



VA RENOVATION PROGRAM

PROGRAM SPECIFICATIONS	
Description	The VA Renovation Program 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 VA Renovation mortgage may not be used for complete tear-down and reconstruction of the dwelling. Repairs exceeding \$200,000 requires a second level project review. Renovations greater than \$50,000 require the use of an AFR approved 203(k) HUD Consultant.
Channels	<ul style="list-style-type: none"> • Broker • Correspondent <ul style="list-style-type: none"> ○ Table Funded ○ Non-Delegated UW
FICO	<ul style="list-style-type: none"> • 580 minimum qualifying credit score for all qualifying Borrowers. <ul style="list-style-type: none"> ○ 580-659: A minimum of 2 qualifying credit scores are required for all qualifying borrowers. Use the middle score if 3 credit scores or the lower of the two if 2 credit scores. ○ 660+: A minimum of 1 qualifying credit score is required for all required borrowers. ○ Lowest representative score from all borrowers will be used for qualification purposes.
UW Method	<ul style="list-style-type: none"> • Desktop Underwriter (DU) • Loan Product Advisor (LPA)
AUS Recommendation	<ul style="list-style-type: none"> • Approve/Eligible – DU • Refer/Eligible – DU • Risk Class Accept – LPA • Risk Class Refer – LPA
Eligible Terms	<ul style="list-style-type: none"> • 10Yr., 15Yr., 20Yr., 25Yr., 30Yr. Fully Amortizing Fixed
Eligible Transaction Types	<ul style="list-style-type: none"> • Purchase • Cash Out Refinance <ul style="list-style-type: none"> ○ Follow VA Circular 26-19-05 for NTB requirements ○ LTV calculations includes the VA funding fee ○ Seasoning Requirement: <ul style="list-style-type: none"> ▪ The borrower must have made at least six consecutive monthly payments on the loan being refinanced, referred to hereinafter as the Initial Loan, beginning with the payment made on the first payment due date; and ▪ The first payment due date of the refinance loan occurs no earlier than 210 days after the first payment due date of the Initial Loan. • Texas Renovation refinance transactions are permitted <ul style="list-style-type: none"> ○ May not receive any cash back at closing. Principal reductions/curtailments are not permitted, and ○ Liabilities not secured by the subject property may not be paid with proceeds from the transaction.
Eligible Property Types	<ul style="list-style-type: none"> • 1 Unit Primary Residence (attached/detached) • 2 Unit Primary Residence (attached/detached) • Manufactured Housing • Note: Condominium Units are not permitted
Maximum LTV	<ul style="list-style-type: none"> • Purchase, 100% LTV including renovation costs • Refinance, 100% LTV including renovation costs
Maximum DTI	<ul style="list-style-type: none"> • Approve/Eligible recommendations: Follow AUS findings (DU/LPA) <ul style="list-style-type: none"> ○ Refer AUS recommendation or manual underwriting: Follow VA Guidelines (see Chapter 4, Topic 8) ○ Maximum 65% with Approve/eligible AUS Recommendation (DU or LP) and meeting VA requirements over 41%(see Chapter 4, Topic 9)
Maximum Loan Amount	<ul style="list-style-type: none"> • The Maximum Mortgage Worksheet (MMW) must be completed in calculating the maximum loan amount. • Loan amounts may not exceed the national baseline Conforming Loan Limits as published by the FHFA. • High Balance and Jumbo loan amounts are not permitted
Appraisal	<p>Important: The Appraisal cannot be ordered prior to the Builder/Contractor VA ID Number being obtained</p> <ul style="list-style-type: none"> • Appraisal must be ordered with bid • Appraisal must be ordered subject to repairs or alterations • Final Inspection must be completed by a VA appraiser once property is 100% complete





	<ul style="list-style-type: none"> 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>
Amount of Repairs	<ul style="list-style-type: none"> Total renovation cost includes required contingency and reinspection fees (see below) Renovation costs exceeding \$200,000 require a second level project review There is no minimum rehabilitation cost
Eligible Repairs	<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/installation of private water systems (Wells) Minor repairs to Septic systems Recreational/Luxury Improvements require second level project review. <p>Note: VA requires any alterations and repairs to be ordinarily found on similar properties of comparable value in the community.</p>
Ineligible Repairs	<ul style="list-style-type: none"> Oil Tanks (repair, removal, remediation) Any repair/installation private waste management system (Lagoon, Cesspools, Pits, etc.) <ul style="list-style-type: none"> Major repair or installation of Septic system Mold Remediation Purchasing an existing structure on another site and moving it to a new foundation Any repair that prevents the borrower from occupying the property for more than 15 days during the renovation period Any repair that is done as Self Help <p>***Home must be habitable at the time of application</p>
Renovations Greater than \$50,000	<ul style="list-style-type: none"> AFR approved 203(k) HUD Consultant required
Construction Timeframe	<ul style="list-style-type: none"> 9 months from closing
Escrow Amount	<ul style="list-style-type: none"> See Contingency Requirements below Excess amount to be applied as a principal reduction
Contingency	A contingency reserve equal to 15% of the alteration and/or repair cost is required on all loans.
Draws	<ul style="list-style-type: none"> AFR will allow for up to 3 draws Initial Draw \$0, subsequent draw amounts will be based on inspections and percentage of completion 3 inspections (\$600 will be included in the maximum mortgage amount calculation)
Title Updates	<ul style="list-style-type: none"> 1 Title Update (\$150 will be included in the maximum mortgage amount calculation) 1 Final Lien Waiver provided by General Contractor
General Contractors	<ul style="list-style-type: none"> AFR permits for only 1 General Contractor/Builder; multiple Generals Contractors/Builders are not permitted. The GC/Builder must be registered with the VA – See VA Builder Registration for list of VA registered builders There can be no identity or conflict of interest between the borrower and contractor. Family members are not eligible; the borrower cannot be employed by or be an owner in the contractor’s business The GC/Builder must carry sufficient insurance equal to the amount of \$100,000/per occurrence through a valid and current general liability insurance policy GC/Builder must provide a detailed estimate/bid itemizing all of the repairs that are to be completed with costs broken down to material and labor, and not, if permits are going to be required.
Geographic Restrictions	<ul style="list-style-type: none"> 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.
Forms	See FORMS Section in the Resource Center
Underwriting Guidelines	Follow VA Pamphlet 26-7 Chapter 7 for alteration and repair guidelines and the VA Pamphlet 26-7 Chapter 4 for credit and underwriting requirements
Overlays	
<p>Follow all overlays outlined in the VA Fully Amortizing Fixed & Jumbo Program and:</p> <ul style="list-style-type: none"> The maximum timeframe for construction is 9 months 	

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- Any unused contingency must be applied to the principal balance of the loan; AFR does not permit monies to be refunded to the borrower.
- AFR does not permit borrowers paying cash for the contingency
- The Appraisal cannot be ordered prior to the Builder/Contractor VA ID Number being obtained
- 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 construction of a new detached Accessory Dwelling Unit (A.D.U.).**
- Home must be habitable during construction
- 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. Note: "As Completed" Property Condition Rating as determined by the Appraiser must be C1-C4.
- Renovations greater than \$50,000 require the use of an AFR approved 203(k) HUD Consultant.
- "Do it Yourself Repair Option" and Self Help are not permitted.
- AFR does not permit identities/conflicts of interest between the borrower and contractor. The borrower and contractor may not be related nor, can there be any employee/employer relationship.

Disclaimer: All overlays herein are subject to change by AFR without notice. Where AFR is silent, the UW must follow all guidelines outlined in the Lender's Handbook – VA Pamphlet 26-7.

