

REHAB & CONSTRUCTION *Guide*



The Ultimate Home Financing Guide to Turning
a Fixer-Upper or New Construction in to the
Home of Your Dreams



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Introduction

At Compass Mortgage, our goal is help you realize your dreams of homeownership and to assist you in the long-term management of your mortgage so that you can get the most out of your home. We are committed to providing you with an exceptional level of service that exceeds your expectations.

Our Rehab and Construction Handbook will help you understand your financing options if you decide to build a new home or renovate/remodel an existing one.



WHO IS COMPASS?

Compass is a mortgage banker, not a mortgage broker. This subtle but important distinction gives us a greater level of control over the loan process and allows us to provide a higher level of service to our clients because we control the process from beginning to end, and we use our own funds to fund the loan.

We do underwriting in house which, in most cases, gives us the ability to approve the loans we originate. Because of this, we can quickly turn around a loan which might make the difference between getting the house you want or losing it to another buyer.

Mortgages are our only business, and our passion is to help our clients make informed decisions regarding their home financing. Our experienced staff is always here to answer questions you might have!



Dan Graham

Chairman & CEO
Compass Mortgage

WHY Rehab or Construction?

When you buy a home, there is a good chance it won't be exactly how you like. But, the house of your dreams is achievable by either building a new home, or changing/remodeling an existing one to better fit the needs of your family.



FHA 203(K)

Because of flexibility, the FHA 203(k) loan is one of the most popular home improvement loans. It's not a home equity loan or a second mortgage, and it can be used on just about any owner-occupied primary home.

The 203(k) loan fills a specific need for homebuyers in today's housing market. Most loan options will not allow for closing in an as-is condition when there are repairs, or health/safety issues. In that case, a borrower would need to obtain financing to purchase the home, additional interim financing for renovations and then a permanent mortgage when the work is completed to pay off the additional financing. An FHA 203(k) loan allows borrowers to get just one mortgage loan to finance for the property acquisition and its renovation/rehabilitation.

There are two types of FHA 203(k) loans: Limited and Standard, both of which can be used for purchase or refinance.

FHA 203(k) Streamline

- Used for homes needing minor, non-structural repairs
- Allows borrowers to finance up to \$35,000 in improvements before move-in
- No minimum repair costs
- Borrower must occupy the property
- Eligible improvements include: Repair or replacement of roof, gutters, downspouts, HVAC systems, plumbing and electrical systems, flooring, exterior decks, patios, porches, minor kitchen or bathroom renovations, window and door replacement, exterior siding and basement water proofing.

FHA 203(k) Standard

- Used for homes needing major rehabilitation
- Renovation costs may exceed \$35,000
- Must be a minimum of \$5,000 in repairs
- Borrower must occupy the property
- Loan limits are based on property type and location
- Eligible improvements include all 203(k) Streamline improvements as well as structural alterations such as additions, major kitchen and bathroom remodeling, finishing a basement, repair of termite damage, etc.
- Major landscaping may be eligible if issues are safety hazards to the property

FANNIE MAE HOMESTYLE®

The Fannie Mae HomeStyle® Renovation mortgage provides a simple and flexible way for borrowers to renovate or make home repairs with a conventional first mortgage, rather than a second mortgage, home equity line of credit, or other more costly methods of financing. HomeStyle® is a great option for homebuyers purchasing a fixer-upper or homeowners who need to finance repairs, renovations, improvements or equipment for greater energy efficiency in their current home.

The down payment must be equal to 5% of the value of the home after repairs have been made. The total cost of the project cannot exceed 75% of the as-completed value.

Benefits include:

- Availability to individual home buyers, investors, non-profit organizations and local government agencies
- Purchase or refinance and remodel
- No minimum amount of repairs required
- Luxury items included, such as swimming pools, tennis courts, landscaping, etc.
- Gift funds allowed for down payment and closing costs for owner-occupied, primary residences after borrower contributes a minimum 3% down payment



EZ-RENOVATION LOAN

The EZ-Renovation Loan is the ideal program for homebuyers and homeowners looking to make cosmetic fixes and renovations without emptying their wallets. This program option is perfect for homebuyers purchasing a home in need of non-structural updates.

