

HOME IMPROVEMENT/REHAB/RENOVATION LOANS

This program is Global Home Finance Inc.'s primary program for the improvement, rehabilitation, and repair of single family properties. As such, it is an important tool for community and neighborhood revitalization and for expanding homeownership opportunities. This program can be used to repair a home that has anywhere from \$5,000 to \$35,000 in needed repairs and can be used in conjunction with a purchase or refinance. The appraisal is based off of the subject too condition of the property as anticipated upon completion. Therefore no equity is needed at time of application!

Global Home Finance Inc has used this program in partnership with state and local housing agencies and nonprofit organizations to rehabilitate properties. As a lender this demonstrates our commitment to lending in lower income communities and to help meet their responsibilities under the Community Reinvestment Act (CRA). We are committed to increasing homeownership opportunities for families in the communities we do business in.

Most mortgage financing plans provide only permanent financing. That is, the lender will not usually close the loan and release the mortgage proceeds unless the condition and value of the property provide adequate loan security. When rehabilitation is involved, this means that a lender typically requires the improvements to be finished before a long-term mortgage is made.

When a homebuyer wants to purchase a house in need of repair or modernization, the homebuyer usually has to obtain financing first to purchase the dwelling; additional financing to do the rehabilitation construction; and a permanent mortgage when the work is completed to pay off the interim loans with a permanent mortgage. Often the interim financing (the acquisition and construction loans) involves relatively high interest rates and short amortization periods. The Global Home Finance Inc. Rehab and Renovation program was designed to address this situation. The borrower can get just one mortgage loan, at a long-term fixed (or adjustable) rate, to finance both the acquisition and the rehabilitation of the property. To provide funds for the rehabilitation, the mortgage amount is based on the projected value of the property with the work completed, taking into account the cost of the work.

Eligible Property

To be eligible, the property must be a one- to four-family dwelling that has been completed for at least one year. The number of units on the site must be acceptable according to the provisions of local zoning requirements. All newly constructed units must be attached to the existing dwelling. Cooperative units are not eligible.

Homes that have been demolished, or will be razed as part of the rehabilitation work, are eligible provided some of the existing foundation system remains in place.

In addition to typical home rehabilitation projects, this program can be used to convert a one-family dwelling to a two-, three-, or four-family dwelling. An existing multi-unit dwelling could be decreased to a one- to four-family unit.

An existing house (or modular unit) on another site can be moved onto the mortgaged property; however, release of loan proceeds for the existing structure on the non-mortgaged property is not allowed until the new foundation has been properly inspected and the dwelling has been properly placed and secured to the new foundation.

Global Home Finance Inc. also permits mortgages to be used for individual units in condominium projects that have been approved by FHA, the Department of Veterans Affairs, or are acceptable to FNMA under the guidelines listed below.

The program was not intended to be a project mortgage insurance program, as large scale development has considerably more risk than individual single-family mortgage insurance. Therefore, condominium rehabilitation is subject to the following conditions:

- ▶ Owner/occupant and qualified non-profit borrowers only; no investors;
- ▶ Rehabilitation is limited only to the interior of the unit. Mortgage proceeds are not to be used for the rehabilitation of exteriors or other areas which are the responsibility of the condominium association, except for the installation of firewalls in the attic for the unit;
- ▶ Only the lesser of five units per condominium association, or 25 percent of the total number of units, can be undergoing rehabilitation at any one time;
- ▶ The maximum mortgage amount cannot exceed 100 percent of after-improved value.

After rehabilitation is complete, the individual buildings within the condominium must not contain more than four units. This program can only be used to rehabilitate units in one-to-four unit structures. However, this does not mean that the condominium project, as a whole, can only have four units or that all individual structures must be detached.

Example: A project might consist of six buildings each containing four units, for a total of 24 units in the project and, thus, be eligible for the program. Likewise, a project could contain a row of more than four attached townhouses and be eligible because Global Home Finance Inc. considers each townhouse as one structure, provided each unit is separated by a 1 1/2 hour firewall (from foundation up to the roof).

