



# RENOVATION

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## FINANCING BASICS









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*Turn the home you like  
into the home you love.*



# ONE LOAN THAT DOES IT ALL...

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Purchase or refinance a home in less-than perfect condition, make immediate improvements, and pay for them over time. **That's the power of renovation financing.** Whether you are a home buyer, a homeowner, a real estate agent, or a contractor who specializes in home improvements, you will find this guide a useful reference tool. It explains the features and benefits of our renovation products and will walk you through the renovation loan process — from application to completion.



Our renovation Loan Officer's will explain different loan options and guide you through the process every step of the way.

**Let's explore the exciting world of renovation financing!**

*From a bedroom addition to a family room extension, an upgraded kitchen to a gleaming bathroom makeover, required repairs to elegant remodels... our renovation loan options can help homebuyers and homeowners transform a property into the living space they only imagined.*



# WHO CAN BENEFIT?

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Our renovation financing options can fulfill all kinds of needs. Anyone planning to purchase or refinance a primary residence, vacation home or investment property in need of renovation is eligible to apply. Qualified customers can choose a loan based upon the appraised value of the home after improvements are made. The loan includes all of the costs of minor and major repairs, additions and renovations, plus the purchase price or existing home loan balances, minus the required down payment or current equity in the home.

## HOMEBUYERS CAN:

- ◆ Transform outdated homes in great locations
- ◆ Resolve property problems or required improvements right away

## HOMEOWNERS CAN:

- ◆ Modernize or expand to enhance the value of their home
- ◆ Repair and remodel their home without depleting their savings

## REAL ESTATE AGENTS CAN:

- ◆ Move hard-to-sell listings by creating the vision of remodeling possibilities
- ◆ Suggest financing options that may generate more listings
- ◆ Create quality inventory to increase sales

## CONTRACTORS CAN:

- ◆ Provide estimates, knowing financing has been approved
- ◆ Be confident they will receive payment for work completed in a timely manner
- ◆ Grow their business by providing financing options for their customers

## INVESTORS CAN:

- ◆ Purchase a property that is in need of repair or updates
- ◆ Rehabilitate properties for to maximize rental income

## ENGINEERS OR HOME INSPECTORS CAN:

- ◆ Suggest financing options to buyers when properties are found to be in need of significant repairs

# RENOVATION FINANCING GUIDELINES

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## QUALIFYING GUIDELINES:

- ◆ Applicants must meet regular loan program credit qualification requirements
- ◆ The property must meet renovation loan qualification requirements
- ◆ The post-renovation appraised property value must support the mortgage amount
- ◆ Down payment and closing cost amounts may vary depending on the loan type
- ◆ Funds needed to close may come from flexible sources

## PROPERTY GUIDELINES:

- ◆ Depending on the program selected, most owner-occupied 1-4 unit, and non-owner single family properties are eligible
- ◆ Must be acceptable to local zoning requirements
- ◆ Must conform to required property construction standards

## ALLOWABLE RENOVATIONS INCLUDE:

- ◆ Replacement of electrical, HVAC, plumbing, installation of well and/or septic tanks
- ◆ Aesthetic changes and upgrades such as new siding, paint and landscaping
- ◆ Elimination of health and safety hazards such as lead-based paint and mold
- ◆ Remodeling kitchens and baths
- ◆ Finishing a basement or raising a roof
- ◆ Structural improvements, changes or additions
- ◆ Installing accommodations for handicap access
- ◆ Adding, repairing or re-roofing garage
- ◆ Repairing or replacing a deck
- ◆ Installing or repairing a swimming pool
- ◆ Completely rebuilding a home on a modified existing foundation
- ◆ Allowable renovations may vary depending on the renovation loan type the customer chooses

## FUNDS DISBURSEMENT GUIDELINES:

- ◆ All renovation work must commence within 30 days of closing
- ◆ Renovation work cannot cease for more than 30 days
- ◆ All renovation work must be completed within six months

