# Lending Guide

## Chapter 22 | Construction & Renovation

## Programs

- FHA 203(k) Loan Program
- Fannie Mae | HomeStyle | Conventional *(Coming Soon)*
- Freddie Mac | CHOICERenovation | Conventional
- Freddie Mac | CHOICEReno eXPress | Conventional
- One-Time Close
    - One-Time Close | Conventional
    - One-Time Close | FHA
    - One-Time Close | VA
    - One-Time Close | USDA *(Coming Soon)*
- Construction | Two-Closing (*Coming Soon*)

## About this Chapter

This chapter provides guidance related to the Construction and Renovation products offered by Cardinal Financial and is to be used in conjunction with the applicable Product Snapshots. For general guidelines not related to Construction and Renovation, refer to the applicable Lending Guide Chapter.

## FHA 203(k) Loan Program

FHA Section 203(k) insures mortgages covering the purchase or refinancing and rehabilitation of a home that is at least a year old. A portion of the loan proceeds are used to pay the seller, or if a refinance to pay off the existing mortgage, and the remaining funds are placed in an escrow account and released as rehabilitation is completed.

The value of the property is determined by the lesser of:

- The value of the property before rehabilitation plus the cost of rehabilitation, or
- 110 percent of the appraised value of the property after rehabilitation

Cardinal offers the FHA 203(k) loan to borrowers who meet FHA's eligibility criteria. The following guidelines are designed to assist the processing and underwriting of 203(k) mortgages and are to be used in conjunction with the applicable Snapshots and the HUD Handbook 4000.1.

### Resources

For additional information related to Origination, Transaction Management, and Underwriting, refer to the below resource documents:

- Octane 203(k) Loan Life Cycle
- Handling a 203(k) Loan

### Eligible Transaction Types

#### Purchase

To acquire and rehabilitate an existing structure that has been completed (certificate of occupancy has been issued over 12 months) for at least one year prior to the case number assignment date.

#### Refinance

To rehabilitate an existing structure that has been completed for at least one year before the case number assignment date and to refinance the outstanding indebtedness.

The loan amount may not exceed the sales price or existing lien balance on a refinance, plus the actual cost of the rehabilitation repairs and reasonable, customary closing costs, including the fees associated with the FHA 203(k).

## Eligible Borrowers

- U.S. citizens
- Permanent resident aliens
- Non-occupant co-borrowers
- Inter Vivos (Living) Trusts

## Eligible Property Types

- Attached/Detached SFRs
- Attached/Detached PUDs
- 2–4 Units
- HUD REO properties
- FHA-approved Condos (including Site Condos) - with interior upgrades only
- Manufactured Housing that meets the following requirements
    - The rehabilitation does not affect the structural components of the structure that were designed and constructed in conformance with the Federal Manufactured Home Construction and Safety Standards and must comply with all other requirements for Manufactured Housing.

A property with an existing 203(k) mortgage is not eligible to be refinanced until all repairs are completed, and the case has been electronically closed out.

## Ineligible Property Types

In addition to Cardinal's FHA property guidelines, the following types of properties are ineligible for 203(k) loans:

- Mixed-Use Properties
    - Mixed-Use Property with one to four residential units is permitted if:

    - 51 percent of the Gross Building Area (GBA) is for residential use; and
    - Commercial use will not affect the health and safety of the occupants of the residential Property
- Community Land Trust
- Lava Zones 1 and 2

## Ineligible Programs

To be eligible for financing through Cardinal's 203(k) program, all loans must receive an Approve/Accept Eligible through Total Scorecard. Manual Underwriting is permitted as a downgrade only; an AUS Refer recommendation will render the loan ineligible.

## Rental Income Received from the Subject Property One-Unit with an Accessory Dwelling Unit

If the subject Property is a one-unit with an Accessory Dwelling Unit (ADU) and the Borrower does not have a history of Rental Income from the subject Property since the previous tax filing, to calculate the Effective Income the Mortgagee must use 50 percent of the lesser of:

- Fair market rent reported by the Appraiser; or
- The rent reflected in the lease or other rental agreement

This requirement must be applied for both Mortgages underwritten through TOTAL Scorecard and manual underwriting.

## Self-Help

Borrowers are not permitted to perform their own work under FHA's Rehabilitation Self-Help Agreement; all work must be performed by an eligible contractor.

### Standard 203(k) Program Requirements

The standard 203(k) program is applicable for properties where the scope of rehabilitation, as determined by a minimum property standards review completed by a HUD consultant, is over $35,000. The mortgage must include a minimum of $5,000 in eligible improvements.

## Establishing Repairs and Improvements

The proposed improvements must comply with HUD's minimum property standards and all local codes and ordinances.

Refer to the FHA 203(k) Standard Snapshot for a list of eligible and ineligible repair items.

## HUD Consultant

The borrower must employ an active HUD-approved cost consultant to prepare the proposal. HUD maintains a list of local, eligible cost consultants; loan officers must use the website to assign an approved HUD cost consultant on each loan file.

The borrower must provide the appropriate architectural exhibits (if applicable) that clearly show the scope of work to be completed.

The HUD consultant must provide:

- **Work Write-Up and Cost Estimate**: Any format may be used for these documents; however, the quantity and the cost of each item must be shown. A complete description of the work for each item must be included (where necessary).
- **The Rehabilitation Checklist:** Should be used to ensure all work items are considered. The costs must be transferred to the Draw Request (form HUD-9746-A). Cost estimates must include labor and materials sufficient to complete the work by a contractor. The Work Write-Up does not need to reflect the color or specific model numbers of appliances, bathroom fixtures, carpeting, etc., unless they are non-standard units.

The consultant who prepares the work write-up and cost estimate must personally conduct an on-site property inspection to assure:

- There are no rodents, dry rot, termites, and other infestation
- There are no defects that will affect the health and safety of the occupants
- The adequacy of the existing structural, heating, plumbing, electrical, and roofing systems

- The upgrading of thermal protection (where necessary)

A Home Inspection is to be included in the consultant's work write-up on all transactions. It also ensures that borrowers are well informed about the property condition and understand that some repairs will be mandatory, with the remainder of their rehabilitation budget available for discretionary improvements to the property.

**Consultant/Borrower Agreement**: The HUD consultant's package must include a written agreement between the consultant and the borrower that fully explains the services to be performed and the fees to be charged for each service. The written agreement must disclose to the borrower that any inspection performed by the consultant is not a "Home Inspection," as detailed in the disclosure form HUD-92564-CN, For Your Protection Get a Home Inspection.

## Financeable Repair and Improvement Costs and Fees

The following repair and improvement costs and fees may be financed:

- Costs of construction, repairs, and rehabilitation
- Architectural/engineering professional fees
- The 203(k) Consultant fee is subject to the limits in the 203(k) Consultant Fee Schedule section
- Inspection fees performed during the construction period, provided the fees are reasonable and customary for the area
- Title update fees
- Permits
- A Feasibility Study, when necessary to determine if the rehabilitation is feasible
- Up to six (6) months of mortgage payments; not to exceed the period of time that the subject will be non-habitable and cannot exceed the completion time frame required in the Rehabilitation Loan Agreement
- Contingency reserve

## Contingency Reserve

Contingency Reserve refers to funds that are set aside to cover unforeseen project costs; typically, 10–20% of the total repairs cost will be required depending on the actual age of the property and the utility status.

The contingency reserve must be financed into the loan amount. Any unused reserves, once all Health and Safety issues have been remedied, may be used towards allowable cosmetic repairs; an acceptable change order detailing the repairs must be provided. Any unused portion of the financed contingency reserve will then be applied as a principal reduction after the completion of renovations.

The appraisal is used to determine the status of utilities. It overrides any findings depicted in the HUD Consultant's Work Write-Up and/or home inspections performed.

The minimum and maximum contingency reserves are established as a percentage of the Financeable Repair and Improvement Costs.

| Contingency Reserve Requirements | |
|---|---|
| **Hard Construction Costs** | **Contingency Reserves Required** |
| $0 - Maximum Allowed | 10% |
| Any Utility is Inoperable | 15% |
| Discretionary based on Feasibility/Cost Analysis Report | 10 - 20% |

## Mortgage Payment Reserves

A Mortgage Payment Reserve refers to an amount set aside to make Mortgage Payments when the Property cannot be occupied during rehabilitation. A Financeable Mortgage Payment Reserve may be established if the property will be uninhabitable for any amount of time exceeding one month from the Note date.

The Financeable Mortgage Payment Reserve may not exceed six months of Mortgage Payments but must cover the period of time that the subject will be uninhabitable and cannot exceed the completion time frame required in the Rehabilitation Loan Agreement.

For multi-unit properties, if one or more units are occupied, the Mortgage Payment Reserve may only include the portion of the Mortgage Payment attributable to the units that cannot be occupied. To calculate the amount that can be included in the Mortgage Payment Reserve, divide the monthly Mortgage Payment by the number of units in the Property, and multiply that figure by the number of units that cannot be occupied. The resulting figure is the amount of the Mortgage Payment that will be paid through the Mortgage Payment Reserve.

The Borrower is responsible for paying the servicing Mortgagee the portion of the Mortgage not covered by the Mortgage Payment Reserve.

## Renovation Time Period

Renovation construction must begin within 30 days of closing, and all work must be completed within six months of closing.

## Required Documentation and Review

### *Contractor Qualifications*

Before closing, the Mortgagee must ensure that a qualified general or specialized contractor has been hired and, by contract, has agreed to complete the work described in the Work Write-Up for the amount of the Cost Estimate and within the allotted time frame. To determine whether the contractor is qualified, the Mortgagee must review the contractor's credentials, work experience, and client references and ensure that the contractor meets all licensing and bonding requirements as required by the local jurisdiction.

### *Consultant's Work Write-Up and Cost Estimate*

The Consultant must prepare a Work Write-Up that identifies each Work Item. The Work Write-Up must be prepared in a categorical manner that addresses each of the 35 point checklist items. The Consultant must indicate which Work Items require permits. The Consultant must also prepare a Cost Estimate for each Work Item in the Work Write-Up. The Cost Estimate must separately identify labor costs and itemize the cost of materials per Work Item. Work Item refers to a specific repair or improvement that will be performed. The Consultant must use Cost Estimates that are reasonable for the area in which the Property is located. Lump-sum costs are permitted only in line items where a lump sum estimate is reasonable and customary.

### *Architectural Exhibits*

The DE underwriter must obtain and review all applicable architectural exhibits to ensure that the work plan covers all noted items.

### *Sales Contract*

If the transaction is a purchase, the contract must be reviewed to ensure that it contains a provision that the borrower has applied for Section 203(k) financing and that the contract is contingent upon mortgage approval and the borrower's acceptance of additional required improvements as determined by the Mortgagee.

When the borrower is financing a HUD REO property,  ensure that the first block on Line 4 of form HUD-9548, Instructions and Sales Contract, is checked, as well as the applicable block for 203(k).

## Renovation Escrow and Account Disbursements

After closing, the proceeds designated for rehabilitation, including the contingency reserve, are placed in an interest-bearing escrow account. Up to 5 draws are permitted, including the final disbursement. The draw amounts are determined based on progress inspections.

- No disbursements are made at closing (except as noted in HUD Handbook 4000.1).
- All work must be completed and inspected before disbursement. Materials draws are not allowed (except as noted in HUD Handbook 4000.1).
- Proof of permits must be submitted prior to or with the first draw request.
- All draws (with the exception of the final draw) will have a 10% holdback.

The accumulated holdback amount will be made payable upon completion of all work and as a part of the final draw disbursement.

The following items must be received before the final draw is processed:

- Draw Request
- Lien Waiver from the General Contractor
- Title Update
- Completion Certificate

### Limited 203(k) Transactions

The Limited 203(k) may only be used for minor remodeling and non-structural repairs. The total rehabilitation cost (and fees) may not exceed $35,000; there is no minimum cost of repairs. All improvements to existing structures must comply with HUD's minimum property standards.

