

USDA :: Renovation Guidelines

Overview

Allows borrowers to finance the cost of repairs to improve an existing dwelling at the time of purchase. The maximum loan amount cannot exceed the cost of acquisition plus the cost of repairs up to the as-improved market value, plus the guarantee fee, if financed. The borrower obtains one loan at a fixed interest rate to finance both the acquisition and the rehabilitation of the property. The loan is guaranteed after the loan has closed, prior to the completion of repairs which minimized the risk to the lender. There is no minimum repair cost for non-structural repairs. Repairs above \$35,000 require a HUD Consultant.

Base Program Guidelines

AFR’s loan program is based on the USDA’s Single Family Housing Guaranteed Loan Program. The base program guidelines can be found on the departments website, on HB-1-3555, here:

<https://www.rd.usda.gov/publications/regulations-guidelines/handbooks#hb13555>

AFR's Specifications & Overlays

<p>Channels</p>	<ul style="list-style-type: none"> • Broker • Correspondent <ul style="list-style-type: none"> ◦ Table Funded ◦ Non-Delegated UW ◦ Delegated UW • Important: CDE clients must complete an interview with AFR Renovation Department and be approved prior to submission.
<p>FICO</p>	<ul style="list-style-type: none"> • 580 minimum qualifying credit score for all qualifying borrowers • 2 credit scores required for all qualifying borrowers
<p>UW Method</p>	<ul style="list-style-type: none"> • Guaranteed Underwriting System (GUS)

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AUS Recommendation	<ul style="list-style-type: none"> • Accept/Eligible • Refer • Refer with Caution <p>Note: Reference Chapter 10 of HB-1-3555 Guaranteed Loan Program Technical Handbook for Refer, Refer with Caution and Manual Underwriting requirements</p>
Eligible Terms	<ul style="list-style-type: none"> • 30 Yr. Fixed
Eligible Transaction Types	<ul style="list-style-type: none"> • Purchase • Refinance transactions are not permitted
Eligible Property Types	<ul style="list-style-type: none"> • 1Unit Primary Residence • PUDs (3555.207) <p>Reminders:</p> <ul style="list-style-type: none"> • Property must be an existing Property that has been completed for at least one year. New construction or incomplete construction are not eligible. • Evidence of completion such as a Certificate of Occupancy or documentation from local taxing entities is acceptable. • All health and safety or security issues must be part of the rehabilitation or repair work performed.
Appraisal	<ul style="list-style-type: none"> • Must show the “As Improved” market value • A copy of the original write-up (Bid Proposal), of the cost estimate including reserves must be provided to the appraiser. • HUD Consultant’s work write up must be included in appraisal request for repairs exceeding \$35,000.
Maximum LTV/CLTV/HCLTV	<ul style="list-style-type: none"> • Purchase 100%
Maximum Mortgage Amount	<ul style="list-style-type: none"> • Loan amount cannot exceed the cost of acquisition plus the cost of repairs up to the as-improved market value, plus the guarantee fee, if financed.

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<p>Maximum DTI</p>	<ul style="list-style-type: none"> • Accept/GUS: Follow findings • Manual Underwriting: <ul style="list-style-type: none"> ◦ The monthly housing expense to income ratio may not exceed 29 percent of repayment income. ◦ The total debt ratio may not exceed 41 percent of repayment income. <p>Note: Reference Chapter 11 of HB-1-3555 Guaranteed Loan Program Technical Handbook</p>
<p>Income Limits</p>	<p>The Borrower’s adjusted income may not exceed the Rural Development limit for the area</p> <ul style="list-style-type: none"> • Income Eligibility <ul style="list-style-type: none"> ◦ http://eligibility.sc.egov.usda.gov/eligibility/incomeEligibilityAction.do?pageAction=state&NavKey=income@11 • Income Limits <ul style="list-style-type: none"> ◦ https://www.rd.usda.gov/files/RD-GRHLimitMap.pdf
<p>Property Eligibility</p>	<p>http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=sfp&NavKey=property@11</p> <p>UW must determine if the home is habitable</p>
<p>Repairs up to \$35,000 (Limited Transaction)</p>	<ul style="list-style-type: none"> • Repairs must be non-structural, and home must be considered habitable at the time of closing • Not eligible for reserve accounts for PITI payments during the construction period.
<p>Repairs Exceeding \$35,000 (Standard Transaction)</p>	<ul style="list-style-type: none"> • May be structural or non-structural • If the dwelling is not habitable at the time of closing, reserves for principal, interest, taxes and insurance may be established to cover the mortgage payments for up to 6 months as determined by the HUD consultant.
<p>Contingency Reserve</p>	<ul style="list-style-type: none"> • 10% when utilities are on • 15% when utilities are off
<p>Eligible Repairs</p>	<ul style="list-style-type: none"> • Removing safety and health hazards; • Making the dwelling accessible to persons with disabilities; • Repair or installation of septic system and water wells; • Additions or structural alterations; • Modernization (kitchens and bathrooms, interior floor cover, exterior siding, etc.); • Installation of energy conservation or weatherization features; and • Repairs to existing swimming pools, hot tubs, or saunas

