

VA :: Renovation Guidelines

Overview

The VA Renovation Program is a single-close loan that enables borrowers to purchase a home that needs repairs or refinance their existing home and include the necessary funds for renovation in the loan balance. There are no required improvements or a minimum dollar amount for the repairs. Repairs or improvements, however, must be permanently affixed to the real property. A VA Renovation mortgage may not be used for complete tear-down and reconstruction of the dwelling. Repairs exceeding \$200,000 require a second level project review. Renovations greater than \$50,000 require the use of an AFR approved 203(k) HUD Consultant.

Base Program Guidelines

AFR’s loan program is based on The Department of Veteran Affairs' Lenders Handbook. The base program guidelines can be found on the departments website, on VA Pamphlet 26-7, here:

http://www.benefits.va.gov/warms/pam26_7.asp

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
<p>FICO</p>	<ul style="list-style-type: none"> • 580 minimum qualifying credit score for all qualifying Borrowers. <ul style="list-style-type: none"> ◦ 580-659: A minimum of 2 qualifying credit scores are required for all qualifying borrowers. Use the middle score if 3 credit scores or the lower of the two if 2 credit scores. ◦ 660+: A minimum of 1 qualifying credit score is required for all required borrowers. ◦ Lowest representative score from all borrowers will be used for qualification purposes.

This information is provided for the use of mortgage professionals only and is not intended for distribution to consumers or other third parties. Guidelines, rates and fees are subject to change without notice. AFR Wholesale is a division of American Financial Services, Inc. NMLS#2826. Corporate Headquarters -8 Campus Drive, Suite #401, Parsippany, NJ 07054.



UW Method	<ul style="list-style-type: none"> • Desktop Underwriter (DU) • Loan Product Advisor (LPA)
AUS Recommendation	<ul style="list-style-type: none"> • Approve/Eligible – DU • Refer/Eligible – DU • Risk Class Accept – LPA • Risk Class Refer – LPA
Eligible Terms	<ul style="list-style-type: none"> • 10Yr., 15Yr., 20Yr., 25Yr., 30Yr. Fixed
Eligible Transaction Types	<ul style="list-style-type: none"> • Purchase • Cash Out Refinance: <ul style="list-style-type: none"> ◦ Follow VA Circular 26-19-05 for NTB requirements ◦ LTV calculations includes the VA funding fee ◦ Existing Mortgage Seasoning Requirement: <ul style="list-style-type: none"> ◦ The borrower must have made at least six consecutive monthly payments on the loan being refinanced, referred to hereinafter as the Initial Loan, beginning with the payment made on the first payment due date; and ◦ The first payment due date of the refinance loan occurs no earlier than 210 days after the first payment due date of the Initial Loan. • Texas Renovation refinance transactions are permitted: <ul style="list-style-type: none"> ◦ May not receive any cash back at closing. Principal reductions/curtailments are not permitted, and ◦ Liabilities not secured by the subject property may not be paid with proceeds from the transaction.
Eligible Property Types	<ul style="list-style-type: none"> • 1 Unit Primary Residence (attached/detached) • 2 Unit Primary Residence (attached/detached) • Manufactured Housing • Note: Condominium Units are not permitted
Appraisal	<p>Important: The Appraisal cannot be ordered prior to the Builder/Contractor VA ID Number being obtained</p> <ul style="list-style-type: none"> • Appraisal must be ordered with bid • Appraisal must be ordered subject to repairs or alterations • Final Inspection must be completed by a VA appraiser once property is 100% complete • 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.

This information is provided for the use of mortgage professionals only and is not intended for distribution to consumers or other third parties. Guidelines, rates and fees are subject to change without notice. AFR Wholesale is a division of American Financial Services, Inc. NMLS#2826. Corporate Headquarters -8 Campus Drive, Suite #401, Parsippany, NJ 07054.



