

The Ultimate Guide to Home Improvement Loans

AMERIFIRST
HOME MORTGAGE

welcome home



THE ULTIMATE GUIDE TO HOME IMPROVEMENT LOANS

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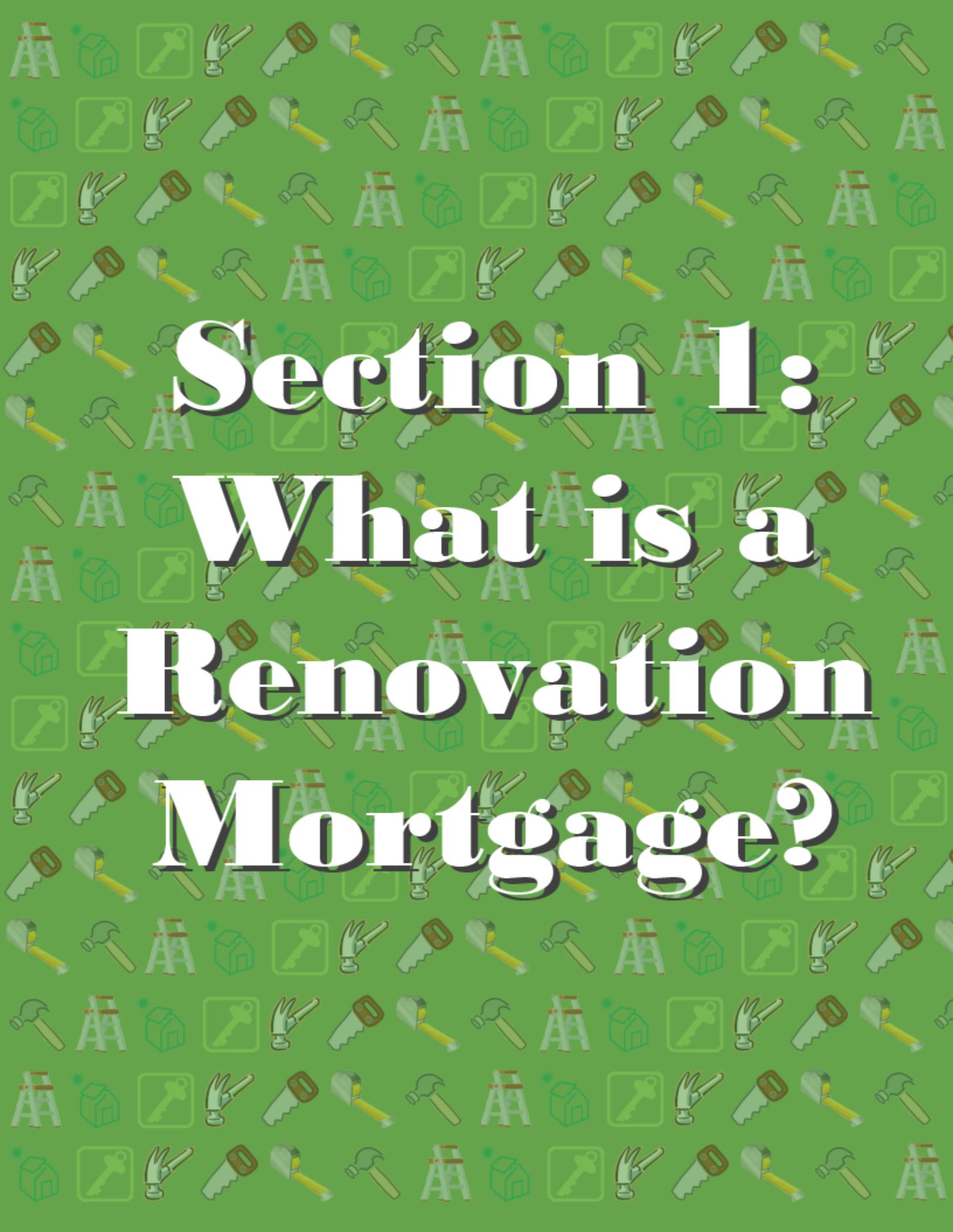
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Section 1: What is a Renovation Mortgage?

WHAT IS A RENOVATION MORTGAGE?

