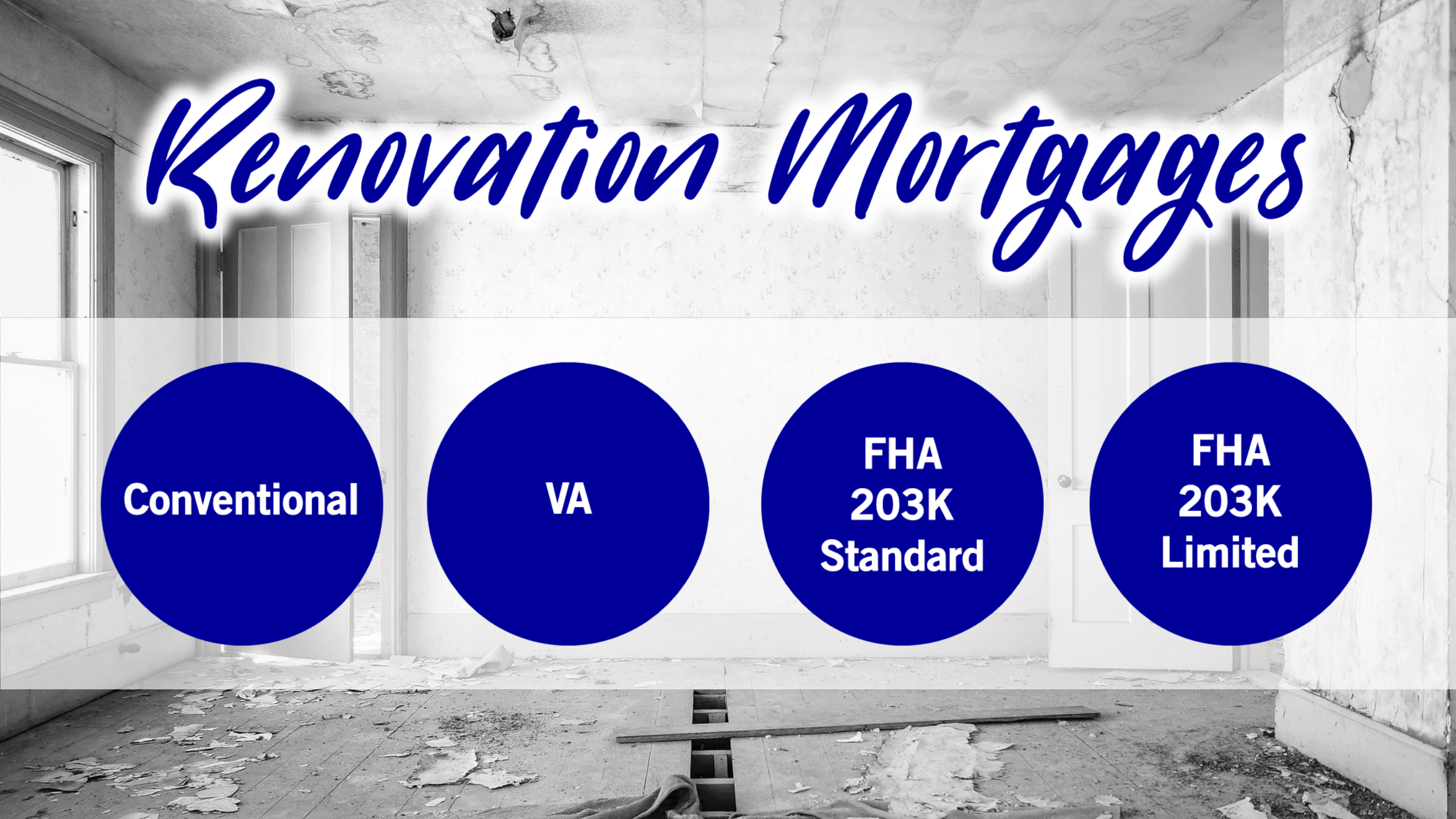
Renovation

Presented By:

The Ralston Team

& PA Equity Resources, Inc.


Renovation Mortgages
Conventional
VA
FHA 203K Standard
FHA 203K Limited

May be used as a renovation on existing home OR you may purchase a home you are interested in and do a simultaneous purchase/renovation closing.