How the Program Can Be Used

This program can be used to accomplish rehabilitation and/or improvement of an existing one-to-four unit dwelling in one of three ways:

- ▶ To purchase a dwelling and the land on which the dwelling is located and rehabilitate it.
- ▶ To purchase a dwelling on another site, move it onto a new foundation on the mortgaged property and rehabilitate it.
- ▶ To refinance existing indebtedness and rehabilitate such a dwelling.

To purchase a dwelling and the land on which the dwelling is located and rehabilitate it, and to refinance existing indebtedness and rehabilitate such a dwelling, the mortgage must be a first lien on the property and the loan proceeds (other than rehabilitation funds) must be available before the rehabilitation begins.

To purchase a dwelling on another site, move it onto a new foundation and rehabilitate it, the mortgage must be a first lien on the property; however, loan proceeds for the moving of the house cannot be made available until the unit is attached to the new foundation.

Eligible Improvements

Luxury items and improvements that do not become a permanent part of the real property are not eligible as a cost of rehabilitation. However, the homeowner can use the program to finance such items as painting, room additions, decks and other items even if the home does not need any other improvements. All health, safety and energy conservation items must be addressed prior to completing general home improvements.

Required Improvements

All rehabilitation construction and/or additions financed with the mortgage proceeds must comply with the following:

A. Cost Effective Energy Conservation Standards

(1) Addition to Existing Structure. New construction must conform with local codes Global Home Finance Inc.'s Minimum Property Standards.

(2) Rehabilitation of Existing Structure. To improve the thermal efficiency of the dwelling, the following are required:

- a) Weatherstrip all doors and windows to reduce infiltration of air when existing weatherstripping is inadequate or nonexistent.
- b) Caulk or seal all openings, cracks or joints in the building envelope to reduce air infiltration.
- c) Insulate all openings in exterior walls where the cavity has been exposed as a result of the rehabilitation. Insulate ceiling areas where necessary
- d) Adequately ventilate attic and crawl space areas.

(3) Replacement Systems.

- a) Heating, ventilating, and air conditioning system supply and return pipes and ducts must be insulated whenever they run through unconditioned spaces.
- b) Heating systems, burners, and air conditioning systems must be carefully sized to be no greater than 15 percent oversized for the critical design, heating or cooling, except to satisfy the manufacturer's next closest nominal size.

B. Smoke Detectors. Each sleeping area must be provided with a minimum of one (1) approved, listed and labeled smoke detector installed adjacent to the sleeping area.

Required Appraisals

In order to determine the maximum mortgage amount, the valuation analysis consists of two separate determinations of value.

A. As-is Value. A separate appraisal (Uniform Residential Appraisal Report) may be required to determine the as-is value. However, the lender may determine that an as-is appraisal is not feasible or necessary. In this instance, the lender may use the contract sales price on a purchase transaction, or the existing debt on a refinance transaction, as the as-is value, when this does not exceed a reasonable estimate of value.

Further, on a refinance transaction, when a large amount of existing debt (i.e., first and second mortgages) suggests that the borrower has little or no equity in the property, the lender must obtain a current as-is appraisal on which to base the estimated as-is value.

On a refinance, the borrower may have substantial equity in the property to assure that no further down payment is required on the new loan amount. In some cases, the borrower will not have an existing mortgage on the property. In this case, the lender should obtain some comparables from a real estate agent/ broker to estimate an approximate as-is value of the property.

Another way of establishing the as-is value is to obtain a copy of the local jurisdiction tax valuation on the property.

B. Value After Rehabilitation. The expected market value of the property is determined upon completion of the proposed rehabilitation and/or improvements.

For a HUD-owned property an as-is appraisal is not required and a DE lender may request the HUD Field Office to release the outstanding HUD Property Disposition appraisal on the property to the lender to establish the maximum mortgage for the property. The HUD appraisal will be considered acceptable for use by the lender if: (1) it is not over one year old prior to bid acceptance from HUD; and (2) the sales contract price plus the cost of rehabilitation does not exceed 110 percent of the "As Repaired Value" shown on the HUD appraisal. If the HUD appraisal is insufficient, the DE Lender may order another appraisal to assure the market value of the property will be adequate to make the purchase of the property feasible. For a HUD-property, down payment for an owner-occupant or non-profit organization is three percent of the accepted bid price of the property and 100 percent financing on all other costs.