### Ineligible Improvements and use of proceeds

Refer to the FHA 203(k) Limited Snapshot for a complete list of eligible and ineligible repair items.

The Limited 203(k) mortgage proceeds may not be used to finance major rehabilitation or remodeling. A repair is considered major when any of the following are applicable:

- The repair or improvements are expected to require more than six months to complete.
- The rehabilitation activities require more than two payments per specialized contractor.
- Require plans or architectural exhibits.
- The required repairs arising from the appraisal:
  - Necessitate a HUD consultant to develop a specification of repairs/work write-up.
  - The repair prevents the borrower from occupying the property for more than 15 days during the rehabilitation period.

### Establishing Repair and Improvement Costs

The proposed improvements must comply with HUD's minimum property standards and all local codes and ordinances.

The Borrower must submit a work plan to the Mortgagee and use one or more contractors to provide the Cost Estimate and complete the required improvements and repairs. The contractors must be licensed and bonded if required by the local jurisdiction. The Borrower must provide the contractors' credentials and bids to the Mortgagee. The Mortgagee must review the contractors' credentials, work experience, and client references and ensure that the contractors meet all jurisdictional licensing and bonding requirements.

The Mortgagee must examine the work plan and the contractor's bids and determine if they fall within the usual and customary range for similar work. The Mortgagee may require the Borrower to provide additional Cost Estimates if necessary.

## Financeable Repair and Improvement Costs and Fees

The following costs and fees may be financed:

- Costs of construction, repairs, and rehabilitation
- Inspection fees performed during the construction period, provided the fees are reasonable and customary for the area
- Title update fees
- Permits

Any costs for Energy Efficient Mortgages and Solar Energy Systems must not be included in financeable repair and improvement costs.

## Contingency Reserves

Contingency Reserve refers to funds that are set aside to cover unexpected project costs; typically, 10–20% of the total repairs cost will be required depending on the actual age of the property and the utility status.

The contingency reserve must be financed into the loan amount. Any unused portion of the financed contingency reserve will be applied as a principal reduction after the completion of renovations.

The appraisal is used to determine the status of utilities. It overrides any findings depicted in the HUD Consultant's Work Write-Up (where applicable) and/or home inspections performed.

The minimum and maximum Contingency Reserve is established as a percentage of the Financeable Repair and Improvement Costs.

| Contingency Reserve Requirements | |
|---|---|
| **Hard Construction Costs** | **Contingency Reserves Required** |
| $0 - Maximum Allowed | 10% |
| Any Utility is Inoperable | 15% |
| Discretionary based on Feasibility/Cost Analysis Report | 10 - 20% |

## Ineligible Fees and Costs

The following fees and costs may not be financed under the Limited 203(k):

- Mortgage Payment Reserves
- Architectural/engineering professional fees
- 203(k) Consultant fee
- Feasibility Study

## Required Documentation

### *Work Plan*

The borrower must provide a work plan detailing the proposed repairs or improvements. The borrower may develop the work plan themselves or engage an outside party, including a contractor or a 203(k) consultant, to assist. There is no required format for the work plan.

### *Written Proposal and Cost Estimates*

The Mortgagee must obtain a written proposal and Cost Estimate from a contractor for each specialized repair or improvement. The Mortgagee must ensure that the selected contractor meets all jurisdictional licensing and bonding requirements. The written proposal must indicate Work Items that require permits and state that repairs are non-structural.

The Cost Estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials.

### *Sales Contract*

If the loan is a purchase, the sales contract must include a provision that the borrower has applied for Section 203(k) financing and that the contract is contingent upon mortgage approval and the borrower's acceptance of additional required improvements as determined by the lender.

When the Borrower is financing a HUD REO Property, the Mortgagee must ensure that the first block on Line 4 of the form HUD-9548, Instructions for Sales Contract is checked, as well as the applicable block for 203(k).

## Renovation Escrow and Account Disbursements

After closing, the proceeds designated for rehabilitation, including the contingency reserve, are placed in an interest-bearing escrow account.

Up to 2 draws are permitted and are disbursed based on progress inspections.

Up to 50 percent of the estimated materials and labor costs may be disbursed before beginning construction only when the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred before construction. A statement from the contractor is sufficient to document.

Proof of permits must be submitted before or with the interim or final draw request. The following items must be received before the final draw is processed:

- Draw Request
- Lien Waiver from the General Contractor
- Title Update
- Completion Certificate

Additional resources: Company | Construction Draw Policy and Processing Construction Draw Requests

### Appraisal Standards for 203(k) Loans - Standard and Limited

Both an Adjusted As-Is Value and an After Improved Value of the Property must be established.

An appraisal by an FHA Roster Appraiser is always required to establish the After Improved Value of the Property. Except as described below in cases of Property Flipping and refinance transactions, the Mortgagee is not required to obtain an as-is appraisal and may use alternate methods to establish the Adjusted As-Is Value. If an as-is appraisal is obtained, the Mortgagee must use it in establishing the Adjusted As-Is Value.

#### Adjusted As-Is Value

##### *Purchase Transactions*

The adjusted "As-Is" value is the lesser of:

- The purchase price less any inducements to purchase, or
- The "As-Is" property value

**Note**: In the case of property flipping, an as-is appraisal must be obtained if needed to comply with the property flipping guidelines.

##### *Refinance Transactions*

*Properties Acquired Greater than or Equal to 12 Months Before the Case Assignment Date*

An As-Is Appraisal must be obtained to determine the Adjusted As-Is Value when the existing debt on the Property plus the following items exceeds the After Improved Value:

- Financeable Repairs and Improvement Costs;
- Financeable Mortgage Fees; and
- Financeable Contingency Reserves; and
- Financeable Mortgage Payment Reserves (for Standard 203(k) only)

When an appraisal is required, the adjusted "As-Is" value is the "As-Is" property value.

The Mortgagee has the option of using the existing debt plus fees associated with the new Mortgage or obtaining an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the Property plus the following items does not exceed the After Improved Value:

- Financeable Repairs and Improvement Costs
- Financeable Mortgage Fees
- Financeable Contingency Reserves

Existing Debt includes:

- The unpaid principal balance of the first Mortgage as of the month before mortgage Disbursement.
- The unpaid principal balance of any purchase money junior Mortgage as of the month before mortgage Disbursement.
- The unpaid principal balance of any junior liens over 12 months old as of the date of mortgage Disbursement. If the balance or any portion of an equity line of credit in excess of $1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the Property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new Mortgage.
- Interest due on the existing Mortgage(s).
- Mortgage Insurance Premium (MIP) due on existing Mortgage.
- Any prepayment penalties assessed.
- Late charges.
- Escrow shortages.

### *Properties Acquired Less than 12 Months Before the Case Assignment Date*

An “As-Is” appraisal must be obtained. The adjusted“As-Is” value is the lesser of:

- Existing debt (as described above) plus fees associated with the new mortgage.

- The "As-Is" property value.

**Note**: For properties acquired by the borrower within 12 months of the case assignment date by inheritance or through a gift from a family member, the calculation for adjusted "As-Is" value for properties acquired greater than or equal to 12 months before the case assignment date may be utilized.

### After Improved Value

To establish the After Improved Value, obtain an appraisal of the property subject to the repairs and improvements.

### Documents to be Provided to the Appraiser at Assignment

The Appraiser must be provided with a copy of the Consultant's Work Write-Up and Cost Estimate for a Standard 203(k), or the work plan, contractor's proposal, and Cost Estimates for a Limited 203(k).

### Certificate of Occupancy

If a Certificate of Occupancy (C/O) is required from the local building department, it must be issued prior to closing. If the local building department has issued a Temporary Certificate of Occupancy (T/C/O), Cardinal will close the loan with the following:

- The requirements from the town may not be a safety concern of Cardinal underwriter;
- All town requirements are addressed in the final contract between the mortgagor and their contractor;
- All items on the contract are completed, including all town requirements for the C/O, and a final C/O is issued before the final payment to the contractor is made; and
- In the underwriter's opinion, all items must be able to be completed within 30 days of closing.

### Maximum Mortgage Amount for Purchase

The maximum mortgage amount that FHA will insure on a 203(k) purchase is the lesser of:

- The appropriate Loan-to-Value (LTV) ratio from the Purchase Loan-to-Value Limits, multiplied by the lesser of:

        - The Adjusted As-Is Value, plus:
            - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k)
            - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k)
            - Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
            - Financeable Mortgage Payment Reserves, for Standard 203(k) only; or
        - 110 percent of the After Improved Value (100 percent for condominiums); or
- The Nationwide Mortgage Limits

For a HUD REO 203(k) purchase utilizing the Good Neighbor Next Door (GNND) or $100 Down sales incentive, the Mortgagee must calculate the maximum mortgage amount that FHA will insure in accordance with HUD REO Purchasing.

### Maximum Mortgage Amount for Refinance

The maximum mortgage amount that FHA will insure on a 203(k) refinance is the lesser of:

- The existing debt and fees associated with the new mortgage, plus:
    - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
    - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
    - Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
    - Financeable Mortgage Payment Reserves (for Standard 203(k) only); or
- The appropriate LTV ratio below, multiplied by the lesser of:
    - The Adjusted As-Is Value plus:
        - Financeable Repair and Improvement Costs for Standard 203(k) or Limited 203(k);

        - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
        - Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
        - Financeable Mortgage Payment Reserves(for Standard 203(k) only); or
    - 110 percent of the After Improved Value (100 percent for condominiums); or
- The Nationwide Mortgage Limits

### Maximum Mortgage Amounts for Energy Efficient Mortgages, Weatherization Items, and Solar Energy Systems

The Mortgagee must calculate the maximum mortgage amount without factoring in the cost of Energy Efficient Mortgage (EEM) items, weatherization items, and solar energy systems. The Mortgagee may then add the cost of these improvements to determine the Base Loan Amount. The Base Loan Amount may not exceed 110 percent of the After Improved Value of the Property (100 percent for condominiums).

### Combined Loan-to-Value

Secondary Financing must meet FHA requirements for the specific type of secondary financing used.

### Required Documentation

A mortgage payoff statement must be for existing debt. If improvements were made to the property subsequent to the acquisition, the DE underwriter must document the associated cost of the improvements by obtaining the following:

- A contract for completion of work;
- Materials cost and paid receipts; and
- Permit costs

### Mortgage Insurance Premium

The transaction must comply with the mortgage Insurance Premium (MIP) requirements found in the MIP Chart. For the purpose of calculating the LTV for application of the MIP, the Base Loan Amount is divided by the After Improved Value.

### Additional Required Documentation for 203(k) Loans

#### Identity-of-Interest Certification

Identity of Interest refers to a transaction between family members, business partners, or other business affiliates. A conflict of interest refers to any party to the transaction which has a direct or indirect personal, business, or financial relationship sufficient to appear that may cause partiality and influence the transaction. Sales transactions between family members, and tenants/landlords that meet the FHA's requirements for Exceptions to the Maximum LTV, are permitted.

No other instances of Identity of Interest or conflict of interest between parties in the 203(k) transaction are permitted. The borrower and the 203(k) consultant must each sign an Identity-of-Interest certification. If the borrower selected a 203(k) consultant to perform a feasibility study, the same 203(k) Consultant may be used for the project without creating an Identity of Interest.

#### Family Relationship Between the Builder and Borrower

The borrower's family member may act as the Builder without reduction to maximum financing if the work is done without compensation paid for labor. The Builder may be paid for documented building costs only and may not profit from the transaction.

#### Borrower's Certification

The borrower must sign a certification stating the following:

"I hereby certify to the Department of Housing and Urban Development (HUD) and (Underwriter), that I/We ___ do or ___do not have an identity-of-interest with the seller. I/We do not have an identity of interest with the 203(k) Consultant of the property. I also certify that I/We do not have a conflict of interest with any other party to the transaction, including the real estate agent, Underwriter, contractor, 203(k) Consultant, and/or the appraiser. In addition, I certify that I am not obtaining any source of funds or acting as a buyer for another individual, partnership, company, or investment club, and I/We ___will or ___will not occupy the residence I/We are purchasing or refinancing."

