



**FNMA HOMESTYLE<sup>®</sup>  
RENOVATION**

*INFORMATION GUIDE FOR BORROWERS  
AND CONTRACTORS*

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**THE DREAM IS  
INCLUSIVE**

# ABOUT THIS INFORMATION GUIDE

The Information Guide details the FNMA HomeStyle® Renovation loan program for Borrowers and their Contractors. It is designed to help set expectations for all parties to the process and outline both the pre-closing and post-closing experience. **For purposes of this guide, “Lender” refers to On Q Financial, Inc.**

A renovation mortgage has more documentation and review processes than a traditional mortgage process. This guide will provide a description of the processes and steps necessary to close a renovation loan and describe how the renovation funding process works after the loan is closed.

## ABOUT HOMESTYLE® RENOVATION

The HomeStyle® Renovation mortgage permits borrowers to include financing for home improvements in a purchase or refinance transaction of an existing home. HomeStyle® Renovation provides a convenient way for Borrowers to make renovations, repairs, or improvements totaling up to 75 percent of the as-completed appraised value of the property with a first mortgage, rather than a second mortgage, home equity line of credit, or other, more costly financing method. Borrower benefits include cost-effective way to renovate or improve a home with a single mortgage, and typically a lower interest rate with a first mortgage.

All renovation loans must be principal residences, second homes, or investment properties. Any type of renovation or repair is eligible, as long as it is permanently affixed to the property and adds value. Renovations should be completed within a twelve-month period. This program does not accept Borrowers acting as their own General Contractor. All construction loans must utilize an experienced General Contractor with no interest in the home being built. Additional conditions will apply to family members contracted to act as the Contractor.

## LENDER’S ROLE IN THE RENOVATION PROCESS

The Lender’s primary responsibility is to protect its legal, physical and financial interest and does not warrant that the project will be completed within the budget or to the standards and expectations of the Borrower. The Lender will perform a Contractor Acceptance Review. The Lender has contracted with the Construction Loan Management Company, Land Gorilla, to assist with the renovation related elements of the program.

## LAND GORILLA’S ROLE IN THE PROCESS

Land Gorilla is an industry leader in Construction Loan Management and will assist the lender in pre-closing due diligence and post-closing loan management. Land Gorilla will review the renovation documents for program acceptance. After the loan closing, Land Gorilla will work on behalf of the Lender to make sure that the project is on schedule, manage draws disbursements and confirm the loan program requirements are being met. Land Gorilla will appoint a dedicated Construction loan Administrator who be the point of contact for the Borrower, Contractor, Inspector, Title Company and Lender.

# IMPORTANT NOTICE

The Lender, its employees and its Construction Loan Management Company, Land Gorilla, are not contractors, engineers, soil analysts, architects, etc., and do not warrant, certify or control the quality, scheduling, structural integrity, etc., of your project. The Borrower is always encouraged to seek competent advice from qualified persons or firms on all construction matters. The Borrower is solely responsible for selecting their Contractor(s) and performing appropriate due diligence. Always review the Contractor's references, licensing, and financial background.

Under most state laws, those who work on a property or provide materials but are not paid, have a right to enforce their claim for payment against the property. This claim is known as a Construction Lien or Mechanic's Lien. If the Contractor fails to pay subcontractors or material suppliers, or neglects to make other legally required payments to the people who are owed funds, these subcontractors and suppliers may look to the property for payment even if the Borrower or Lender have paid the Contractor in full. Borrowers and Contractors are responsible to collect copies of all Lien Waivers from the Contractor, subcontractors, and suppliers.

# HOW TO GET STARTED

## GET PREQUALIFIED

First you need to get prequalified with the Lender so that you know your purchasing power. Work with your Lender and know your options before you start the home search.

## FINDING YOUR PROPERTY

Next you want to search for a property. Make your offer subject to HomeStyle® Renovation financing and allow for extra time in the loan closing. Work with your Lender and real estate agent to set appropriate closing expectations.

