

Renovation

Your Guide
Through
the Process



Before



After

Renovation Financing: An Investment in the Future

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Turning a house into a dream home – that’s the power of renovation. From extra bedrooms to a kitchen update, a family room to a luxurious bathroom spa, from a modest expansion to a complete remodel, renovation financing offers homeowners a cost-effective way to live the dream according to their unique vision, without moving to another home.

Renovation financing also provides forward-thinking homebuyers the opportunity to purchase or refinance properties in need of improvement. With this option, qualified buyers can choose a fixed- or adjustable-rate loan that is based on the after-improved value of the property. The loan covers all the costs of minor and major repairs/additions/renovations as well as the purchase price or any existing liens, minus the required borrower investment. So, buyers can purchase a property in less-than-great condition and immediately transform it to fit their needs.

For over 40 years, renovation loans have enabled people to enhance their homes to reflect their evolving needs. Wells Fargo Home Mortgage remains committed to helping customers make the most of their home-ownership investment with this essential financing tool. In fact, we are the number one provider of renovation financing and the only lender with a dedicated team of renovation specialists.

Whether you are a homebuyer, a current homeowner, a real estate agent, a contractor who specializes in home improvements or a government official looking for solutions to your community’s housing needs, this is your guide to understanding renovation financing. It is designed to be an easy-to-use reference that will explain the benefits and the steps involved in obtaining a renovation loan from application to completion.

An Opportunity for Everyone

“It’s a simple ranch that can easily be converted into a traditional colonial.”

All types of homeowners and homebuyers can enjoy the benefits of the Wells Fargo Home Mortgage Renovation financing program. Any qualified customer who plans to purchase or refinance a primary residence, second home, vacation home or an investment property to make renovations is eligible. Here are some examples and scenarios that demonstrate how buyers, industry professionals, investors and community organizations can benefit from accessing, recommending or utilizing a renovation loan:

Homebuyers can:

- Buy less-than-perfect homes in great locations and turn them into dream homes
- Eliminate property problems sooner rather than later
- Expand a house to meet their needs

Current homeowners can:

- Enhance the equity in their current home by making valuable changes
- Upgrade, add on and remodel without tapping into their savings
- Consolidate debt while improving their home with a cash-out refinance

Real estate agents can:

- Move hard-to-sell listings
- List hard-to-sell properties knowing that renovation financing is available
- Offer solutions that generate listing and selling commissions
- Make potential buyers envision ways to remodel a property to make it fit their needs

Contractors can:

- Offer realistic and cost-effective estimates for property improvements knowing that the financing is in place
- Feel confident that they will receive payment for work completed in a timely manner

Investors can:

- Purchase with low down payments, borrowing up to 90% of the purchase plus renovation costs in one loan

Historic preservation societies can:

- Refer clients and members to a renovation specialist to help facilitate the acquisition and restoration of historic properties

Neighborhood civic groups can:

- Provide a financing outlet for reunification of properties
- Impact an entire neighborhood by utilizing renovation loans to save structures or just improve them

Engineers/home inspectors can:

- Offer solutions to homebuyers for properties needing significant repairs

Local governments can:

- Direct citizens with property defects to a renovation specialist
- Blend energy efficient mortgages to help citizens lower the cost of utilities and make it easier to maintain their home
- Use renovation financing to help eliminate blighted housing in neighborhoods

Qualifying for a Renovation Loan

Applicants must meet standard credit qualification guidelines applicable to the loan program. The property must also meet the qualification criteria for the renovation program. The after-completed appraised value must support the value and new mortgage amount.

Down payments and closing costs may vary depending on the loan type for which the applicant qualifies. Cash may come from personal savings, gifts or approved grants and loans.

Eligible Properties

Depending upon the program selected, most owner-occupied and non-owner-occupied 1-4 family and mixed-use properties (in some cases) are eligible for renovation financing. These include condos and manufactured housing. The number of units on the site must meet the provisions of local zoning requirements. All newly constructed units must be attached to an existing dwelling.

Some additional accommodations include:

- Moving a house from one site to another
- Completing unfinished newly constructed properties

Allowable Renovations

Almost any kind of repair or improvement can be financed as part of a renovation loan. Here are some examples:

- Structural improvements/changes/additions
- Changes for improved functions such as remodeling kitchens and baths
- Elimination of health and safety hazards such as lead-based paint and mold abatement
- Changes for aesthetic appeal and elimination of obsolescence such as new siding, painting, landscaping
- General replacement of electrical, HVAC, plumbing, installation of well and/or septic tanks
- Roof raisers
- Completely rebuilding a home on modified existing foundation
- Installing improvements for disabled access
- Installing or repairing swimming pools
- Adding a garage
- Finishing a basement
- Adding sun rooms, hot tubs, decks

All work can begin after closing and must be completed within six months from that date.*

**Note: Nine months is allowable on certain transactions exceeding \$50,000 in repairs. Customers should check with their renovation specialist to see if they qualify for the longer term if needed.*



The Loan Process – Step by Step

“Adding a swimming pool would be perfect for summer entertaining.”

