



# HomeStyle Renovation and HomeStyle Refresh **Lender Playbook**

Offer borrowers more homebuying options by understanding  
how to originate HomeStyle mortgage products



Fannie Mae®





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## Using this guide

A HomeStyle® Renovation or a HomeStyle® Refresh mortgage can provide a convenient and flexible way to help your borrowers finance home improvements. Before that can happen, there are steps to take when originating a HomeStyle Renovation or HomeStyle Refresh loan. The information in this guide will address common questions in the HomeStyle origination process.

Read on to learn more about what makes these loans different, how to become an approved lender, and how to manage renovations through completion.

*Note: This document serves as a high-level guide to originating HomeStyle loans. Please refer to the Fannie Mae Selling Guide for further details and specifics regarding these products. If any information in this Playbook is inconsistent with the Fannie Mae Selling Guide or Servicing Guide, the Fannie Mae Guides will control.*





## HomeStyle mortgage lender benefits:

- Loans can be delivered even before the project starts.
- There are no required improvements, no minimum dollar amount for renovations, and limited restrictions on the types of renovations allowed. You can even use HomeStyle loans to renovate a manufactured home.
- Provides the option to finance renovation costs within a first-lien purchase or refinance mortgage loan.

## Becoming an approved HomeStyle Renovation lender

Before offering HomeStyle Renovation to your borrowers, you will need to meet certain approval criteria.

### Loan delivered before renovation:

- Approval must be obtained to deliver HomeStyle Renovation loans to Fannie Mae prior to completion of the renovation work.
  - The following approval options are available for managing the operational, escrow, and completion requirements for HomeStyle Renovation — *both options require the loan to be delivered with recourse*:
    - **Standard approval:** Lenders meet the minimum rehabilitation experience described in [Form 1000A](#) and have the capability to manage the project internally.
    - **Conditional approval:** Lenders that do not meet the minimum experience and volume requirements for standard approval have the option to request conditional approval using the services of a construction management vendor.

### Loan delivered after renovation:

- If the HomeStyle Renovation loan is delivered after all the renovation work is complete:
  - No special approval is required.
  - Loans may be delivered without recourse.

Get started by completing [Form 1000A](#) or contact your Fannie Mae customer account team to learn more.





## What makes a HomeStyle loan different?

While the benefits are clear, HomeStyle Renovation and HomeStyle Refresh loans require a little more time and expertise. This guide provides HomeStyle loan best practices based on industry experience and lender feedback. HomeStyle loans require supplemental documents, introduce new participants, and require your due diligence:

### Documents:

- **Plans and specs/repair bid or blueprints:** This document outlines the work that the borrower and contractor have agreed on for the home improvements/repairs. Blueprints, if applicable, will show changes the contractor will make to the home.
- **As-completed appraisal:** This report is made “subject to” the completion per plans and specifications or repairs and alterations. It determines the value of the home once the renovations have been completed.

### Participants:

- **General contractor (GC):** Person responsible for ensuring the work is completed on time, requests disbursements when work is completed, and is the borrower’s main point of contact during the renovation project.
- **Subcontractor:** When completing a home project, a GC may hire individual companies that are experts in that area, such as plumbers or electricians. These companies are subcontractors.

### Due diligence:

- **Builder risk/course of construction insurance:** When the borrower is planning to make structural changes to their home, you’ll hear the homeowners insurance companies reference these policies being added to the borrower’s policy during the construction phase. These protect the borrower in case of a loss during the construction phase.
- **Mechanics lien:** A lien contractors/subcontractors may place on the property if work was complete and no payment was issued.





# HomeStyle Renovation loan process

## Phase 1: Review plans and prep the loan

The following must be completed when qualifying the borrower and preparing the loan:

- **Borrower works with contractor:**

The borrower is responsible for selecting a licensed contractor. The contractor must provide you with renovation plans, specifications/repair bids, and/or blueprints outlining the proposed work for the home.

- Itemized plans and specifications should describe the work, time frame, and a detailed cost breakdown. Lenders may want to consider a feasibility study to ensure overall project costs are within industry standards.

- **Lender reviews plans and contractor:**

As part of the qualifying process, you must ensure the contractor is properly licensed and insured, assess their experience, and review the project plans and, if applicable, blueprints.

- If you are using a construction management vendor, they may help with the contractor and plans review process.

- **Order appraisal:** You will need to provide the appraiser a copy of

the plans, specifications, and/or blueprints to determine the “as-completed” value.

