



## VETERAN IMPROVEMENT PROGRAM (VIP) - RENOVATION

POLICY	GUIDELINE
<b>BROKER/ CORESPONDENT</b>	This product is NOT available for Correspondent relationships. Broker ONLY.
<b>GENERAL DESCRIPTION</b>	The VA Renovation program enables Veterans to finance the purchase or refinance of a home and the cost of certain minor rehabilitation through a single mortgage.
<b>CORE PROGRAM</b>	Unless specifically addressed in this product matrix, all standard VA requirements apply.
<b>PRODUCT TYPE &amp; TERMS</b>	<ul style="list-style-type: none"> <li>• 30 year and 15 yr fixed rate mortgage</li> </ul> Temporary buy downs are not permitted.
<b>GENERAL REHABILITATION GUIDELINES</b>	<ul style="list-style-type: none"> <li>• Maximum amount repairs: <b>\$50,000</b></li> <li>• Minimum amount of repairs: <b>\$5,000</b></li> <li>• Rehabilitation Construction must begin within 30 days of closing, and all work must be completed within <b>3 months of closing</b>. Longer rehabilitation periods will require an exception.</li> <li>• Repair/Rehabilitation escrow funds held by the lender in a Non- Interest-bearing account</li> <li>• No more than <b>two</b> escrow disbursements (Initial &amp; Final) paid to contractor</li> </ul>
<b>REHABILITATION ESCROW ACCOUNT</b>	The financed portion of the rehabilitation escrow account consists solely of the repair costs not to exceed \$50,000. Final inspection fee will be retained for payment.
<b>RESERVES</b>	A contingency reserve cannot be included in the financed loan amount and therefore will not be included in the rehabilitation escrow account. <b>In lieu of a contingency reserve, the borrower must have a minimum of 10% of the repair costs in liquid reserves.</b>
<b>ELIGIBLE PROPERTY IMPROVEMENTS</b>	<ul style="list-style-type: none"> <li>• Repair/Replacement of roofs, gutters and downspouts</li> <li>• Repair/Replacement/upgrade of existing HVAC systems</li> <li>• Repair/Replacement/upgrade of plumbing and electrical systems</li> <li>• Repair/Replacement of flooring (not subflooring)</li> <li>• Minor remodeling, such as kitchens, which does not involve structural repairs</li> <li>• Painting, both exterior and interior</li> <li>• Weatherization, including storm windows and doors, insulation, weather stripping, etc.</li> <li>• Purchase and installation of appliances, including free-standing ranges, refrigerators, washers, dryers, dishwashers and microwave ovens</li> <li>• Accessibility improvements for persons with disabilities</li> <li>• Lead-based paint stabilization or abatement of lead-based paint hazards</li> <li>• Repair/replace/add exterior decks, patios, porches – this must increase the property value equal to the dollar amount spent on improvements.</li> <li>• Basement finishing and remodeling, which does not involve structural repairs</li> <li>• Basement waterproofing</li> <li>• Window and door replacements and exterior wall re-siding</li> <li>• Septic system and/or well repair or replacement or connect to public water and sewer</li> <li>• In-ground pool installation, repair or removal (Note: pool installation does not typically appraise dollar-for-dollar and borrower may have to bring additional cash-to-close to cover the difference).</li> <li>• Repairs of existing fence or addition of a new fence</li> <li>• Removal of a tree if tree represents a potential imminent threat to the home (safety issue)</li> </ul> <p><b>This list is not inclusive of the eligible repairs that can be completed under this product</b></p> <p>Note: If the NOV requires a Certificate of Occupancy, the Construction Lending Department will obtain.</p>
<b>OCCUPANCY</b>	Primary Residence ONLY
<b>MINIMUM FICO</b>	<ul style="list-style-type: none"> <li>• Minimum credit score for all borrowers:               <ul style="list-style-type: none"> <li>○ Cash-out refinance transactions with LTV 90.01-100% - <b>660</b> minimum credit score</li> <li>○ All other transactions – <b>640</b> minimum credit score</li> </ul> </li> <li>• Tri-merge credit report is required.</li> <li>• Non-traditional credit is not permitted.</li> </ul>
<b>LOAN PURPOSE</b>	<ul style="list-style-type: none"> <li>• Purchase</li> <li>• Cash-out Refinance – any refinance will be treated as a cash-out refinance, however, no cash to the borrower is permitted.               <ul style="list-style-type: none"> <li>○ There must be a lien on record to refinance with a VA loan.</li> </ul> </li> </ul>