Conventional

- ⇨ **5%* Down for Owner Occupied Property; 20%** Down for Second Homes**
- ⇨ **680 Minimum Credit Score**
- ⇨ **Max DTI 44%**
- ⇨ **Single Family Homes**

**Conventional Loan Scenario: 5% down payment on a $200,000 purchase price (Loan Amount $190,000) with a 4.75% fixed interest rate/5.112% APR for 30 years = $1,033.88 monthly payment. (^Payment is Principal & Interest + Mortgage Insurance. Does not include amounts for taxes and insurance premiums. Factoring a minimum 760 credit score.)*

***Conventional Loan Scenario: 20% down payment on a $200,000 purchase price (Loan Amount $160,000) with a 4.75% fixed interest rate/4.959% APR for 30 years = $834.64 monthly payment. (^Payment is Principal & Interest + Mortgage Insurance. Does not include amounts for taxes and insurance premiums. Factoring a minimum 760 credit score.)*

Conventional For Purchase

- Important to understand timeline. "IF" the client knows what work they want to do immediately AND have engaged a builder or general contractor, this may help with the overall time line. If the client simply knows they love the home....but wishes to completely re-do the kitchen, all of the flooring, a bathroom (or two) but have no idea of costs and have not identified a builder or contractor yet, this may add significantly to the purchase closing timeline. We will work closely with our realtor partners to outline all of this. Most all renovation loans will ideally have a 45-60 day timeline for the purchase to permit adequate timing for all of the above.

Conventional For Purchase

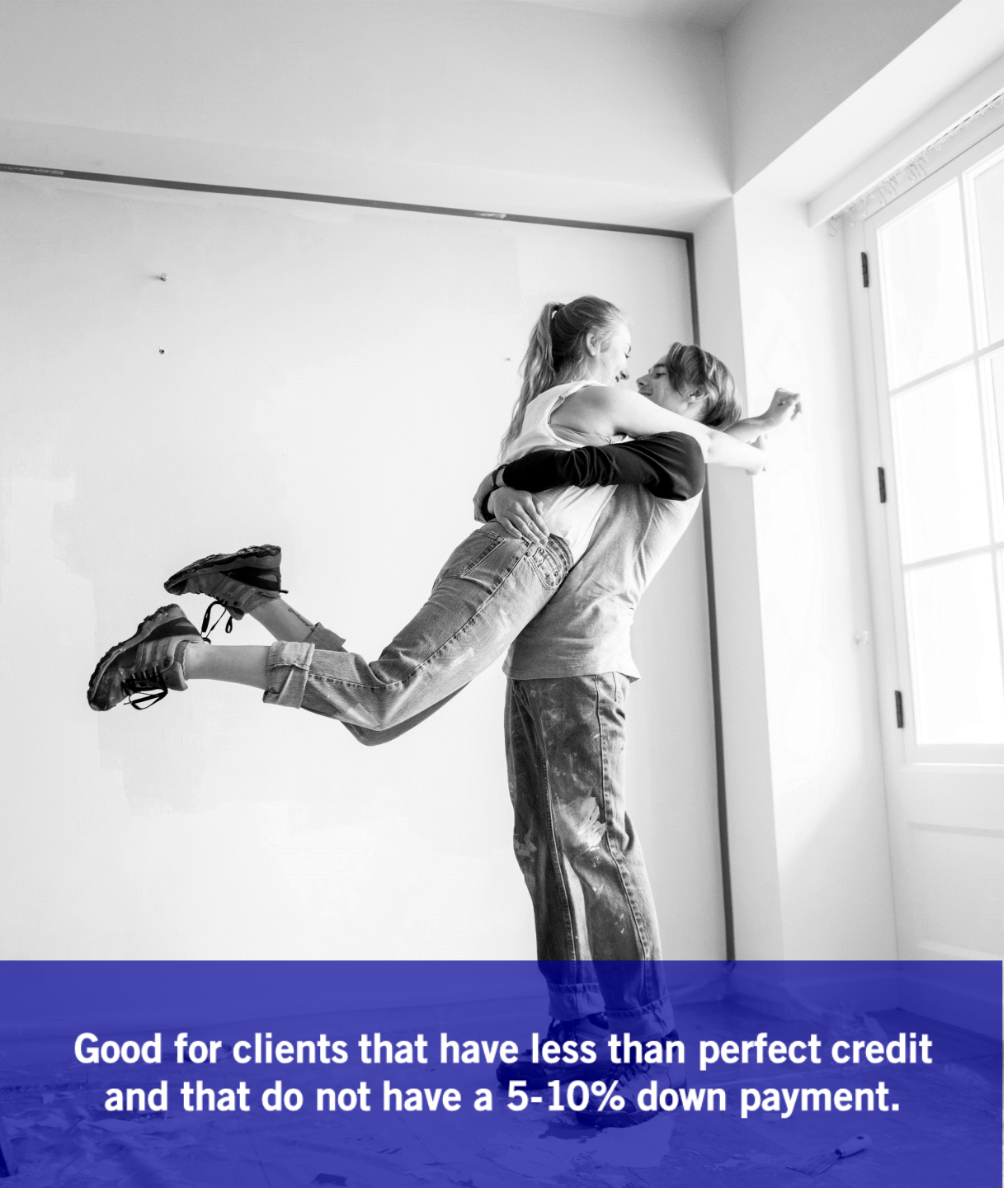
⇨ **It is critical for the realtor, client and lender to work closely together for this project!**

- **Establishing a realistic closing date**
- **Budget for the project**
- **Estimated end value for the project**

All can be achieved with communication.