	Note: "As Completed" Property Condition Rating as determined by the Appraiser must be C1-C4.
Amount of Repairs	<ul style="list-style-type: none"> • Total renovation cost includes required contingency and reinspection fees (see below) • Total renovation exceeding \$200,000 require second level review • There is no minimum rehabilitation cost
Eligible Repairs	<p>Examples of structural alterations:</p> <ul style="list-style-type: none"> • Removing an interior load bearing wall • Repairing some structural components of the roof: <ul style="list-style-type: none"> ◦ Adding a second story or changing the elevation is not permitted • Attached additions: <ul style="list-style-type: none"> ◦ Attached additions expanding the footprint of the home require second level project review prior to approval • Repair/installation of private water systems (Wells) • Minor repairs to Septic systems • Recreational/Luxury improvements require second level project review <p>Note: VA requires any alterations and repairs to be ordinarily found on similar properties of comparable value in the community.</p>
Ineligible Repairs	<ul style="list-style-type: none"> • Oil Tanks (repair, removal, remediation) • Any repair/installation private waste management system (Lagoon, Cesspools, Pits, etc.) <ul style="list-style-type: none"> ◦ Major repairs or installation of septic systems • Mold Remediation • Purchasing an existing structure on another site and moving it to a new foundation • Any repair that will take more than 9 months to complete • Any repair that prevents the borrower from occupying the property for more than 15 days during the renovation period • Any repair that is done as Self Help <p>***Home must be habitable at the time of application</p>
Renovations Greater than \$50,000	<ul style="list-style-type: none"> • AFR Approved 203(k) HUD Consultant required
Construction Timeframe	<ul style="list-style-type: none"> • 9 months from closing

This information is provided for the use of mortgage professionals only and is not intended for distribution to consumers or other third parties. Guidelines, rates and fees are subject to change without notice. AFR Wholesale is a division of American Financial Services, Inc. NMLS#2826. Corporate Headquarters -8 Campus Drive, Suite #401, Parsippany, NJ 07054.



Escrow Amount	<ul style="list-style-type: none"> • See Contingency Requirements below • Excess amount to be applied as a principal reduction
Contingency	<ul style="list-style-type: none"> • A contingency reserve equal to 15% of the alteration and/or repair cost is required on all loans.
Draws	<ul style="list-style-type: none"> • AFR will allow for up to 3 draws • Initial Draw \$0, subsequent draw amounts will be based on inspections and percentage of completion • 3 inspections (\$600 will be included in the maximum mortgage amount calculation)
Title Updates	<ul style="list-style-type: none"> • 1 Title Update (\$150 will be included in the maximum mortgage amount calculation) • 1 Final Lien Waiver provided by General Contractor
General Contractors	<ul style="list-style-type: none"> • AFR permits for only 1 General Contractor/Builder; multiple Generals Contractors/Builders are not permitted. • The GC/Builder must be registered with the VA – See VA Builder Registration for list of VA registered builders • There can be no identity or conflict of interest between the borrower and contractor. • Family members are not eligible; the borrower cannot be employed by or be an owner in the contractor’s business • The GC/Builder must carry sufficient insurance equal to the amount of \$100,000/per occurrence through a valid and current general liability insurance policy • GC/Builder must provide a detailed estimate/bid itemizing all of the repairs that are to be completed with costs broken down to material and labor, and not, if permits are going to be required.
Maximum Loan Amount	<ul style="list-style-type: none"> • The Maximum Mortgage Worksheet (MMW) must be completed in calculating the maximum loan amount. • Loan amounts may not exceed Conforming Loan Limits as published by the FHFA. • High Balance and Jumbo loan amounts are not permitted
Maximum LTV/CLTV/HCLTV	<ul style="list-style-type: none"> • Purchase, 100% LTV including renovation costs • Refinance, 100% LTV including renovation costs
Maximum DTI	<ul style="list-style-type: none"> • Approve/Eligible recommendations: Follow AUS findings (DU/LPA)

This information is provided for the use of mortgage professionals only and is not intended for distribution to consumers or other third parties. Guidelines, rates and fees are subject to change without notice. AFR Wholesale is a division of American Financial Services, Inc. NMLS#2826. Corporate Headquarters -8 Campus Drive, Suite #401, Parsippany, NJ 07054.