Picture this scene: you're [tired of renting](#) and you want to find your own house. As you begin to explore the neighborhoods in which you'd like to live, you find many foreclosed homes up for sale. Many times, these homes are in disrepair. Sometimes they're missing things like appliances, the furnace or a water heater. But with prices what they are, it's hard to walk away from these properties. Enter home improvement loans – also known as the **Renovation Mortgage**.

You can take advantage of one of these programs and roll the cost of repairs, renovation, rehabilitation and home improvements into the mortgage and pay just one monthly payment. The benefit to this is that you can then write off the interest on your taxes. You can't do that when you finance the work and supplies on a credit card or store credit line.



A renovation mortgage allows you to buy the house in its current condition and assume the responsibility of making the necessary repairs. So you can buy the house in “as-is” condition with a mortgage that takes into account the after-improved value once the work is completed. The cost of the work is amortized over the life of the mortgage, and stays with the home in the event that you decide to sell.

This is not a do-it-yourself home improvement loan. Renovation mortgages require licensed professionals for most of the work. This protects you and the lender in case the work does not get finished. Unfinished work devalues the home, and makes life difficult for all parties involved. Renovation mortgages can include several options. We'll explore those in this eBook. This guide is meant to help you better understand your options. Some of these programs can change without notice, since the ultimate funding comes from mortgage backers like Fannie Mae. Let this guide be your helper when it comes to buying a home in this housing market.

Renovation Mortgage Projects

Repair/replace roof, gutters & downspouts	Buy & install appliances including washer/dryer
Repair/replace/upgrade existing HVAC systems	Repair/replace septic systems and/or well
Repair/replace plumbing & electrical systems	Disability access like wheelchair ramps, elevator
Replace/repair flooring (carpet, tile, wood)	Abatement/stabilization of lead-based paint hazards
Minor renovations in kitchen or bathrooms	Build/repair/replace decks, porches & patios
Interior or exterior painting	Basement finishing & waterproofing (excluding structural)
Weatherization including storm doors or insulation	Replace windows, doors and siding



Section 2:

Home

Improvement

Loan

Options

HOME IMPROVEMENT LOAN OPTIONS

HOME EQUITY

Home Equity Line of Credit (HELOC)

The lender which holds your mortgage note may offer a Home Equity Line of Credit (HELOC). This means the lender will loan you a maximum amount of money during a period of time (called a term). The collateral on this line of credit is the equity in your home. You can then use this money for things like home improvements, medical bills, higher education and other major expenses.

The interest rate on a HELOC is generally based on an index, which means it's a variable rate. In other words, the rate can go up at any time. Failure to repay the HELOC may result in foreclosure. Lenders generally require that the borrower maintain a certain level of equity in the home as a condition of providing a home equity line. Because of this, a HELOC is often viewed by lenders as a second mortgage, even though it is technically different.

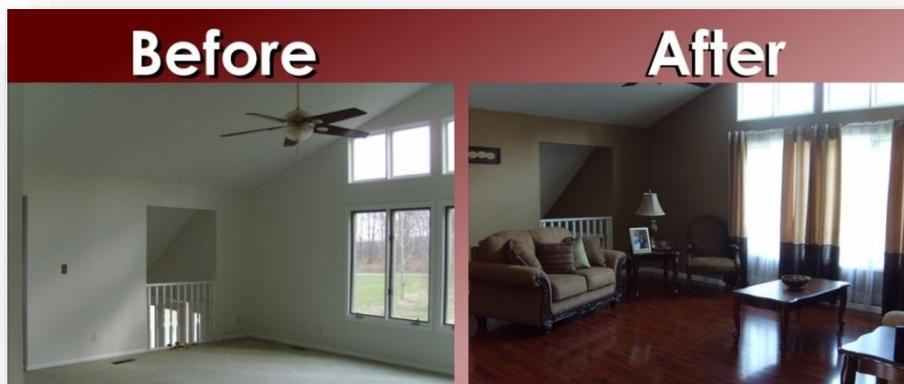
Home equity lines of credit differ from a conventional home equity loan because you're not advanced the entire sum up front. Instead, you get a line of credit to borrow, similar to a credit card.

Home Equity Loan

With a home equity loan, you still use the equity in your home as collateral. With the money, you can still make home improvements or repairs. However, instead of a credit line, you take the amount you want, and put it in your own account to use as you wish. Most home equity loans require good to excellent credit history, and reasonable loan-to-value and combined loan-to-value ratios.