If your offer is accepted it's time to get to work. You will want to create a timeline and schedule to keep your closing on track. Missing important milestones could delay your closing and cause you to lose the property.

## CONTRACTOR SELECTION & ACCEPTANCE

The Lender's primary responsibility is to protect its legal, physical and financial interest and does not warrant that If you don't have a Contractor in mind, it's time to find one. Look for a licensed, insured and reputable contractor that is familiar with the work you are looking to complete, do your research. Sites such as Angie's list, home advisor, and yelp are great resources. The Lender cannot select your contractor or refer you to any one specific contractor, so it is recommended that you obtain at least three separate contractor estimates. Gather the required documents from your Contractor (Contractor Package) and provide them to the Lender to get the Contractor accepted, this should be done as soon as you have settled on a Contractor(s). The Lender will review the Contractor's Package for acceptance.

## FINALIZE THE SCOPE OF WORK

Once you have decided on your Contractor you will need to meet them at the property to determine the renovation Scope of Work and have the Contractor supply a fixed cost bid. Open ended contracts, cost plus and management type contracts are not accepted under this program.

## APPRAISAL PROCESS

Once the Final bid by your Contractor is completed your Lender will order the Appraisal. The appraiser will use the bid along with any plans & specifications to develop the appraisal report based on a value that is subject to the repairs being completed. The HomeStyle® Renovation program allows for up to 50% of the total after-improved value to be completed.

## FINAL APPROVAL

Land Gorilla will review all the renovation related documents, reports, and forms for program acceptance. Separate from credit approval by the Underwriter, Land Gorilla will work and help resolve any outstanding conditions related to the renovation.

# HOMESTYLE® PROGRAM DETAILS

The Fannie Mae HomeStyle® Renovation program ranges from relatively minor projects to more complex. In some renovations the home may not be habitable during the renovation and Fannie Mae allows the borrower to finance up to 6 months of mortgage payments into the loan when the home is not habitable during the renovation. All renovation funds will be held in an interest-bearing custodial account.

- ▶ Renovation costs are limited to 75% of the “after-improved” appraised value of the home.
- ▶ The work must start within 30 days of closing
- ▶ The project can easily be completed in less than 360 days
- ▶ Work must not stop for more than 30 consecutive days
- ▶ Contractor does not receive any upfront deposits or monies

## RENOVATION COSTS MAY INCLUDE:

- ▶ Labor and materials
- ▶ Soft costs (architect fees, permits, licenses).
- ▶ Contingency Reserve (10% of the cost of labor, materials, and soft costs for unforeseen extra costs in the renovation).
- ▶ A payment reserve of up to six months when the borrower must vacate the property during renovation.
- ▶ Inspection Fees (number of inspections to be determined by borrower and contractor)
- ▶ Title Update Fees

# DRAW REQUEST PROCESS

## THE CONSTRUCTION LOAN ADMINISTRATOR

After the loan closes, Land Gorilla will assign a dedicated Construction Loan Administrator (CLA) to work with the Borrower and Contractor. The CLA will work on behalf of the Lender to manage the construction draw disbursements and various requirements of the lender. The CLA will become the point of contact for the Borrower, Contractor, Inspector, Title Company, and Lender. All issues and questions should be routed to the CLA assigned to the loan.

## DRAW SUBMISSIONS

Renovation loans are different from traditional home mortgages since the actual improvement is not completed at the time of loan closing. The balance of the loan will be held in the Construction Holdback Account and advanced as improvements are made to the project. In accordance with the provisions of the Renovation Loan Agreement and Homeowner Contractor Agreement, funds will be issued for work-in-place. Disbursements made through the course of construction will undergo the Draw Request Process.

Draw Requests may be requested online through the Land Gorilla Construction Loan Manager website, requested via email, or faxed directly to the Construction Loan Administrator. See below for more detailed instructions.