- **Calculate loan amount:** You may choose to use the [Maximum Mortgage Worksheet \(MMW\)](#) (Form 1035, or similar document) to determine the amount of financing that will be available to calculate the mortgage loan amount.





## Phase 1 tips

- **Plan effectively:**

- Allow sufficient time in the application process to permit title, homeowners insurance, and appraisal management companies to review the renovation plans/specifications/repair bids/blueprints.
- Although not always required, establishing a contingency reserve is highly recommended to offset unexpected costs.

- **Using the MMW\***: Renovation costs are capped to the lesser of 75% of: 1) the as-completed appraised value of the home or 2) the purchase price and renovation costs (for do-it-yourself work, the maximum is 10% of the as-completed appraised value). The costs may include but are not limited to:

- Labor and materials.
- Soft costs (e.g., interim/final inspection fees, title update fees).
- Contingency reserve up to 15% of the total renovation cost.
- Construction management fees.

- **Compliance:** As part of your due diligence, work internally (e.g., with your Legal and Compliance) to ensure any state or local jurisdiction requirements are met, including changes to Fannie Mae model documents for HomeStyle Renovation. Refer to the Appendix for additional supporting model forms.

- **Model forms:** Fannie Mae has created model documents meeting the requirements of the *Selling Guide* that lenders can leverage while making all appropriate and required changes.

- **Renovation contract (Form 3730):** A renovation contract must be fully executed by both the contractor and the borrower prior to closing and must be retained in the loan file.
- **Renovation loan agreement (Form 3731):** A renovation loan agreement must be fully executed by both the lender and the borrower at closing. This is a custodial document. A copy must be retained in the loan file, and the original must be sent to the document custodian as part of the delivery package.

- **Loans underwritten in Desktop Underwriter® (DU®):** DU will determine that the transaction is a HomeStyle Renovation loan when entered according to the job aid.

\*Refer to the *Selling Guide* for complete details on renovation cost limitations.





## HomeStyle Renovation loan process

### Phase 2: Manage the renovation funds

Once the loan has closed, the borrower can now begin making improvements to their home. You will still need to be involved to help facilitate the fund draws and inspections and keep the progress on track to completion:

- **Deliver loan:** Loan is sold to Fannie Mae and the renovation funds are placed into a renovation custodial account for the benefit of the borrower. (Note: Lender must be approved by Fannie Mae in order to deliver the loan prior to project completion.)
- **Disburse initial draw:** The contractor will submit a request for the initial material draw, if it was not completed at close, to begin work.
- **Oversee project and subsequent draws:** You, or your chosen construction management vendor, will manage the project draws based on completed work shown in the inspections, including any change orders.



### Phase 2 tips

- **Servicing the loan:** To ensure that the renovation escrows and completion of improvements are properly managed, servicing transfers are restricted after the loan is delivered until renovations are complete.
- **Renovation escrow account:**
  - All applicable renovation costs must be deposited into an interest-bearing custodial account at the time of delivery. Interest earned on the renovation funds must be paid to the borrower at the end of renovations.
  - The servicer may commingle the renovation escrow accounts for different borrowers in the same custodial account.
- **Managing timelines:** To promote timely completion, lenders should have dedicated resources to oversee the interaction between the contractor and borrower to ensure timelines and budgets are on track and manage draws.

Leveraging renovation vendors or software to manage draws may be beneficial.

- **Title endorsements:** It is important to ensure all necessary title endorsements are obtained, during and after the renovations are complete, and that liens are not placed on the property during the renovations. You may consider utilizing a title search to identify mechanics liens at 50% of the project completion and at final completion or at each draw.
- **Changes to the scope of work:** Unforeseen changes to the plans and specs may occur prior to or after closing. If a change is requested, you must verify if there is an impact to homeowners insurance, title, or the as-completed appraisal value. The borrower must submit a [HomeStyle Change Order Request \(Form 1200\)](#), or substantially similar document, that provides a detailed description of the changes, the cost of the changes, and the estimated completion date(s).



# HomeStyle Renovation loan process

## Phase 3: Finalize loan completion

Work is complete! Now it's time to close out the renovation project.