<p>Please Note: This section has been highlighted to inform you about recent changes to this program.</p>	<ul style="list-style-type: none"> ◦ Refer AUS recommendation or manual underwriting: Follow VA Guidelines (see Chapter 4, Topic 8) ◦ Maximum 65% with Approve/eligible AUS Recommendation (DU or LP) and meeting VA requirements over 41%(see Chapter 4, Topic 9)
<p>AFR VA Renovation Restrictions</p>	<ul style="list-style-type: none"> • The maximum timeframe for construction is 9 months • Any unused contingency must be applied to the principal balance of the loan; AFR does not permit monies to be refunded to the borrower. • AFR does not permit borrowers paying cash for the contingency • The Appraisal cannot be ordered prior to the Builder/Contractor VA ID Number being obtained • 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 does not permit the renovation or construction of an Accessory Dwelling Unit (A.D.U.). • 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. • Renovations greater than \$50,000 require the use of an AFR approved 203(k) HUD Consultant. • 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 any employee/employer relationship.
<p>Underwriting Guidelines</p>	<p>Follow VA Pamphlet 26-7 Chapter 7 for alteration and repair guidelines and the VA Pamphlet 26-7 Chapter 4 for credit and underwriting requirements</p>
<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 <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"> • AFR requires a 580 minimum qualifying credit score required for all qualifying borrowers. <ul style="list-style-type: none"> ◦ 580-659: A minimum of 2 qualifying credit scores are 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.

This information is provided for the use of mortgage professionals only and is not intended for distribution to consumers or other third parties. Guidelines, rates and fees are subject to change without notice. AFR Wholesale is a division of American Financial Services, Inc. NMLS#2826. Corporate Headquarters -8 Campus Drive, Suite #401, Parsippany, NJ 07054.



- 660+: A minimum of 1 qualifying credit score is required for all required borrowers.
- Non-traditional credit not permitted; with the exception of CDE loans with an AUS Approve Eligible Recommendation.
- Significant Derogatory Credit (Bankruptcy, Foreclosure) waiting periods less than 2 yrs. from the resolution of the event to application must be approved by the credit committee.
- AFR does not permit a transaction with an identity of interest when the current loan is in foreclosure.
- New secondary financing not permitted
- AFR Policy on Federal Tax Liens:
 - AFR requires the borrower to provide proof they are in an approved repayment plan and must have made at least 1 payment for the debt to remain open.
 - All payments must be made on time. (0x30 Max).
 - Monthly payment must be included in the debt-to-income ratios.
 - Tax liens may remain unpaid provided the lien holder subordinates the tax lien.
- Refinancing of a Reverse Mortgage (HECM) is not permitted unless:
 - 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).
- Housing History:
 - AFR will allow a 1x30 on a Type 1 and Type II cash out refinance transaction if the late payment was over 3 months prior to the application date on Approve/Eligible or Accept/Eligible automated underwriting results. (Type 1 and Type II Cash out Refinance Transactions with a Refer, or Manual Downgrade will require a 0x30 for 12 months housing history.)
 - DU/LPA must be an Approve/Eligible or Accept/Eligible. If the automated underwriting results do not recognize the mortgage history, including, but not limited to situations where the mortgage is not reporting on credit or if the underwriter manually downgrades the file, mortgage late payments within the previous 12 months are not allowed. Regardless of the automated underwriting decision, an application with a recent mortgage late payment is still subject to the Underwriter's review and approval.
- As a reminder, if, in AFR's judgement, the applicant does not have the ability or willingness to repay the loan, we may deny the file even if the application meets the written guidelines.
- Purchase transactions require 0X30x12 for other real estate owned.

Property

- AFR does not permit the use of a plat mat in lieu of a survey if a survey is required
- AFR has a maximum of 2% Deductible of the policy coverage for HOI.
- 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-

This information is provided for the use of mortgage professionals only and is not intended for distribution to consumers or other third parties. Guidelines, rates and fees are subject to change without notice. AFR Wholesale is a division of American Financial Services, Inc. NMLS#2826. Corporate Headquarters -8 Campus Drive, Suite #401, Parsippany, NJ 07054.



