

# CHOICERenovation<sup>SM</sup> MORTGAGES

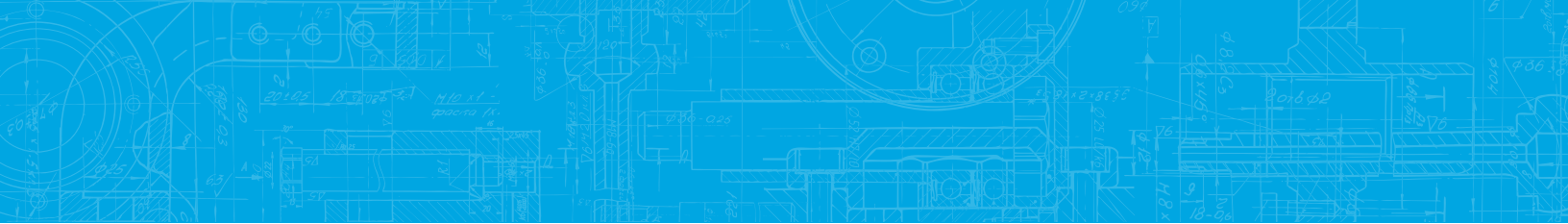


Our latest solution for financing home improvements designed for borrowers looking for convenience and cost savings by financing both their home purchase and renovation costs in a single loan

Freddie Mac's CHOICERenovation<sup>SM</sup> offering allows lenders and borrowers to save time and money by financing home improvements using one loan and one closing. With CHOICERenovation, lenders can expand their business by meeting a greater variety of client needs and offering a mortgage financing solution that helps address the aging housing supply, the increasing demand for cost-effective financing, aging-in-place housing solutions, and supports the need for affordable housing.

BORROWER PROFILE	KEY FEATURES	BORROWER BENEFITS
<p>CHOICERenovation is designed to meet the needs of:</p> <ul style="list-style-type: none"> <li>Borrowers looking for convenience and cost savings by financing their home purchase and renovation costs in a single loan.</li> <li>Homeowners looking for a no cash-out refinance option to make home improvements or repairs to their existing property.</li> <li>First-time homebuyers, homeowners looking to age in place and multigenerational families in need of living space customization.</li> </ul>	<ul style="list-style-type: none"> <li>Purchase and no cash out refinancing.</li> <li>Maximum 95% LTV/TLTV/HTLTV FTHB if &gt;95% HomeOne<sup>SM</sup> only. 97% Home Possible<sup>®</sup> only.</li> <li>Eligible for appraised value representations and warranty relief through Loan Collateral Advisor<sup>®</sup>.</li> <li>Housing resilience and energy efficiency items are eligible renovation costs.</li> <li>Term of Business (TOB) path available for eligible sellers to deliver loans before renovations are complete.</li> <li>Ability to draw 50% of the material costs at closing.</li> </ul>	<ul style="list-style-type: none"> <li><b>Save time and money.</b> Allow borrowers to purchase homes and finance the cost of renovations with a single-close mortgage.</li> <li><b>Package the benefits.</b> Combine this offering with our low down payment and higher LTV solutions to make financing renovation projects even more affordable.</li> <li><b>Increase home values.</b> Whether borrowers are looking to improve a home they intend to purchase or upgrade their current living conditions, home improvements and repairs can increase the value of their homes.</li> </ul>

cont.