Benefits include:

- Renovations up to 15% of the “as completed” value of your home
- Improvements must add value to the home and be non-structural in nature
- 95% financing purchase or refinance up to the conforming loan limits
- Additional 10% contingency reserve added to repair amount
- Available for primary, second/vacation, and investment homes (maximum loan value varies by type of ownership)
- Single contractor bid for repair work

RENOVATION MORTGAGE *Fact Sheet*

	FHA 203(k) Standard	FHA 203(k) Limited	Fannie Mae HomeStyle	EZ-Renovation
Loan Type	Purchase or Refinance			
Property Type	Purchase and renovate most residential properties			
1-4 Unit Primary Residence	✓	✓	✓	✓
1-Unit Single Home			✓	✓
1-Unit Investment Properties			✓	✓
Minimum Down Payment	3.5% of total acquisition cost (sale + renovation) or for refinancing (mortgage balance + renovation costs)	3.5% of total acquisition cost (sale + renovation) or for refinancing (mortgage balance + renovation costs)	10% for 1-unity primary and secondary homes 20% for 1-unit investment only	5% for 1-unit primary 15% for 2-unit primary 20% for 3-4 unit primary 10% for second home 15% for 1-unit investment 25% for 2-4 unit investment
Gift Funds	Allowable per FHA guidelines		Can be used on a case-by-case basis for down payment on owner-occupied, primary residences and subject to MI guidelines	Can be used for down payment on owner-occupied, primary residences and subject to MI guidelines
Mortgage Amount	Based on "as-completed" appraisal value or total acquisition (sales price + renovation costs) - the lower of the two			
Mortgage Insurance (MI) Required	✓	✓	Down payments less than 20% on a purchase and LTV's > 80% on refinances	Down payments less than 20% on a purchase and LTV's > 80% on refinances
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	15% of the as-completed value
Allowable Repairs	From structural changes to landscaping, new appliances, and more	From flooring to painting, remodeling kitchen and bath, appliances, and more. No major structural repairs	From structural changes to landscaping, new appliances, and more	From flooring to painting, kitchen, bath, etc. MUST ADD VALUE - no structural work allowed. Single contractor bid.

BRIDGE, LOT & CONSTRUCTION *Loans*

Bridge Loans

Most repeat homebuyers try to time the purchase of their next home and the sale of their current home simultaneously, although this is not always possible. When the chain of transactions happen more slowly than expected, some buyers need to bridge the gap and finance more than one home for a few days, weeks or months.

Bridge loans are short-term, interim loans that provide financing by combining payments for a borrower's current home and their next home into one loan until permanent financing is obtained. Bridge loans can be used two ways:

- To pay off all existing liens on the current home and have the excess used for a down payment on the new home.
- As a second mortgage and used solely as the down payment for the new property which means payment will still need to be made on the previous home.

Lot Loans

Lot loans or land loans as they are often called allow individuals to purchase or refinance vacant land for residential or recreational purposes. Usually, these kinds of loans are approved for up to 10 acres of land, but there are sometimes exceptions. A lot loan often permits the financing of the lot of land until a borrower is ready to begin construction of a new structure.

Construction Loans

Construction loans are often referred to as "story loans" because a lender needs to know the story behind the proposed home before determining whether they're able to finance its construction. Typically, construction loans require interest-only payments during a set construction period and become due upon completion.

After construction is completed, borrowers will acquire a new loan to pay off the construction loan. This is called an "end loan". Compass Mortgage offers construction-to-permanent financing programs where the construction loan is converted into a mortgage loan after the certificate of occupancy is issued. Only one application and one closing is required.

Requirements and eligibility include:

- 20% minimum down payment
- Maximum 80% LTV of as-completed appraised value or cost of land and home construction- whichever is less.
- Available to both builders and borrowers
- Ability to combine with end loan for an easy transaction

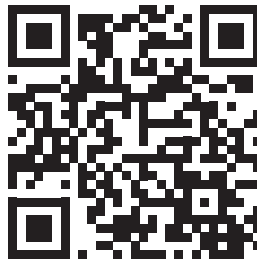
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877.793.9362
contactus@compmort.com
www.compmort.com

Headquarters
27755 Diehl Road, Suite 100
Warrenville, IL 60555

*Scan below to see all of our office locations
or visit www.compmort.com/locations*



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