A primary component in the renovation process is the property. For homebuyers planning to buy a new property, renovation financing can actually expand their opportunities. Buyers may find that they are able to choose a house they never considered because they can now allow for the renovation costs when they purchase it.

For homeowners who are eager to improve their property, accessing renovation financing can put them closer to turning their plans into reality.

Once customers have either secured a property or determined that they are going to make improvements to an existing property, they will want to contact a Wells Fargo Home Mortgage renovation specialist. He/she will tell customers everything they need to do and what documentation they need to supply in order to get loan approval quickly.

At this time, a renovation specialist can also help customers determine if they should enlist the services of a HUD-approved consultant, home inspector or contractor for assistance in assessing renovation needs, getting a rough estimate of the costs and estimating the value of the property after the improvements. This is called a feasibility study and it is optional. If the feasibility study is done, it will be prior to any inspections (termite, well and septic) or the completion of a work write-up.

The next step in the process is to have any applicable inspection performed.

If a customer decides not to have a feasibility study done, the renovation specialist will provide him/her with the names of approved consultants who are neither employees of HUD nor Wells Fargo Home Mortgage, but independent contractors and renovation experts. The consultant will inspect the property, assist and advise the customer to determine the needed improvements and the cost estimates for those repairs/improvements. The consultant will ensure that a customer is making all necessary renovations and the desired improvements and will then itemize them, list who needs to make them and what they will cost in a document called a work write-up.

Customer Roles and Responsibilities

Customers securing renovation financing should:

- Provide their renovation specialist with a copy of a fully executed sales contract
- Meet with the renovation specialist and submit all necessary documentation and fees (appraisal, credit report) at time of application
- Order a termite inspection (if called for by the Renovation Program) and then submit it, upon completion, to Wells Fargo Home Mortgage
- Schedule an appointment with an assigned approved consultant. Meet the consultant at the property to discuss all determined repairs/improvements
- Pay the consultant directly for services at the time of the initial inspection
- Meet with the selected contractor to agree on work outlined in the work write-up
- If applicable, obtain copies of the contractor’s license or proof of contractor by trade, insurance and other necessary forms that will be provided by the renovation specialist
- Then, submit all contractor documentation to the renovation specialist

- Once the loan is approved, review the commitment letter for conditions and provide all satisfactory documentation (conditions) in a timely manner
- Contact a closing agent to schedule closing once conditions have all been met
- After closing, contact the consultant each time a draw inspection is needed

The Importance of a Work Write-Up

The work write-up is a detailed scope of work that includes the necessary materials and a cost breakdown. It defines what is required to renovate the property to meet the customer's needs and program guidelines. This document also ensures that all health and safety issues have been addressed and, most importantly, that the allocated funds for the project are sufficient to cover the required work for project completion. Most importantly, it provides an opportunity for the parties – customer, contractor, appraiser, lender and consultant – to understand and agree on the scope of work.

Writing and Submitting the Sales Contract (Purchase Agreement)

A renovation sales contract is very similar to a traditional purchase agreement. A Wells Fargo renovation specialist will assist customers with the specifics and the required language for completion of the contract.

Selecting a Contractor

One of the most important steps in the renovation process is for the customer to select a contractor. It is advisable to get recommendations and price quotes from several reputable contractors. In most states, the contractor selected must be licensed and insured. To find out about licensing requirements a specific area or state, visit the following Web site: <http://www.contractors-license.org>.

The selected contractor will also need to be made aware of the project scope and the program guidelines. A renovation specialist can help explain the process and provide the customer with the required documents that the customer and the contractor will need to complete throughout the project.

Completing the Work Write-Up

Prior to meeting with the consultant, the customer should make a list of all desired improvements. In addition, the consultant must also be provided with copies of all inspections (termite, well and septic, if applicable) to determine if any other work will be added to the report. If there are any identified structural, health or safety issues, they must also be added to the report. The contents of the report are itemized by category (35 total) and then summarized for a total cost. Based on this report, the consultant will recommend the number of inspections to be performed during the renovation process and will factor in a percentage for a contingency reserve to be used in case of unforeseen deficiencies.



The Loan Process – Step by Step (cont'd.)

“It’s in the best neighborhood in town, but the kids don’t have enough room to play.”

Plan Review Option

There are instances when someone other than the consultant prepares the work write-up. When this is the case, the consultant will act as a plan reviewer to inspect the property, make any necessary changes to the scope of work and sign off on the plan. The same consultant may also make draw inspections during the project.

