

CONV :: FHLMC CHOICERenovation Guidelines

Overview

The Freddie Mac CHOICERenovation® 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 CHOICERenovation 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 \$35,000 require the use of an AFR approved HUD Consultant.

Base Program Guidelines

AFR’s loan program is based on Freddie Mac's loan program. The base program guidelines can be found on Freddie Mac's website, here:

<https://guide.freddiemac.com/app/guide/> - Chapter 4607

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) <ul style="list-style-type: none"> ◦ Important: CDE clients must complete an interview with the AFR Renovation Department and be approved prior to submission on any HomeStyle transaction.
<p>FICO</p>	<ul style="list-style-type: none"> • 620 minimum qualifying credit score for all qualifying Borrowers.

UW Method	<ul style="list-style-type: none"> • Loan Product Advisor (LPA)
AUS Recommendation	<ul style="list-style-type: none"> • Risk Class Accept/Eligible
Eligible Terms	<ul style="list-style-type: none"> • 15 Year Fully Amortizing Fixed • 30 Year Fully Amortizing Fixed <p>Reminder: ARMs not permitted</p>
Eligible Transactions	<ul style="list-style-type: none"> • Purchases • No Cash Out Refinances
Eligible Property Types	<ul style="list-style-type: none"> • 1-4 Unit Primary Residences • 1 Unit Second Homes • 1 Unit Investment • PUDs • Approved Condominiums • Multi-wide Manufactured Homes <p>Reminder: Singlewide Manufactured Homes are not permitted.</p> <p>When the property is a unit in a condo, the proposed renovation work must be permissible under the bylaws of the HOA or the HOA must have given written approval for the work. The renovation work must be limited to the interior of the unit, including the installation of fire walls in the attic.</p> <p>The renovation of manufactured homes is allowed provided the improvements do not include structural changes (such as adding a garage or other attached elements).</p>
Maximum LTV/TLTV/THLTV	<ul style="list-style-type: none"> • 1 -unit primary, 95% <ul style="list-style-type: none"> ◦ 97% Home Possible or HomeOne ◦ HomeOne must be FTHB if > 95% ◦ Note: Site built only for LTV > 95% • 2 -unit primary, 85% • 3-4 unit primary, 80% • 1 -unit second home, 90% • 1 - unit investment property, 85%

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	<ul style="list-style-type: none"> Multi-wide Manufactured Homes 95% <p>Note: TLTV to 105% with eligible Affordable Seconds (only with Home Possible and HomeOne)</p>
Homeownership Education	<p>CreditSmart® Homebuyer U, Freddie Mac’s Homeownership Education course is required when:</p> <ul style="list-style-type: none"> Purchase loans with LTV, CLTV, HCLTV > 95% and, All occupying borrowers are first-time homebuyers, at least one borrower must complete the homeownership course.
Maximum DTI	Determined by LPA
Maximum Cost for Renovations	<ul style="list-style-type: none"> Total renovation costs exceeding \$200,000 require a second level project review prior to approval Purchase: 75% of the lesser of the sum of the purchase price of the property plus renovation costs, or the as completed appraised value of the property. Refinance: 75% of the as completed appraised value of the property. Manufactured Homes: The lesser of \$50,000 or 50% of the “as completed” appraised value. <p>Note: AFR permits renovation that would cause the property to be uninhabitable during renovation. Total renovation costs greater than \$35,000, require the use of an AFR approved HUD consultant and prior management approval.</p>
Documents Required Prior to Approval	<ul style="list-style-type: none"> When renovation costs are > \$35,000: <ul style="list-style-type: none"> Bid – Work Proposal AFR approved HUD Consultant Report Supporting Documents: <ul style="list-style-type: none"> Homeowner Contractor Agreement- Standard Renovation loan Agreement Important Notice Regarding Contingency Funds Consumer Renovation Information - Standard Renovation Loan Borrowers Disclosure
Escrowing Initial Mortgage Payments	<ul style="list-style-type: none"> There may be a period during renovation where the home is uninhabitable as defined by the AFR approved HUD Consultant. A payment reserve up to six months PITIA is permitted when the borrower must vacate the property during renovation. The amount can be financed in the loan amount if the value will support such financing. The reserve is allowed only for the period in which the property is uninhabitable due to the renovations.