You will find two kinds of home equity loans: closed end and open end. They're considered second mortgages because the lender secures them against the value of your house just like a traditional mortgage. Usually, home equity loans and lines of credit are for a shorter term than first mortgages.

The problem with home equity is that few homeowners in the United States have enough equity in their homes to qualify for equity loans or lines of credit.



FHA 203K

The 203(k) section of FHA guidelines refers to borrowing additional funds to make repairs and improvements to your home. You can use the funds for simple upgrades to your home like a kitchen or bath improvement, or for more in-depth rehabilitation like rebuilding a house that is presently unlivable. You can even use a **203k rehabilitation loan** to tear down an existing structure and build a new one using some portion of the existing foundation. You can borrow up to 96.5% of the after-improved appraised value. You can only use the **203k** for primary, owner-occupied homes.

There are two **FHA 203k** options for you to consider: Full 203k (also called the Standard 203k) and the 203k Streamline.

FULL 203K

The Full 203k covers repairs of more than \$35,000 including structural work. This can include moving a load-bearing wall, adding a room or replacing the sill plate (due to insect damage). A Full 203k requires a HUD-approved 203k consultant to help in the process.



Timelines, Disbursements and Inspections for the Full 203k

Timeline: When the loan closes, the mortgage proceeds will be disbursed to pay off the seller of the existing property and the Rehabilitation Escrow Account will be established. Construction may begin. The homeowner has up to six (6) months to complete the work depending on the extent of work to be completed.

Disbursements (Draws): As construction progresses, funds are released after the work is inspected by a HUD-approved inspector. A maximum of 5 draws are allowed. Draw amounts may vary and are based on the work performed. Disbursements are made as

each phase of the project is completed based on the draw paperwork provided by the consultant. Inspections are required prior to each disbursement. A ten (10) percent holdback is required on each disbursement released from the Rehabilitation Escrow Account.

The Holdback/Contingency Fee is:

1. Used as an incentive to insure all work is completed and to cover health, safety and unplanned issues that arise during construction.
2. Required on FHA 203(k); recommended on Streamline
3. Required on properties older than 30 years and/or over \$7,500 in rehabilitation costs.
4. A minimum of 10% of the cost or rehabilitation and maximum of 20%.

If not used (after all construction is complete) the remaining amount will be applied to pay down the principal balance of the loan. The total of all holdbacks may be released only after a final inspection of the rehabilitation and issuance of the Final Release Notice.

Eligible Improvements for the Full 203k

Homeowners can use the 203(k) program to finance “desired” repairs or upgrades such items as painting, room additions, decks and other items even if the home does not need any other improvements. Eligible improvements can range from relatively minor (though exceeding \$5,000 in cost) to virtual reconstruction: a home has been demolished or will be razed as part of rehabilitation is eligible, for example, provided that the existing foundation system remains in place.

The types of improvements borrowers may make using the Full 203k include:

- All of the improvements listed below in the eligible improvements for a streamlined 203(k).
- Structural alterations and reconstruction, like room additions, repair of termite damage, major remodeling of kitchens and bathrooms, finishing an attic or basement, adding a second story to a home, etc.
- Major landscaping and site improvement including correction of grading and drainage problems, tree removal and repair of sidewalks and driveway, if they are a safety hazard to the property.

STREAMLINE 203K

When you need limited repairs of less than \$35,000 the Streamline 203k comes into play. Replacing carpet, repainting the house or buying new appliances fall under the Streamline 203k. You do not need to have a HUD consultant in a Streamline 203k (although it’s often a good idea to have one running the show for you).

Timelines and Disbursements for the Streamline 203k

Timeline: When the loan closes, the mortgage proceeds will be disbursed to pay off the seller of the existing property and the Rehabilitation Escrow Account will be established. Construction may begin. Depending on the type of improvements the homeowner has up to six (6) months for completion.

Disbursements (Draws): No more than two payments may be made to each contractor. The first payment is intended to defray material costs and shall not be more than 50% of the estimated costs of all repairs and improvements. The Lender will allow the first payment at closing to cover for, and not exceed, actual required contractor deposits, building permits, and/or the cost of building materials incurred prior to construction. Before a final



disbursement is made, the borrower must sign a statement acknowledging that the work has been completed in a workmanlike and satisfactory manner. A final inspection is required regardless of the improvement or repair, and must be done at completion before the final disbursement is released. Any leftover funds are applied to principal balance of the loan.