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<p>Ineligible Repairs</p>	<p>Ineligible repairs:</p> <ul style="list-style-type: none"> • Installation of new inground swimming pools, hot tubs, or saunas; • Repairs to new or existing manufactured homes; • Repairs to condominiums; • Converting structures to SFH dwellings (barns, schoolhouses, etc.); • Alterations that allow income-producing features; • Installation of luxury items (exterior fireplaces and kitchens, etc.); and • Repairs or improvements to common space areas (community meeting rooms, playgrounds, etc.) • Any repair/removal/remediation of Oil Tanks • Tear downs to foundation and rebuilds are not permitted <p>Ineligible repairs for transactions below \$35,000 (Limited Transaction)</p> <ul style="list-style-type: none"> • Structural Modifications • Any repair/removal/remediation of Oil Tanks • Any repair/installation for private water systems (Wells) • Any repair/installation for private waste management systems (septic systems, lagoons, cesspools, pits, etc.) • Mold remediation
<p>Construction Soft Costs</p>	<p>Other reasonable and customary closing costs are allowable as defined in HB chapter 6, as long as the costs do not exceed the maximum LTV as described in HB 3555 chapter 7.</p> <ul style="list-style-type: none"> • Appraisal fees • Inspection fees • Survey • Permits • Plan review fees • Architecture or design fees • Engineering fees • Title updates • Lender construction administration fees • Contingency reserve • Interest reserve including interest as accrued • PITI reserve • Project review fees • Builder acceptance or review fees
<p>Program Specifics</p>	<p>Inspector/Consultant fees</p> <ul style="list-style-type: none"> • For structural repairs and those exceeding \$35,000, a HUD Consultant must perform a thorough inspection of the property and prepare a detailed write-up of the work to be repaired and include estimated costs for labor and materials and associated fees that are customary and typical for the area. The write-up must be used to obtain cost estimates from the contractors. An inspector or consultant is not required for non-structural repairs of \$35,000 or less.

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Cost Estimate (bid proposal)

- The borrower must obtain a detailed and fixed cost estimate that fully describes the work being performed to include itemized costs for labor and material. The cost estimate must identify the borrower's name, subject property address, contractor's name, contact information and license number, where applicable. For work repairs \$35,000 or less, the cost estimate must indicate that the repairs are non-structural.

Appraisal

- The appraisal report must support the "As Improved" market value of the property with the assumption that all repairs are completed. A copy of the original write-up, or the cost estimate including reserves must be provided to the appraiser.

Construction period

- The construction period should not exceed 6 months from the date of closing for all transactions. However, contract deadline extensions must be approved by AFR.

Construction Contract

- Must be fixed price contract. The total amount in the construction contract must match the total cost breakdown of the bid proposal, must have a start and end date, must be signed by the contractor and borrower(s) and must be referenced and made part of the Security Instrument.

Additions

- Additions to the existing dwelling must comply with local codes and applicable national codes.

Unpermitted work

- When unpermitted work is discovered in the existing dwelling, the owner and/or contractor contract the appropriate code enforcement office to obtain retroactive permitting or devise a plan to permit the previous construction. The borrower must obtain a rehabilitation loan permit certification prior to the loan closing so that all permit fees associated with the new and/or previous construction are included in the total bid.

PITI Reserve

- If the dwelling is determined to be inhabitable by a qualified third-party inspector, a PITI reserve must be established for making the borrower's monthly payments during the period of rehabilitation up to a maximum of 6 months or when the dwelling is determined to be habitable.