**Warning**: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

### 203(k) Consultant's Certification

All 203(k) Consultants are required to sign the following certification after preparing/reviewing the Work Write-Up and Cost Estimate, stating:

"I hereby certify that I have carefully inspected this property for compliance with the general acceptability requirements (including health and safety) in HUD's Minimum Property Requirements or Minimum Property Standards. I have required as necessary and reviewed the architectural exhibits, including any applicable engineering and termite reports and the estimated rehabilitation cost, and they are acceptable for the rehabilitation of this property. I have no personal interest, present or prospective, in the property, applicant, or proceeds of the mortgage. I also certify that I have no identity of interest or conflict-of-interest with the borrower, seller, Underwriter, real estate agent, appraiser, plan reviewer, contractor, subcontractor, or any party with a financial interest in the transaction. To the best of my knowledge, I have reported all items requiring correction and that the rehabilitation proposal now meets all HUD requirements for 203(k) Rehabilitation Mortgage Insurance."

**Warning**: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C 1001, 1010, 1012; 31 U.S.C 3729, 3802).

## Repairs Noted by the Appraiser

When an appraisal report identifies the need for health and safety repairs that were not included in the Consultant's Work Write Up, borrower's work plan, or contractor's proposal, the DE underwriter must ensure the repairs are included in the Consultant's final Work Write-Up or the borrower's final work plan.

## 203(k) Borrower's Acknowledgment (Form HUD-92700-A)

The DE underwriter must obtain an executed form HUD-92700-A, 203(k) Borrower's Acknowledgement.

## Feasibility Study

If a Feasibility Study was performed to determine if the project is financially feasible, a copy of the study must be obtained.

## Borrower Contractor Agreement

A written agreement between the borrower and the general contractor must be obtained, or if there is no general contractor, for each contractor. The contractor must agree in writing to complete the work for the amount of the cost estimate and within the allotted time frame.

## Consultants Overview

A Federal Housing Administration (FHA)-approved 203(k) Consultant is required for all Standard 203(k) mortgages and may be used for Limited 203(k) mortgages. Any Consultant who performs work on a 203(k) must be listed on the FHA 203(k) Consultant Roster.

The Consultant inspects the property and prepares the architectural exhibits, the Work Write-Up, and Cost Estimate.

## Consultant Duties

The assigned Consultant must perform the following duties in accordance with the requirements set forth below.

## Consultant Inspection

The Consultant must inspect the property to ensure:

- There are no rodents, dry rot, termites, and other infestation on the property
- There are no defects that will affect the health and safety of the occupants
- There exist adequate structural, heating, plumbing, electrical, and roofing systems
- There are upgrades to the Structure's thermal protection (when necessary)

The Consultant must prepare a report on the current condition of the property that categorically examines the structure utilizing the 35 point checklist. The report must address any deficiencies that exist and certify the condition of all major systems:

- Electrical
- Plumbing
- Heating
- Roofing
- Structural

The Consultant must determine the repairs/improvements that are required to meet the U.S. Department of Housing and Urban Development's Minimum Property Requirements (MPR), Minimum Property Standards (MPS), and local requirements.

## Draw Request Inspection

The Consultant must inspect the work for completion and quality of workmanship at each draw request.

## Change Order

At the borrower's or Cardinal's request, the Consultant must review the proposed changes to the Work Write-Up and prepare a change order.

## Work Stoppages or Deviations from the Approved Write-Up

The Consultant must keep Cardinal informed of the progress of the rehabilitation and of any problems that arise, including:

- Work stoppages of more than 30 consecutive days or work not progressing reasonably during the rehabilitation period.
- Significant deviations from the Work Write-Up without the Consultant's approval.
- Any issues that could affect adherence to the program requirements or property eligibility.

- Any issues that could affect the health and safety of the occupants or the security of the structure.

## Consultant Fee Schedule

The following are the maximum fees that may be charged by the Consultant.

### *Feasibility Study*

If requested by the borrower or Cardinal to determine if a 203(k) mortgage is feasible, the consultant may charge an additional fee of $100 for the preparation of a feasibility study.

### *Work Write-up*

The consultant may charge the fees listed below for the preparation of the Work Write-Up and review of architectural exhibits:

- $400 for repairs less than $7,500
- $500 for repairs between $7,501 and $15,000
- $600 for repairs between $15,001 and $30,000
- $700 for repairs between $30,001 and $50,000
- $800 for repairs between $50,001 and $75,000
- $900 for repairs between $75,001 and $100,000
- $1,000 for repairs over $100,000
- The Consultant may charge an additional $25 per additional Dwelling Unit.

### *Draw Inspection Fee*

A Draw Inspection fee that is reasonable and customary for work performed in the area where the property is located may be charged, provided the fee does not exceed a maximum of $350.

#### *Change Order Fee*

The Consultant may charge $100 per change order request.

#### *Re-inspection Fee*

The Consultant may charge a $50 fee when re-inspection of a Work Item is requested by the borrower or DE underwriter.

#### *Mileage Fee*

The Consultant may charge a mileage fee at the current Internal Revenue Service (IRS) mileage rate when the Consultant's place of business is more than 15 miles from the property.

### Solar and Wind Technologies

A 203(k) Mortgage may be used in conjunction with the FHA Solar and Wind Technologies program. The solar and wind technologies policy allows the Mortgagee to increase the Base Loan Amount to cover the cost and installation of new solar or wind energy system improvements made, or to be made, to the Property at the time of a purchase or refinance.

Note: the Solar and Wind enhancement is available for Retail only at this time.

#### Eligible Property Types

- One to four-unit properties.
- Manufactured homes and Condominium units are ineligible for Solar and Wind Technologies.

#### Eligible Solar and Wind Technologies

Active and passive solar systems, as well as wind-driven systems, are acceptable.

#### Photovoltaic Systems

Photovoltaic systems must provide electricity for the residence, and must meet applicable fire and electrical code requirements.

## Wind Turbine for Residential Properties

A wind turbine must:

- Have a nameplate capacity of no more than 100 kilowatts;
- Have a performance and safety certification from:
    - The International Electrotechnical Commission (IEC) standards from an accredited product certification body; or
    - The American Wind Energy Association (AWEA) standards from the Small Wind Certification Council (SWCC) or a Nationally Recognized Testing Laboratory (NRTL); and
    - Be installed by an installer who has received either a North American Board of Certified Energy Practitioners Small Wind Installer Certification or small wind turbine installation training from an accredited training organization.

## Title to Systems

The Borrower must own, not lease, solar or wind energy systems for the systems to be considered eligible improvements. Leased equipment and Solar Power Purchase Agreements (SPPA) may not be financed under any FHA Title II programs.

## Maximum Mortgage Amount

The Mortgagee must calculate the maximum mortgage amount without factoring in the cost of Energy Efficient Mortgage (EEM) items, weatherization items, and solar energy systems. The Mortgagee may then add the cost of these improvements to determine the Base Loan Amount. The Base Loan Amount may not exceed 110 percent of the After Improved Value of the Property (100 percent for condominiums).

## Required Documentation

The Mortgagee must document the cost of work, including the energy systems' materials and labor.

## Escrows

The Mortgagee must establish an escrow account in accordance with the Repair Completion Escrow Requirements for the remaining cost of the energy improvements if the installation of solar or wind energy systems is not complete by the time of closing.

If the energy package is part of a 203(k) Rehabilitation Mortgage, then the escrowed amounts of the energy package must be included in the rehabilitation escrow account.

Any funds remaining in the escrow account at the end of the improvement period must be applied to pay down the mortgage principal.

### *Form HUD-92300, Mortgagee's Assurance of Completion*

When funds to complete the solar or wind energy systems are escrowed, the Mortgagee must execute form HUD-92300, Mortgagee's Assurance of Completion, to indicate that the escrow for the solar or wind improvements has been established.

## Completion Requirements for Solar and Wind Technology Installation

### *Time of Completion*

Installations of solar and wind energy systems must be completed within 120 Days of the mortgage Disbursement.

The Mortgagee must apply the remaining solar and wind escrow funds to a prepayment of the mortgage principal if the work is not completed within the required time frames.

### *Inspection*

The Mortgagee or their agent must inspect the solar and wind improvement or obtain evidence from a local authority that the system was installed in accordance with local code.

### *Escrow Closeout Certification*

After the repair or rehabilitation escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed.

## Fannie Mae | HomeStyle | Conventional

Cardinal Financial offers the HomeStyle program which is a single-close loan that enables borrowers to purchase a home that may need repairs, or refinance the mortgage on their existing home and include the necessary funds for the renovation into the loan balance.

This solution addresses a gap in the market for lenders looking for a conventional offering to support renovation financing and provide cost-effective solutions for borrowers.

The loan amount is based on the "as-completed" value of the home rather than the present value.

### Borrower Profile

HomeStyle is designed to meet the needs of:

- Borrowers that are looking for convenience and cost savings by financing their home purchase and renovation costs in a single loan.
- Homeowners looking for a no cash-out refinance option to make home improvements or repairs to their existing property.
- First-time homebuyers, homeowners looking to age in place and multigenerational families in need of living space customization.

### Key Features

- Purchase and no cash out refinancing
- Maximum LTVs
    - 95% LTV
    - First time home buyer > 95%
    - 97% LTV HomeReady
- Ability to draw 25% of the material costs at closing

### Borrower Benefits

- Save time and money with a single-close mortgage
- Package benefits of low down payment and higher LTV solutions to make financing renovation projects even more affordable

- Increase home values

### Eligible Property Types

- 1-4 unit primary residence
- Multi-width manufactured homes
- Second homes
- 1-unit investment property
- Units located in planned unit developments, condominiums
    - Proposed renovation work must be permissible under the bylaws of the HOA or the HOA must have given written approval for the work. Work is limited to the interior of the unit, including installation of fire walls in the attic.

### Eligible Mortgages

- Purchase
- Limited cash out refinance
- Fixed rate and ARM mortgages
- Fannie Mae HomeReady
- High Balance

### General Eligibility Requirements

All renovations must be completed within 15 months from the Note date

### Contractor Validation Requirements

Construction should be completed by a licensed and insured contractor as required by local and/or state requirements.

- The borrower must choose his or her own contractor to complete the project. The lender may not choose or refer the borrower to any specific contractor.
- The contractor must be financially able to perform the duties necessary to complete the renovation work in a timely manner.
- A Contractor Review is completed to determine that qualifications are met to the standards set forth by Cardinal.
- The following items are required to complete the contractor validation review

   - Contractor Questionnaire:  completed and signed
   - Copy of valid State, County and/or Local Municipality Contractor's License, as applicable
   - Evidence of Worker's Compensation Insurance, as applicable
   - Evidence of Commercial General Liability Insurance
   - Legible copy of Contractor's valid Government issued photo ID
   - Completed W-9 Form
   - Pass Business Credit Check and Criminal Background Review
- The above requirements do not apply if the renovations are purchased from a home improvement store.

### Renovation Contract Requirements

The borrower and contractor must have executed a HomeStyle Homeowner/Contractor Agreement indicating completion of the renovations within a reasonable time period after the Note date, not to exceed 15 months.

A contractor must submit an itemized scope of work for the renovation project that should include line item descriptions, time frames, and a detailed cost breakdown.

### Costs and Renovation Escrow Accounts

On the Note date, funds sufficient to cover the total cost of the renovations minus any advances for the cost of materials and/or renovation costs paid to a home improvement store must be deposited into a completion escrow account.  Such an account must be a Custodial Account.

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 as applicable.

### D-I-Y Work

Do-it-yourself work completed by the borrower is ineligible.

## Draw / Disbursement Process

Draw requests and disbursements are managed by the Cardinal Construction/Renovation team in accordance with published policies and procedures.