### DRAW REQUEST ONLINE

Borrowers and Contractors may have access to the Construction Loan Manager web application to view their renovation project. This online tool allows Borrowers and Contractors 24/7/365 access to their project. The Construction Loan Manager will allow you to view project information, important documents, request draws and inspections. Use the login credentials supplied by the Construction Loan Administrator and follow the instructions provided in your initial email request.

### DRAW REQUEST VIA EMAIL

Draw requests can be made via email by sending the completed draw request package and supporting documents (see Draw Request Requirements) directly to the Construction Loan Administrator's email.

### DRAW REQUEST VIA FAX

Draw requests can be made via fax by sending the completed draw request package and supporting documents (see Draw Request Requirements) to the Construction Loan Administrator's direct line phone number. The phone system will recognize an inbound fax and convert the fax to PDF documents that will be routed to the CLA's email.

# DRAW REQUEST PROCESS (cont.)

## DRAW REQUEST REQUIREMENTS

Each draw request must be accompanied by supporting documentation, completed forms, and all State required filings. Upon receiving a completed draw request package, the Construction Loan Administrator (CLA) will review the submission for completeness, order an inspection of the property, and an update to the title policy. If any issues arise during the draw request process the CLA will contact the submitter to resolve the issue.

### FIRST DRAW

Upon submission of a completed first draw package, the CLA will order and review a progress inspection and title update of the property. The property must be free of mechanics liens, and the inspection report must demonstrate that progress is equal to or exceeds the amount being requested.

Below is a list of documents that are required to be submitted at the first draw by the Borrower and/or Contractor:

- ▶ Draw Request (Form 30001)
- ▶ Copy of Building Permit(s)
- ▶ Change Order (if applicable, Form 30002)
- ▶ Lien Waiver(s) (General Contractor & all pre-lien notifications)

### INTERIM DRAWS

Upon submission of a completed interim draw package, the CLA will order and review a progress inspection and title update of the property. Property must be free of mechanics liens and inspection report must demonstrate that progress is equal to or exceeds the amount being requested.

Below is a list of documents that are required to be submitted at the interim draws by the Borrower and/or Contractor:

- ▶ Draw Request (Form 30001)
- ▶ Change Order (if applicable, Form 30002)
- ▶ Conditional Lien Waiver(s) (General Contractor & all pre-lien notifications)

### FINAL DRAW

Upon submission of a completed final draw package, the CLA will order and review a progress inspection and title update of the property. Property must be free of mechanics liens and inspection report must demonstrate that progress is equal to or exceeds the amount being requested.

Below is a list of documents that are required to be submitted at the final draw by the Borrower and/or Contractor:

- ▶ Draw Request (Form 30001)
- ▶ Change Order (if applicable, Form 30002)
- ▶ Conditional Lien Waiver(s) (General Contractor & all pre-lien notifications)
- ▶ Certificate of Occupancy (or local equivalent)
- ▶ Permit Card from local agency
- ▶ FNMA Completion Certificate (Form 1036)

# DRAW REQUEST PROCESS (cont.)

## DRAW FUNDING

The Construction Loan Administrator will communicate draw and funding expectations at the time of draw submission. Typical draw processing time vary. The Construction Loan Administrator will provide details on the Lender's cut-off times for payment processing. Turn-times vary depending on the Lender's payment method, policies, and procedures.

*Tip: To expedite draw fundings, submit only **completed** draw request packages. Incomplete draw request packages may result in delays to draw fundings.*

## CHANGE ORDER REQUESTS

During the renovation issues may arise that require the Borrower and Contractor to initiate a Change Order Request (Form 30002). Change Order Request forms must be completed in full and submitted to the Construction Loan Administrator (CLA) for the Lender's Acceptance prior to the change being initiated. Change Order Requests may vary in application and have different degrees of effect on a project. For this reason, the CLA must review the request and may or may not accept the change. In many instances the original appraiser that completed the appraisal may need to be engaged to review the effect of the change on the collateral. These situations may come at an additional cost to the Borrower and/or Contractor.

