



MassHousing Renovation Training

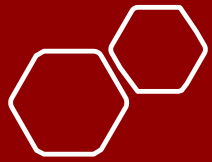
August 2024

DISCLAIMER

While every effort has been made to ensure the reliability of the following content, *MassHousing's Seller Guide*, posted updates, and *Announcements*, are the official statements of MassHousing policies and procedures and control in the event of discrepancies between the information herein and the Seller Guide.

If further clarity is needed, please refer to the Fannie Mae or Freddie Mac guidelines .

This information is for use by MassHousing Approved Lenders only and should not be distributed to or used by consumers or other third parties. This presentation is for informational purposes, does not contain or convey legal advice, and is subject to change without notice.



Renovation Training Agenda

- Product/Income Overview
- Renovation/Underwriting Guidelines
- Monitoring/Contacts

OVERVIEW

The Renovation feature can help borrowers purchase or refinance a home in need of repair and incorporate the expense of renovating the property into the total mortgage. This feature is available with the following Product Codes: **1001, 1002, 1004, 2001, 2002, 2004.**

- Lenders must be approved by MassHousing to offer Renovation
- Property **must** be owner-occupied
- MassHousing income and loan limits (*L-101 FTHB, L-101 HFA Preferred/HFA Advantage*) apply
- Down Payment Assistance may be combined for eligible borrowers wishing to utilize the Renovation feature with a MassHousing 1st Mortgage
- MassHousing Mortgage Insurance with MIPlus is required on all loans
- MassHousing approved homebuyer and landlord counseling (*when applicable*) is required for all first-time borrowers
- Non-occupying co-borrowers and co-signers are not allowed
- Power of Attorney is only allowed if the borrower is fulfilling a military obligation

INCOME LIMITS (2024)

FTHB CONVENTIONAL

County	Income Limit
Barnstable County	\$127,700
Berkshire County	\$124,875
Bristol County	\$127,700-140,400
Dukes County	\$128,900
Essex County	\$148,900-163,700
Franklin County	\$127,700
Hampden County	\$127,700
Hampshire County	\$127,700
Middlesex County	\$148,900-163,700
Nantucket County	\$153,100
Norfolk County	\$127,700-148,900
Plymouth County	\$148,900
Suffolk County	\$148,900-163,700
Worcester County	\$127,700

HFA PREFERRED/HFA ADVANTAGE

County	135% of AMI	80% OF AMI
Barnstable County	\$165,645	\$98,160
Berkshire County	\$137,565	\$81,520
Bristol County	\$152,820	\$90,560
Dukes County	\$185,625	\$110,000
Essex County	\$191,700	\$113,600
Franklin County	\$185,625	\$110,000
Hampden County	\$130,275	\$77,200
Hampshire County	\$130,275	\$77,200
Middlesex County	\$191,700	\$113,600
Nantucket County	\$206,685	\$122,480
Norfolk County	\$191,700	\$113,600
Plymouth County	\$191,700	\$113,600
Suffolk County	\$191,700	\$113,600
Worcester County	\$150,390	\$89,120

See MassHousing Form L-101 FTHB for purchase price limits

RENOVATION GUIDELINES

Minimum renovation amount: \$10,000

- Renovation costs are up to 75% of the "as completed" appraised value of the property

Financed amount *may* include:

- Lender Fees
- Title update fees
- Required 10% contingency reserve
- Lenders may increase contingency to 15% if they deem it necessary
- Mortgage Payment Reserve of up to six months PITI

Total Acquisition Cost *must* include:

- the sum of the purchase price
- cost of renovation
- title update fees
- Contingency (if financed)
- Mortgage Payment Reserve
- Lender fees

Refinanced amount *may* include:

- Amount required to satisfy the existing first mortgage and any subordinate liens used to acquire the property
- Closing costs, pre-paid and points
- Renovation costs up to the allowable LTV ratio

Renovation work must be completed within 6 months of the closing date of the loan

EXAMPLE

Determine Total Purchase Price

Purchase Price	\$300,000
Renovation Costs	+ \$50,000
Total Purchase Price	\$350,000



Labor and Materials	\$ 40,000
License and Permit fees	5,000
10% Contingency	5,000
Monthly PITI	0