<p><b>ACQUISITION COST VERSUS VALUE</b></p>	<p><b>Purchase:</b> Renovation loans in conjunction with a purchase must use the lesser of the acquisition cost or the as-completed value determined by the VA fee panel appraiser. To determine the acquisition costs for a purchase, add the following: Contract sales price, total cost of alterations and repairs, contingency reserve (if any up to 15% of the repair cost), inspection fees, title update fees, and permits.</p> <p><u>Example:</u></p> <p>(a) Contract sales price \$100,000, alterations and repairs \$50,000, contingency reserve of \$7,500, inspection \$250, permit \$250, for a total acquisition cost of \$158,000. NOV is \$155,000. The lesser amount of \$150,000 is to be used as the acquisition cost and the borrower must bring \$3,000 to closing. This is not considered down payment as it is greater than the value.</p> <p>(b) Contract sales price \$100,000, alterations and repairs \$50,000, contingency reserve of \$7,500, inspection \$250, permit \$250, for a total acquisition cost of \$158,000. NOV is \$160,000. The lesser amount of \$158,000 is to be used as the acquisition cost. Therefore, the entire acquisition cost of \$158,000, plus the funding fee may be financed.</p> <p><b>Refinance:</b> Renovation loans in conjunction with a refinance must use the lesser of the acquisition cost, or the as-completed value determined by the VA fee panel appraiser. To determine the acquisition costs for a refinance, add the following: Existing loan payoff, total cost of alterations and repairs, contingency reserve (if any up to 15% of the repair cost), inspection fees, tile update fees, and permits.</p> <p><u>Example:</u></p> <p>(a) Payoff is \$200,000, alterations and repairs are \$25,000, contingency reserve of \$2,000, inspection \$250, permit \$250, for a total acquisition cost of \$227,500. NOV is \$220,000. The lesser amount of \$220,000 is to be used as the acquisition cost and the borrower must bring \$7,500 to closing, or reduce the project costs and obtain a reconsideration of value based on the adjusted alteration and repair costs.</p> <p>(b) Payoff is \$200,000, alterations and repairs are \$25,000, contingency reserve of \$2,000, inspection \$250, permit \$250, for a total acquisition cost of \$227,500. NOV is \$230,000. The lesser amount of \$227,500 is to be used as the acquisition cost and the borrower may finance the entire project cost of \$227,500. In addition, the borrower may finance closing costs, pre-pays or take cash out up to 100% LTV.</p>
<p><b>MAXIMUM LOAN AMOUNT</b></p>	<p>Assuming full entitlement:</p> <p><b>PURCHASE: <u>100 LTV / 100% CLTV</u></b></p> <p>The maximum mortgage amount for purchase transaction is based on the lesser of 1) or 2) below:</p> <ol style="list-style-type: none"> <li>1) the purchase price plus the cost of repairs; or</li> <li>2) the “after-improved” value as evidenced by the appraisal</li> </ol> <p><b>CASH-OUT REFINANCE: <u>100% LTV / 100% CLTV</u></b> (minimum 660 credit score required for transactions 90.01-100%)</p> <p>The maximum mortgage amount for refinance transaction is based on the “after-improved” value as evidenced by the appraisal.</p>
<p><b>LOAN AMOUNTS</b></p>	<p><b>Purchase transactions:</b></p> <ul style="list-style-type: none"> <li>• Maximum BASE loan amount cannot exceed the following <u>without</u> an exception from Senior Management: <ul style="list-style-type: none"> <li>• 1 unit - \$484,350</li> <li>• 2 unit - \$620,200</li> <li>• 3 unit - \$749,650</li> <li>• 4 unit - \$931,600</li> </ul> </li> </ul> <p><b>Refinance transactions:</b></p> <ul style="list-style-type: none"> <li>• Maximum BASE loan amount cannot exceed the following (no exceptions): <ul style="list-style-type: none"> <li>• 1 unit - \$484,350</li> <li>• 2 unit - \$620,200</li> <li>• 3 unit - \$749,650</li> <li>• 4 unit - \$931,600</li> </ul> </li> </ul>
<p><b>CONTINGENCY RESERVE</b></p>	<p>If the utilities are shut off at the property, a minimum 15% contingency will be required. If the utilities are on at the property, a contingency reserve may be required by the underwriter. The decision to require a contingency reserve is dependent on the scope of the proposed work.</p> <p>The contingency reserve is used solely to pay for the proposed repairs or improvements and nay unforeseen items related to these repair items. It is not intended to pay for additional “wish list” items at the end of the project.</p> <p>The maximum contingency reserve is 15% of the renovation cost.</p> <p><b>Purchase:</b></p> <ul style="list-style-type: none"> <li>• Any unused contingency reserve funds must be applied to the principal balance, unless it was paid in cash at closing by the borrower. In such case, it can be returned to the borrower.</li> </ul> <p><b>Refinance:</b></p> <p>Any unused contingency reserve funds may be returned to the borrower or applied to the principal balance at the borrower’s discretion.</p>