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	<p>Links:</p> <ul style="list-style-type: none"> • HUD Consultants look up tool • AFR's Exclusionary List
Appraisal Requirements	<ul style="list-style-type: none"> • The appraisal report must provide an "as completed" appraised value that estimates the value of the property after completion of the renovation work. • 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. <p>Note: "As Completed" Property Condition Rating as determined by the Appraiser must be C1-C4.</p>
Contingency Reserve	<ul style="list-style-type: none"> • May come from the mortgage proceeds or directly from the borrower • Minimum <ul style="list-style-type: none"> ◦ Amount must be \geq 10% of the total renovation costs, except that if the property utilities are not operable as referenced in the construction contract and/or plans and specifications, then the minimum contingency reserve must be \geq 15% of the total renovation costs. • Maximum <ul style="list-style-type: none"> ◦ May not exceed 20% of the total renovation costs.
Mortgage Insurance	<ul style="list-style-type: none"> • Follow LPA Findings • Mortgage Insurance, if required based on LTV, must be in place before closing, and coverage is based on the estimated value of the home after renovation.
Eligible Alterations	<p>Examples of eligible 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 or instillation of Well and Septic: <ul style="list-style-type: none"> ◦ Requires a 15% contingency held in the construction escrow until final funding • Manufactured Home: <ul style="list-style-type: none"> ◦ Detached garage or car ports are permitted
Ineligible Repairs	<ul style="list-style-type: none"> • Any repair/removal/remediation of Oil Tanks • Any repair/installation for private waste management systems (lagoons, cesspools, pits etc.) • Mold remediation

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<p>MI Companies</p>	<ul style="list-style-type: none"> • Arch • Essent Guaranty, Inc. • Enact • MGIC • National MI
<p>Ineligible Mortgages</p>	<ul style="list-style-type: none"> • Adjustable Rate Mortgages • Affordable Merit Rate Mortgage • A-minus mortgages • Seasoned mortgages • Financed Permanent Buydown mortgages • Seller-owned Modified mortgage and Seller-owned Converted mortgages • Enhanced Relief Refinance mortgage • Community Land Trust mortgage • Special Purpose Cash-out refinance mortgages • FHA and VA mortgages • Section 502 GRH mortgages • Section 184 Native American mortgages • Freddie Mac Relief Refinance Mortgages – Same Servicers and Freddie Mac Relief Refinance Mortgages – Open Access
<p>Geographic Restrictions</p> <p>Please Note: This section has been highlighted to inform you about recent changes to this program.</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>Forms Required for Limited - Reno</p>	<ul style="list-style-type: none"> • ≤ \$35,000: <ul style="list-style-type: none"> ◦ Consumer Renovation Information Limited ◦ Conventional Homeowner/Contractor Agreement Limited ◦ Borrower’s Letter of Completion Limited ◦ Contractor Profile ◦ Renovation Draw Process Acknowledgement ◦ Renovation Loan Borrowers Disclosure ◦ Important Notice Regarding Contingency Funds ◦ Renovation Loan Agreement ◦ Renovation Identity of Interest ◦ Compliance Inspection Report ◦ Lien Release