### Resource

Company | Construction Draw Policy

Processing Construction Draw Requests

### Advancing Cost of Materials

A percentage of the cost of materials may be advanced at closing in lieu of such funds being deposited to the Custodial Account, as following:

- For contractors chosen by the borrower to complete the renovations, up to 50% of the cost of the materials may be advanced, not to exceed 25% of the entire project cost.

Any changes to the plans and specifications the borrower has requested during the course of construction must be managed by the draw coordinator.

- If any changes are made to the plans and specifications and/or the estimated time of completion for the renovations, the changes must be agreed upon via a change order by the borrower and the contractor and approved by the Construction/Renovation department.
- The change order must be signed by the borrower and contractor and must include the following, as applicable:
  - Detailed description of the changes,
  - Updated itemized renovation costs,
  - Updated total cost of the renovations,
  - Any changes to the estimated completion date.
- No approval of changes can be made if the changes impact the LTV or the property such that the mortgage is no longer eligible for sale.

### Unplanned Changes in Scope or Incomplete Work

- The Cardinal Construction/Renovation team will work with borrowers and contractors to ensure renovations are completed as planned, within an acceptable time frame.

- If unforeseen circumstances occur during the renovation work, such as property damage from a natural or manmade disaster, or a life altering event such as death or divorce, the Construction/Renovation team will take additional steps to evaluate the materiality of the change to any renovations in progress.
- An updated appraisal must be obtained to determine whether the changes will impact the "as completed" value of the property, and must self-report any change in value by entering it into Fannie Mae Quality Connect.
  - In some cases, Cardinal may be responsible for additional mortgage insurance or LLPAs.

## Unused Funds

- If the mortgage is current, any funds remaining in the completion escrow account for renovation funds, after the costs of all renovations have been paid to the appropriate parties, must be used to reduce the unpaid principal balance or used for additional renovations as described under eligible renovations.
  - 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, documentation must:
  - Show that the additional renovations were paid for from the completion escrow account for renovation funds, 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.

If the mortgage is delinquent:

- Any unused funds (including the 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 unpaid principal balance or used for additional renovations (as noted above).

## Eligible / Ineligible Uses of Mortgage Proceeds

Any type of renovation or repair is eligible, as long as it is permanently affixed to the property. There are no required improvements or restrictions on the types of renovations allowed, nor is there a minimum dollar amount for the renovations.

- Generally, improvements should be permanently affixed to the real property (either dwelling or land), with the exception of certain appliances installed with kitchen and utility room remodels. The borrower may use HomeStyle to purchase appliances as part of an overall remodeling project that includes substantial changes or upgrades to the rooms in which the appliances are placed.
- HomeStyle Renovation may be used to complete the final work on a newly built home when the home is at least 90% complete. The remaining improvements must be related to completing non-structural items the original builder was unable to finish. Such work may include installation of buyer-selected items such as flooring, cabinets, kitchen appliances, fixtures, and trim.
- HomeStyle Renovation may be used to construct various outdoor buildings and structures when allowed by local zoning regulations. These buildings or structures must be in compliance with any applicable building codes for the local area. Examples of acceptable structures income, but are not limited to, accessory units, garages, recreation rooms, and swimming pools.
    - Adding or renovating an Accessory Dwelling Unit (ADU) is eligible for a 1-unit dwelling primary residence.
        - Note: ADUs are ineligible for 2-4 unit dwellings, or when a manufactured home is the primary residence. Properties with multiple ADUs are also not eligible.

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.

## Feasibility/Cost Analysis Report

A feasibility/cost analysis report is prepared by a third-party company and consists of a site inspection and review of the bid to determine if the repair prices are feasible, when required.

- If repairs exceed $35,000 and/or include structural repairs, contact a third party to inspect the property.
- If no structural repairs are identified, proceed to the appraisal ordering step.

The feasibility/cost analysis company will contact the borrower or real estate agent to schedule a property inspection appointment and complete the inspection to identify the repairs to meet minimum property standards.

### Lender Responsibilities

Renovation work must be completed no later than 15 months from the Note date. In the rare circumstance a renovation project exceeds 15 months, information must be submitted to the Fannie Mae Loan Quality Connect to describe the circumstances resulting in the delay and determine potential remedies. These options may include:

- A limited extension of the time frame (not to exceed 18 months from the date the loan was closed),
- Curtailment of the work to be completed,
- Repurchase of the loan, or
- Other remedies applicable to the specific circumstance.

Fannie Mae has sole discretion in determining which remedy is acceptable when renovation time frame exceeds 15 months.

Cardinal may not transfer servicing on HomeStyle Renovation loans during the renovation period.

The Construction/Renovation department will monitor completion of the renovation work and must exercise all approval and oversight responsibilities that are customary and required to comply with specific state laws and to ensure that clear title to the property is maintained.

- Vendors may be used to manage the operational, escrow, and completion requirements for HomeStyle Renovation loans; but when a vendor is used, oversight is required by Cardinal to ensure all requirements are met.

Copies of all documentation that support the renovation work, including plans and specifications, “as completed” appraisal, renovation contract, renovation loan agreement, certificate of completion, title insurance endorsements or updates, and any other related documentation will be retained in the loan file.

## Loan Agreement

A Renovation Loan Agreement is a written agreement between the borrower and the lender. This agreement must be fully executed by both Cardinal and the borrower at closing and must be dated the same date as the Note.

The agreement must:

- State the original principal amount of the related promissory note payable to the lender;
- Include the property address;
- State the terms and conditions of the loan prior to the completion of the improvements;
- State the events that constitute a borrower default, including, but not limited to, failing to keep any promise or to perform any obligation in the agreement;
- Indicate the remedies available to the lender if the borrower defaults under the terms of either the renovation contract or other loan documents;
- Require the contractor to have any license required by any government regulations, and to obtain and keep in force an all-risk insurance policy (with a physical loss form endorsement and a mortgagee's loss payable clause) equal to 100% of the full replacement cost of the improvements, public liability insurance, workmen's compensation (as required by applicable state law), and automobile liability insurance;
- Require that either the borrower or the contractor obtain (and keep in force) all work permits required by any government agency, and comply with all applicable laws or government regulations;
- Require the borrower to
    - Submit to the lender a title policy and assist the lender in obtaining the appraisal and a survey;
    - Agree that all renovation work will be completed no later than 15 months from the Note date and in accordance with the terms of the renovation contract (subject to approved change orders);
    - Permit the lender to make property inspections; and

    - Pay all costs and expenses required to satisfy any conditions of the agreement (including cost overruns, the costs of change orders, and the costs of enforcement of the agreement in the event of default);
- State the terms and conditions under which the lender may extend the 15 month completion deadline if the renovation cannot be completed on time (due to extenuating circumstances outside of the borrower's control), including
    - Limiting any extension to no later than 18 months after the loan closing; and
    - Requiring any extension to be in writing and the borrower to not be in default under any of the terms of the loan documents or the renovation contract;
- Include provisions related to
    - The time, manner, and method by which the lender disburses the loan proceeds;
    - Conditions on how the disbursements may be used;
    - Procedures on how to request a disbursement (including the proper format, information, and required signatories);
    - Documentation required to support each request for disbursement (such as the title policy, any required lien waivers from all contractors, subcontractors, and suppliers) and any required inspection reports;
    - The number and amount of payments that the lender is to make to the borrower and/or the contractor; and
- Obligate the borrower and the contractor to enter into a renovation contract for all labor and materials to renovate the improvements, and provide the lender with a copy of
    - That contract;
    - The applicable plans and specifications that fully describe all work to be performed;
    - The renovation budget (which provides a timetable for states of completion and the schedule for disbursements for payment of amounts due);
    - A schedule of disbursements for payment of the renovation costs; and
    - The requirements for requesting (and obtaining approval of) change orders.

Fannie Mae has developed a model Renovation Loan Agreement (Form 3731) to document the renovation loan agreement.

The fully executed renovation loan agreement is a custodial document. A copy must be maintained in the loan file and the original is sent to the document custodian as part of the loan delivery package.

## Maximum Financed Renovation Costs | Loan Amount Calculation

### Purchase Transaction

The total cost of the financed renovations must not exceed 75% of the lesser of the:

- Sum of the purchase price of the property plus the estimated cost of the renovations, or
- "As completed" value of the property as determined by the appraiser.

### No Cash Out Refinance

The total cost of the financed renovations must not exceed 75% of the "as completed" value of the property as determined by the appraiser.

### Manufactured Homes

Total financed renovation costs for manufactured homes (purchase and refinance transactions) must not exceed the lesser of:

- $50,000, or
- 50% of the "as completed" value of the property as determined by the appraiser.

### Total Renovation Costs

- Total cost of improvements, repairs and alterations,
- Soft costs (including Draw Administration fees),
- Contingency reserve (if financed),
- Architect/engineer fees,
- Feasibility/Cost Analysis report,
- Total cost of inspections (# of inspections x cost = total),
- Total cost of title updates (# of updates x cost = total),
- Permits,
- Payment reserve - up to 6 months (# of months unable to occupy x full monthly payment),
    - A payment reserve of up to six months PITIA is permitted when the borrower must vacate the property during renovation. The amount can be financed in the loan amount if the value will support such financing.

    - The reserve is allowed only for the period in which the property is uninhabitable due to the renovations. (If monthly HOA fees are included in the renovation escrow account, the servicer must pay them on behalf of the borrower).
- Other costs (i.e., fees for appraisals, review of renovation plans).
- Note: An amount for sweat equity may not be factored into the renovation costs.

## Maximum Loan Amount

- Purchase: Lesser of Acquisition Cost or "As Completed" Appraised Value x applicable LTV
- Refinance: "As Completed" Appraised Value x applicable LTV

## Contingency Reserve

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

Minimum

- This amount must be >= to 10% of the total renovation costs, except
- 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 be >= 15% of the total renovation costs.

Maximum

- This amount must be <= 20% of the total renovation costs

## 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.

### Refinance Transactions

HomeStyle Renovation mortgage loans originated as a limited cash-out refinance may include:

- The amount required to satisfy the existing first mortgage;
- The amount required to satisfy any outstanding subordinate mortgage liens that were used to acquire the property;
- Closing costs, prepaids, and points; and
- The total renovation costs, including allowable renovation-related costs for the home improvements up to the maximum permitted LTV and CLTV ratios.

Proceeds may not be used to disburse cash out to the borrower

- Fannie Mae standard limited cash-out refinance of 2% or $2,000, whichever is less, is NOT PERMITTED for this product.

Borrowers may not obtain any other funds from the transaction. Excess funds, if any, after renovations are completed, may be applied to the loan balance as a curtailment or may be reimbursed to the borrower for the cost of actual supplies or additional renovations for which paid receipts are provided. The value of sweat equity may not be reimbursed.

### Renovation Completion

- All renovations must be completed within 15 months of the Note date
- Following completion of the renovation, a certification regarding adequacy of the property insurance is required to be retained in the loan file.
    - The certification must confirm the coverage has been increased, if necessary, to comply with Fannie Mae's standard property and flood insurance requirements.
- Concurrent with the last disbursement of funds, a title update through the date the renovation was completed is required to ensure the continuance of Fannie Mae's first lien priority and the absence of any mechanic's or materialmen's liens.

    - When the property is located in a state in which contractors', subcontractors', or materialmen's liens have priority over mortgage liens, all necessary lien releases must be obtained.
- Lien Waiver
    - Before the final disbursement is made upon completion of the renovation, a lien waiver from the contractor, all subcontractors, and suppliers or a clear title report that releases all contractor, subcontractor, and supplier liens must be obtained.

### Delivery | Post Closing | Recourse

Recourse will remain in full force and effect until all renovations are complete. The following criteria will be applicable to the removal of recourse:

- Recourse will not be removed if the loan is delinquent
- If the borrower was 1x30 days delinquent at any point during the renovation work, but is current when removal is required, the recourse may be removed.
- If the borrower had more than one 30-day delinquency or was ever 60 - 90 days delinquent, recourse can be requested to be removed after the borrower has made 36 payments with no delinquencies.