Eligible improvements include:

- Repair/Replacement of roofs, gutters and downspouts
- Repair/Replacement/upgrade of existing HVAC systems
- Repair/Replacement/upgrade of plumbing and electrical systems
- Repair/Replacement of flooring
- Minor renovation, such as kitchens & baths, which do not involve structural repairs
- Painting, both exterior and interior
- Weatherization, including storms windows and doors, insulation, weather stripping, etc.
- Purchase and installation of appliances, including free-standing ranges, refrigerators, washers/dryers, dishwashers and microwave ovens
- Septic system and/or well repair or replacement
- Accessibility improvements for persons with disabilities
- Lead-based paint stabilization or abatement of lead-based paint hazards
- Repair/replace/add exterior decks, patios, porches
- Basement finishing and renovation with does not involve structural repairs
- Basement waterproofing
- Window and door replacements and exterior wall re-siding

Ineligible Improvements include:

- Renovation involving structural changes, like moving a loadbearing wall, or new construction, like adding rooms
- Landscaping or Fencing
- Work that will not start within 30 days of loan closing or will cause the borrower to be displaced from the home for more than 30 days or renovations that will take more than 6 months to complete
- Luxury items like swimming pools, hot tubs, tennis courts, etc.

Learn more about [Full vs. Streamline 203k](#) in the AmeriFirst blog.

Click the pic to learn the difference between the Full 203k and the 203k Streamline



Refinance and Stay with a 203k

The FHA 203k mortgage isn't just for new purchases. Home owners can refinance their mortgage into an FHA 203k and make the home improvements they desire, and stay in an "all-new home." In order to refinance, the home must meet these maximum amount stipulations.

Based on the lesser of:

- 1) The existing mortgage balance before rehabilitation, plus the estimated cost of rehabilitation and allowable closing costs or
- 2) The lesser of the As-Is value plus rehabilitation costs or 110% of the after-improved value multiplied by 97.75%

Whether it's turning an average house you might like into a dream house, or refinancing your current home in order to finance improvement projects and stay in the house you love, the FHA 203k can solve many renovation needs.



HOMESTYLE RENOVATION

The HomeStyle Renovation mortgage is another option for investors and home buyers alike. With the HomeStyle Renovation mortgage, you get to obtain a purchase transaction mortgage or a limited cash-out refinance mortgage and receive funds to cover the costs of repairs, remodeling, renovations or energy efficient improvements to the property.

There are no required improvements or restrictions on the types of repairs allowed or a minimum dollar amount for the repairs. Repairs or improvements, however, must be permanently affixed to the real property and add value to the property.

Essentially, HomeStyle Renovation is a solution to the current problem in housing that home buyers often see: finding houses that aren't yet "home." You can buy a house with potential and turn it into your home with your style, without breaking the bank. With a minimum of 5% down*, you can finance the purchase and remodeling of your dream home.

With as little as a 5% down payment you can add your taste & style to a house to make it your home with remodeling projects like a new kitchen, bathroom, room addition or energy efficient upgrades.

HomeStyle Renovation allows you to buy a home and fix it up, or refinance and remodel your current home.

- Purchase or refinance & remodel
- 5% minimum down payment for primary, single-family residences (10% for second homes)
- You can use gift funds for down payment & closing costs for owner occupied, primary residences after you contribute a minimum 3% down payment
- 3% seller contribution allowed
- Cosmetic and structural renovations allowed
- Allowable improvements can include landscaping, appliances, swimming pools and more



*A 5% down payment will require approval from AmeriFirst Financial Corp. management