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	<ul style="list-style-type: none"> ◦ Texas Disclosure Statement ◦ IRS Form W-9 ◦ Purchase MMW ◦ Refinance MMW
<p>Forms Required for Standard - Reno</p>	<ul style="list-style-type: none"> • > \$35,000: <ul style="list-style-type: none"> ◦ Consumer Renovation Information Standard ◦ Conventional Homeowner/Contractor Agreement Standard ◦ Borrower’s Letter of Completion Standard ◦ Contractor Profile ◦ Renovation Draw Process Acknowledgement ◦ Renovation Loan Borrowers Disclosure ◦ Important Notice Regarding Contingency Funds ◦ Renovation Loan Agreement ◦ Renovation Identity of Interest ◦ Compliance Inspection Report ◦ Lien Release ◦ Texas Disclosure Statement ◦ IRS Form W-9 ◦ Purchase MMW ◦ Refinance MMW
<p>AFR FHLMC CHOICERenovation Restrictions</p>	<ul style="list-style-type: none"> • For CHOICERenovation transactions with renovations less than or equal to \$35,000 (“Limited”), funds for renovation are released via two (2) draws. Fifty percent (50%) of the base bid will be released at the initial funding of the loan. To ensure completion of the project, a final draw of fifty (50%) will be released within a reasonable time period after the lender’s receipt and approval of: (a) final Compliance Inspection Report from the Appraiser; (b) Borrower’s Letter of Completion; (c) Contingency Release Letter; (d) and Lien Release. All funds will be provided to the appropriate party via an ACH wire to their account. Any requests for funds/draws should be submitted to the Lender e-mail: renovation@afrwholesale.com. The Renovation Department can be contacted at 800-624-0501 or by using the department’s e-mail. • For CHOICERenovation transactions with renovation greater than \$35,000 (“Standard”), funds for the renovation are released only upon satisfactory draw inspections by the HUD Consultant. No funds will be released at the initial funding of the loan. All draws will be released within a reasonable amount of time after the Lender’s receipt and approval of a Draw Request from the HUD Consultant (minus a 10% holdback reserve to ensure full completion of the work), a Contractor’s signed Lien Waiver and Release, and a satisfactory inspection with photos. All funds will be provided to the appropriate party via an ACH wire to their account. All requests for funds should be submitted to the lender’s construction administrator, AFR’s Renovation Department. All request should be submitted via e-mail to: renovation@afrwholesale.com. They can be contacted at 800-624-0501 or by using the department’s e-mail.

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	<ul style="list-style-type: none"> • The Borrower must select one General Contractor to be the responsible party. Multiple General Contractors is prohibited. • A HUD Consultant will be required for projects greater than \$35,000 or if the work being performed is structural or if the underwriter feels it to be necessary at their discretion. • “Do It Yourself Repair Option” and Self Help are not permitted.. • Razing/demolition of home down to its foundation is not permitted. • Physical relocation of a home from another location is not permitted. • Evidence of permit issuance prior to closing may be required. • A contingency reserve equal to 10% up to a maximum 20% of the total costs of repairs and renovation work is required on all transactions. The AFR UW will determine the contingency required based on their discretion and scope of work. • 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. • Stamped and sealed line drawings by a licensed engineer or architect with a statement provided that permits can be obtained when any type of addition is being done or a zoning modification is going to be needed. • 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.). • AFR requires the use of AsurityDocs (or equivalent) for all closing packages: <ul style="list-style-type: none"> ◦ AFR requires the use of AFR’s Texas counsel for all Freddie Mac CHOICERenovation closing packages: Sandler Law Group (“SLG”) c/o AsurityDocs, formerly MRG Docs, 717 North Harwood, Suite 1600 Dallas, TX 75201, email docs.support@asurity.com. ◦ Correspondent clients that draw their own closing packages may use a document management company that will guaranty the closing package meets all county, state, federal and program requirements.
<p>Borrower</p>	<ul style="list-style-type: none"> • 1 credit score 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 • Maximum of 5 borrowers permitted on one loan • Non-U.S. Citizen Borrowers must have a valid Social Security Number (S.S.N.)
<p>Credit</p>	<ul style="list-style-type: none"> • LP Accept Risk Class only; Caution, A-Minus and Refer Risk Class not permitted • Manual Underwrites not permitted • Non-traditional / alternative credit is not permitted with the exception of Correspondent Delegated UW transactions that have a LP Accept risk class • AFR will permit a private VOR only if 12 months cancelled checks are provided to support documentation.