To request removal of recourse, Cardinal must submit a complete Appraisal Update and/or Completion Report (Form 1004D) to Fannie Mae Loan Quality Connect. Submissions must meet the following requirements:

- The Fannie Mae loan number must be identified in the request and attached documents must have the loan numbers in the title
- Documents must be clear and complete. It is best practice to include photos of completed renovations with all submissions.

## Freddie Mac | CHOICERenovation | Conventional

Cardinal Financial offers the CHOICERenovation Loan which is a single-close loan that enables borrowers to purchase a home that may need repairs, or refinance the mortgage on their existing home and include the necessary funds for the renovation into the loan balance.

This solution addresses a gap in the market for lenders looking for a conventional offering to support renovation financing and provide cost-effective solutions for borrowers.

The loan amount is based on the "as-completed" value of the home rather than the present value.

## Borrower Profile

CHOICERenovation is designed to meet the needs of:

- Borrowers that are looking for convenience and cost savings by financing their home purchase and renovation costs in a single loan.
- Homeowners looking for a no cash-out refinance option to make home improvements or repairs to their existing property.
- First-time homebuyers, homeowners looking to age in place and multigenerational families in need of living space customization.

## Key Features

- Purchase and no cash out refinancing
- Maximum LTVs
    - 95% LTV
    - First time home buyer > 95% HomeOne only
    - 97% LTV Home Possible only
- Energy efficiency items are eligible renovation costs
- Ability to draw 25% of the material costs at closing

## Borrower Benefits

- Save time and money with a single-close mortgage
- Package benefits of low down payment and higher LTV solutions to make financing renovation projects even more affordable
- Increase home values

## Eligible Property Types

- 1-4 unit primary residence
- Multi-width manufactured homes

- Second homes
- 1-unit investment property
- Units located in planned unit developments, condominiums
    - Proposed renovation work must be permissible under the bylaws of the HOA or the HOA must have given written approval for the work. Work is limited to the interior of the unit, including installation of fire walls in the attic.

### Eligible Mortgages

- Purchase
- No cash out refinance
- Fixed rate and ARM mortgages
- Freddie Mac Home Possible
- Freddie Mac HomeOne
- Super conforming

### General Eligibility Requirements

All renovations must be completed within 450 days of the Note date

### Contractor Validation Requirements

Construction should be completed by a licensed and insured contractor as required by local and/or state requirements.

- The borrower must choose his or her own contractor to complete the project. The lender may not choose or refer the borrower to any specific contractor.
- The contractor must be financially able to perform the duties necessary to complete the renovation work in a timely manner.
- A Contractor Review is completed to determine that qualifications are met to the standards set forth by Cardinal.
- The following items are required to complete the contractor validation review
    - Contractor Questionnaire: completed and signed
    - Copy of valid State, County and/or Local Municipality Contractor's License, as applicable
    - Evidence of Worker's Compensation Insurance, as applicable
    - Evidence of Commercial General Liability Insurance

- Legible copy of Contractor's valid Government issued photo ID
- Completed W-9 Form
- Pass Business Credit Check and Criminal Background Review

- The above requirements do not apply if the renovations are purchased from a home improvement store.

### Renovation Contract Requirements

The borrower and contractor must have executed a HomeStyle Homeowner/Contractor Agreement indicating completion of the renovations within a reasonable time period after the Note date, not to exceed 450 days.

A contractor must submit an itemized scope of work for the renovation project that should include line item descriptions, time frames, and a detailed cost breakdown.

### Costs and Renovation Escrow Accounts

On the Note date, funds sufficient to cover the total cost of the renovations minus any advances for the cost of materials and/or renovation costs paid to a home improvement store must be deposited into a completion escrow account. Such an account must be a Custodial Account.

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 as applicable.

### D-I-Y Work

Do-it-yourself work completed by the borrower is ineligible.

### Draw / Disbursement Process

Draw requests and disbursements are managed by the Cardinal Construction/Renovation team in accordance with published policies and procedures.

## Resource

Company | Construction Draw Policy

Processing Construction Draw Requests

## Advancing Cost of Materials

A percentage of the cost of materials may be advanced at closing in lieu of such funds being deposited to the Custodial Account, as following:

- For contractors chosen by the borrower to complete the renovations, up to 50% of the cost of the materials may be advanced, not to exceed 25% of the entire project cost.
- For renovations purchased from a home improvement store, up to 100% of the cost of materials may be advanced to the home improvement store.

Any changes to the plans and specifications the borrower has requested during the course of construction must be managed by the draw coordinator.

- If any changes are made to the plans and specifications and/or the estimated time of completion for the renovations, the changes must be agreed upon via a change order by the borrower and the contractor and approved by the Construction/Renovation department.
- The change order must be signed by the borrower and contractor and must include the following, as applicable:
    - Detailed description of the changes,
    - Updated itemized renovation costs,
    - Updated total cost of the renovations,
    - Any changes to the estimated completion date.
- No approval of changes can be made if the changes impact the LTV or the property such that the mortgage is no longer eligible for sale.

## Unused Funds

- If the mortgage is current, any funds remaining in the completion escrow account for renovation funds, after the costs of all renovations have been paid to the appropriate parties, must be used to reduce the unpaid principal balance 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 for a no cash out refinance (greater of 1% of the new refinance mortgage or $2,000)
  - 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, documentation must:
  - Show that the additional renovations were paid for from the completion escrow account for renovation funds, 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.

If the mortgage is delinquent:

- Any unused funds (including the 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 unpaid principal balance or used for additional renovations (as noted above).

### Eligible / Ineligible Uses of Mortgage Proceeds

CHOICERenovation Mortgage proceeds must only be used to finance renovations that are made to a property with 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),
- Contingency reserve funds as outlined in this guide,
- The payoff of short-term financing that provided the borrower with funds to repair, restore, rehabilitate or renovate an existing home. See Refinance section.

- Adding or renovating outdoor structures used for leisure and recreation, including, but not limited to, swimming pools, decking, screening and porch and patio additions.
    - Note: Mortgages whose proceeds are used exclusively to finance the addition or renovation of outdoor structures used for leisure and recreation will not be subject to the minimum contingency reserve requirements.
- Renovations or repairs to a property that has been damaged in a disaster or for renovations that will protect the property in case of a future disaster (i.e. storm surge barriers, foundation retrofitting for earthquakes, retaining walls, etc.)
- Adding or renovating an ADU, including a Manufactured Home ADU. Refer to Freddie Mac Selling Guide Eligibility of a Property with an ADU. In this case, the maximum financed renovation will follow standard purchase or refinance calculations.
- 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 noted in the Freddie Mac Selling Guide.
    - Renovations may include the removal of a Manufactured Home on the property that is not the primary dwelling unit, provided any effect of its removal on the value of the property is reported by the appraiser when determining the "as completed" value of the property.
- There are no further restrictions on the type of renovations.

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.

## "Easy Path" Reno

Up to 100% of the renovation costs identified in the renovation contract (including labor costs) may be paid to a home improvement store at closing in lieu of the funds being deposited into the Custodial Account, if the requirements noted below are met.

- If the borrowers chooses a home improvement store to have the renovation work completed and the home improvement store's program requires payment-in-full at the point of purchase, renovations may be purchased from the home improvement store at closing, subject to the following:

- The CHOICERenovation mortgage is a "no cash out" refinance
- The home improvement store's renovation program must be reviewed to determine the following requirements are met:
  - The home improvement store is financially able to perform the duties necessary to have the renovation work completed in a timely manner and pay the contractor(s) and/or tradespersons chosen by the home improvement store to complete the renovations. A contractor or tradesperson may not require payment directly from the borrower.
  - The home improvement store has a robust contractor approval process that is managed, maintained and updated regularly.
  - The contractor(s) chosen by the home improvement store are licensed and insured as required by local and/or state requirements, and they must be approved under the home improvement store's contractor approval process during the course of renovations.
- The borrower may not be chosen by the home improvement store to complete the renovations, even if the borrower is a licensed contractor and/or is licensed and qualified to complete the renovations
- The home improvement store must have entered into an executed, binding renovation contract with the borrower to complete the renovations within a reasonable time period after the Note date, and should typically not exceed 180 days.
- The contract must include an indemnification provision requiring the home improvement store to indemnify the borrower for any property loss or damage caused by the contract(s) and/or tradespersons chosen by the home improvement store to complete the renovations.

## Feasibility/Cost Analysis Report

A feasibility/cost analysis report is prepared by a third-party company and consists of a site inspection and review of the bid to determine if the repair prices are feasible, when required.

- If repairs exceed $35,000 and/or include structural repairs, contact a third party to inspect the property.
- If no structural repairs are identified, proceed to the appraisal ordering step.

The feasibility/cost analysis company will contact the borrower or real estate agent to schedule a property inspection appointment and complete the inspection to identify the repairs to meet minimum property standards.

### Maximum Financed Renovation Costs | Loan Amount Calculation

#### Purchase Transaction

The total cost of the financed renovations must not exceed 75% of the lesser of the:

- Sum of the purchase price of the property plus the estimated cost of the renovations, or
- “As completed” value of the property as determined by the appraiser.

#### No Cash Out Refinance

The total cost of the financed renovations must not exceed 75% of the “as completed” value of the property as determined by the appraiser.

#### Manufactured Homes

Total financed renovation costs for manufactured homes (purchase and refinance transactions) must not exceed the lesser of:

- $50,000, or
- 50% of the “as completed” value of the property as determined by the appraiser.

#### Total Renovation Costs

- Total cost of improvements, repairs and alterations,
- Soft costs (including Draw Administration fees),
- Contingency reserve (if financed),
- Architect/engineer fees,
- Feasibility/Cost Analysis report,
- Total cost of inspections (# of inspections x cost = total),
- Total cost of title updates (# of updates x cost = total),
- Permits,
- Payment reserve - up to 6 months (# of months unable to occupy x full monthly payment),

    - A payment reserve of up to six months PITIA is permitted when the borrower must vacate the property during renovation. The amount can be financed in the loan amount if the value will support such financing.
    - The reserve is allowed only for the period in which the property is uninhabitable due to the renovations. (If monthly HOA fees are included in the renovation escrow account, the servicer must pay them on behalf of the borrower).
- Other costs (i.e., fees for appraisals, review of renovation plans).
- Note: An amount for sweat equity may not be factored into the renovation costs.

## Maximum Loan Amount

- Purchase: Lesser of Acquisition Cost or "As Completed" Appraised Value x applicable LTV
- Refinance: "As Completed" Appraised Value x applicable LTV

## Contingency Reserve

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

Minimum

- This amount must be >= to 10% of the total renovation costs, except
- 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 be >= 15% of the total renovation costs.

Maximum

- This amount must be <= 20% of the total renovation costs

## 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.

### Refinance Transactions

CHOICERenovation mortgage loans originated as a no cash out refinance may include:

- The amount required to satisfy the existing first mortgage;
- The amount required to satisfy any outstanding subordinate mortgage liens that were used to acquire the property;
- Closing costs, prepaids, and points; and
- The total renovation costs, including allowable renovation-related costs for the home improvements up to the maximum permitted LTV and CLTV ratios.

A property previously owned free and clear by the borrower is considered a “no cash out” refinance if the proceeds are used only to finance eligible renovations.

- In these instances, at least one borrower must have been on the title to the subject for at least six months prior to the Note date.

CHOICERenovation proceeds can be used to pay off short-term financing that financed renovations, including, but not limited to, the addition or renovation of an ADU, completed prior to the Note date, provided the following requirements are met:

- The CHOICERenovation loan is not secured by a Manufactured Home,
- The CHOICERenovation loan is not a CHOICEReno eXPress Mortgage,
- The borrower must be the borrower on, and obligated to repay, the short-term financing, except as follows:
  - A borrower may be omitted in the event of death or divorce, or
  - A borrower who is a Related Person may be added, provided that all borrower s on the CHOICERenovation mortgage are owner-occupants of the property and considered in the underwriting of the loan.