Contractor-Builder Requirements – See Section 12.14 of HB-3555

- Construction contractors or builders, must have:
- Two or more years of experience building and constructing all aspects of single-family dwellings similar to the type of project being proposed;
- Evidence of a state-issued construction or contractor license, as required by state law or local law;
- Evidence of commercial general liability insurance with a minimum coverage of \$500,000;

	<ul style="list-style-type: none"> • The builder/contractor must have an acceptable credit history being free of open judgements, collections or liens related to previous construction projects. The builder/contractor must not have a previous felony record. A background check will be performed by AFR. This information may be obtained by such means as an individual credit report, business report, information published by the Securities and Exchange Commission (SEC), State Corporation Commission (SCC), LexisNexis, or Dun and Bradstreet; and • Contractors or builders who are repairing their own residence are ineligible.
<p>AFR USDA Renovation Restrictions</p>	<ul style="list-style-type: none"> • The contractor bid cannot exceed the consultants write up and it must be within the contingency percentage. • Razing/demolition of home down to its foundation is not permitted • Physical relocation of a home from another location is not permitted • Self-Help is not permitted • AFR will permit a 50% initial advance in relation to estimated materials and labor costs before beginning construction to the Contractor (which includes but is not limited to materials, labor and permits) at the time of closing for non-structural repair transactions. • AFR will permit a maximum of 2 draws after closing and requires all draw requests to be performed in writing and executed by the Contractor and Borrower using the Draw Request Form which is available on our website for non-structural repair transactions. • AFR does not permit identities/conflicts of interest between the borrower and contractor. The borrower and contractor may not be related nor can there be an employee/employer relationship. • AFR permits for only 1 General Contractor; multiple General Contractors are not permitted • AFR will require stamped and sealed line drawings by a licensed engineer or architect with a statement provided stating that permits can be obtained when any type of addition is being done or a zoning modification is going to be needed. • 2nd level review by AFR Management on any property that is identified to have a current "As-is" property condition rating of C5 or C6. Loan is subject to additional requirements/conditions. Note: "As Completed" Property Condition Rating as determined by the Appraiser must be C1-C4 • If the utilities are off at the time of the inspection, the Appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the utilities turned on, then a pressure test and electrical test is required and must be completed by an appropriately licensed professional. • AFR requires the use of AFR's Texas counsel for all USDA Renovation closing packages: Sandler Law Group ("SLG") c/o AsurityDocs, formerly MRGDocs, 717 North Harwood, Suite 1600 Dallas, TX 75201, email docs.support@asurity.com • AFR does not permit the renovation or construction of an Accessory Dwelling Unit (A.D.U.).
<p>Geographic Restrictions</p>	<ul style="list-style-type: none"> • New York <ul style="list-style-type: none"> ◦ Temporarily suspended as of 10/20/2023. • Hawaii

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<p>Please Note: This section has been highlighted to inform you about recent changes to this program.</p>	<ul style="list-style-type: none"> ◦ AFR does not operate in the state of Hawaii and does not permit loans with a subject property in Hawaii for all programs in all channels with the exception of Correspondent Delegated UW transactions. • AFR requires the use of AFR’s Texas counsel on all Texas transactions with the exception of Correspondent Delegated loans. AFR utilizes this 3rd party for document preparation and require 48 hours for both title review and to generate a closing package.
<p>Credit</p>	<ul style="list-style-type: none"> • 2 credit scores required for all qualifying borrowers. Use the middle score if 3 credit scores or the lower of the two if 2 credit scores. Lowest representative score from all borrowers will be used for qualification purposes. • Non-traditional credit/credit reference letters are not permitted with the exception of Correspondent Delegated UW transactions with a GUS Accept recommendation • Housing History 0x30 for 12 months • Refinancing of a Reverse Mortgage (HECM) is not permitted unless: <ul style="list-style-type: none"> ◦ The forward mortgage transaction is paying off a current Reverse Mortgage (HECM) when the applicant was not a party to the HECM and has either inherited the property or is purchasing the property from the estate (i.e. HECM parties are deceased).
<p>Property</p>	<ul style="list-style-type: none"> • The following property types are not permitted: <ul style="list-style-type: none"> ◦ 2, 3 and 4 Units ◦ Co-Ops ◦ Mixed Use ◦ Manufactured Housing ◦ Off Grid ◦ Properties with commercial influence are subject to additional review. ◦ Any property where marijuana is grown or processed inside the home or on the property, regardless of the quantity or state law is unacceptable • Non-traditional heating methods (solar, wood burning stoves, etc.) without a heating back up source are not permitted. Off grid properties are not permitted. • AFR requires a disaster report completed by a licensed appraiser on all properties on all transactions in a Presidentially Declared Disaster Area with individual assistance. If the loan is closed, AFR may require this report up to 60 days after the date of the disaster declaration. If the loan has not already closed and funded, AFR will not close or fund until the inspection report is completed to AFR’s satisfaction. In all cases, the inspection must be dated after the affected incident period. The disaster report must comply with applicable agency guidelines. On a case-by-case basis AFR may allow a loan to close and fund if the incident period was declared more than 14 days prior to the scheduled closing date. Originators are responsible for determining potential impact to a property located in an area where a disaster is occurring or has occurred. This is regardless of whether a property was included in the area covered by the declaration. If an originator has reason to believe that a property might have been damaged in a disaster the originator must work with AFR to ensure that the property is free from damage. Please note, that due to the nature of natural disasters AFR may amend this policy and add additional restrictions at any time without notice. • Financing for a Site without a Dwelling is not permitted