# RENOVATION RETURNS

## WINDOW REPLACEMENT

Average Cost: \$17,641  
Resale Value: \$12,761  
Cost Recouped: 72.3%



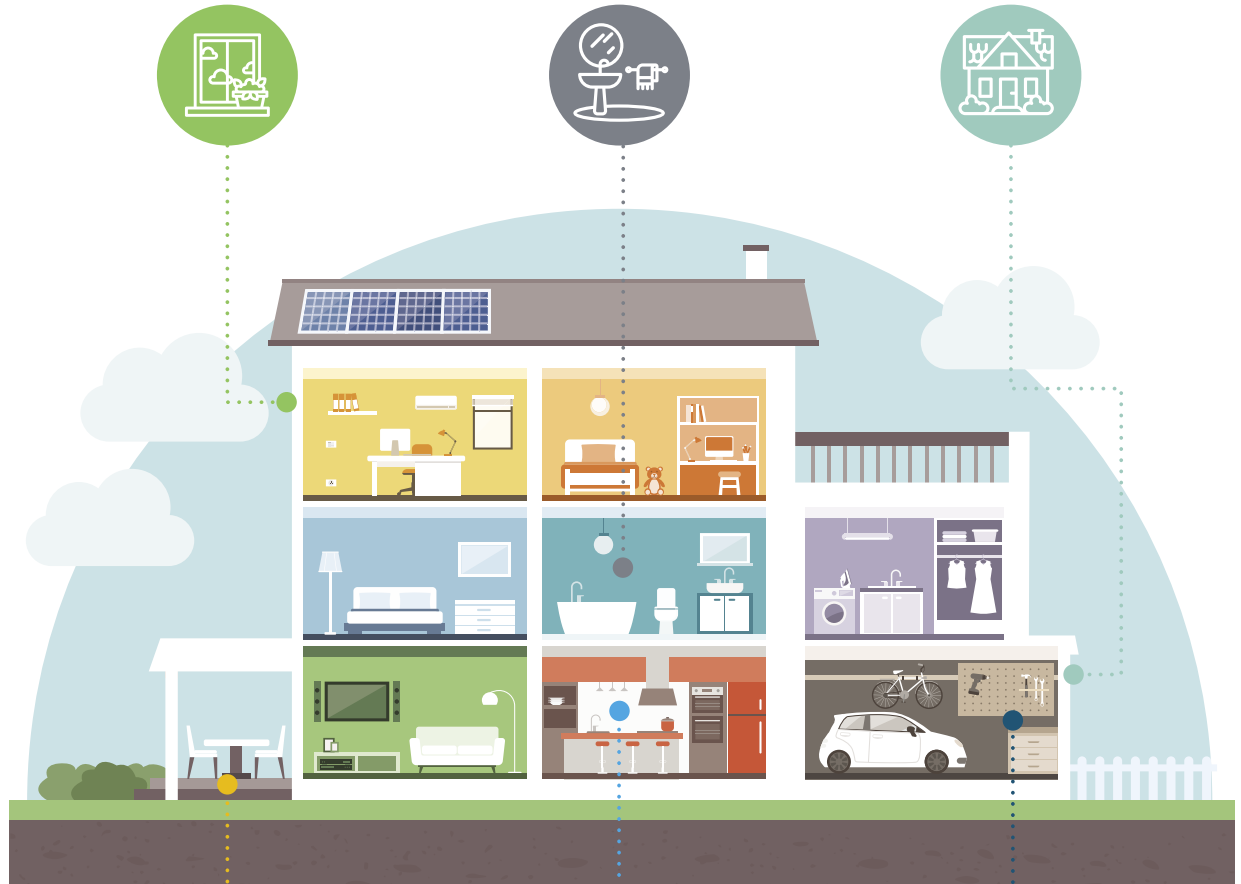
## BATHROOM REMODEL

Average Cost: \$21,377  
Resale Value: \$13,688  
Cost Recouped: 64%



## MANUFACTURED STONE VENEER

Average Cost: \$9,357  
Resale Value: \$8,943  
Cost Recouped: 95.6%



## DECK ADDITION

Average Cost: \$19,856  
Resale Value: \$13,257  
Cost Recouped: 66.8%



## KITCHEN REMODEL (MAJOR)

Average Cost: \$68,490  
Resale Value: \$40,127  
Cost Recouped: 58.6%



## GARAGE DOOR REPLACEMENT

Average Cost: \$3,695  
Resale Value: \$3,491  
Cost Recouped: 94.5%

## KITCHEN REMODEL (MINOR)

Average Cost: \$23,452  
Resale Value: \$18,206  
Cost Recouped: 77.6%



# ROLES, RESPONSIBILITIES & REPORTS

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## RENOVATION LOAN OFFICER

Customers who are ready to buy, or already own a property they want to improve should contact a American Pacific Mortgage Loan Officer, who will provide a free consultation to help them:

- ◆ Understand their loan options and apply for financing
- ◆ Determine if a HUD approved consultant is needed

## HUD APPROVED CONSULTANT

If needed the Loan Officer can provide names of HUD approved consultants, who are independent contractors authorized to inspect properties and:

- ◆ Help customers identify needed repairs and desired improvements to obtain work cost estimates work
- ◆ Prepare itemized write-ups of work to be completed on the property
- ◆ Make sure all required and desired renovations are completed properly in a timely manner



## WRITTEN WORK WRITE-UP REPORT

This report, prepared by the HUD consultant (if required), includes detailed breakdowns of all desired and required renovation work and related cost estimates. So customers should make a list of all desired improvements before meeting with the consultant.