        - Related Person is any of the following:
            - Borrower's spouse, child or dependent
            - An individual related to the borrower by blood, marriage or adoption
            - A guardian of the borrower
            - A person for whom the borrower is a guardian
            - The borrower's fiancee or fiance
            - The borrower's domestic partner.
    - All renovations financed by the short-term financing:
        - Are completed prior to the Note Date of the mortgage and no obligations related to such financing are outstanding
        - Must be completed prior to the appraisal, and the appraisal must reflect such renovations having been made.
        - Additionally, the appraisal report obtained must only be completed subject to completion of any *proposed renovations* also being financed with the CHOICERenovation loan.
    - The loan file must contain copies of all relevant documentation, including, but not limited to:
        - The short-term financing agreement
        - Sufficient documentation (i.e. purchase contracts, plans and specifications, receipt, invoices, lien waivers, etc.) on which to validate the actual cost of all renovations financed by the short-term financing
        - A document clearly showing the calculation of the short-term financing
        - The Settlement / Closing Disclosure Statement or an alternative form required by law for the closing of the short-term financing
        - The payoff statement

Proceeds may not be used to disburse cash out to the borrower

- Freddie Mac standard no cash out refinance of the greater of 1% or $2,000 is NOT PERMITTED for this product.

### Renovation Completion

- All renovations must be completed within 450 days of the Note date
  - "Easy Path" must be completed within 180 days of the Note date without an approved exception to have a longer term.
- Concurrent with the last disbursement of funds, a title update through the date the renovation was completed is required to ensure the continuance of Fannie Mae's first lien priority and the absence of any mechanic's or materialmen's liens.
  - When the property is located in a state in which contractors', subcontractors', or materialmen's liens have priority over mortgage liens, all necessary lien releases must be obtained.
- Lien Waiver
  - Before the final disbursement is made upon completion of the renovation, a lien waiver from the contractor, all subcontractors, and suppliers or a clear title report that releases all contractor, subcontractor, and supplier liens must be obtained.

### Delivery | Post Closing | Recourse

Recourse will remain in full force and effect until all renovations are complete. The following criteria will be applicable to the removal of recourse:

- Recourse will not be removed if the loan is delinquent
- The borrower has not been 30 days delinquent more than once during the renovation period, except that the recourse may be removed at a later date once the borrower has made 36 consecutive monthly payments with no delinquencies.

To request removal of recourse, Cardinal must request removal of the recourse in writing indicating:

- The Freddie Mac loan number
- Certificate of Completion (1004D) including photographs of the renovations, and
- Must provide certification that Freddie Mac is in first lien position.

All required documentation noted above must be submitted to Freddie Mac at CHOICERenovation@freddiemac.com.

## Freddie Mac | CHOICEReno eXPress | Conventional

Cardinal Financial offers the CHOICERenovation Loan which is a single-close loan that enables borrowers to purchase a home that may need repairs, or refinance the mortgage on their existing home and include the necessary funds for the renovation into the loan balance.

The CHOICEReno eXPress helps borrowers looking to finance small-scale renovations.

The differences in this program vs the CHOICERenovation are listed below.

### General Eligibility Requirements

All renovations must be completed within 180 days of the Note date

### Feasibility/Cost Analysis Consultant

Not required on the CHOICEReno eXPress program

### Maximum Financed Renovation Costs

#### Designated Duty to Serve High-Needs Area (including Manufactured Homes)

The total cost of the financed renovations must not exceed 15% of the lesser of the:

- Sum of the purchase price of the property plus the estimated cost of the renovations, or
- “As completed” value of the property as determined by the appraiser.

#### Not in Duty to Serve High-Needs Area (including Manufactured Homes)

The total cost of the financed renovations must not exceed 10% of the lesser of the:

- Sum of the purchase price of the property plus the estimated cost of the renovations, or
- “As completed” value of the property as determined by the appraiser.

## Contingency Reserve

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

Minimum

- This amount must be >= to 10% of the total renovation costs, except
- 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 be >= 15% of the total renovation costs.
- A contingency reserve is not required when proceeds are used exclusively to finance the addition or renovation of outdoor structures used for leisure and recreation.

Maximum

- This amount must be <= 20% of the total renovation costs

# One-Time Close

Cardinal Financial offers a One-Time Close Construction Loan which combines the construction financing into the same loan as the permanent mortgage financing. There is a single closing transaction before construction begins where a single set of fees and closing costs are collected from the borrower. This suite of products features conforming agency and government one-time close programs allowing for payment of interest-only during the construction phase.

### Resources

For additional information related to Origination, Transaction Management, and Underwriting, refer to Construction & Renovation Lending | Underwriting Submission.

## Builder Requirements

Construction should be completed by a licensed builder that the borrower chooses. A Builder Review is completed to determine that qualifications are met to the standards set forth by Cardinal Financial.

Each builder seeking to participate will be subject to a process that involves:

- License verification
- Insurance validation
- Financial validation
- Credit examination,
- Reference verification
- Criminal background check

The Validating the Builder/Contractor Procedure must be followed to obtain approval for the builder / contractor.

## Construction Funds

Construction funds will be held by Cardinal Financial in an amount sufficient to construct the premises. Any amount over and above the net loan proceeds and the total contract price must be collected from the borrower at the time of loan closing.

The funds will be held in an interest-bearing account. Since interest on the construction loan begins to accrue on the day the first construction loan proceeds are disbursed, borrower-contributed escrow monies are always used first, before construction loan monies, thus saving the borrower from paying interest on construction monies until absolutely necessary. A monthly statement is sent from the servicer to the borrower for interest due on construction loan disbursements.

Principal pay downs are allowed to be made by the borrower during the course of construction. This will be handled like any other payment through the loan servicer.

Completion inspections, disbursement of amounts to the builder, title updating, and interest-only billings will be administered by the Cardinal Construction/Renovation Team.

### Construction Term

Construction terms of 4 months, 6 months, 9 months or 12 months are available. The length of the construction term will be determined in the construction approval process by the Cardinal Construction Renovation Team.

Please note that the 4-month and 6-month option is only available for manufactured homes.

### Cost Breakdown & Budget Approval

The construction contract determines the cost of the construction and forms the basis for the loan amount. The Construction / Renovation Team will use the contractor's budget list of line items to create a budget that will be used throughout the process for requesting draws, etc.

The construction contract may not have any of the following present:

- No language about the customer being responsible for rise in materials or cost,
- No language about delays in construction commencement or build delay.

A mandatory 5% contingency is added to the budget to account for unanticipated expenses that often occur during the course of construction.

- The 5% contingency may be waived if the property is a manufactured home
- Additional 5-10% contingency may be required depending on the scope of work

The cost of periodic inspections is added to the cost of construction, along with title updates. Any required permits or other fees are added to the cost of construction and should be accounted for in the builder contract.

### Draw / Disbursement Process

**Resource:** Company | Construction Draw Policy

Processing Construction Draw Requests

### Extension Request for Construction Period

If the construction will not be completed by the expiration date, the Construction Addendum to the Note will outline the terms of the construction loan interest rate. A rate extension will be required from the

Lock Desk on the permanent loan interest rate. The Construction/Renovation Team will be involved to coordinate the time period needed before the construction will be complete. A maximum 30 days extension may be allowed based on acceptable extension reasons approved by the Construction/Renovation Team and the Lock Desk.

### Guaranteed Interest Rate

Borrower(s) can lock in a guaranteed interest rate for the permanent loan prior to closing. The guaranteed interest rate will be used as the qualifying rate for the borrower at the time of underwriting. It will also be the rate shown on the permanent loan Note.

Because the loan documents specify the terms of the permanent financing, the construction loan will automatically convert to a permanent long-term mortgage upon completion of the construction and expiration of the construction period.

### Homeowners Association Approval

For properties located in a Planned Unit Development (PUD), the Homeowner's Association must approve the plans and specifications for the new construction prior to our loan closing.

### Impound Account for Taxes and Insurance

An escrow impound account will be established at closing for real estate taxes, hazard insurance, flood insurance, or mortgage insurance associated with the permanent financing portion of the loan. No additional escrows will be collected during the construction period. Any property taxes that are due at the time of closing will be collected on the Closing Disclosure. Property Insurance from an insurance quote will be collected for the first 12 months. The dates are going to be calculated initially as the Effective Construction Completion date, and once the Certificate of Occupancy date is set, the date will then be updated to the COO date. At that time, a final insurance policy will be obtained with updated amounts if applicable.

Property tax and insurance amounts must be included in the qualifying payment.

An Insurance Quote will be received during underwriting to outline the proposed premium once the home is completed.

## Required Tax Documentation

The calculation of real estate taxes for qualification purposes must be documented using either:

- Copies of current property tax statements, figures provided by the title company/settlement agent, or
- The Property Tax Estimate from CoreLogic located in Octane. The CoreLogic Property Tax Estimate will provide the current and projected tax values for the property based on the occupancy and loan purpose
    - Note: The CoreLogic Property Tax Estimate can be located on the Octane Charges & Credits screen in the Taxes tab. It can also be found in Octane > Documents > Property Tax Estimate.

## Projected Tax

The underwriter must project the real estate taxes (Projected Amount) on the One Time Close program.

- A reasonable estimate of the real estate taxes based on the value of the land and completed improvements must be calculated.
- Acceptable source documents include:
    - Estimate of taxes from either the title company or the tax assessor's office
    - Property Tax Estimate from CoreLogic
    - Available Exceptions: Reference New Construction | State Specific Tax Calculations for specific states that have flexibilities regarding the tax calculations for new construction properties.
- The borrower **must** be qualified with the Projected Amount
    - Note: A new feature allows the transaction to close with the current amount of taxes but will not impact the Projected Amount used in the qualifying DTI in Underwriting.

## Insurance Requirements

### Property Insurance

- An "All Risk" Policy (HO3 or better) with fire and extended coverage, including vandalism and malicious mischief, is required to be in effect throughout the construction period.
- The policy must cover the dwelling during construction.
- Minimum coverage must equal the loan amount or replacement cost.
- If the coverage is being obtained by the builder through their existing Builder's Risk Policy, we must receive proof that the collateralized property is added to the builder's policy. In addition, the borrower must be named as "additional insured," and Cardinal Financial must be listed as the "Loss Payee; or "Mortgagee." In addition, the Builder's Risk Policy must be paid in full prior to loan closing.
- If the property is a manufactured or modular home, the Builder's Risk Policy must also include transit coverage. This insurance covers any damage to the goods while in transit to the construction site.

### Flood Insurance

- If the property is located in a Flood Zone, proof of Flood Insurance is required at the time of closing on the OTC loan per requirements noted in Chapter 16 | Insurance | Lending Guide. The flood premium will be collected on the closing disclosure.
- If the Builder's Risk policy includes flood coverage, the following documentation is required:
    - Document the coverage amount on the Builder's Risk policy includes the dwelling replacement cost,
    - A flood policy, or at minimum a flood quote, is also required,
    - The premium on the flood policy or quote will be collected on the closing disclosure.

### Insurance - Construction Completion

Once construction is completed, the insurance policy / binder is obtained. The credit underwriter on the loan will receive an Octane workstep called Construction HOI - Underwriting to review the policy to ensure compliance with insurance requirements and guidelines.

- The new policy premiums will not be input into the Charges & Credits screen in Octane unless the loan is conventional and needs to be updated with new credit documents. See Re-verification Process for more details.

### Interest Reserve & Loan Payments

A separate interest reserve may be collected at closing to fund the interest payments due during construction. This will be negotiated and approved by the Cardinal Construction/Renovation Team. Refer to the specific program sections (i.e. Conventional, FHA, VA) for additional information.