ELIGIBLE PROPERTY TYPES		
<ul style="list-style-type: none"><li>• 1-4-unit primary residence</li><li>• Manufactured homes</li><li>• Second homes</li></ul>		<ul style="list-style-type: none"><li>• 1-unit investment property</li><li>• Units located in planned unit developments (PUDs), condominiums, cooperatives or leasehold estates are acceptable</li></ul>
ELIGIBLE MORTGAGES		
<ul style="list-style-type: none"><li>• Purchase</li><li>• No cash out refinance (NCOR)</li></ul>		<ul style="list-style-type: none"><li>• Fixed rate and adjustable rate mortgages</li><li>• Freddie Mac Home Possible® mortgages</li><li>• Freddie Mac HomeOne<sup>SM</sup> mortgages</li><li>• Super conforming mortgages</li></ul>
GENERAL ELIGIBILITY REQUIREMENTS		
All renovations must be completed within 365 days of the Note Date.		
Maximum LTV / TLTV / HTLTV Ratios*		
FIXED RATE AND ADJUSTABLE RATE MORTGAGES		
Property Type	Maximum LTV	Maximum TLTV
1-unit primary	FTHB if >95% HomeOne <sup>SM</sup> only. 97% Home Possible® only.	TLTV to 105% with eligible Affordable Seconds (Home Possible or HomeOne only)
2-unit primary	85%	
3 & 4-unit primary	80%	
Second home	90%	
1-unit investment properties	85% (7/1 and 10/1 ARMs)	
Manufactured homes	95%	95%
Must comply with the LTV/TLTV/HTLTV ratios in Section 4203.4 and any other applicable LTV/TLTV/HTLV ratio requirement for the specific Mortgage Product or offering.		
*Please note, the maximum LTV ratios depend on the specific product or offering; there may be additional possible LTV ratios, i.e. condominiums when the project reviews are streamlined; these numbers are subject to change.		

cont.

## DETERMINING VALUE

### Purchase Transaction

Value is the lesser of:

- The purchase price of the mortgaged premises prior to the renovations plus the renovation costs (costs of demolition and reconstruction), or
- Appraised value of the mortgaged premises, as completed.

### No Cash Out Refinance

Value is the appraised value of the mortgaged premises, as completed.

## SECONDARY FINANCING

Secondary financing must comply with Guide requirements for the specific Mortgage Product or offering.

## ELIGIBLE RENOVATIONS

Proceeds must only be used to finance renovations that are made to an existing dwelling, and may include:

- Fees related to plans and specifications, permits, title updates, appraisals, draw inspections and the final inspection
- An amount up to, but no more than, six monthly payments of principal, interest, taxes and insurance (PITI)

Proceeds may be used to renovate or repair a property that has been damaged in a disaster or for renovations that will protect the mortgaged premises in case of a future disaster (e.g., storm surge barriers, foundation retrofitting for earthquakes, retaining walls, etc.)

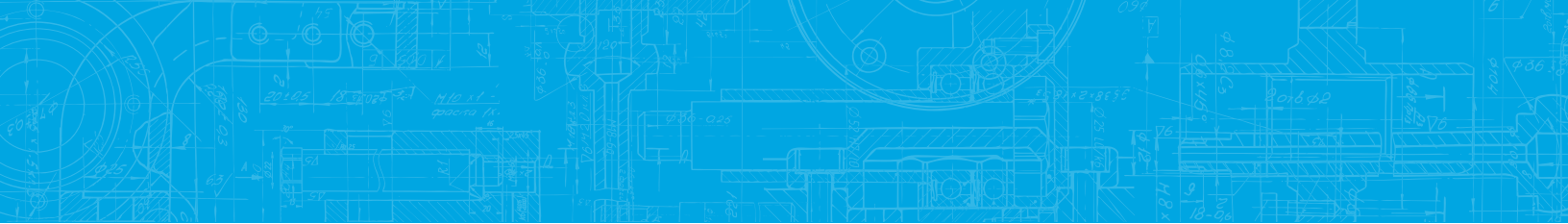
Proceeds may **not** be used:

- To raze an existing structure and build a new dwelling.
- For items not permanently affixed to the property, with the exception of new appliances.

Renovations must comply with all applicable state and local laws and regulations, including zoning regulations. All required permits and approvals must be obtained. Renovations of properties located in planned unit developments (PUDs), condominium projects or cooperative projects must comply with all applicable project conditions, covenants and restrictions.

Renovations to a manufactured home are allowed, provided the manufactured home remains in compliance with HUD's property acceptability criteria for manufactured homes and the requirements in Sections 5703.2(a) and 5703.2(b).

cont.