- Renovation cost is limited to 75% of as-completed appraised value

Compare total purchase price to as-completed value to determine maximum loan amount

- Maximum loan amount is based on the lesser of the total purchase price or as-completed value

As-Completed Value \$375,000

Max Loan Amount
 $\$350,000 \times 97\% = \$339,500$

As-Completed Value \$325,000

Max Loan Amount
 $\$325,000 \times 97\% = \$315,250$

ROLE OF THE LENDER

Lenders are responsible for reporting to MassHousing the status of all Renovation mortgage loans that are not in compliance with their escrow agreement, construction contract, or the B-004 Rehabilitation Loan Rider. Lenders are expected to;

- Process, underwrite, **disclose*** and close the loan in accordance with MassHousing Guidelines
- Verify funds if work outside of the MassHousing Renovation Loan is being done
- Notify MassHousing of any Change Orders
- Review and approve plans & specifications, evaluating quantity, quality and cost of the renovation
- Monitor release of loan proceeds for completed work
- Ensure that clear title to the property is maintained
- Review and approve construction schedule, cost estimates, and disbursement schedule
- Monitor completion of work per plans and specs and construction schedule

NOTE: IT IS THE FINAL RESPONSIBILITY OF THE LENDER TO ENSURE THAT ALL WORK HAS BEEN COMPLETED ACCORDING TO THE ORIGINAL “SUBJECT TO” APPRAISAL AND THAT THE PROPERTY IS IN COMPLIANCE WITH THE OWNER OCCUPANCY STATUS. THIS ALSO INCLUDE REHAB WORK THAT IS OUTSIDE OF THE MASSHOUSING RENOVATION LOAN.

** Fees you can shop for must be disclosed – reminder Counseling fees apply to MassHousing 1st Mortgages with Renovation loans. As a result, Lenders need only list and provide the Borrower(s) with the fee charged by at least one counseling agency. If the Borrower(s) chooses to use the services of the company noted by the Lender on the LE, then Lender is tied to the 10% tolerance. However, if the Borrower(s) selects a Counseling agency that is not on the list, the cost is not limited by the 10% tolerance.*

ROLE OF THE LENDER

Lenders must maintain copies of all documentation supporting the renovation work, such as;

- Plans & Specifications
- “As-Completed” Appraisal
- Contracts
- Renovation Escrow Agreement
- Title Insurance Endorsements
- Certificate of Completion (FNMA Form1004D)

Septic Repair: submit to MassHousing a copy of Certificate of Compliance from the local Board of Health

Lead Paint Removal: submit to MassHousing copy of Certificate of Compliance from the local Board of Health

Disbursements occur when;

- Contractor submits signed and dated invoice for completed work as specified in the contract
- No upfront fees to the contractor are allowed
- Lender inspects and approves the disbursement
- Disbursement check made payable to contractor and borrower

ROLE OF THE LENDER

All loans are sold, and service released to MassHousing and require the lender send the Mortgage Payment Reserve funds in a separate check within 5 calendar days of the loan purchase

Mortgage Payment Reserve Fund checks should be mailed to;

***MassHousing
HomeOwnership/Purchasing
6th Floor
One Beacon Street
Boston, MA 02108***

Lender will earn the note rate price based on the all-in price and may charge the borrower up to 2 points.
Additionally;

- Lender may charge the borrower a flat fee of up to \$1,500 to cover costs of the renovation monitoring services.
- Any fees passed on to the borrower may be financed in the loan amount and must be disclosed accordingly

IMPROVEMENTS

Eligible improvements include;

- Upgrades to allow accessibility
- Code violations – **when found, all structural and/or safety issues *must* be repaired**
- Repair or replacement of failed septic systems
- Mold remediation
- Lead paint remediation
- Repair of existing fireplace/wood stoves
- Energy efficiency improvements
- Appliances *permanently* affixed to the property

Ineligible improvements include;

- Improvements started prior to closing of the loan
- Furniture, or other personal property
- Recreational or entertainment facilities
 - Swimming pools
 - Tennis courts
- Assessments for public improvements
- Outbuildings
 - Sheds, barns, utility buildings, etc.
- New fireplaces or wood stoves
- Commercial and mixed-use buildings