### Land Acquisition

When the land is acquired outside of the subject transaction, a Smart Document | Land Acquisition will be present in Octane. Documentation must be provided to show how the borrower acquired the land. Examples include:

- Purchase, documented by a settlement statement,
    - If purchased within 60 days from the TRID Application Date, the source of funds must be documented.
    - If purchased greater than 12 months from the TRID Application Date, the settlement statement is not required.
- Inherited, documented by a will or other legal documentation,
    - If inherited greater than 12 months from the TRID Application Date, the will or other legal documentation is not required.
- Gift, documented by a Gift Letter.
    - If the land gift was provided greater than 12 months from the TRID Application Date, the gift letter is not required.

All forms of land acquisition documentation must show title held in the borrower's name prior to closing the subject OTC loan transaction. The legal description will also match the Title | Preliminary Report provided on the loan.

Smart Document Reference 127.010 - Land Acquisition

### Modification at Time of Conversion

A Modification is completed at the time of home completion to convert the loan from the interest-only construction terms to a fully amortized loan for the remainder of the loan term.

#### Preparing the Modification Agreement

The document management team will prepare the modification agreement, have it signed by an executive member of Cardinal's finance department, and send it to the settlement agent that handled the initial closing.

If the modification agreement is not signed by the 10th of the month, the due date of the first mortgage payment listed on the modification agreement will be pushed to the first day of the subsequent month, leaving the borrower a 2-month cushion.

- Example: If the borrower does not sign the modification agreement by March 10, 2023, the first payment date will be moved to May 1, 2023.

#### The Signing Appointment

The document management team will ask the settlement agent that handled the initial closing to arrange an appointment with the borrower to sign the modification agreement. If the settlement agent does not respond within 48 hours, Cardinal Financial will arrange an appointment with X Marks the Spot Signing Services, Inc.

### Pre-Close Construction Call

After receiving final underwriting approval, the Construction/Renovation Team will complete the following steps:

- Conduct a pre-construction call with the borrower, builder, and the loan officer. All loan details and all aspects of the construction phase are discussed to ensure understanding of processes, risks to avoid and ensure understanding of the loan details.

### Ratios

Borrowers are qualified at the Note rate for the permanent loan per the Lock. Property tax and insurance amounts must be included in the qualifying payment. Refer to Impound Account for Taxes and Insurance.

### Title Commitment

The Title Company must provide Mechanic Lien protection coverage during construction and may require title updates or date downs at the time of each draw. The Cardinal Construction/Renovation Team will confirm if this is required in order to include it in the cost of construction.

## One-Time Close | Conventional

### Eligible Transactions

#### Purchase Transactions

A loan is structured as a purchase if the borrower is not the owner of the lot at the time of the first advance of interim construction financing, and the borrower is using the proceeds from the interim construction financing to purchase the lot and finance the construction of the property.

#### Refinance Transactions

A loan is structured as a limited cash-out (rate and term) refinance if the borrower holds legal title to the lot before the closing of the one-time close transaction. The borrower is using the proceeds from the construction financing to pay off any existing liens on the lot and finance the construction of the property.

The borrower may receive cash back in the amount that is not more than the lesser of 2% of the new refinance loan amount or $2,000.

- Any builder deposit provided by the borrower prior to closing is not available to refund back to the borrower on the Closing Disclosure on an OTC refinance transaction.

FNMA requires a three-day right of rescission on a single-closing construction.

### Calculation of Construction Costs

#### Purchase Transactions

Purchase transactions can include the following items into the construction calculation:

- Purchase or acquire the land
- Pay Eligible Construction Costs.
- Manufactured Home: Acquire the MH, pay Eligible Construction Costs, including costs to install and anchor the MH on a permanent foundation system and all off-site improvements.

#### Refinance Transactions

Refinance transactions can include the following items into the construction calculation:

- Pay off any existing liens on the land (if applicable).
- Pay all closing costs.
- Pay Eligible Construction Costs.
- Manufactured Home: Acquire the MH, pay off any existing liens on the land, pay Eligible Construction Costs, including costs to install and anchor the MH on a permanent foundation system and all off-site improvements.

#### Eligible Construction Costs

Eligible construction costs include the following:

- Materials, cost of labor associated with the construction
- Energy-efficient components, system, and installation

- Grading, seed/sod, and other site improvements such as decks, porches, landscaping, etc.
- Architectural, engineering, survey, and legal fees
- Water and sewer tap fees
- Access fees to other utilities (gas, electric, telephone, and cable)
- Utilities during construction
- Permits, inspection, and recording fees
- Costs associated with construction loans, including interest and points
- (Refinance only) Closing costs associated with a permanent mortgage

### Identity of Interest / Non-Arms Length Transaction

Non-arm's length transactions exist when there is a relationship or business affiliation between the seller/builder and the borrower of the property. For newly constructed properties, if the borrower has a relationship or business affiliation (any ownership interest or employment) with the builder or developer of the property, the subject loan must be secured by a principal primary residence only.

### Loan to Value Calculation

| Transaction Type | Lot Ownership Requirement | LTV Ratio Calculation |
|---|---|---|
| Purchase | The borrower is not the owner of the record of the lot at the time of the first advance of interim construction financing. | Divide the loan amount of the construction-to-permanent financing by the lesser of:<br>• The purchase price (sum of the cost of construction and the sales price of the lot), or<br>• The "as completed" appraised value of the property (the lot and improvements) |
| Limited Cash-out Refinance | The borrower is the owner of the record of the lot at the time of the first advance of interim construction financing. | Divide the loan amount of the construction-to-permanent financing by the "as completed" appraised value of the property (the lot and improvements). |
| All payments made by the borrower directly to the builder, or purchases of materials outside of the | | |

| |
|---|
| builder's contract, will not be considered in the total acquisition cost calculation. |
| Gifted or Inherited Land:<br>• If the borrower acquired the land as a gift or by inheritance, the value of the land as reported on the appraisal might be used in lieu of the purchase price of the land. Obtain appropriate documentation to verify the acquisition and transfer of ownership of the land.<br>• Gifted land is not eligible on Investment properties |

### Mortgage Insurance

If private mortgage insurance is required due to the LTV, it will be ordered at the time of our loan closing. A request of up to a 12-Month Construction / Permanent Commitment must be indicated when ordering the MI certificate. The insurance is not effective until the final completion of the improvement. If at the time of conversion to the permanent loan, the LTV is at or below 80%, the mortgage insurance will be canceled.

### Octane Loan Ribbon Payments

Octane will display two payments for the loan on the ribbon.

- The Mo. Pymt and the payment associated with the housing ratio in the DTI section will both reflect the amortized loan payment (along with the figures for taxes, insurance, etc.) at the loan amount and interest rate shown
- The payment associated with the housing ratio in the DTI section is the amortized payment for the loan term less the construction term
- DU is configured to run the payment at the correct term.

### Requalification Process

Effective with loans closed on or after June 1, 2022:

- All credit documents must be no more than four months old on the note date (the closing of the construction loan).
- Additionally, income, employment and credit report documents must be no more than four months old at the time of conversion to permanent financing.

- As an exception, these documents may be more than four months but not exceeding 12 months old at the time of conversion to the permanent financing if all of the following conditions were met at the time of the original closing of the construction loan:
    - The LTV/CLTV ratios do not exceed 95%,
    - The representative credit score of the loan is greater than or equal to 700, and
    - The loan casefile was underwritten through DU and received an Approve/Eligible recommendation.
- If any of the above exception conditions was not met, the lender must:
    - Obtain updated income, employment and credit report documents no more than four months prior to conversion; and
    - Re-qualify the borrower(s) in accordance with the Requalification Requirements below.
- Updated asset documentation is not required at the time of conversion to permanent financing (regardless of the age of the asset documents) unless upon requalification, either of the following applies:
    - More reserves are required than were required at the time of original qualification
        - The full amount of reserves must then be reverified, or
    - The borrower chooses to bring additional funds to the transaction
        - The additional funds must come from an eligible source and be documented.

Requalification of the borrower(s) is required at the time of conversion to permanent financing if:

- The LTV ratio increased due to a decline in property value,
- Updated credit documents were obtained, or
- As otherwise required per the modified loan term.

To be eligible for purchase by Fannie Mae, the loan must retain an Approve/Eligible recommendation after resubmission to DU.

When requalification is required:

- The LTV ratio must be adjusted based on the updated appraisal, if applicable;
- If credit documents exceed the four (or 12) month age of documentation requirement, the updated income, credit and liability information must be considered; and
- The loan data at delivery must match the data considered in the final requalification of the loan.

Loan Closing Dates < June 1, 2022: One-Time Closing transactions with credit and appraisal documents dated more than four months but not exceeding 18 months old at the time of conversion to permanent financing are eligible for delivery if all of the following conditions were met at the time of the original closing of the construction loan:

- The documents were dated within 120 days of the original closing date of the construction loan, and
- The LTV, CLTV, and HCLTV ratios do not exceed 70%, and
- The borrower has a minimum representative credit score of 700, and
- The loan case file has a DU recommendation of Approve/Eligible.

If any of the above conditions were not met, the following steps must be taken:

- Obtain updated credit documents (credit and income).
- Requalify the borrowers before the mortgage loan is delivered to Fannie Mae.
- Octane will open work steps at the time of home completion to obtain these documents and submit them to the credit underwriter for review and approval.

## Resources

For additional information regarding the Conventional One-Time Close program, refer to Updating Credit Documentation for Construction Products Post Closing.

## Underwriting

The OTC loan program is underwritten per the long-term guidelines outlined for the program, the Conforming Fixed Product Snapshot, Conventional High Balance Product Snapshot, and applicable Conventional Lending Guides located on the Cardinal HUB.

Construction-specific documents that are required before closing will be reviewed and cleared by the Construction / Renovation team. These documents include the following:

- Architectural Exhibits

- Authorization to Wire Funds
- Builder/Contractor Questionnaire
- Builder's Risk Insurance
- Construction-to-Permanent Loan Disclosure
- Contractor (Builder) Liability Insurance Coverage
- Evidence of Licensing
- Government Issued Photo ID (Contractor/Builder)
- Prepaid Accounting Worksheet
- Project Review Checklist
- Purchase Contract
- Request for Taxpayer ID (W-9)
- Standard Budget

The credit underwriter will review the Construction screen to see the breakdown of the construction costs.

The appraisal is reviewed by the Collateral Underwriter per Chapter 10 | Property and Appraisal Requirements | Conventional Lending Guide.

- All appraisals completed for a One Time Close product require the Opinion of Site Value be completed by the appraiser, regardless of individual Agency requirements.
- The Final Inspection 1004D will be obtained at the time of home completion.

The loan data at delivery to the agency must match the data in the final submission of the loan to DU.

## One-Time Close | FHA

### Eligible Transactions

FHA defines a One-Time Close program as Construction to Permanent. It is defined as the construction of a dwelling on land owned or being purchased by the borrower.

The borrower must either be purchasing the land at the closing of the construction loan or already own the land.

The loan will be structured as a Purchase, even if the land is already owned by the borrower and the borrower is in title on the property.

### Calculating Maximum Mortgage Amount

The Mortgagee must use the lesser of the appraised value or the documented Acquisition Cost to determine the Adjusted Value.

The Maximum Mortgage Amount is calculated using the appropriate purchase Loan-to-Value (LTV) percentage of the lesser of the Appraised Value or the documented Acquisition Cost.

### Acquisition Cost

The documented Acquisition Cost of the Property includes:

- The builder's price (includes the cost of land if being purchased from the builder), or the sum of all subcontractor bids and materials (if the land is already owned by the borrower);
    - Must obtain the Closing Disclosure or similar legal document showing the cost of the land and the date of purchase if already owned by the borrower.
- Borrower-paid options and construction costs not included in the builder's price to build;
    - Must obtain evidence that the funds used to pay borrower-paid options were derived from an acceptable source—an itemization of the options and expenses along with the cost of each item.
- Closing costs associated with any interim financing of the land; and

- Either of the following:
    - For land that is not yet purchased or has been owned six months or less at case number assignment, the lesser of the cost of the land or appraised value of the land; or
    - For land that has been owned for more than six months at case number assignment or was received as an acceptable gift, the appraised value of the land
        - For land given as a gift to the borrower, must verify that the donor was not a prohibited source.