VA

- ⇨ No Downpayment
- ⇨ 660 Minimum Credit Score
- ⇨ Single Family Homes
- ⇨ Improvements must be fixed to the property and add value



Good for clients that have less than perfect credit and that do not have a 5-10% down payment.

FHA 203K Standard

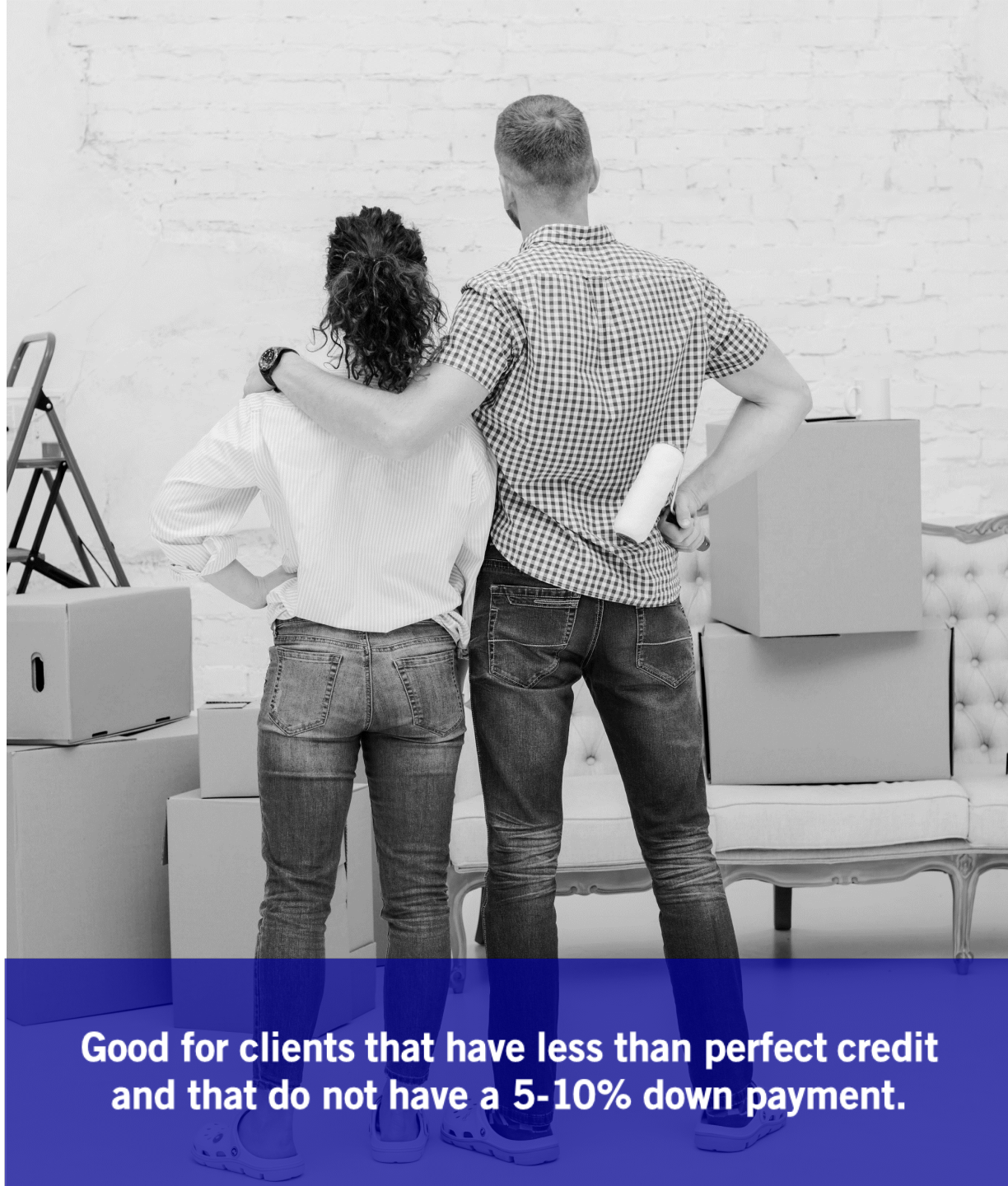
- ⇨ **3.5% Down^**
- ⇨ **630 Minimum Credit Score**
- ⇨ **1 to 4 Family Single Structure**
- ⇨ **Minimum repair cost $5,000**
- ⇨ **Repair cost can exceed $35,000**
- ⇨ **No recreational or luxury improvements**

^FHA Loan Scenario: 3.5% down payment on a $200,000 purchase price (Loan Amount $196,377) with a 4.50% fixed interest rate/5.682% APR for 30 years = $1,130.72 monthly payment. (^Payment is Principal & Interest + Mortgage Insurance. Does not include amounts for taxes and insurance premiums. Factoring a minimum 700 credit score.)