*Tip: All Change Order Requests must be documented and provided to the CLA. Never make a change without receiving acceptance from the CLA. Changes to the project without Lender Acceptance may cause the Borrower to be in loan default.*

# FREQUENTLY ASKED QUESTIONS

## CAN LAND GORILLA MANAGE THE PROJECT?

No, Land Gorilla does not manage projects for Borrower's. If a Borrower is looking for a project manager to help assist in the renovation process, they can contract with an industry professional such as an Architect.

## CAN THE CONTRACTOR RECEIVE MONEY UPFRONT TO GET STARTED?

Contractors are expected to fund day to day operations. Contractors may receive a draw at close for material deposits. The draw at close cannot exceed 10%. All work is paid out as it is completed during the renovation with a supporting inspection to confirm the work completed.

## WE WANT TO USE LOWES OR HOME DEPOT SERVICES. HOW DO I GET THEM ACCEPTED?

Currently the program does not allow for up-front deposits and national home improvement stores such as Lowes and Home Depot may require to be paid up-front OR in large installments.

## MY CONTRACTOR SAYS A LICENSE IS NOT REQUIRED IN THIS AREA, CAN THEY STILL GET ACCEPTED?

Yes, not all jurisdictions have licensing requirements. Have the contractor provide a letter of explanation in lieu of a license when providing the Contractor package.

## HOW MANY DRAWS DOES MY CONTRACTOR RECEIVE?

This will be determined prior to the close of the loan with your contractor.

## MY CONTRACTOR HAS NOT STARTED OR STOPPED SHOWING UP. WHAT SHOULD I DO?

The program requires that work must start within 30 days of the loan closing and that work must not stop for more than 30 days. If you believe that you will exceed either one of these requirements contact your Construction Loan Administrator immediately. The Lender may require that the renovation funds be used to pay down your principal balance.

## I WANT TO DO ADDITIONAL WORK THAT IS OUTSIDE THE SCOPE OF WORK ACCEPTED BY THE LENDER. IS IT POSSIBLE TO DO THIS AT THE SAME TIME?

Consult with your Construction Loan Administrator. Some work may delay payments to your Contractor if work is not completed during your inspections.

# IMPORTANT TERMS

*Terms and terminology to help understand consumer construction lending and assist with understanding concepts and responsibilities.*

## CHANGE ORDER

A change order is a component of the change management process whereby changes in the Scope of Work agreed to by the Borrower, Contractor, and Lender are implemented. Change orders may change the work, costs, and/or time elements to a project. All change orders must be approved by Land Gorilla before the start of the work.

## RETAINAGE

Retainage is a portion of the agreed upon contract price deliberately withheld until the work is complete to assure that contractor or subcontractor will satisfy its obligations and complete a project.

## LIEN WAIVER

In the mechanics lien process, a lien waiver is a document from a contractor, subcontractor, materials supplier, or other party to the construction project stating they waive any future lien rights to the property for the amount paid. Waivers may be State specific and available in conditional formats that allow for the person to waive future lien rights based on conditions of "good payment".

## LIEN RELEASE

In the mechanics lien process, a lien release is a document from a contractor, subcontractor, materials supplier, or other party to the construction project stating they release their lien rights to the property.

## LIEN

A Construction Lien, also know as a mechanic's lien, is a claim made against a property by a contractor or other professional who has supplied labor or materials for work on that property. Construction liens are designed to protect professionals from the risk of not being paid for services rendered.

## REHABILITATION LOAN AGREEMENT

The legal document that Lender uses to construct the terms between the Borrower and Lender to the renovation loan. Outlines the term of the renovation between the parties and establishes clear responsibilities to the Borrower's performance under the Agreement.

## TITLE UPDATE

Title update is a general term to describe a search and/or update to the Title Policy. Title updates provide a tool to verify if the property free of liens.

## RENOVATION/REHABILITATION ESCROW ACCOUNT

The funds provided for the renovation are placed in an interest-bearing escrow account known as the Renovation Escrow Account or Rehabilitation Escrow Account.