Renovation Mortgage Comparison

	FHA 203K (Consultant)	FHA 203K (Streamline)	Fannie Mae HomeStyle®
Loan Type	Purchase or refinance		Purchase or refinance
Property Type	Purchase and renovate most residential properties		Purchase and renovate most residential properties
1-4 Unit Primary Residence	✓	✓	✓
1-Unit Second Home			✓
2-4 Unit Investment Properties			
1-Unit Investment Properties			✓
Minimum Down Payment	3.5 % of total acquisition cost (Sale Price + renovation costs) or for refinancing (mortgage balance + renovation costs)	3.5 % of total acquisition cost (Sale Price + renovation costs) or for refinancing (mortgage balance + renovation costs)	10% for 1 - unit primary and second homes 20% for 1 - unit investment only
Gift Funds	Allowed per FHA guidelines		Can be used on a case by case basis for down payment for owner occupied, primary residence and subject to MI guidelines
Mortgage Amount	Based on "as completed" appraisal value or total acquisition (sales price + renovation costs)(lower of the two)		
Mortgage Insurance (MI) Required	✓	✓	Down payments less than 20% on a purchase and LTVs > 80% on refinance
Maximum Renovation Amounts	No maximum as long as mortgage amounts are within county guidelines for FHA loans	Up to \$35,000	50% of the as completed value
Allowable Repairs	From <i>structural changes</i> to landscaping, new appliances and more	From flooring to painting, remodeling kitchen/bath, appliances and more. <i>No major remodeling, structural repairs or landscaping</i>	From <i>structural changes</i> to landscaping, new appliances and more

*Down payment and other figures shown are for informational purposes only and are not intended as an advertisement or commitment to lend. Not all borrowers will qualify; contact us for an exact quote.

Please Contact Me For Further Details And Terms On All Loan Programs.

AmeriFirst Home Mortgage

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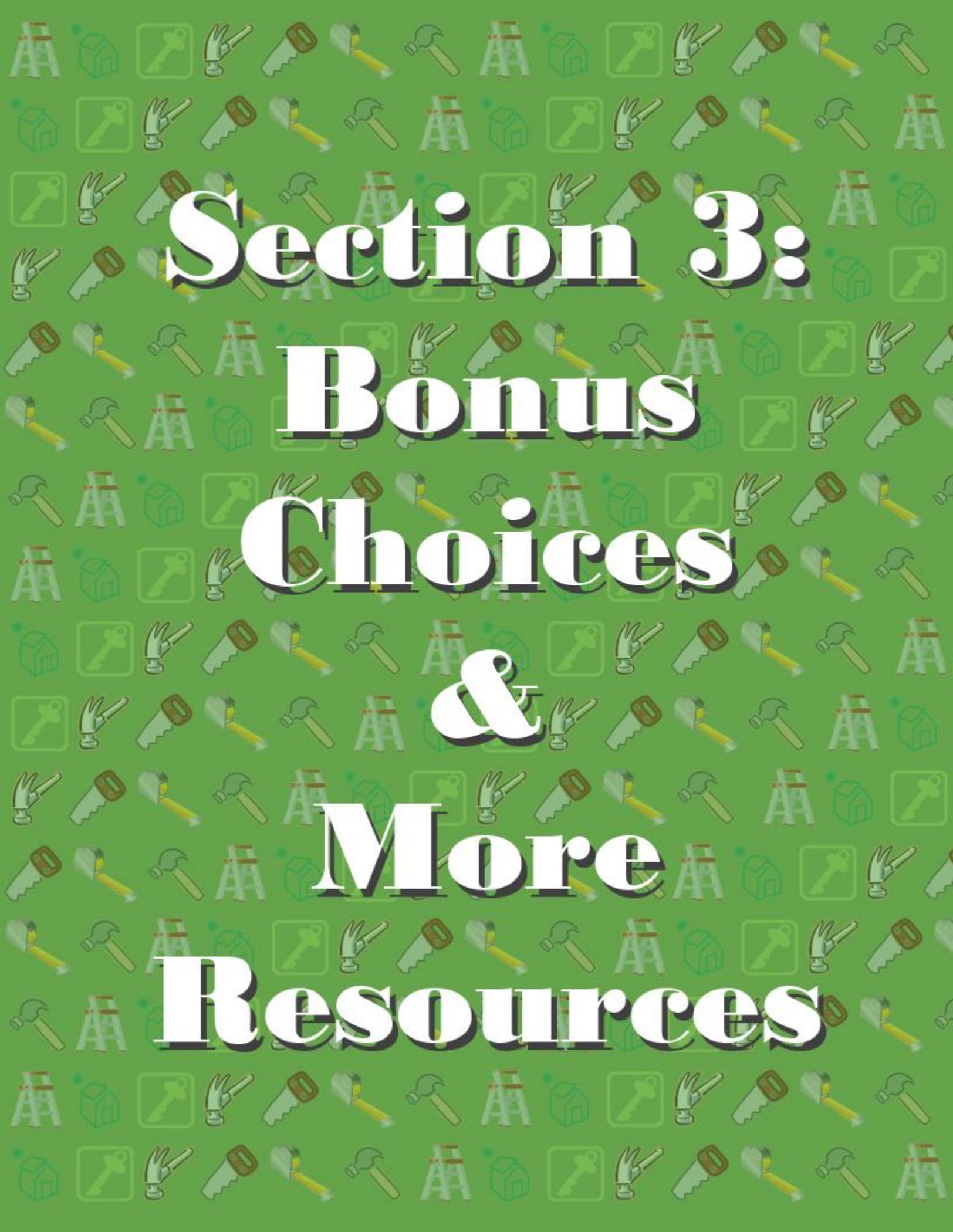
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Section 3:
Bonus
Choices
&
More
Resources