<b>VA ENTITLEMENT</b>	<p>Instructions for completing the VA Entitlement Worksheet when using “extended” VA entitlement: for the Sales Price field (1A), add the cost of renovation to the sales price and enter that figure in 1A.</p> <p>Example: Sales price of \$200,000 + \$10,000 for renovation = \$210,000 which is input as the sales price in 1A.</p>
<b>FEES</b>	<p>The following fees must be included on the Loan Estimate</p> <ul style="list-style-type: none"> <li>• Final Inspection – estimate of \$150</li> <li>• Completion Escrow Administration Fee - \$500 payable to MLS</li> <li>• 1% Origination Fee</li> <li>• 1% Construction Fee</li> </ul>
<b>ELIGIBLE PROPERTY TYPES</b>	<p><b>Only available for properties located in the following states: MLS States listed below</b></p> <ul style="list-style-type: none"> <li>• 1 unit, detached and attached</li> <li>• 2-4 unit properties</li> <li>• VA approved condominiums (including site condominiums) <ul style="list-style-type: none"> <li>◦ Rehabilitation limited to interior only</li> </ul> </li> <li>• PUDs</li> </ul> <p><b>INELIGIBLE PROPERTIES</b></p> <ul style="list-style-type: none"> <li>• Property involving a less than fee simple ownership (i.e. leaseholds) is not eligible without prior VA approval.</li> <li>• Manufactured Housing</li> <li>• Co-ops</li> <li>• Properties that do not meet VA’s property standards as detailed in the Lender Handbook</li> </ul>
<b>GEOGRAPHIC RESTRICTIONS</b>	Available in all MLS eligible states as identified on the MLS Website - <a href="#">LINK</a>
<b>AUTOMATED UNDERWRITING</b>	<p>DU or LP evaluation is required. Manual underwriting is not permitted.</p> <p>In order to run a successful evaluation, add the sales price (or debt payoff, for refinances) and the repair costs together and insert this in the sales price (or debt payoff, for refinances) field. After the AUS run, amend the sales price (or debt payoff) by breaking out the actual sales price (or debt payoff) from the repairs and place the repair costs in line b of the details of transaction. Toggling back to the actual sales price (or debt payoff) will ensure that any disclosures generated from LOS will be accurate with respect to the sales price (or debt payoff).</p>
<b>IDENTITY-OF-INTEREST</b>	<p><b>Identity-of-Interest:</b></p> <ul style="list-style-type: none"> <li>• <b>Between the buyer and the contractor</b> – not permitted</li> </ul>
<b>TITLE COMMITMENT</b>	Mechanic’s lien coverage is not required. However, the title company needs to be aware that the loan is a renovation draw loan.
<b>FEASIBILITY STUDY</b>	Not required.
<b>HAZARD INSURANCE</b>	If a standard hazard insurance policy cannot be issued by the insurance company, a builder’s risk insurance policy will be accepted. In these situations, Processor must notify underwriting so that underwriting can inform the Construction Department to obtain evidence of hazard insurance policy when renovation is complete.
<b>APPRAISAL ORDERING</b>	<p>If Renovations require permits and local authority inspection and/or require building plans, the following forms must be obtained <u>before ordering the appraisal</u>:</p> <ul style="list-style-type: none"> <li>• Specifications on VA Form 26-1852 (Description of Materials), signed and dated by the contractor and Veteran.</li> <li>• Plot plan which includes the location of the well/septic system if applicable</li> <li>• All exterior building elevations</li> <li>• Foundation or basement plan</li> <li>• Plan of all floors</li> <li>• Sectional wall details</li> <li>• HUD form 92541 “Builder’s Certification of Plans, Specifications and Site” signed by a technically qualified and properly identified individual (such as the builder, architect, engineer, etc.</li> </ul>
<b>APPRAISAL REQUIREMENTS</b>	The appraiser must be provided with a detailed bid and the contractor’s contact information. The appraisal is completed “subject to” repairs. For refinance transactions, the appraiser must also list the “as-is” value.

