decks, porches and patios

Basement finishing and waterproofing (excluding structural)

Replace windows, doors and siding

HomePath Renovation Specifics

HomePath Renovation Mortgages are available for primary residences, second homes, and investment properties in need of renovation considered “light to moderate.” The maximum renovation amount cannot exceed 35 percent of the “as-improved” value, and cannot exceed \$35,000. The work must be completed within six months of the loan closing. Like HomePath Mortgages, no Mortgage Insurance is required*.



While HomePath Renovation financing is available for Fannie Mae-owned homes, that does not mean Fannie Mae won't repair its properties prior to listing them for sale. In many cases, Fannie Mae continues to make repairs, such as painting, replacing carpeting, replacing appliances and other projects.

Renovations by the buyer can include repairs and cosmetic improvements such as appliances, fences, decks, floors, and finishes. The only requirements are that renovations be permanently affixed to the property and add value to the property. This includes landscaping, as long as it adds value to the property, is a permanent part of the property, and is supported by the “as-improved” appraisal.

Funds are distributed to the renovation contractor through an escrow account. At settlement, the lender funds the escrow then distributes the money to the contractor upon request as the renovations are completed.

In many cases, Fannie Mae continues to make repairs, such as painting, replacing carpeting, replacing appliances and other projects.

Do-it-yourself (DIY) work is permitted with these additional requirements:

- The maximum renovation financing is 10 percent of the "as-improved" value.
- The property must be a 1-unit owner-occupied home.
- Material costs are reimbursed, but labor costs are not.
- The borrower must provide itemized bills or receipts for materials.

If not available prior to closing, borrower must document planned improvements and estimate costs.

- All work over \$5,000 requires inspections.
- Maximum loan-to-value (LTV) is 75 percent

*Talk to your mortgage consultant about costs associated with loans with no mortgage insurance

Getting Started

How much can you afford to spend on a house?

It's important to figure out what you can really afford, not just what you think you can afford. Nothing is more disappointing than finding the perfect house and realizing it's out of your price range. This is why [mortgage pre-approval](#) is so important. A mortgage professional can tell you how much house you can afford on your current budget. AmeriFirst Home Mortgage works with you to decide on a comfortable monthly mortgage loan payment for you. This saves time by letting you search for homes within your pre-approved, affordable price range. Having pre-approval is also critical to show the seller (in this case, Fannie Mae) that you're a serious and qualified buyer. Now find a house and you're ready to submit an offer.

Keep in mind that a loan pre-qualification or pre-approval letter doesn't mean your loan is approved yet. You'll still need to apply for a loan once you have an accepted offer on a house.

Be smart, do your research!

Log on and look around. You can search the Internet to research neighborhoods, types of homes, price, schools, shopping, and other information to help find the home that best meets your needs.

A great place to start is the HomePath® website (www.homepath.com). It lists, in detail, all of Fannie Mae's properties located in neighborhoods across the country. You can even create a personalized search which lets you be among the first to know

when a new property is coming on the market in your area. Click on **"Advanced Search"** and you'll find a host of ways to search for information. Once you've found a home you like, find a real estate agent or a HomePath agent on the contact list to make an appointment to visit Fannie Mae properties.



The HomePath Renovation Lending Process

Buying a house takes time and planning. It can be an exciting journey, or a treacherous trip. It all depends on how prepared you are as a buyer. Here's a look at the process of a HomePath Renovation Mortgage.

Loan Processing Phase

1. Borrower should be pre-qualified or pre-approved first.
2. Borrower selects property and contractor.
3. Borrower submits contractor's plans to AmeriFirst Home Mortgage.
4. Appraiser reviews plans and determines as-improved value.
5. AmeriFirst Home Mortgage calculates maximum renovation amount and maximum mortgage amount.
6. AmeriFirst Home Mortgage underwrites loan, and the loan closes.



Renovation Phase

1. AmeriFirst Home Mortgage establishes escrow for renovation.
2. Contractor completes work.
3. AmeriFirst Home Mortgage inspects to confirm work is completed.
4. AmeriFirst Home Mortgage disburses renovation funds in escrow to contractor.
5. Upon completion, AmeriFirst Home Mortgage performs the final inspection, obtains title insurance endorsements, and reconciles and closes escrow.