The contents of the Work Write-up will be itemized by category and summarized for a total cost. Sections of the report include:

- ◆ Narrative scope of work to be completed
- ◆ Architectural plans or exhibits
- ◆ Details of permits required
- ◆ The specification of repairs
- ◆ Draw request guidelines
- ◆ Contingency reserve recommendation
- ◆ Number of inspections needed

The Work Write-up must be completed before ordering the appraisal, so the appraiser can establish the after-completed property value based on the work that will be done.

This does not apply to streamline renovation projects.



# ROLES, RESPONSIBILITIES & REPORTS

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## THE CONTRACTOR

The customer is responsible for selecting a contractor to do the actual renovation work. It is suggested to get recommendations for and price quotes either prior to or immediately after selecting a property from a contractor. In most states the contractor selected must be licensed and insured. The contractor selected by the customer must go through a validation process by American Pacific Mortgage.

If a Work Write-up is not required, the contractor will need be made aware of the project scope and program guidelines. The contractor must also submit a detailed bid and other required documents. The Loan Officer can help explain the process and provide the required documents the customer and the contractor will need to complete throughout the renovation process.



## SCOPE OF WORK DOCUMENT

A detailed "Scope of Work" document, which includes a listing of necessary materials and a cost breakdown, must be provided. It defines what is required to meet the customer's need and program guidelines. It also provides an opportunity for the customer, contractor, appraiser, lender and HUD consultant to understand and agree on the scope of work. This document also ensures that all health and safety issues have been addressed and the allocated funds for renovations are sufficient to cover the required work for completion.

## CUSTOMER RESPONSIBILITIES

The Loan Officer will answer questions, address concerns and work with customers throughout the process to help them:

- ◆ Provide a copy of the fully executed sales contract
- ◆ Provide all required documentation
- ◆ Order required inspections and submit reports upon completion
- ◆ Meet with selected contractors to agree on scope of work
- ◆ Provide copies of the contractor licenses and other validation forms
- ◆ Submit all required contractor documents
- ◆ If needed, meet with HUD consultant at the property to discuss all repairs and improvements
- ◆ Pay the HUD consultant directly for services at the time of the initial inspection
- ◆ Once the loan is approved, review the conditions and provide documentation to complete the loan
- ◆ Contact the closing agent to schedule closing
- ◆ After closing, contact the HUD consultant or draw specialist each time a draw inspection is needed

# READY TO RENOVATE!

## APPRAISAL

Once the Work Write-up or detailed bid is completed and reviewed by the customer and the Loan Officer, it will be sent to an appraiser who uses it to determine the after-improved value of the property.

## FINAL APPROVAL

The Loan Officer submits the Work Write-up or detailed bid, contractor documents and appraisal for final loan approval. Once the approval process is complete, and any outstanding conditions are met, the loan can proceed to closing.



## PRE-CLOSING TASKS

Depending on the state in which the property is located, a title company, escrow agent or real estate attorney is responsible for handling the loan closing. It is recommended to select a closing agent at the beginning of the process to allow enough time to conduct a title search, order a survey and correct any errors.

When the loan has received final approval, a closing date, time and location can be scheduled. The closing agent will coordinate the closing with American Pacific Mortgage.

## LOAN CLOSING

The closing agent will have all required documents ready for customers to review and sign, including the HUD-1 settlement statement that details all costs of the transaction. A renovation escrow account will be set up to hold the funds to pay for work to be done. Funds disbursement "draws" are managed by the investor. The Loan Officer will provide the name and phone number of the assigned draw specialist who will send the customer a Welcome Package with instruction for requesting draws.

Before



After



# HOW FUNDS ARE DISBURSED

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- ◆ Renovation financing loans are fully funded at closing
- ◆ or purchase transactions, the home seller receives their net proceeds, Realtors are paid and a renovation escrow account is set up to pay the Renovation costs
- ◆ For refinance transactions, the homeowner's existing mortgage is paid in full and the renovation funds are placed in an escrow account after a 3-day waiting period
- ◆ Funds are released in "draws" from the escrow account as work is completed
- ◆ Proof that any required permits have been obtained must be submitted prior to release of funds
- ◆ The customer contacts the HUD consultant or draw specialist to schedule an appointment for each required inspection
- ◆ The HUD consultant must inspect the completed work and submit a Draw Request form signed by the customer, consultant and contractor in order for funds to be disbursed
- ◆ The Draw Request form is submitted to the investor
- ◆ Checks will be made payable to both the customer and the contractor



## THE FINAL DRAW

When all work is complete, the draw department provides a letter of completion, which the customer must sign and return prior to release of the final funds. The customer will receive a final release form that confirms all the specified work is completed and shows how all funds were applied. For certain transaction, the appraiser may be required to re-inspect the property and issue a completion report to Renovation Ready.



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