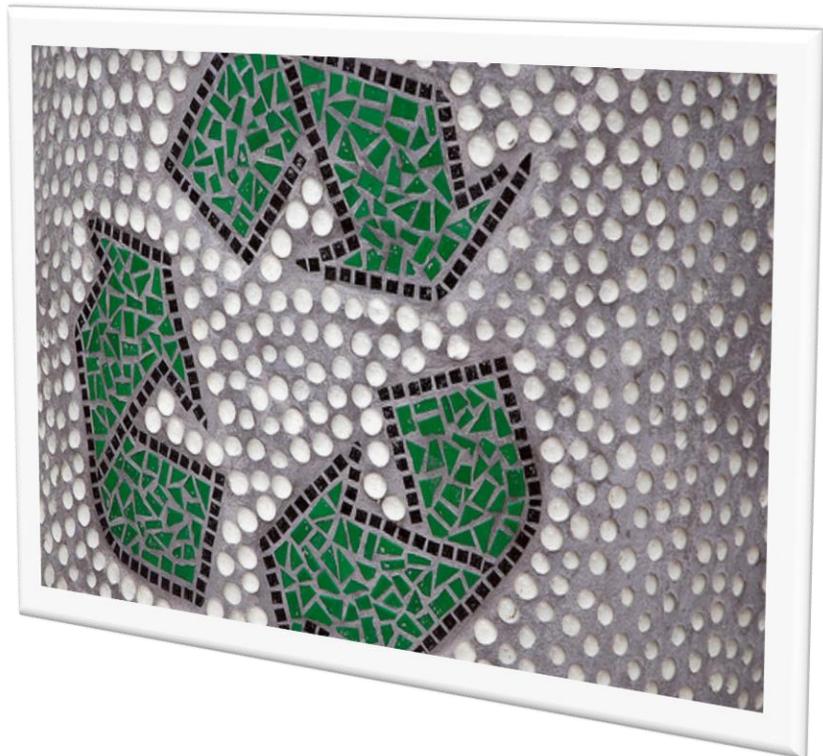
ENERGY EFFICIENT UPGRADES

Green is the “buzzword du jour” still. Energy efficiency is both Earth-friendly and good for the long term budget of the consumer. Longer-lasting light bulbs that use less energy, more efficient furnaces, and better windows help reduce pollution and save you money. These items are also covered under the various home improvement loans at your fingertips. These are different from the specific “energy efficient mortgages” you may have heard about, but these renovation mortgages solve the same basic issues.

The amount of money you might save with an energy efficient furnace will vary depending on several factors. However, one [potential savings table](#) we found showed a 2-story home of about 3,000 square foot can save around \$300-\$400 per year. That can add up when you also replace windows, weatherize the home and change the lighting. Making your home more energy efficient can save a lot of money over the course of several years.

Potential “green” items covered by home improvement loans:

- New windows
- New doors
- Furnace/duct work
- Air conditioner
- Weatherization
- New siding/insulation
- Efficient washer, dryer, refrigerator
- Water heater



A renovation mortgage allows you to buy the house in its current condition and assume the responsibility of making the necessary repairs.

POWERSAVER GRANT

Imagine this: You buy a house, fix it up to your desires including some energy efficient upgrades and get your closing costs paid by your lender!

A new option for home buyers looking to make some serious home improvements to their abode is the PowerSaver Grant from the U.S. Department of Housing (HUD) and FHA. PowerSaver is a federal grant through AmeriFirst Home Mortgage that pays home buyers' closing costs when they make eligible home improvements, proven to be energy efficient upgrades.

