

D. Renovation Financing

AHFC provides permanent financing to borrowers who purchase a home in need of renovation, or to refinance a home in need of renovation. The renovation must improve the living conditions of the home.

1. Purchase Renovation

The maximum conventional loan amount is 95% of the purchase price plus 100% of the renovation costs, not to exceed 95% of the appraised value. The maximum VA loan amount is 100% of the purchase price plus 100% of the renovation costs, not to exceed 100% of the appraised value. On FHA, HUD and RD loans, follow the applicable insurer/guarantor criteria.

Please see [Section 7010.10](#) for an example calculation for a Purchase Renovation.

2. Refinance Renovation

Lenders may calculate the maximum loan amount for a refinance/renovation using [Form PUR-84](#), Refinance Loan Summary Worksheet. The maximum loan amount includes renovation or home improvements costs, up to 30 days of unpaid interest on the existing loan, and may be increased by new loan closing costs and first year MIP premium, if applicable, not to exceed AHFC, FHA, VA or RD program limits. (Refer to [Section 7003](#))

3. Loan-to-Value

The loan-to-value is based on the “as completed” appraised value. The appraisal must address the planned renovation and the estimated market value must be the value of the home after renovations are complete.

4. Cost Estimate

A cost estimate that clearly identifies the renovations must be provided. This estimate must be supported by bids or a contract signed by a licensed construction contractor. If the borrower plans to do the work, the borrower must provide evidence of his or her qualifications to complete the project.

5. Escrows for Completion

- a. Escrows for completion of the renovation are acceptable and generally should not exceed 50% of the total loan amount or

\$75,000, whichever is less. The escrow must contain a minimum 10% contingency for cost overruns. Any AHFC loan funds remaining in the escrow account at completion of the project must be applied to reduce the principal balance of the loan.

- b. The term of the escrow generally may not exceed 180 days. Loans are purchased subject to a final inspection by the appraiser.

Note: With the exception of health and/or safety issues, a loan may be sold to AHFC prior to completion; however, the Lender is responsible for certifying repairs are completed.

6. Additions

- a. Any addition (new construction) to a property where the original construction began after January 1, 1992 (for energy efficiency), or July 1, 1992 (for construction inspections), is subject to applicable thermal standards and mandatory inspections as outlined in [Section 2001.07](#). Depending on the age/condition of an existing dwelling and the scope of the proposed improvements, AHFC may require an engineer's evaluation.

7. Reimbursement for Out-of-Pocket Expenses

In order to reimburse (i.e., give cash back) a borrower at closing for out-of-pocket renovation expenses, the Lender's loan file must contain documentation to support that the borrower paid for the expense from his or her own funds. If the expense was placed on a credit card, the Lender must document the expense was paid from the borrower's own funds.