



## HomeStyle® Renovation Mortgage

The HomeStyle® Renovation mortgage provides a convenient and economical way for borrowers considering moderate home improvements to make repairs and renovations with a single-close first mortgage, rather than a second mortgage, home equity line of credit, or other, more costly methods of financing.

*NOTE: Lender approval is required to deliver HomeStyle Renovation loans to Fannie Mae. You must have two years of direct experience originating and servicing renovation mortgages within the past five years, and meet certain financial capacity and operational requirements. See Selling Guide [B5-3.2-01: HomeStyle Renovation Mortgage: Lender Eligibility](#) for details, and contact your Fannie Mae customer account team for assistance.*

### Product Overview

The HomeStyle Renovation is a single-close loan that enables borrowers to purchase a home that needs repairs, or refinance the mortgage on their existing home and include the necessary funds for renovation in the loan balance. The loan amount is based on the “as-completed” value of the home not the present value.

<b>Loan Purpose</b>	Purchase or limited cash-out refinance.
<b>Loan Type/Term</b>	15- and 30-year FRMs and all eligible ARM products.
<b>Borrower Eligibility</b>	One- to four-unit principal residences, one-unit second homes, or one-unit investor properties including units in condos, co-ops, and PUDs. No manufactured housing.  Any type of renovation or repair is eligible, as long as it is permanently affixed to the property and adds value. Renovations should be completed within a twelve-month period from the date the mortgage loan is delivered.
<b>Property and Renovation Eligibility</b>	Eligible borrowers include individual home buyers, investors, nonprofit organizations, or local government agencies.  Nonprofit organizations must provide additional documentation so that lenders can assess the viability of the nonprofit to repay the particular mortgage.
<b>Underwriting</b>	Desktop Underwriter® (DU®) and manual underwriting permitted. DU Approve/Eligible recommendations only.
<b>Calculating the LTV and Maximum Mortgage Amount</b>	For <b>purchase transactions</b> , loan-to-value (LTV) ratio is based on the lesser of: 1) purchase price and cost of renovation, or 2) the “As-Completed” value.  For <b>refinance transactions</b> , the LTV ratio is determined by dividing the original loan amount by the “as completed” appraised value of the property.  Lenders should use the <a href="#">HomeStyle Renovation Maximum Mortgage Worksheet (Form 1035)</a> to calculate the maximum mortgage amount.
<b>Limited Cash-out Refinance – Maximum Loan Amounts</b>	For <b>limited cash out refinance transactions</b> (LCOR), the LTV ratio is determined by dividing the original loan amount by the as completed appraised value of the property.  Borrower may not receive cash back at closing in any amount (Fannie Mae standard limited cash-out refinance of 2% or \$2,000, whichever is less, is NOT PERMITTED for this product).  Lenders should use the <a href="#">HomeStyle Renovation Maximum Mortgage Worksheet (Form 1035)</a> to calculate the maximum mortgage amount.



<p><b>Maximum LTV/CLTV/HCLTV (at Origination using DU*)</b></p>	<p>The following are maximum LTV/CLTV/HCLTV for purchase or LCOR when HSR mortgages are underwritten with DU* (note that borrowers can also qualify for up to 105% CLTV with eligible Community Seconds®):</p> <ul style="list-style-type: none"> <li>▪ One-unit principal residence to 95% LTV/CLTV/HCLTV with FRM; 90% with ARM</li> <li>▪ Two-unit principal residence to 85% LTV/CLTV/HCLTV with FRM; 75% with ARM</li> <li>▪ Three- and four-unit principal residence to 75% LTV/CLTV/HCLTV with FRM; 65% with ARM</li> <li>▪ One-unit second homes to 90% LTV/CLTV/HCLTV with FRM; 80% with ARM</li> </ul> <p>One-unit investment properties:</p> <ul style="list-style-type: none"> <li>▪ Purchase up to 85% LTV/CLTV/HCLTV with FRM; 75% with ARM</li> <li>▪ LCOR up to 75% LTV/CLTV/HCLTV with FRM; 65% with ARM</li> </ul> <p>*For properties underwritten manually, credit score and other factors will determine LTVs. Refer to the <a href="#">Eligibility Matrix</a>.</p>
<p><b>Subordinate Financing</b></p>	<p>Standard subordinate financing and Community Seconds are permitted. Refer to the <a href="#">Eligibility Matrix</a>.</p>
<p><b>Hazard and Mortgage Insurance</b></p>	<p>Borrower must have hazard insurance in place to cover the estimated as-completed value of the home after renovation. Mortgage insurance, if required based on the applicable LTV calculation, must be in place before closing.</p>
<p><b>Contractors</b></p>	<ul style="list-style-type: none"> <li>▪ Borrower must choose his or her own contractor to perform the renovation.</li> <li>▪ Lender must review the contractor hired by the borrower to determine if they are adequately qualified and experienced for the work being performed. The <i>Contractor Profile Report</i> (Form 1202) can be used to assist the lender in making this determination.</li> <li>▪ Borrowers must have a construction contract with their contractor. Fannie Mae has a model <i>Construction Contract</i> (<a href="#">Form 3734</a>) that may be used to document the construction contract between the borrower and the contractor.</li> <li>▪ Plans and specifications must be prepared by a registered, licensed, or certified general contractor, renovation consultant, or architect. The plans and specifications should fully describe all work to be done and provide an indication of when various jobs or stages of completion will be scheduled (including both the start and job completion dates).</li> </ul>