PROPERTY REQUIREMENTS

A home inspection ***IS NOT*** required by the borrower

All appraisals must include photo documentation of the inside of the subject property

At least 10% of the renovation amount must be held in a contingency reserve and may be financed into the loan amount

- The reserve will only be utilized if necessary, repairs are discovered during the course of the renovation above and beyond what has been budgeted for
- If financed, the contingency reserve remainder will be applied to the principal balance upon completion of the renovation
- If borrower funds are held for the contingency reserve, the remaining balance will be refunded upon completion of the renovation

The borrower must have a homeowner's insurance policy in place before renovation begins

DOCUMENTATION

An executed construction contract will include;

- Detailed descriptions of all work to be performed by a contractor, agreement to provide a permit, and work in accordance with current codes (**write up from contractor must include beginning and end date**)
- Schedules for all construction and disbursements

All work must be performed by a licensed contractor to the extent required by State law.

- "Do-It-Yourself" work is not allowed

The Escrow Agreement between the borrower and lender will include;

- Payment schedules to all contractors
- Detailed renovation completion timeline

The following documents must be used at closing of the loan:

- B-004 Rehabilitation Loan Rider
- Escrow Agreement (*a sample has been provided*)
- Renovation Loan Agreement (*FNMA Form 3731*)
- Renovation Contract (*FNMA Form 3730*)

All MassHousing loans have fees that must be collected at closing in addition to the standard closing costs

Associated to a loan. These fees include:

- \$300 processing fee
- \$85 Tax Service Fee
- \$89 Insurance Monitoring Fee

UNDERWRITING IN DO/DU/LPA

The details of a Renovation loan are entered in Sec. VII of the 1003 under “Details of Transaction”, specifically;

- Purchase price of the home
- Total amount of renovation
- Alterations
- Improvements
- Repairs

When using DU®/DO® the lender will choose FTHB FNMA HFA Preferred HomeStyle

When using LPA, the lender will choose FTHB FHLMC HFA Advantage ChoiceRenovation

The loan must receive an acceptable DU®/DO® or LPA recommendation

- Loans with “Refer w/ Caution” or any other unacceptable DU®/DO® or LPA finding must be submitted to a MassHousing Underwriter for review
- A MassHousing approved exception form, completed and signed must be in the loan package

MONITORING

Monthly updates from the lender on all in process renovation projects should be sent to RehabMonitoring@MassHousing.com and include;

- Borrower's name
- MassHousing loan number
- Original escrow balance
- Current escrow balance
- Percentage disbursed
- Estimated completion date
- Percentage of project completion
- Change Orders
- Extensions

If renovation work cannot be completed within the required timeframe, an extension must be requested and approved by MassHousing. The following documents should be submitted directly to RehabMonitoring@MassHousing.com:

- Fully executed Renovation Loan Agreement (FNMA Form 3731)
- Current draw or accounting documentation showing work completed and work outstanding
- Original "Subject to" Appraisal
- Contractor's Bid/Scope of Work
- Inspection Report with photos if available
- An addendum must be added to the original Escrow Agreement noting the reason for the extension and the projected completion time

MONITORING

Upon completion of the project the following documents must be uploaded to emasshousing.com.

- Interest Bearing Escrow Agreement including; financeable repair and improvement cost and fees; contingency reserves; mortgage payment reserves
- Monthly Status Reports
- Mechanic lien release and title rundown
- Copies of disbursement requisitions
- Copies of paid receipts for items paid directly to the borrower
- Change order requests (if applicable)
- Signed Permits from city/town (if applicable)
- Completion Certificate (FNMA Form 1004D) and Issuance of Occupancy Certificate (*if applicable*)
- Audit of closing and escrow accounts with any remaining funds sent to MassHousing to be applied to mortgage balance.
- Extension Request Documentation, if applicable

CONTACTS

Operations

Deanna Ramsden: Dramsden@masshousing.com

Sherri Melvin: smelvin@masshousing.com

Relationship Managers

Goretti Joaquim: gjoaquim@masshousing.com

Ihane Fernandes: ifernandes@masshousing.com

Jeffory Wright: jwright@masshousing.com

Onieda Fuentes: ofuentes@masshousing.com

Rocco Leone: rleone@masshousing.com