## HOMEOWNER CONTRACTOR AGREEMENT

Contractual document used to establish an agreement between the Borrower and Contractor.

## PLANS & SPECIFICATIONS

A key part of the process of designing and renovating homes is having detailed plans & specifications. They are a means of communicating between parties, and of ensuring that the appropriate designs, materials, and construction techniques are used. Required on extensive remodeling.

# RENOVATION ACKNOWLEDGEMENT

For the HomeStyle® Renovation Mortgage, the Borrower does not receive any cash at the loan closing. The funds provided for renovation are placed in an interest-bearing escrow account (Renovation Escrow Account).

Land Gorilla will require that a 10% contingency reserve be added to the loan to cover unforeseen repairs or deficiencies during the renovation. If funds remain after the renovation is complete, they can be applied to additional elective repairs/improvements or can be used to reduce the principal balance. If the Borrower deposits funds into the account, the funds deposited can be paid directly back to the Borrower at the completion of the project.

The Borrower is responsible for selection and review of contractors. When selecting a contractor, always review contractor references, licensing and financial backgrounds. A Contractor Questionnaire (Form 20001R) is used during the contractor vetting process. It's important to know that the review of the contractor will be for the Lender's benefit only and should not be relied on by the Borrower or to replace the Borrower's responsibility in reviewing their contractor.

The Borrower and Contractor are responsible for negotiating any agreements or warranties. The Lender and Land Gorilla do not provide any warranty on the Contractor's work.

The Borrower is responsible for overseeing the renovation and ensuring that it is done as specified in the Homeowner Contractor Agreement (Form 50001\_HSR) with the Contractor. If work stops for an extended period of time, or there are problems with the work performed that may cause significant delays, the Borrower must contact Land Gorilla.

The Lender and Land Gorilla do not warrant or guarantee the condition of the property being purchased or the renovation.

The Borrower is responsible for making the mortgage payment each month, even if the renovation is not satisfactorily completed. The Borrower has the option to escrow mortgage payments into a mortgage payment reserve if the home will be deemed uninhabitable for a period longer than 30 days, not to exceed 6 months.

Funds are released to the Contractor after an inspection of the improved Work. Funds for incomplete Work or Work not in place are not allowed. The funds are provided in a check made payable jointly to the Borrower and the Contractor. Payments are requested via the draw process described in this guide.

Borrowers should not approve funds to be released to the Contractor if they are not happy with the work. Borrowers should not accept unsatisfactory work. Borrowers should not pay the contractor "up front" out of their own funds before the renovation is satisfactorily completed.

The Lender may withhold some of the funds from each Draw Request in the form of Retainage. These funds are paid to the Contractor when the work is completed. This helps to protect the Borrower from a Contractor failing to complete the renovation.

The loan and project are based on contract(s), specification, bids and/plans. NO changes can be made without first getting approval from Land Gorilla. If the Borrower and Contractor would like to revise the original approved renovation, they must submit a Change Order Request (Form 30002\_HSR) to Land Gorilla for approval, and deposit any additional required funds (including contingency reserve) in the Renovation Escrow Account.

# RENOVATION ACKNOWLEDGEMENT (cont.)

Borrower(s) acknowledge that no other work with the Contractor or other contractors will be done until the completion of this project without receiving approval from the Construction Loan Administrator at Land Gorilla. Borrower(s) acknowledge that no other work has been agreed to outside of the bids and contacts presented to Lender before closing.

When the renovation is completed, the Borrower and the Contractor sign a Completion Certificate (FNMA Form 1036). The Lender should provide the Borrower an accounting for all distribution of funds in the Renovation Escrow Account. I/We acknowledge that I/We have read the HomeStyle® Renovation Information Guide and the Renovation Acknowledgement and that I/We understand them.

BORROWER NAME

BY

DATE

CO-BORROWER NAME

BY

DATE