<b>NOV CONDITIONS</b>	<p>Improvements must be completed according to local building codes and must meet the NOV conditions.</p> <p>A Certificate of Occupancy is required to evidence local authority inspections and satisfactory completion of construction. However, if the local authority performs the required inspections, but does not issue a Co of O or equivalent, VA will accept copies of the inspection reports that verify full compliance with local builder codes or a written statement from the local authority that states the required inspections were performed in a satisfactory manner.</p>
<b>INTERESTED PARTY CONTRIBUTIONS</b>	<ul style="list-style-type: none"> <li>• Contributions may not exceed 4% of the value of the property as indicated on the NOV</li> <li>• Normal discount points and payments of buyer’s closing costs will not be considered a concession for purposes of determining total concessions.</li> </ul>
<b>ESCROW WAIVERS</b>	Not permitted.
<b>SELF-HELP</b>	<p>Self-help in NOT permitted except under the scenarios listed below.</p> <ul style="list-style-type: none"> <li>• Borrower is only financing the purchase and installation of appliances.</li> <li>• Borrower is working with a home improvement store such as Home Depot or Lowes’s where the store is acting as the contractor.</li> <li>• Borrower is financing the painting of the home</li> </ul> <p>Exceptions to this policy will only be granted on a case-by-case basis after evaluating the borrower and their work experience. Borrower to provide written statement of work plan, no labor added in.</p>
<b>CONTRACT/BIDS</b>	<ul style="list-style-type: none"> <li>• <b>Only “fixed” pricing contracts subject to changes made by the underwriter are acceptable</b></li> <li>• “Cost plus” or “time and materials” contracts are prohibited</li> <li>• Contract must breakdown cost of materials and cost of labor</li> <li>• Contract must specify the total cost estimate and allotted time to complete the work signed and dated by all parties</li> </ul> <p>Additional bids may be required at Underwriter’s discretion after review of the cost estimates to insure accuracy</p>
<b>CONTRACTOR REQUIREMENTS AND ACCEPTANCE</b>	<p>All renovation work must be performed by a licensed contractor. Only one Contractor can be used unless an exception is granted for specialty contractors (pool repairs, mold remediation, etc.)</p> <p>A borrower must choose his or her own contractor to perform the needed renovation, subject to the lender’s determination that the contractor is qualified and experienced, has all appropriate credentials required by the state, has a valid VA ID number, is financially able to perform the duties necessary to complete the renovation work in a timely manner, and agrees to indemnify the borrower for all property losses or damages caused by its employees or subcontractors. There cannot be an identity-of-interest between any of the parties participating in the transaction.</p> <p>The lender may not choose the contractor or refer the borrower to any specific contractor.</p> <p>Contractor must meet the following requirements:</p> <ul style="list-style-type: none"> <li>• Must be licensed, if applicable per state or other jurisdictional law</li> <li>• Must be insured and bonded</li> <li>• Must have at least 3 years work experience</li> <li>• Must have a valid VA ID number (see “VA Builder Registration” section of this matrix)</li> </ul> <p>Contractor to complete a Contractor package. Contractor package located on the TPO connect website. Package to be emailed to assigned AE or Processor.</p> <ul style="list-style-type: none"> <li>• Builder Registration Form</li> <li>• Project Jurisdiction Information Sheet</li> <li>• Important Notice to Contractor</li> <li>• IRS Form W-9</li> <li>• Contractor License</li> <li>• Evidence of Liability Insurance, and Worker’s Compensation Insurance, unless exempt</li> </ul> <p>Valid City Tax Certificate, if applicable.</p>