## MAXIMUM FINANCED RENOVATION COSTS

Purchase Transaction	No Cash Out Refinance	Manufactured Homes
<p>The total cost of the financed renovations must not exceed 75% of the lesser of the:</p> <ul style="list-style-type: none"><li>Sum of the purchase price of the property plus the estimated cost of the renovations, or</li><li>"As completed" value of the property as determined by the appraiser pursuant to Section 4607.9</li></ul>	<p>The total cost of the financed renovations must not exceed 75% of the "as completed" value of the property as determined by the appraiser pursuant to Section 4607.9.</p>	<p>Total financed renovation costs for manufactured homes (purchase and refinance transactions) must not exceed the lesser of:</p> <ul style="list-style-type: none"><li>\$50,000, or</li><li>50% of the "as completed" value of the property as determined by the appraiser pursuant to Section 4607.9</li></ul>

## FUNDS FOR RENOVATIONS AND CONTINGENCY RESERVES

### Renovation Funds

- On the Note Date, funds sufficient to cover the total cost of the renovations must be deposited into a completion escrow account. For mortgages with renovations not completed by the settlement date, such account must be a custodial account for renovation funds.
- The renovation costs identified in the construction contract must be consistent with the amount of funds deposited into the completion escrow account or custodial account for renovation funds, as applicable.
- If the proceeds are insufficient to cover the contracted cost of the renovations, the borrower must deposit sufficient funds to pay the remaining amount into the completion escrow account (custodial account for renovation funds) as applicable.

### Contingency Reserve

- In addition to the renovation funds required to be deposited into the custodial account for renovation funds, the seller must also deposit a contingency reserve to cover unforeseen renovation costs.
- Contingency reserve funds may come from the mortgage proceeds or directly from the borrower.

### Minimum

This amount must be  $\geq$  10% of the total renovation costs, except that if the property utilities are not operable as referenced in the construction contract and/or plans and specifications, then the minimum contingency reserve amount must  $\geq$  15% of the total renovation costs.

### Maximum

This amount must be  $\leq$  20% of the total renovation costs.

cont.

## Unused Funds

If the mortgage is current:

Any funds remaining in the completion escrow account (custodial account) for renovation funds, as applicable, after the costs of all renovations have been paid to the appropriate parties must be used to reduce the unpaid balance (UPB) or used for additional renovations as described under eligible renovations.

If the transaction is a “no cash-out” refinance transaction:

Remaining proceeds may be disbursed to the borrower, provided the total amount disbursed to the borrower at closing and from the unused funds does not exceed the maximum amount allowed under Section 4301.4.

If the borrower funded the contingency reserve with his or her own funds, he or she may receive those unused funds back.

If the remaining funds are used for additional renovations, the seller must:

Document that additional renovations were paid for from the completion escrow account (custodial account) for renovation funds, as applicable, and verify the funds are being used to further improve the Mortgaged Premises, and

Verify the additional renovation work has been completed by obtaining a completion report pursuant to Section 4607.9.

If the mortgage is delinquent:

Any unused funds (including contingency reserve funds provided by the borrower, if applicable) must be applied in accordance with the application of payment requirements in the note and security instrument.

After the mortgage is brought current, any remaining unused funds (including contingency reserve funds not provided by the borrower) may be used to reduce the UPB or used for additional renovations (as noted above).

## TERM OF BUSINESS (TOB) PATH

**Loans sold before renovation completion with recourse require one-time Seller approval.**

To deliver such loans, the Seller must obtain Freddie Mac's prior approval.

- Must have a minimum of 2 years originating and/or servicing renovation loans.
- Must be eligible to deliver loans with recourse.

### Recourse

- See Section 4607.15 for complete requirements.

## DELIVERY REQUIREMENTS

- Final inspection (442).
- Delivered with IFI codes.
- Proof of first lien position.

See Section 6302.44 for special delivery requirements.

Please note all mortgages with LTV ratios greater than 80% must have MI coverage in order to be eligible for sale to Freddie Mac. Please contact MIs directly to receive more information on any MI-related questions on CHOICERenovation mortgages delivered prior to renovation being complete and/or after renovations are completed.

**Learn more about CHOICERenovation mortgages:**

Review Chapter 4607 of the *Single-Family Seller/Servicer Guide*.

Contact your Freddie Mac account executive.

Call 800-FREDDIE.