



HomeStyle® Renovation Mortgage

The HomeStyle Renovation mortgage provides a convenient and flexible way for borrowers considering home improvements to make repairs and renovations with a 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-2017-02](#), 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 ratios have been increased to 97% for 1-unit, principal residence, fixed-rate, purchase and limited cash-out refinance (LCOR) transactions. (Note: For LTVs > 95%, on purchase transactions, the borrower must be a first-time home buyer unless combined with HomeReady; for LCOR transactions, the loan must be owned or securitized by Fannie Mae.) (Available in Desktop Underwriter® (DU®) on March 17.)
- 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. (Available in DU on March 17.)
- Manufactured housing (MH) 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. MH follows standard MH LTV ratio requirements. (Available in DU on March 17.)
- HomeStyle Renovation loans may be eligible for representations and warranties relief once the renovation has been completed and recourse removed.

*NOTE: Lender approval is required to deliver HomeStyle Renovation loans to Fannie Mae prior to completion of the work. Lenders 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 delivery team for assistance.*

Loan Purpose	Purchase or LCOR.
Loan Type/Term	15- and 30-year FRMs and all eligible ARM products.
Property and Renovation Eligibility	<ul style="list-style-type: none"> ▪ One- to four-unit principal residences, one-unit second homes, or one-unit investment properties, including units in condos, co-ops, and PUDs. ▪ MH is eligible, with the eligible renovation funds capped at the lesser of \$50,000 or 50% of the “as completed” appraised value. (Available in DU on March 17.) ▪ Any type of renovation or repair is eligible, as long as it is permanently affixed to the property. Renovations should be completed within a twelve-month period from the date the mortgage loan is delivered.
Underwriting	DU and manual underwriting permitted.



<p>Calculating the LTV and Maximum Mortgage Amount</p>	<p>For purchase transactions, loan-to-value (LTV) ratio is based on the lesser of: 1) purchase price and cost of renovation, or 2) the “as completed” appraised value.</p> <p>For refinance transactions, the LTV ratio is determined by dividing the original loan amount by the “as completed” appraised value of the property.</p> <p>MH 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. (Available in DU on March 17.)</p> <p>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).</p> <p>Lenders should use the HomeStyle Renovation Maximum Mortgage Worksheet (Form 1035) to calculate the maximum mortgage amount.</p>
<p>Maximum LTV/CLTV/HCLTV (at Origination using DU*)</p>	<p>The following are maximum LTV/CLTV/HCLTV ratios for purchase or LCOR when HomeStyle Renovation 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"> ▪ One-unit principal residence to 97% LTV/CLTV/HCLTV with FRM; 95% with ARM (Available in DU on March 17) (Note: For LTVs > 95%, on purchase transactions, the borrower must be a first-time home buyer unless combined with HomeReady; for LCOR transactions, the loan must be owned or securitized by Fannie Mae.) ▪ Two-unit principal residence to 85% LTV/CLTV/HCLTV with FRM/ARM ▪ Three- and four-unit principal residence to 75% LTV/CLTV/HCLTV with FRM/ARM ▪ One-unit second homes to 90% LTV/CLTV/HCLTV with FRM/ARM ▪ MH LTV/CLTV/HCLTV ratios principal residence to 95% FRM/ARM; second homes to 90% FRM/ARM (Note: 105% CLTV is not permitted with Community Seconds) <p>One-unit investment properties:</p> <ul style="list-style-type: none"> ▪ Purchase up to 85% LTV/CLTV/HCLTV with FRM/ARM ▪ LCOR up to 75% LTV/CLTV/HCLTV with FRM/ARM <p>*For properties underwritten manually, credit score and other factors will determine LTVs. Refer to the Eligibility Matrix.</p>
<p>Subordinate Financing</p>	<p>Standard subordinate financing and Community Seconds are permitted. Refer to the Eligibility Matrix.</p>
<p>Property and Flood Insurance</p>	<p>Retain in the individual mortgage file evidence of property and flood insurance following completion of the renovation (a policy or policy declarations page). Confirm that the coverage has been increased, if necessary, to comply with Fannie Mae’s standard property and flood insurance requirements.</p>



<p>Mortgage Insurance</p>	<p>Mortgage insurance, if required based on the applicable LTV calculation, must be in place before closing.</p>
<p>Contractors</p>	<ul style="list-style-type: none"> ▪ Borrower must choose his or her own contractor to perform the renovation. ▪ 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. ▪ Borrowers must have a construction contract with their contractor. Fannie Mae has a model <i>Construction Contract</i> (Form 3734) that may be used to document the construction contract between the borrower and the contractor. ▪ 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).
<p>Borrower “Do-It-Yourself” Work</p>	<p>Borrowers can perform the renovation work themselves at the lender’s discretion, provided that:</p> <ul style="list-style-type: none"> ▪ 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. ▪ The property is a one-unit owner-occupied home, and not a manufactured home. ▪ The reimbursement is limited to the cost of materials or the cost of properly documented contract labor (sweat equity may not be reimbursed).
<p>Renovation Costs, Payment Reserves, and Contingency Reserves</p>	<p>Lender may advance funds of up to 50% of the cost of materials any time after closing of the loan to secure necessary supplies for the project.</p> <p>Renovation costs may include:</p> <ul style="list-style-type: none"> ▪ Labor and materials. ▪ Soft costs (architect fees, permits, licenses). ▪ Contingency reserve (up to related to the cost of labor, materials, and soft costs for unforeseen extra costs in the renovation). The contingency reserve is optional unless the property is a 2- to 4-unit home. ▪ A payment reserve of up to six months PITIA 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. (If monthly HOA fees are included in the renovation escrow account, the servicer must pay them on behalf of the borrower.) ▪ 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.



Lender Responsibilities for Renovation Work	<ul style="list-style-type: none">▪ The renovation and contingency funds must be placed in an interest-bearing custodial account.▪ The lender must manage the renovation funds during the work.▪ Unused funds must be applied as a curtailment to the unpaid mortgage balance.▪ Once the work is complete, the lender must obtain an Appraisal Update and/or Completion Report (Form 1004D) as evidence of completion.
Rep & Warrant Relief	Loans may be eligible for relief from representations and warranties once the renovation has been completed and recourse has been removed (restrictions apply).
Delivery Requirements	<ul style="list-style-type: none">▪ HomeStyle Renovation mortgages are eligible for whole loan or MBS execution.▪ HomeStyle Renovation must be delivered with the appropriate special feature codes (SFCs):<ul style="list-style-type: none">• HomeStyle Renovation mortgage – SFC 215• If renovations are completed at or prior to loan delivery – SFC 279• If used with Community Seconds – SFC 118• If used with HomeStyle Energy – SFC 375
Servicing	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.