An Accepted Offer

Once a contract has been executed by both the buyer and Fannie Mae, a 10-day inspection period is provided. Fannie Mae and AmeriFirst Home Mortgage strongly recommend that you hire a qualified professional to inspect the property, whether it's been repaired or not. There is a 10-day inspection period which begins on the start date listed on your purchase addendum, so be sure to check the addendum to confirm this date.

If Fannie Mae knows of any hazards on properties it owns or markets, it will disclose this information through its real estate listing agents. However, Fannie Mae may not have been informed by the previous owner of all hazards.

Fannie Mae sells each property "as-is." This means that the buyer accepts the property in its present condition at the time of closing. Fannie Mae works to make some repairs and upkeep in the home, but is not responsible for any repairs that may be needed after settlement.*

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*Additional repairs to the property may be required, depending on the type of financing, such as FHA products. When this happens, the lender typically contacts the listing broker to communicate these requirements. Fannie Mae then reviews the offer to determine if they are willing to re-negotiate the existing contract to account for those repairs. There are instances when Fannie Mae will not accept certain types of repairs and the buyer will either have to obtain other financing or choose another home.

The Final Step...Closing the Sale!

Although Fannie Mae strives to close deals as soon as possible, Fannie Mae and/or external parties can delay closing due to certain circumstances. For example, sellers are often required to gain approval from external parties, like a mortgage insurer that insured the original loan. Such delays can vary in length, so keep this in mind.

The closing will occur when conditions of the contract have been met, which include full loan approval, evidence of clear title, closing on the scheduled date and any other contingencies. Closings occur at different places in different states. Some closings may be required to take place at a closing attorney's office, while others may use a title or escrow company.

Prior to the actual closing date, expect to review fees so that you'll understand all terms and conditions of the contract, in addition to the amount of the check that you'll need to bring to closing. Your real estate professional and AmeriFirst Home Mortgage will assist you with this process.



At the closing, AmeriFirst Home Mortgage funds the loan with a cashiers check, draft or wire to the closing agent who disburses funds in exchange for the title to the property. This is the point at which transfer of ownership occurs: the buyer receives possession of the property. Congratulations – you're now officially a homeowner!

Homebuyers Checklist

___ **Ask for help.** If you want help with the home buying process, it might be worth finding a housing counselor. The US Department of Housing and Urban Development has a list of free or low cost housing counselors available on their website at www.hud.gov. Counselors can also advise you on home buyer assistance programs in your area.

___ **Get pre-approved.** AmeriFirst Home Mortgage is a leading HomePath Renovation lender in several states. Find an office in the [AmeriFirst office locator](#). Your mortgage consultant will help on your budget. They will look at your monthly income and monthly expenses and determine how a house might fit into that budget. How much can you really afford? A mortgage consultant will make sure you don't forget to include taxes and insurance in your projected costs.

___ **Check your credit.** The condition of your credit may influence the financing available to you for purchasing a home, so it's important to understand your creditworthiness early in the process. Your mortgage consultant will pull your credit history. You can, and should, also monitor your own credit history. You can get your free annual credit report at www.annualcreditreport.com and check for errors or unresolved issues. Make sure to correct any mistakes with the credit bureaus.

___ **Find an agent.** Finding the right real estate agent can make a big difference in the success of your home buying experience. Ask friends, neighbors and coworkers for agent referrals – or go to Internet sites such as www.realtor.com and www.nareb.com to find agents in your area – and we recommend that you be sure to interview at least three to find a good fit.

___ **Collect your documents.** Gather pay stubs, bank account statements, W-2s, tax returns for the last two years, statements from current loans and credit lines, and names and addresses of your landlords for the past two years – lenders are going to want to see these when you're working on financing.

___ **Start your search.** Your agent should help you find neighborhoods and homes that fit your needs and your budget. Compare houses, prices, features, neighborhoods and demographics. Be sure to check out www.homepath.com for affordable Fannie Mae-owned properties in your area.

___ **Make the offer.** You've found the perfect home and now it's time to work with your agent to submit an offer! Your submission will include the terms of the offer and a good faith deposit. Keep in mind that Fannie Mae looks for the best offer, not just the highest price.

___ **Get inspections done.** You should always be aware of both the good and the bad before you buy a house, so it's critical that you have a professional inspection done. Fannie Mae has a 10-day inspection period after an offer has been accepted.