FHA 203K Limited

- ⇨ 3.5% Down^
- ⇨ 630 Minimum Credit Score
- ⇨ 1 to 4 Family Single Structure
- ⇨ Maximum repair cost $35,000
- ⇨ No major repair or remodeling involving structural repairs, luxury/recreational improvements, landscaping or additions
- ⇨ Home must be habitable

^FHA Loan Scenario: 3.5% down payment on a $200,000 purchase price (Loan Amount $196,377) with a 4.50% fixed interest rate/5.682% APR for 30 years = $1,130.72 monthly payment. (^Payment is Principal & Interest + Mortgage Insurance. Does not include amounts for taxes and insurance premiums. Factoring a minimum 700 credit score.)



Good for clients that have less than perfect credit and that do not have a 5-10% down payment.

Applicable For All Loans

- ⇨ **6 month renovation period**
- ⇨ **Must have builder contracts; no borrower work**
- ⇨ **Builder review/Acceptance prior to appraisal**
- ⇨ **No manufactured homes or condominiums**

Builder/Contractor Information

- The client is responsible for selecting their own builder/general contractor for the project.

- As the lender we do ask the builder/contractor to complete a "Builder approval package." We do review the builders licensing, referrals from large trade accounts, as well as client references. We also do review the builder's business credit report.

- Draw requests: Are clearly outlined by the builder and their specific contract. We will either approve this "as is" or ask this to be amended. We do not like to see a draw schedule that is heavily front loaded (i.e where the builder is requesting the bulk of their money for the project over the first or second draw.)

Builder | Contractor Information

- ⇨ We are typically able to fund the builder their requested draw within 48 hours of the draw request.
- ⇨ We can do a draw at closing if the builder wants it, and we can do up to 5 draws, but typically on reno they only do 2-3.
- ⇨ <u>Standard 203K:</u> No draw at closing, it's all done based on % of completion, and they can do up to 5 draws.
- ⇨ <u>Limited 203k:</u> They can get up to 35% of the total bid as an initial draw, and then nothing more until completion.

Client Stories

RESTORED BY THE FORDS

AS SEEN ON TV

Before

Before

AS SEEN ON TV

After

After

Client Stories... Alexis & Beatriz

At the end of summer 2018, Alexis & Beatriz found their dream property in the area they wanted to raise their two daughters. The house was built in 1983, and had not been updated since. The carpet was old and worn out, the kitchen and bathrooms were outdated, and the house needed new flooring and fresh paint. With our Renovation Loan Program, they made the necessary updates and are now living in their dream home!

Before

Beautiful!

After!

Client Stories... Lindsay

- House built in 1974
- Purchased home for $230,000
- Subject to appraisal with repairs done - $328,000
- 3 Bedrooms / 2.5 Bathrooms
- 1,957 Square Feet
- 7/16/18 - File started with contractor in place
- 8/25/18 - Loan Closed!
- 6 months to complete work

Before...

After!

Client Stories... Refinance

When Joe and Jennifer bought their 2 bedroom, 1 bath home 7½ years ago, it was perfect for just the two of them. Then their family grew from 2 to 4 and they realized they had to do something. With our Renovation Loan they were able to add almost 1,000 square feet to their 1950's home, making it a 3 bedroom, 2.5 bath home. Plus, they were able to stay in the area and school district they love.

More Space for a Growing Family!

Before

So Roomy!

After!

Q & A

Q.

What happens if we get the contract/bid and they don’t show up for the job?

A.

We would get another contractor. We would still need to approve the new builder/contractor AND if their bid is greater than the original the client would need to pay the difference out of pocket.

Q.

What are the challenges we have had in the past?

A.

Our biggest challenge is educating our clients on the program and process…

- This program is not a line of credit. You have a set budget and if you exceed this budget you are responsible for all cost overruns.
- The client selects the builder and needs to work and communicate with them. We are not a “negotiator” in the deal. We are a partner with the client and their builder.
- Appraisals/end value of home: Just because you purchase a home for $200,000 and want to put $40,000 in renovations in the property does not necessarily mean the home will appraise for $240,000. It is important to partner with your realtor for their market expertise on the specific home, area, marketability and work to be completed to have a ballpark range of estimated end value.

Q.

Why would someone use regular 203k over the FHA renovation loan?

A.

FHA 203K (Standard):

- Over $35,000 in renovations
- May do some structural work
- Need HUD liaison/counselor to be involved

FHA 203K (Limited):

- Under $35,000 in renovations
- NO structural work
- Do not need a HUD liaison/counselor to be involved

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