Recently Acquired Properties

Homebuyers who purchase a property with cash can refinance the property using the program within six (6) months of purchase, the same as if the buyer purchased the property with the program to begin with. Evidence of interim financing is not required; the mortgage calculations will be done the same as a purchase transaction. Cash back will be allowed to the borrower in this situation less any down payment and closing cost requirement for the loan. A copy of the Sales Contract and the HUD-1 Settlement Statement must be submitted to verify the accepted bid price (as-is value) of the property and the closing date.

Architectural Exhibits

The improvements must comply with all local codes and ordinances. The homebuyer may decide to employ an architect or a consultant to prepare the proposal. The homebuyer must provide the lender with the appropriate architectural exhibits that clearly show the scope of work to be accomplished. The following list of exhibits are recommended.

A. A Plot Plan of the Site is required only if a new addition is being made to the existing structure. Show the location of the structure(s), walks, drives, streets, and other relevant details. Include finished grade elevations at the property corners and building corners. Show the required flood elevation.

B. Proposed Interior Plan of the Dwelling. Show where structural or planning changes are contemplated, including an addition to the dwelling. (An existing plan is no longer required.)

C. Work Write-up and Cost Estimate. Any format may be used for these documents, however, quantity and the cost of each item must be shown. Also include a complete description of the work for each item (where necessary).

Cost estimates must include labor and materials sufficient to complete the work by a contractor. Homebuyers doing their own work cannot eliminate the cost estimate for labor, because if they cannot complete the work there must be sufficient money in the escrow account to get a subcontractor to do the work. The Work Write-up does not need to reflect the color or specific model numbers of appliances, bathroom fixtures, carpeting, etc., unless they are nonstandard units.

The consultant who prepares the work write-up and cost estimate (or an architect, engineering or home inspection service) needs to inspect the property to assure: (1) there are no rodents, dryrot, termites and other infestation; (2) there are no defects that will affect the health and safety of the occupants; (3) the adequacy of the existing structural, heating, plumbing, electrical and roofing systems; and (4) the upgrading of thermal protection (where necessary).

Definitions for Use in the 203(k) Program

A. Insurance of Advances. This refers to insurance of the mortgage prior to the rehabilitation period. A mortgage that is a first lien on the property is eligible to be endorsed for insurance following mortgage loan closing, disbursement of the mortgage proceeds, and establishment of the Rehabilitation Escrow Account.

The mortgage amount may include funds for the purchase of the property or the refinance of existing indebtedness, the costs incidental to closing the transaction, and the completion of the proposed rehabilitation. The mortgage proceeds allocated for the rehabilitation will be escrowed at closing in a Rehabilitation Escrow Account.

B. Rehabilitation Escrow Account. When the loan is closed, the proceeds designated for the rehabilitation or improvement, including the contingency reserve, are to be placed in an interest bearing escrow account insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA). This account is not an escrow for the paying of real estate taxes, insurance

premiums, delinquent notes, ground rents or assessments, and is not to be treated as such. The net income earned by the Rehabilitation Escrow Account must be paid to the mortgagor. The method of such payment is subject to agreement between mortgagor and mortgagee. The lender (or its agent) will release escrowed funds upon completion of the proposed rehabilitation in accordance with the Work Write-Up and the Draw Request.

C. **Inspections.** Performed by approved fee inspectors or on the accepted staff of the Global Home Finance Inc. The fee inspector is to use the architectural exhibits in order to make a determination of compliance or non-compliance. When the inspection is scheduled with a payment, the inspector is to indicate whether or not the work has been completed. Also, the inspector is to use the Draw Request form. The first draw must not be scheduled until the lender has determined that the applicable building permits have been issued.

D. **Holdback.** A ten (10) percent holdback is required on each release from the Rehabilitation Escrow Account. The total of all holdbacks may be released only after a final inspection of the rehabilitation and issuance of the Final Release Notice. The lender (or its agent) may retain the holdback for a maximum of 35 calendar days, or the time period required by law to file a lien, whichever is longer, to ensure that no liens are placed on the property.