	<p>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.</p> <ul style="list-style-type: none"> • A manufactured housing unit that has been moved from a previous foundation must meet VA minimum property requirements and all HUD manufactured home construction and safety standards on the new installation. • The following property types are not permitted: <ul style="list-style-type: none"> ◦ 3 Units ◦ 4 Units ◦ Co-Ops ◦ Manufactured Housing Units built prior to June 15, 1976 ◦ Manufactured Housing in a Condominium Project ◦ Manufactured Housing that has been traded ◦ Mixed- Use ◦ Under Construction ◦ 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 • 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.
<p>Refinance Seasoning Requirements</p>	<ul style="list-style-type: none"> • The note date of the refinance loan must be on, or after, the later of: <ul style="list-style-type: none"> ◦ The date on which the borrower has made at least six-monthly payments on the loan being refinanced; and ◦ The date that is 210 days after the first payment due date of the loan being refinanced.
<p>Assets</p>	<ul style="list-style-type: none"> • All loans that have a purchase money grant/silent (or soft) second must get an approval from the AFR Title Review prior to underwriting approval/AFR purchase • Trade Equity not permitted • Sweat Equity not permitted • Private Savings Clubs or Pooled Savings Accounts are not permitted • Cash on hand is not permitted
<p>Income</p>	<ul style="list-style-type: none"> • Employer Assistance Plans not permitted • Employer Differential Payments not permitted

This information is provided for the use of mortgage professionals only and is not intended for distribution to consumers or other third parties. Guidelines, rates and fees are subject to change without notice. AFR Wholesale is a division of American Financial Services, Inc. NMLS#2826. Corporate Headquarters -8 Campus Drive, Suite #401, Parsippany, NJ 07054.



	<ul style="list-style-type: none"> • AFR requires a minimum of 2 years for the length of self-employment to use as income. • AFR does not permit voluntary agreements for child support, maintenance and alimony. • 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. • Marijuana income is unacceptable income regardless of state law. • 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)
<p>Programs</p>	<p>AFR does not participate in the following Programs:</p> <ul style="list-style-type: none"> • Texas Equity Section 50(a)(6) Program • Energy Efficient Mortgages (EEMs) • Adjustable Rate Mortgages (ARMS) • Graduated Payment Mortgages (GPM) • Growing Equity Mortgages (GEMs) • Loans Involving Temporary Interest Rate Buydowns • Farm Residence Loans • Native American Direct Loan (NADL) • Specially Adapted Housing (SAH) Grant • Special Housing Adaptation (SHA) Grant • Supplemental Loans
<p>Ownership Types</p>	<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
<p>Compliance</p>	<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. • Any loan that is classified as a Rebuttable Presumption must have all HPML provisions applied and must meet VA residual income guideline requirements

This information is provided for the use of mortgage professionals only and is not intended for distribution to consumers or other third parties. Guidelines, rates and fees are subject to change without notice. AFR Wholesale is a division of American Financial Services, Inc. NMLS#2826. Corporate Headquarters -8 Campus Drive, Suite #401, Parsippany, NJ 07054.



	<ul style="list-style-type: none"> • Any loan that is classified as a Higher-Priced Mortgage Loan (HPML) must have all HPML provisions applied. • 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. AFR will also require all VA loans to follow specific ATR/QM provisions specified by VA. • All loans must provide evidence of the borrower’s compliance of QM/ATR with a compliance report. Note: Delegated Correspondents 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: Delegated Correspondents 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"> • AFR requires a 25% guaranty on all VA loans • AFR will not permit joint loans made to a veteran and one or more nonveterans (non-spouse) or the veteran and one or more veterans (not spouse) who will not be using their entitlement. • Escrow waivers are not permitted. • Temporary Interest Rate Buydowns not permitted. • Prepayment penalties are 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.