<b>VA CONTRACTOR REGISTRATION</b>	<p>VA requires the Contractor to be registered and have a valid VA ID Number. This must be completed prior to the VA Case Number being ordered. The VA registration is state specific and the Contractor must have the VA registration for the state that the property is located.</p> <p>To determine if a Contractor is registered, use the VA Builder Search Tool -  <a href="https://vip.vba.va.gov/portal/VBAH/VBAHome/buildersearch">https://vip.vba.va.gov/portal/VBAH/VBAHome/buildersearch</a></p> <p>If the contractor is not registered, the following documents that must be submitted to the Construction and Valuation unit of the local VA Regional Office:</p> <ul style="list-style-type: none"> <li>• Contractor Information and Certification on Contractor’s Letterhead</li> <li>• VA Form 26-421 Equal Employment Opportunity Certification</li> <li>• VA Form 26-8791 VA Affirmative Marketing Certification</li> </ul> <p>Documents can be found on the VA Builder Information website:  <a href="http://benefits.va.gov/HOMELOANS/appraiser_cv_builder_info.asp">http://benefits.va.gov/HOMELOANS/appraiser_cv_builder_info.asp</a></p>
<b>ADDITIONAL REQUIRED FORMS</b>	<p>Please refer to the <b>VA Renovation Document List</b> attached to this matrix.</p>
<b>DOCUMENT AGE</b>	<ul style="list-style-type: none"> <li>• Credit Docs, <b>90 Days</b></li> <li>• Appraisal, <b>6 months</b></li> </ul>
<b>OPERATIONAL NOTES</b>	<p><u>Broker</u></p> <ul style="list-style-type: none"> <li>• Order the Contractor Review</li> <li>• Please refer to the AUS section on instructions on how to run Loan Product Advisor</li> </ul> <p><u>MLS Processor</u></p> <ul style="list-style-type: none"> <li>• Please refer to the AUS section on instructions on how to run Loan Product Advisor</li> <li>• Prior to release of the loan to “clear to close” status, the underwriter will need the closing date. The Underwriter needs this date in order to properly calculate the renovation completion date. This date is displayed to the borrower on the rehabilitation loan agreement that is signed at closing.</li> </ul> <p><u>Closing</u></p> <ul style="list-style-type: none"> <li>• There is rehabilitation Loan Rider that will be recorded with the Mortgage. Ensure accurate recording fees are reflected on the Closing Disclosure.</li> </ul> <p>Ensure that the Rehabilitation Loan Agreement that is generated for the closing package contains the total repair cost in paragraph 3 and that the completion date for repairs populates in paragraph 16. If either of these items do not populate, please contact underwriting.</p>
<b>PERMITS</b>	<p>Required for all rehabilitations prior to the commencement of work. Evidence of permits must be received by MLS prior to final draw.</p>
<b>WORK CHANGE ORDERS/COST OVERRUNS</b>	<p>Change orders/ upgrades made after the appraisal cannot be mortgaged into the new loan. Borrowers are permitted to pay for upgrades out of pocket. Change orders must be approved, in advance, by the appraiser, to ensure no loss in value. If a new appraisal is required, the underwriter will contact the Regional Loan Center of jurisdiction for assistance. The veteran is allowed to pay for an additional appraisal if change orders are to be mortgaged into the new loan. This additional appraisal charge may come out of available contingency reserve funds. Renovation funds cannot be used to fund cost overruns or work change orders.</p> <p>Cost overruns are the responsibility of the borrower. Funds used to pay cost overruns must be documented during the final disbursement process.</p>

**ESCROW  
DISBURSEMENTS**

**Only 2 disbursements allowed: Initial and Final**

**Initial Disbursement at Closing**

The initial disbursement will be 35% of the total cost of the repairs. Exceptions to this policy are at the discretion of the Underwriter typically for borrowers with a home improvement store such as Home Depot or Lowes.