- **Order completion certification:** At the final draw request, you will order a final inspection ([Form 1004D](#)).
- **Confirm clear title:** Inform your title company when work is complete concurrent with the final disbursement to ensure all applicable title endorsements are added and/or removed and any necessary final updates to the title policy amount have been made by the title company. You should make sure that any additional liens are cleared. If there are any liens remaining, then funds should not be disbursed.
- **Disburse final funds:** Pending clear title, final inspection, and completion of any applicable state and local jurisdiction documents, you can issue the final disbursement of funds. Before issuing the final disbursement, you must obtain necessary lien waivers that cover all contractor, subcontractor, and supplier liens. Refer to Fannie Mae's model document — [Lien Waiver \(Model Form 3739\)](#).
- **Submit documents:** If the loan was delivered prior to the completion of renovations, you must submit the following documentation to [Loan Quality Connect™](#) for the removal of recourse:
  - Form 1004D showing renovation work is 100% complete (*required*).
  - Original “subject-to” appraisal (*may be requested*).
  - Contractor’s bid/scope of work (*may be requested*).



## Phase 3 tips

- **Renovation escrow account:** After renovations are complete, all funds remaining in the account, including any payment reserves, may be used to:
  - Reduce the unpaid principal balance of the loan (unless they represent funds deposited separately by the borrower); or
  - Make additional improvements to the property.
- **Insurance updates:** Following the completion of renovation, you'll obtain an updated declaration page that shows coverage was increased and/or construction policies were removed, if applicable, in accordance with Fannie Mae's standard property and insurance requirements.
- **Request extensions to the renovation timeline:** In the rare circumstance a renovation project exceeds 15 months, refer to the Appendix for details on [Loan Quality Connect](#).
- **Litigation:** If the borrower enters litigation with the contractor due to safety, soundness, or structural integrity, contact [Fannie Mae's HomeStyle mailbox](#) to determine if additional steps are needed to close out the renovation loan.



## HomeStyle Refresh

HomeStyle Refresh mortgage loans give borrowers a streamlined way to finance a broad spectrum of property improvements ranging from cosmetic updates and efficiency upgrades to resiliency enhancements, disaster preparedness, and environmental remediation.

Borrowers can finance improvements up to 15% of the “as completed” appraised value when purchasing or refinancing, offering a smart alternative to costly financing options.

### HomeStyle Refresh process

The HomeStyle Refresh process is streamlined for both the lender and the borrower:

- There are no contractor acceptance requirements.
- In lieu of managing the multiple disbursements that are typically associated with a HomeStyle Renovation loan, there may only be a need for a single disbursement of funds with a HomeStyle Refresh loan when the work is complete.
- Although specific forms are not required for HomeStyle Refresh, lenders and borrowers must execute an escrow agreement that addresses how the funds will be managed once the improvements are complete.

For more details about HomeStyle Refresh, check out our [Product Matrix](#).

### HomeStyle Refresh benefits:

- HomeStyle Refresh supports a wide range of small-scale renovations and upgrades.
- HomeStyle Refresh can be used to pay off existing energy-related debt, such as property assessed clean energy (PACE) loans.
- No special approval necessary: Lenders are not required to get special approval to deliver standalone HomeStyle Refresh mortgages.





We hope that this was beneficial in addressing any questions you may have had about originating and servicing HomeStyle Renovation and HomeStyle Refresh loans. Refer to this guide when you need quick assistance when setting up and managing these loans. For more detailed product requirements, please refer to the *Selling Guide* to learn more about the benefits of HomeStyle Renovation and HomeStyle Refresh.

## Appendix

### HomeStyle Renovation forms

In addition to the model forms mentioned earlier, we also created the following optional forms to help facilitate your transactions. Refer to the Fannie Mae *Selling/Servicing Guides* for all required documents.

- **Contractor Profile Report (Form 1202):** Completed by the contractor to ensure that the lender has sufficient information available to make a determination about the contractor's qualifications.
- **HomeStyle Renovation Mortgage Consumer Tips (Form 1204):** A checklist of key facts that should be disclosed to the borrower to better understand the terms and processes of the renovation loan.
- **Multistate Renovation Loan Rider (Form 3732):** This form may be appropriately used to modify certain provisions of the security instrument or note for HomeStyle Renovation mortgages. For other special-purpose documents, refer to B8-5-03, HomeStyle Renovation Mortgage Documentation Requirements, in the Fannie Mae *Selling Guide*.

### Resources

HomeStyle Renovation offers lenders an easy, transparent way to submit loan documentation in [Loan Quality Connect](#). This [user guide](#) can help users successfully submit and manage the HomeStyle Renovation (HSR) Extensions and Recourse Removal requests by providing step-by-step instructions with example screenshots. For an in-depth look into originating HomeStyle Renovation loans, check out our [elearning course](#). Contact your Fannie Mae customer delivery team for questions pertaining to lender eligibility.

*Note: The instructions assume that users have the required permissions to access and prior knowledge of the Data Validation Center (DVC) and HomeStyle Renovation queues in Loan Quality Connect.*



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