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	<ul style="list-style-type: none"> • AFR requires credit committee exceptions for any loan with significant derogatory credit that does not meet the Freddie Mac base waiting period requirements (Note: Any loan with an extenuating circumstance). • 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"> ◦ Co-Ops ◦ Mixed- Use ◦ Manufactured Housing that has been moved and/or traded ◦ 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 ◦ Illinois Land Trusts not permitted ◦ Properties subject to an Energy Retrofit not permitted ◦ Energy Conservation Improvements not permitted ◦ Properties subject to an Energy Retrofit not permitted ◦ Off Grid • 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 GSE 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. • AFR does not permit the use of a plat mat in lieu of a survey if a survey is required • Vesting on the title commitment must remain unchanged/unaltered through the life of the loan. Any title transfer must be completed/recorded prior to the application. • AFR requires a 48 hour turn time for title review and to generate closing packages for properties in the state of Louisiana and Texas • Property must not be currently listed for sale. AFR will require proof that the property is no longer listed for sale prior to the application date.

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	<ul style="list-style-type: none"> Any loan with a resale restriction must be reviewed by the AFR Title Review Department 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.
Assets	<ul style="list-style-type: none"> Trade Equity not permitted Sweat Equity not permitted
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 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. Year-to-date paystubs must be dated within 30 days of the application date. Effective November 1, 2021.
Programs	<ul style="list-style-type: none"> AFR permits CEMA transactions on NY properties <ul style="list-style-type: none"> No prior CEMA's allowed. AFR requires an approved closing attorney in NY to conduct all NY settlements. You or the borrower may choose from the list below: <ul style="list-style-type: none"> Richard H. Lovell, Esq. - (Closing all transactions, including CEMA) Jared Kaplan, Esq. (closing all transactions, including CEMA) AFR does not participate in the following Programs: <ul style="list-style-type: none"> Adjustable Rate Mortgages (ARMs) Renovation Mortgages RHS Leveraged Seconds Section 184 Native American Mortgages Freddie Mac Relief Refinance Mortgages – Same Servicer
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

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	<ul style="list-style-type: none"> • 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 Correspondent loan (Table Funded, Non-Delegated or Delegated). • Any loan that is classified as a Rebuttable Presumption must have all HPML provisions applied follow revised General QM definition 1026.43(e)(s)(vi) effective March 1, 2021 and adhere to the limits on points and fees as defined in 1026.43(e)(3)(i). • Any loan that is classified as a Higher-Priced Mortgage Loan (HPML) must have <u>all</u> HPML provisions applied. AFR follows all Regulation Z requirements for Higher-Priced Mortgage Loans. <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) ◦ If Enhanced Relief Refinance transaction, maximum DTI of 45% and minimum credit score of 620 ◦ If Refi Possible transaction, maximum DTI of 65% and minimum credit score of 620 • 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: Delegated UW 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 UW 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 and will comply with all state/county requirements pertaining to high cost and predatory mortgage loans. • AFR will comply in all respects with CFPB’s Rule on TILA-RESPA Integrated Disclosures (“TRID”). 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"> • Unplanned Buy downs not permitted • Temporary Subsidy Buydown Plans not permitted • Flexible Mortgage Insurance Options/Custom Coverage not permitted; Standard Coverage is required • Prepayment penalties are not permitted • Qualifying Ratios: Determined by LP • Maximum Cash Out: Determined by LP • Lender-Purchases Mortgage Insurance (LPMI) not permitted for Brokered, Table Funded and Non-Delegated transactions. • Correspondent Delegated (CDE) transactions: • Lender-Purchased Mortgage Insurance (LPMI) with monthly or annual premium paid options are not permitted. • LPMI with single premium “Lump-sum” are permitted but evidence of insurance activation and payment of all premiums must be provided prior to AFR purchasing the loan. • AFR requires all Correspondent Delegated (CDE) transactions to be purchased within 90 days of the Note date.
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Note: All overlays above are subject to change by AFR without notice.