Appraisal

Upon completion of the work write-up, the customer and the renovation specialist will receive a copy. Both will review it and it will then be sent to an appraiser who uses it to determine the after-improvement value of the property.

Final Approval

The completed work write-up, contractor documents and appraisal are submitted by the renovation specialist for final property approval. Once the approval process is complete and any outstanding conditions are met, the loan can proceed to closing.

Closing the Loan (Settlement)

Depending on the state in which the property is located, a title company, escrow agent or real estate attorney is responsible for handling the settlement. It is a good idea to select this closing agent early in the process to allow enough time to research title, order a survey and correct any errors.

When the loan is approved, a settlement date, time and location can be scheduled. The settlement agent will coordinate the closing with Wells Fargo Home Mortgage. Before closing, the renovation specialist must be provided with a prepaid homeowners insurance policy and proof of fulfillment of all underwriting conditions.

Close the Loan and Let the Renovation Begin

The closing agent will have all appropriate documentation executed at settlement and will prepare a HUD settlement statement that details all costs of the transaction. A renovation escrow account will be established to hold the funds for the project. The fund disbursements are managed by the Wells Fargo Home Mortgage National Draw Center. Upon receipt of the customer’s file, a draw specialist is assigned to the customer and will him/her a Welcome Package containing instructions for processing the draws smoothly.

The renovation specialist will also provide the customer with the name and number of the draw specialist.

Disbursing the Funds

The customer's loan will be fully funded at closing. For purchase transactions, the sellers receive their net proceeds, real estate agents are paid, and the renovation escrow account is established to cover the renovation costs. For refinance transactions, the homeowner's existing mortgage loan is paid in full and the renovation funds are placed in an escrow account.

Funds are released from the escrow account only when work is completed. In cases where permits are required, proof of the permit(s) is required prior to the release of funds. The customer contacts the consultant to set an appointment for each inspection. The consultant inspects the completed work and executes a draw request that must be signed by the customer, contractor and the consultant in order for funds to be released. This ensures that all involved parties have inspected the work and that everyone has agreed on the payment. The draw request form is then submitted to the Wells Fargo Home Mortgage National Draw Center where a draw specialist issues payment within 72 hours. It can be delivered overnight by check or wired to a specified account. Checks will be made payable to both the customer and the contractor.

Funds are disbursed with the condition that all work must be started within 30 days of closing, cannot stop for a period of more than 30 days and must be completed within six months.*

Final Inspection and Release of Funds

When all work is complete, the draw specialist provides the customer with a letter of completion. The customer signs and returns this letter prior to release of the final funds. Then, the customer receives a final release form showing all the work is completed and how all funds were applied. For certain transactions, the appraiser may be required to re-inspect the property and issue a completion certificate to Wells Fargo Home Mortgage.

**Note: - Nine months is allowed on certain transactions exceeding \$50,000 in repairs. Customers should check with their renovation specialist to see if they qualify for the longer term if needed.*



Glossary

“It’s a great four-bedroom ranch, but the kitchen needs updating.”

Consultant/ Plan Reviewer: This independent consultant, paid by the customer, is the person who meets with the customer, inspects the property, and prepares a report detailing the necessary and desired work to be performed on the subject property.

Specifications of Repairs: This report makes up the body of the work write-up and is divided into 35 sections that detail the work to be performed, the costs and the materials.

Work Write-Up: This report includes detailed breakdowns of all project work and the relative estimated cost to perform the work. The work write-up must be completed prior to the appraisal being ordered. The appraiser can then establish the after-completed value based on the work that will be performed on the subject property.

Sections in the Work Write-Up include:

- Narrative scope of the work to be done
- Architectural plans or exhibits
- Details of permits required
- The Specification of Repairs
- Draw request
- Contingency Reserve recommendation
- Number of Inspections Needed

Contingency Reserve: Renovation projects may encounter unforeseen repairs or cost overrides that must be handled. All renovation loans will have some percentage (10-20% of repair costs) in a reserve account for these expenses. This dollar amount will be recommended by the consultant and included on the work write-up. These funds can also be financed into the loan, or provided by the customer.

Draw Request: This form is submitted to the lender to release funds to the customer and the contractor upon completion of work at a specific time in the project. Percentage payments can be made for work that is partially completed. The customer, the contractor, and the consultant must all sign off on the draw request, thereby agreeing that the payment is being released based on the satisfactory completion of the work. These draw releases happen periodically during the renovation period as work progresses.

Change Order: During the renovation, there may be a need to realign some of the funds within the scope of work. At this time, the consultant will discuss the necessary changes with the customer and the contractor and then submit a change order to the lender. This must be submitted and approved by the lender before any changes are actually performed.*

Holdback: As funds are disbursed, there is a 10% holdback on all funds released. This 10% is held back until the project is complete. This will be repeated throughout the renovation period until all work is completed and the final inspection is performed. At this time, after all parties agree that the work has been completed satisfactorily and there are no liens that have been filed against the property, all holdbacks will be released.