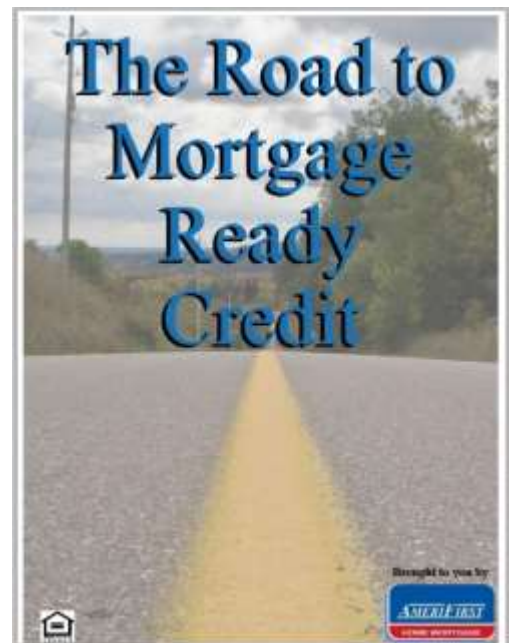
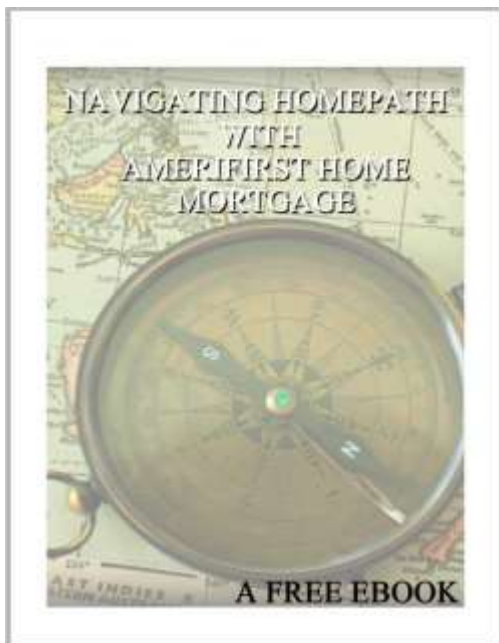
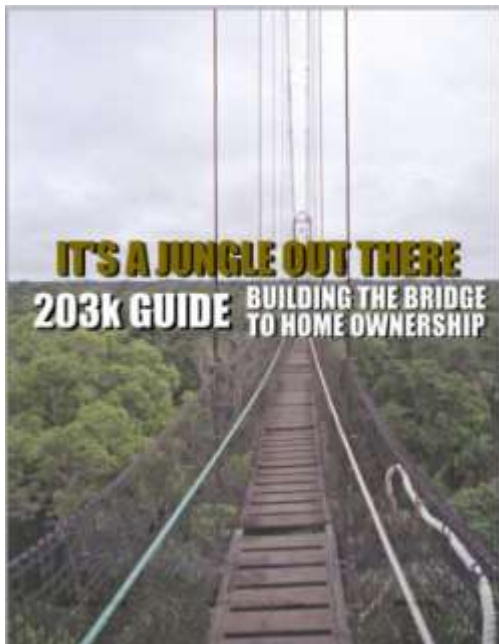
___ **Prepare to close.** In preparation for closing, your lender may ask you for more information on your finances and the property– you'll also need to organize your down payment, prepare to pay for any closing costs, get a property insurance policy, title insurance, and a host of other things. Ask lots of questions and be sure you understand everything you sign or agree to.

___ **Schedule the closing.** AmeriFirst or your real estate agent will work with you to schedule a convenient closing date, time, and location. At the closing, you'll sign deed and mortgage documents, among other things, and at the end you'll be handed the key to your new home!



Free eBooks for More Information

If you'd like to learn more about the FHA 203k loan program, or credit information for buying a home, or the mortgage process in general, we offer several free eBooks. You can click one of the pictures below to find the eBook that's right for you!



Let Us Know How We Can Help

For more than 25 years, AmeriFirst Home Mortgage has helped first time home buyers realize the dream of leaving that rental behind, and owning a house. Whether it's conventional lending, an FHA program, VA loan, Rural Development or a 203k mortgage loan, the team at AmeriFirst is here to find the right mortgage for you. AmeriFirst is licensed to do mortgages in: Michigan, Minnesota, Wisconsin, Illinois, Indiana, Ohio, Kentucky, Tennessee, North Carolina and Florida. There is sure to be an office near you. You can find the [AmeriFirst office locator here](#).

We're easy to find.

The website: AmeriFirst.com

We're on other social media sites as well.



Read the blog and keep up with the industry so you can be an informed borrower.



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