Imagine it this way: You find a home you really like, as it's in a great neighborhood with a lot of potential. However, the furnace is old, the windows are the old single-pane style with a few missing their storm windows and the water heater looks like it belongs in an antique store. If you take that house and finance it with the FHA 203k renovation loan, and make the upgrades to those items, you might be able to have AmeriFirst Home Mortgage pay your closing costs.

The total bill for the eligible upgrades has to add up to at least \$3,500 and be rolled into the FHA 203k loan. Once you get to that point, the PowerSaver Grant can cover the 1% origination fee, the appraisal fee, the underwriting fee and an optional energy audit – up to \$500. For the average buyer that should add up to about \$2,000.

The benefits to you as the buyer begin to add up right away. Of course with Energy Star appliances like a water heater or furnace, you'll see monthly savings on your utility bills. This will also happen when you perform window replacement with eligible Energy Star-rated windows, seal your ductwork and other possible upgrades. Also, by financing this work into an FHA 203k, it's one loan with low mortgage rates. Plus we pay your closing costs as mentioned above.

An example:

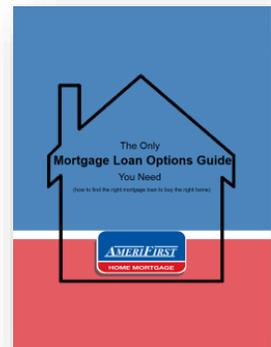
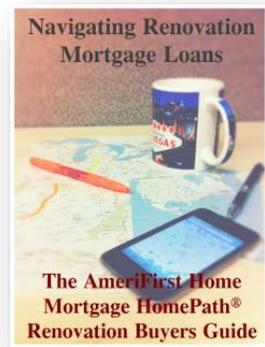
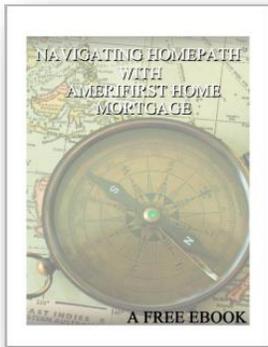
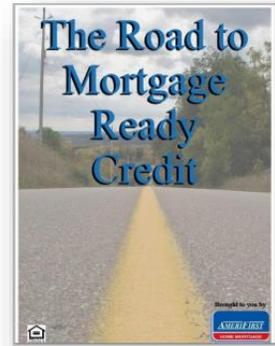
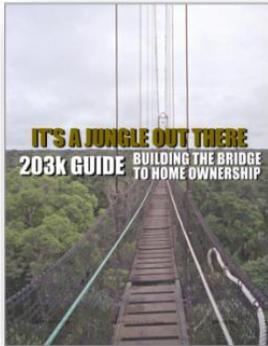
Home purchase price	\$80,000
Upgrades (including \$3,500 in eligible improvements)	\$20,000
Total "acquisition" cost (purchase + upgrades)	\$100,000
1% origination fee	\$1,000
Underwriting fee	\$600
Appraisal fee (example, may differ by appraiser)	\$400
Energy audit (optional)	\$500
Your closing costs paid by AmeriFirst Home Mortgage	\$2,500

Eligible improvements can include:

- Insulation upgrades in the attic, walls & crawlspace
- Energy Star furnace upgrade
- Window replacement
- Energy Star water heater replacement
- Approved roof repairs
- more... go here for more info: [PowerSaver Grant](#)

FREE EBOOKS FOR MORE INFORMATION

At AmeriFirst Home Mortgage we believe in [educating home buyers](#) and homeowners. Whether it's home improvement loans like the FHA 203k or a first home buyer's guide, we offer several free eBooks. You can click one of the pictures below to find the eBook that's right for you!



LET US KNOW HOW WE CAN HELP

For 30 years, AmeriFirst Home Mortgage has helped first time home buyers realize the dream of leaving that rental behind, and owning a house. Whether it's conventional lending, an FHA program, VA loan, USDA Rural Development or a 203k mortgage loan, the team at AmeriFirst is here to find the right mortgage for you. AmeriFirst is licensed for mortgage lending in: Michigan, Minnesota, Wisconsin, Illinois, Indiana, Ohio, Kentucky, Tennessee, North Carolina, Alabama and Florida. There is sure to be an office near you. You can find the [AmeriFirst office locator here](#).

WE'RE EASY TO FIND.

The website: AmeriFirst.com

We're on other social media sites as well.



Read the blog and keep up with the industry so you can be an informed borrower.

Home Buyer Resource Blog



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