Final Inspection: Depending on the loan program, there is a final inspection performed by the appraiser and/or consultant to ensure all the work originally proposed has been completed.

Title Update: The title is updated after the final inspection to ensure that no liens have been placed against the subject property during the renovation process.

Supplementary Origination Fee: A fee charged by the lender that allows for the administration of escrow. Included in this fee is the management of disbursement funds, ordering the completion certificate, and assisting in the resolution of any contractor and/or homeowner issues. This fee can be financed.

**Note: Change orders and fund releases from the contingency can occur only after health and safety issues and major items have been addressed.*



Customer FAQ

“We could really use some storage space and a new focal point in the room.”

I want to do the work myself to save money. Can I do that?

*The use of a general contractor is strongly encouraged and is a requirement on some programs. However, depending on the loan program, a customer is allowed to perform the work based on the dollar amount of the repairs provided he/she possess the time, ability, tools and assets to do so. This is reviewed on a case-by-case basis. A licensed contractor, with no exceptions, must perform certain repairs such as electrical, plumbing, roofing and HVAC.**

Can I be reimbursed for materials I purchase outside the work listed in the work write-up?

Your renovation escrow account is established based on the scope of work detailed in the work write-up. The only time a reimbursement can be made is if a change order is submitted and approved prior to the additional work being performed. Any work performed outside the scope of work escrowed is the responsibility of the customer if the change is not approved.

Can I use a renovation loan to renovate a condominium?

Yes. There are certain restrictions that apply to condominiums. These are based on the work being limited to interior work, the number of units in the project and the number of units undergoing renovation at one time. Check with your Wells Fargo Home Mortgage consultant for details.

Can I get money before the work begins?

There are no up-front funds disbursed on renovation loans. Funds are disbursed after work has been completed and inspected. The only exception to this policy is for flooring, cabinetry and windows that are not in stock and have to be ordered with an up-front deposit. A copy of the supplier's invoice is required and the check is made payable to the supplier for the deposit, in this instance (maximum 50% of item cost). The remaining funds for the item would not be released until the item is received, installed and inspected.

How long do I have to complete the renovation?

Work must begin within 30 days of closing, cannot stop for periods greater than 30 days and work must be completed within six months from closing. There are, however, certain programs that will allow up to nine months if the cost of repairs exceeds \$50,000.

Do I need a home inspection if I am doing a renovation loan?

The customer always has the option of obtaining a home inspection in addition to the inspection made by the approved consultant.

When can I begin to work?

Work can begin as soon as the loan closes and loan proceeds have been disbursed. All work must begin within 30 days of loan closing.

What is the minimum down payment required?

It depends on the selected loan and qualifying program. There are programs that have down payments as low as 3%. Consult with your renovation specialist for more information.

What is the minimum requirement for repairs?

Some programs require you to have a minimum of \$5,000 in repairs while other programs have no minimum requirements. However, if you have less than \$5,000 in repairs, renovation financing may not be your best option.

What happens to the 10% contingency reserve if it is not used by the end of the renovation?

It can either be used to do additional repairs, if approved by the draw center, or applied to the principal balance of the loan. If the customer did not finance the contingency reserve it can be refunded in cash.

When do I start making my mortgage payments?

Payments are due and payable as disclosed on the promissory note signed at closing. If the property is not habitable during the renovation, up to six months of payments can be financed based on the consultant's estimate of months to complete the work. In this instance, payments would be due from the customer the first day of the month after the property is habitable or upon the completion date. The maximum number of payments that can be financed is six and only if the property is not habitable. Any mortgage financed mortgage payments that are not needed will be applied to the principal balance of the loan after the final draw is processed and the renovation account is closed out.

What happens if something goes wrong while the repairs are in progress, like a pipe breaks or rotted wood is discovered?

The contingency reserve is financed or collected to handle any unforeseen repairs. The approved consultant would need to complete a change order form executed by all parties and send to the draw center for approval prior to the additional work being completed. Once the change order is approved, the necessary work can then be completed and funds released after the consultant has inspected the completed work.

If I don't use all the money set aside for the repairs, can the money be given back to me in cash?

Only funds that the customer paid in cash for repairs, identified clearly as being paid in cash during the loan process, can be given back at completion and closeout of the renovation account, if they are not used in full. All financed funds must be paid down to principal if not used for additional repairs at completion.

If I am building my house and have run out of money, can I use the renovation loan to complete the home?

Wells Fargo Home Mortgage has a program that allows for financing the completion of a home. It must, however, be close to completion

Can I move into the home as soon as we close?

Yes, as long as the home is habitable, per city and county regulations, and no mortgage payments have been financed.

**Not applicable in the state of Texas*