<p><b>Borrower “Do-It-Yourself” Work</b></p>	<p>Borrowers can perform the renovation work themselves at the lender’s discretion, provided that:</p> <ul style="list-style-type: none"> <li>▪ The Do-It-Yourself financing does not exceed 10% of the as-completed value. Note: Inspections are required for all work items that cost more than \$5,000.</li> <li>▪ The property is a one-unit owner-occupied home.</li> <li>▪ The reimbursement is limited to the cost of materials or the cost of properly documented contract labor (sweat equity may not be reimbursed).</li> </ul>
<p><b>Renovation Costs, Payment Reserves, and Contingency Reserves</b></p>	<p>Renovation costs are limited to 50% of the “as completed” appraised value of the home. Renovation costs may include:</p> <ul style="list-style-type: none"> <li>▪ Labor and materials.</li> <li>▪ Soft costs (architect fees, permits, licenses).</li> <li>▪ Contingency Reserve (10% of the cost of labor, materials, and soft costs for unforeseen extra costs in the renovation). The 10% contingency reserve is optional unless the property is a 2- to 4-unit home.</li> <li>▪ A payment reserve of up to six months PITI is permitted when the borrower must vacate the property during renovation. The amount can be financed in the loan amount if the value will support such financing. The reserve is allowed only for the period in which the property is uninhabitable due to the renovations.</li> <li>▪ A contingency reserve of 10% of the hard and soft renovation costs is required for two- to four-unit properties; the contingency reserve may be financed or it may be funded separately by the borrower.</li> </ul>
<p><b>Lender Responsibilities for Renovation Work</b></p>	<ul style="list-style-type: none"> <li>▪ The renovation and contingency funds must be placed in an interest-bearing custodial account.</li> <li>▪ The lender must manage the renovation funds during the work.</li> <li>▪ Once the work is complete, the lender must obtain either a HomeStyle Completion Certificate (<a href="#">Form 1036</a>) or an Appraisal Update and/or Completion Report (<a href="#">Form 1004D</a>) as evidence of completion.</li> </ul>
<p><b>Delivery Requirements</b></p>	<ul style="list-style-type: none"> <li>▪ HomeStyle Renovation mortgages are eligible for Whole Loan or MBS execution.</li> <li>▪ HomeStyle Renovation must be delivered with the appropriate special feature codes (SFCs): <ul style="list-style-type: none"> <li>• HomeStyle Renovation mortgage – SFC 215</li> <li>• If renovations are completed at or prior to loan delivery – SFC 279</li> <li>• If used with Community Seconds – SFC 118</li> <li>• If used with HomeStyle Energy – SFC 375</li> </ul> </li> </ul>
<p><b>Servicing</b></p>	<ul style="list-style-type: none"> <li>▪ Lenders must follow standard procedures and guidelines in the <i>Servicing Guide</i> related to conventional first mortgages, as well as special requirements related to the Renovation mortgage. Minimum servicing is 0.25% for both fixed-rate products and ARMs. The lender may not sell or transfer servicing until the renovation work is complete.</li> </ul>