Underwriter will complete a MLS VA Renovation Worksheet – Initial Disbursement tab detailing the disbursement amounts for the Closer.

The checks will be made payable to the borrower and contractor at time of disbursement. Checks will be made payable to the borrower only if considered a Self-Build. All disbursements must be reflected on the Closing Disclosure.

**Final Disbursement**

The balance of eligible funds is disbursed upon completion of all work and the receipt of the following acceptable documentation. If there are multiple contractors, multiple final draws (1 per contractor) are permitted on a case-by-case basis only.

<b>Borrower Documents – Prior to Final Disbursement</b>	
Before final disbursement	<p><i>Borrower must sign and date the following:</i></p> <ul style="list-style-type: none"> <li>• Mortgagor’s Letter of Completion</li> <li>• Final Indemnification Agreement</li> <li>• If there are any cost overruns, funds used to pay the overruns must be documented</li> </ul>

  

<b>Contractor Documents – Prior to Final Disbursement</b>	
Before final disbursement	<ul style="list-style-type: none"> <li>• Contractor’s Final Invoice – all contractors must submit final invoices on business letterhead. One invoice per contractor</li> <li>• Contractor’s Final Payment Affidavit</li> <li>• Final Disbursement Request, Indemnification Agreement (Alabama only), not applicable for self-build</li> <li>• Final Indemnification Request, Indemnification Agreement and Lien waiver (Florida), not applicable for self-build</li> <li>• Evidence of permits</li> </ul>

  

<b>Construction Lending Department Ordered Documents</b>	
Before final disbursement	<ul style="list-style-type: none"> <li>• Final Inspection reflecting all repairs have been completed, if applicable – at the discretion of underwriting, some projects may not require a final inspection (for example, if only the repairs are the installation of new appliances, a final inspection will not be required)</li> <li>• Title update from title company – reflecting no mechanic’s liens</li> </ul>

**FINAL  
DISBURSEMENT  
PROCESS**

**Use the *Final Disbursement Checklist/Approval Form***

The Construction Lending Department is responsible for obtaining all of the documents listed above. Once received, the documents are submitted to the Underwriter who will review and approve the final draw. The Accounting department is responsible for releasing the funds based on instruction from the Underwriter and Construction Lending Department. The Accounting department will send the disbursement check(s) to the borrower and copies of the checks to the Construction Lending Department.

**Final Close-out / Payment from the Repair Escrow Account**

Any amount remaining in the repair escrow account after the final disbursement will be applied to the principal balance of the loan.

The Construction Lending Department is responsible for the final close-out of the loan.

## VA RENOVATION DOCUMENT LIST

DOCUMENT TITLE	TIMING	SYSTEM	SIGNORS
VA Renovation Loan Disbursement Guide	Application	LOS	Borrower
VA Renovation Notice to Borrower	Application	LOS	Borrower
Borrower's Acknowledgement – Rehabilitation Loan	Application	LOS	Borrower
Borrower's Identity-of Interest Certification	Application	LOS	Borrower
Contractor Package	During Processing	TPO connect website	Contractor
Homeowner Contractor Agreement	During Processing	TPO connect website	Borrower & Contractor
Borrower's Disclosure and Indemnification Agreement	After receipt of acceptable bids	LOS	Borrower
Initial Disbursement Request, Indemnification Agreement and Lien Waiver	After receipt of acceptable bids	LOS	Borrower & Contractor
Rehabilitation Loan Rider	Closing	LOS	Borrower
Rehabilitation Loan Agreement	Closing	LOS	Borrower
Contact Information for Draws	Closing	LOS	Borrower