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	<ul style="list-style-type: none"> • AFR does not permit the use of a plat mat in lieu of a survey if a survey is required • AFR will not submit documents for “re-designation of ineligible areas” • AFR follows the Appraisal Guidelines in the 3555-1 Chapter12 • AFR will not permit properties with more than 100 acres • If the utilities are off at the time of the inspection, the Appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the utilities turned on, then a pressure test and electrical test is required and must be completed by an appropriately licensed professional.
Income	<ul style="list-style-type: none"> • AFR does not permit amended tax returns if they are dated 90 days of application date. All amended tax returns must be more than 90 days of the application date and acknowledged (stamped and signed by the IRS or with the transcripts) • Employer Assistance is not permitted • AFR requires a minimum of 2 years for the length of self-employment to use as income. • AFR requires 2 years receipt of OT and Bonuses to be used as qualifying income; anything less than 2 years will not be eligible for income. • AFR does not permit voluntary agreements for child support, maintenance and alimony. • Marijuana income is unacceptable income regardless of state law. • Rental income used for qualifying purposes requires proof of 3 months receipt per property <ul style="list-style-type: none"> ◦ Examples of acceptable documentation include, bank statements evidencing deposits. ◦ In cases where a gap in rental income is documented, AFR will require a letter of explanation from the borrower.
Ownership Types	<p>The following are ineligible for submitting/delivery to AFR:</p> <ul style="list-style-type: none"> • Life Estate • Blind Trusts • Irrevocable Trusts • 1031 Exchanges • LLCs, Corporations and Partnerships • Community Land Trusts • American Indian Land
Compliance	<ul style="list-style-type: none"> • AFR’s Net Tangible Benefit Policy/Recoupment Policy <ul style="list-style-type: none"> ◦ See AFR Resource Center for AFR Policy/State Requirements/Forms ◦ When a state has a more restrictive recoupment policy, this policy must be met • AFR does not close and/or purchase any New York loan that is a subprime home loan. All NY Loans must be tested the time the commitment is prepared. <ul style="list-style-type: none"> ◦ If the APR at the time of commitment cannot be determined AFR will not proceed with or purchase a loan with a client code of TF, C or CDE..

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	<ul style="list-style-type: none"> • Any loan that is classified as Rebuttable Presumption or a Higher-Priced Mortgage Loan (HPML) must have all HPML provisions applied. AFR follows Regulation Z requirements for HPML/HCML transactions. <ul style="list-style-type: none"> ◦ Loans must have an ability to repay (loan must be a full income/credit qualifying transaction) ◦ Loan must have an established escrow account (with the exception of Condos and PUDs where the consumer must participate in a governing association that is required to purchase a master policy insuring all dwellings) – see the TILA HPML Escrow Rule for more guidance ◦ Loan cannot have a prepayment penalty (AFR does not permit prepayment penalties) • File remains subject to all Qualified Mortgage (“QM”) and Ability-to-Repay (“ATR”) underwriting guidelines, including Points and Fees thresholds through consummation. AFR will not originate, close, fund, or purchase any loan that is not legally deemed as a QM. • All loans must provide evidence of the borrower’s compliance of QM/ATR with a compliance report. Note: Correspondent Delegated UW clients must provide a compliance report evidencing compliance. • All loans must provide evidence of the borrower’s ability to repay with a fully completed/executed Ability to Repay Worksheet. Note: Correspondent Delegated UW clients must provide a fully completed/executed Ability to Repay Worksheet showing evidence the borrower meets the ability to repay requirements. • AFR will not originate loans as a high cost or predatory mortgage loan • AFR will comply in all respects with CFPB’s Rule on TILA-RESPA Integrated Disclosures. AFR will not originate, close, fund, or purchase any loan that does not adhere to the Rule.
<p>Miscellaneous</p>	<ul style="list-style-type: none"> • Funded Buy down Accounts not permitted • AFR requires all Correspondent Delegated (CDE) transactions to be purchased within 90 days of the Note date.

Note: All overlays above are subject to change by AFR without notice.

