USDA RENOVATION

PROGRAM SPECIFICATIONS	
Description	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.
Channels	• Broker • Correspondent ○ Non-Delegated UW
FICO	• 580 minimum qualifying credit score for all qualifying borrowers • 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.
UW Method	• Guaranteed Underwriting System (GUS)
AUS Recommendation	• Accept/Accept • Refer • Refer with Caution Note: Reference Chapter 10 of HB-1-3555 Guaranteed Loan Program Technical Handbook for Refer, Refer with Caution and Manual Underwriting requirements
Eligible Terms	• 30Yr. Fully Amortizing Fixed
Eligible Transaction Types	• Purchase • Refinance transactions are not permitted
Eligible Property Types	• 1Unit Primary Residence • PUDs (3555.207) Reminders: • 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	• Must show the “As Completed/After 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 **Maximum Mortgage Amount**	• Purchase 100% • 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.

Maximum DTI	• Accept or Accept Full Documentation: Follow findings
	• GUS Refer, Refer with Caution, and manually underwritten loans requiring a debt ratio waiver:
	  ○ Max PITI ratio 32%,
	  ○ Max TD ratio 44%,
	  ○ Min FICO of 680, and
	  ○ Meets at least one of the acceptable compensating factors described in HD-1-3555, Chapter 11, Section 11.3.

Income Limits	The Borrower’s adjusted income may not exceed the Rural Development limit for the area
	• Income Eligibility
	  ○ https://eligibility.sc.egov.usda.gov/eligibility/incomeEligibilityAction.do?pageAction=state
	• Income Limits
	  ○ https://www.rd.usda.gov/files/RD-GRHLimitMap.pdf

Property Eligibility	• https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=sfp UW must determine if the home is habitable
Repairs up to $35,000 (Limited Transaction)	• 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
Repairs Exceeding $35,000 (Standard Transaction)	• 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.
Contingency Reserve	• 10% when utilities are on • 15% when utilities are off

Ineligible Repairs for Limited Reno < $35,000 Transactions	**Structural Work:**
	• Any structure repairs or alterations
	• Foundation reconstruction or elevation
	• Room additions or new construction
	• Converting or reducing multi-unit structures
	• Moving structures to new foundations
	Complex or extended Projects:
	• Projects requiring more than 6 months to complete
	• More than two payments per specialized contractor
	• No more than two specialized contractors are allowed:
	  ○ Both the GC and specialized contractors must complete all required paperwork for approval
	  ○ Two final inspections must be collected
	  ○ Additional contractors would require a General Contractor
	• Repairs requiring architectural plans or consultant work write-up
	• Projects that prevent occupancy
	  ○ Home must be habitable at the time of closing
	• No projects where construction has already commenced
	New installations:
	• New private wells or septic systems
	• Windstorm Shelters
	• Commercial-use conversions or refurbishments
	• No additions of an ADU's
	Luxury & Recreational Additions:
	• New swimming pools, hot tubs, spas, saunas
	• Barbecue pits, outdoor fireplaces, bath houses
	• Tennis courts, satellite dishes, photo murals, or gazebos
	Other Restrictions:
	• Oil tank removal or remediation
	• Extensive mold remediation
	• extensive landscaping and site improvements
	• Flood or fire damage repairs
	• Self-help or DIY projects
	• Renovations in historic areas designated by state, county, federal, or third-party authorities
	• Any properties zoned for mixed use or have commercial spaces
	• Any repair or update that AFR Credit Committee deems out of scope or excessive

Ineligible Repairs for Standard Reno > $35,000 Transactions	**Health, Safety and Environmental Restrictions:**
	• Excessive Mold remediation
	• Old tank repair, removal, or remediation
	• Flood or fire damage repairs
	Structural and Foundation limitations:
	• Full teardown and rebuilds, including gut renovations
	• Repairing, reconstructing a structure that has been or will be demolished
	• Purchasing a structure from another site and moving it onto a new foundation
	Unit Conversions and Additions:
	• Converting a one-family structure to a multi-family structure (2-4 units)
	• Decreasing a multi-unit structure to a 1-4 family structure
	• Purchase Transactions
	  ○ Addition of an ADU
	  ○ Additions that increase the gross living area
	Luxury and Recreational Additions:
	• New swimming pools
	• Exterior hot tubs, spas, whirlpool baths, or saunas
	• Barbecue pits, outdoor fireplaces or hearts
	• Bath houses, tennis courts, satellite dishes
	• tree surgery (unless removing endangerments)

	• Photo murals, and gazebos
	Other Restrictions:
	• Self-help or DIY projects
	• One General Contractor required:
	    o With exception of a well and septic contractors where outside of the general contractor's scope
	    o Both the GC and specialized contractors must complete all required paperwork for approval
	• Mixed use properties
	• Projects where construction has already commenced
	• any repair or update that AFR Credit Committee deems out of scope or excessive
	Exceptions for Refinance Transactions:
	• Additions to increase the gross living area where permits can be obtained prior to closing
	    o Example: any expansion of existing footprint, adding a level or adding a detached garage, or
	    o Addition of an attached ADU.

Resource Links	**Links**:
	• HUD Consultants look up tool
	    o A HUD Consultant required on Standard
	• PHI Home Inspections
	    o Resource
	• AFR's Exclusionary List
	    o Participants on this list are not eligible

Construction Soft Costs	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. • 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 – Standard only • Project review fees • Builder acceptance or review fees
Program Specifics	Inspector/Consultant fees • 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. 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 form 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 $5000,000; and ○ Contractors or builders who are repairing their own residence are ineligible.
Geographic Restrictions	• Hawaii ○ 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. AFR utilizes this 3rd party for document preparation and require 48 hours for both title review and to generate a closing package.
Guidelines	https://www.rd.usda.gov/resources/directives/handbooks - HB-1-3555 Additional reference, Chapter 12.28 of HB-1-3555
Forms	See FORMS Section in the Resource Center

OVERLAYS

Follow all overlays outlined in the Single Family Housing Guaranteed Loan Program (USDA) Matrix **and**:

- The contractor bid cannot exceed the consultants write up and it must be within the contingency percentage.
- AFR will permit a 50% initial advancement 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 only when the contractor is not willing or able to defer receipt of payment until completion of work, of payment represents the cost of materials incurred prior to construction **for non-structural** repair transactions.
- AFR follows HUD requirements with permitting a maximum of 2 draws after closing **not to include the initial advance as noted above** and requires all draw requests to be performed in writing and executed by the Contractor and Borrower for **non-structural repair** transitions.
- AFR does not permit identities/conflicts of interest between the borrower and contractor. The borrower and contractor may not be related nor can there by an employee/employer relationship.
- AFR permits for only 1 General Contractor; multiple General Contractors are not permitted with exception to well and septic contractors where outside the general contractor's scope.
- 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.
- "As Completed/After Improved" Property Condition Rating as determined by the Appraiser must be C1-C4.
- 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