          **Note**: Closing costs associated with the One-Time Close subject transaction may not be included in the above maximum mortgage amount calculation.

For Manufactured Housing, the builder's price to build includes the sum of the cost of the unit(s), the cost to transport the unit from the dealer's lot to the installation site, and all on-site installation costs.

### Case Number Assignment Data Entry

Two data entry fields must be input as noted below to distinguish the loan as a Construction to Permanent One Time Close:

- Construction Code: Proposed Construction
- Program ID: (36) - Construction / Permanent Properties (including a Manufactured Home)

### Endorsement / Insuring

The Mortgage must be endorsed within 60 days of the final inspection or issuance of the Certificate of Occupancy, whichever is later.

### Flood Insurance Requirements

#### Flood Hazard Areas

If any portion of the property improvements (the dwelling and related Structures/equipment essential to the value of the Property and subject to flood damage) is located within a Special Flood Hazard Area (SFHA), the Property is ineligible, unless:

- A FEMA-issued final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the Property from the SFHA is obtained from the Federal Emergency Management Agency (FEMA); or
- A FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form 086-0-33) is obtained.
    - The Initial Elevation Certificate will be completed based on construction drawings. A subsequent Elevation Certificate must be completed when construction is completed.
    - The Initial Elevation Certificate will provide line C2.f to show the elevation of the grading of the lot. This must be at or above the 100-year flood elevation (Line B9).
    - The Final Elevation Certificate must document the lowest floor (including the basement) (Line C2.a) of the residential building, and all related structures/improvements/equipment essential to the value of the Property, is built at or above the 100-year flood elevation (Line B9) in compliance with the NFIP criteria. The Elevation Certificate must be prepared by a licensed engineer or surveyor.
- The Mortgagee must ensure that insurance under the NFIP is obtained when a flood elevation certificate documents that the Property remains located within an SFHA.

### Identity of Interest / Non-Arms Length Transaction

Non-arm's length transactions exist when there is a relationship or business affiliation between the seller/builder and the buyer of the property.

If an Identity of Interest / Non-arms Length Transaction is present between the builder and the borrower, the maximum LTV is limited to 85%, unless the following exception is met:

- The borrower is an employee of the builder, and
- Has no ownership in the company, and
- Is not a family member of the builder.

### Mortgage Insurance Premium

The Upfront Mortgage Insurance Premium (MIP) will be collected at closing and remitted to FHA within ten days. The Monthly MIP is not collected until the property is complete and the conversion to the long-term loan is finalized.

### Octane Loan Ribbon Payments

Octane will display two payments for the loan on the ribbon.

- The Mo. Pymt and the payment associated with the housing ratio in the DTI section will both reflect the amortized loan payment (along with the figures for taxes, insurance, etc.) at the loan amount and interest rate shown
- The payment associated with the housing ratio in the DTI section is the amortized payment for the loan term less the construction term
- DU is configured to run the payment at the correct term

### Underwriting

The FHA OTC loan program is underwritten per the long-term guidelines outlined in the FHA Purchase Snapshot, and Chapter 12 | Credit | FHA Lending Guide/Chapter 12 | Property and Appraisal Requirements located on the Cardinal HUB.

Construction-specific documents that are required prior to closing will be reviewed and cleared by the Construction / Renovation team. These documents include the following:

- Architectural Exhibits
- Authorization to Wire Funds
- Builder/Contractor Questionnaire
- Builder's Risk Insurance
- Construction-to-Permanent Loan Disclosure
- Contractor (Builder) Liability Insurance Coverage
- Evidence of Licensing
- Government Issued Photo ID (Contractor/Builder)
- Prepaid Accounting Worksheet

- Project Review Checklist
- Purchase Contract
- Request for Taxpayer ID (W-9)
- Standard Budget

The credit underwriter will review the Construction screen to see the breakdown of the construction costs.

The appraisal is reviewed per FHA guidelines by the Collateral Underwriter:

- The Final Inspection 1004D and any required construction documents will be obtained at the time of home completion.
- All appraisals completed for a One Time Close product require the Opinion of Site Value be completed by the appraiser, regardless of individual Agency requirements.

The loan data at delivery to the agency must match the data in the final AUS submission of the loan case file.

## One-Time Close | VA

### Eligible Transactions

VA defines a One-Time Close program as Construction/Permanent Home Loan. Transactions in which a Veteran has signed a contract to build will be considered a purchase, regardless of the category shown on the closing disclosure. The Veteran must either be purchasing the land at the closing of the construction loan or already own the land.

### Borrower Allowable Fees

Fees that are paid by the Borrower / Veteran must follow VA guidelines per the VA Handbook. The Veteran may not pay any fees that are the builder's responsibility.

### Builder Fees

The builder is responsible for:

- Interest payments during the construction period,
- All fees normally paid by a builder who obtains an interim construction loan including, but not limited to:
    - Inspection fees
    - Commitment fees
    - Title update fees
    - Hazard insurance during construction
    - Property taxes

### Builder Requirements

The builder or general contractor must be a registered VA builder. A list of registered VA builders is available in WebLGY.

For any property appraised for proposed construction, the builder or contractor must have a valid builder identification number prior to the VA NOV being issued.

### Calculating Maximum Mortgage Amount

The maximum mortgage amount is calculated using the applicable purchase LTV percentage of the lesser of the Appraised Value or the documented Acquisition Cost plus the applicable VA Funding Fee.

The documented Acquisition Cost of the property includes:

- The contract to build
- The lot
- Contingency reserve
- Permits, if not included in the contract to build
- Borrower-paid options and construction costs not included in the builder's price to build

- Allowable closing costs associated with the interim financing of the land

  **Note**: Closing costs associated with the one-time close subject transaction may not be included in the above maximum mortgage calculation, nor any required builder-paid fees.

### Case Number Assignment

The case must be ordered as “new construction and purchase” in WebLGY. The appraisal is ordered, “based on plans and specs.”

### Endorsement / Insuring

The Mortgage must be guaranteed within 60 days of the final inspection or issuance of the Certificate of Occupancy, whichever is later.

The Guaranty is completed as a purchase transaction. The Loan Guaranty Certificate will not be issued until a clear final inspection report has been received by VA.

### Identity of Interest / Non-Arms Length Transaction

Non-arms length transactions exist when there is a relationship or business affiliation between the seller/builder and the buyer of the property.

VA has no arms-length restrictions, provided the builder is registered with VA. A list of registered VA builders is available in WebLGY.

### Interest Reserve

A separate interest reserve must be collected at closing to fund the interest payments due during construction. The interest reserve, nor interest payments during construction, cannot be charged to the veteran per VA Handbook Chapter 7. The interest reserve must be funded by the builder and is not considered an Interested Party Contribution.

### Octane Loan Ribbon Payments

Octane will display two payments for the loan on the ribbon.

- The Mo. Pymt and the payment associated with the housing ratio in the DTI section will both reflect the amortized loan payment (along with the figures for taxes, insurance, etc.) at the loan

amount and interest rate shown
- The payment associated with the housing ratio in the DTI section is the amortized payment for the loan term less the construction term
- DU is configured to run the payment at the correct term

### VA Funding Fee

The VA Funding Fee will be collected at closing and remitted to VA within 15 days of loan closing.

### Underwriting

The OTC loan program is underwritten per the long-term guidelines outlined in the VA Purchase Snapshot and Chapter 13 | VA Lending Guide located in the Cardinal HUB.

Construction-specific documents that are required prior to closing will be reviewed and cleared by the Construction / Renovation team. These documents include the following:

- Architectural Exhibits
- Authorization to Wire Funds
- Builder/Contractor Questionnaire
- Builder's Risk Insurance
- Construction-to-Permanent Loan Disclosure
- Contractor (Builder) Liability Insurance Coverage
- Evidence of Licensing
- Government Issued Photo ID (Contractor/Builder)
- Prepaid Accounting Worksheet
- Project Review Checklist
- Purchase Contract
- Request for Taxpayer ID (W-9)

- Standard Budget

The credit underwriter will review the Construction screen to see the breakdown of the construction costs.

The appraisal is reviewed per VA guidelines by the Collateral Underwriter:

- The Final Inspection 1004D and all required construction documents will be obtained at the time of home completion.
- All appraisals completed for a One Time Close product require the Opinion of Site Value be completed by the appraiser, regardless of individual Agency requirements.

The loan data at delivery to the agency must match the data in the final AUS submission of the loan case file.

## One-Time Close | USDA *Coming Soon*

### Eligible Transactions

USDA defines a One-Time Close program as Construction to Permanent. It is defined as the construction of a dwelling on land owned or being purchased by the borrower.

The borrower must either be purchasing the land at the closing of the construction loan or already own the land.

The loan will be structured as a Purchase, even if the land is already owned by the borrower and the borrower is in title on the property.

### Calculation of Construction Costs

Loan costs which may be included in the loan amount are subject to the maximum loan to value and will be reasonable and customary construction costs, such as:

- Land
    - The acquisition cost of the land
    - Payoff the balance of land to be utilized in the construction of the dwelling

- Construction Hard Costs
    - Costs inside the contract to be detailed on the construction budget agreed upon by the builder and borrower; and
    - Costs outside of the contract are paid to subcontractors for contributive work such as well and septic installation, roads, driveways, utility hookups, landscaping, etc.
- Construction Soft Costs
    - Appraisal fees
    - Inspection fees
    - Survey
    - Permits
    - Plan review fees
    - Engineering fees
    - Title updates
    - Lender construction administration fees
    - Contingency reserve limited to 10% of construction hard and soft costs
    - Interest reserve including interim interest as accrued during the construction period
    - Project review fees
    - Builder acceptance or review fees
    - Tax and insurance reserve
- Other reasonable and customary closing costs are allowable.

- For Manufactured Housing, the builder's price to build includes the sum of the cost of the unit(s), the cost to transport the unit from the dealer's lot to the installation site, and all on-site installation costs.

### Calculating Maximum Mortgage Amount

The fair market value of the proposed subject property will be utilized to establish the maximum loan amount. The land value is based on the value as reported in the Appraisal Report, with no seasoning requirement.

### Conditional Commitment

A Conditional Commitment is required on every USDA loan prior to closing. Follow standard procedures for submission to USDA.

### Endorsement / Insuring

USDA will issue the loan note guarantee when the construction loan is closed. The full amount of the "long-term loan" is guaranteed.

Construction should be completed within 12 months of loan closing.

### Guarantee Fee

The upfront fee is collected at the time of construction loan closing.

The annual fee is not collected until conversion to a fully amortized loan when the home is completed.

### Identity of Interest / Non-Arms Length Transaction

Non-arm's length transactions exist when there is a relationship or business affiliation between the seller/builder and the buyer of the property.

USDA has no arms-length restrictions.

### Loan Payments During Construction Period

Interest Only Period, if applicable:

- During the course of construction, the borrower will receive a statement on the first business day of the month that details the interest payment required on all disbursed funds from the construction loan.

- If the Interest Reserve is sufficient to clear the amount due for the month, $0 will be required.
- Once the home is complete and conversion occurs to the permanent loan, the amortized payment for the remainder of the loan cannot exceed the amortized payment calculated for a 30 year term.

Fully Amortized Payment, if applicable:

- The fully amortized payment will be due per the permanent Note during the construction period and will fully amortize in 30 years.

### Octane Loan Ribbon Payments

Octane will display two payments for the loan on the ribbon.

- The Mo. Pymt and the payment associated with the housing ratio in the DTI section will both reflect the amortized loan payment (along with the figures for taxes, insurance, etc.) at the loan amount and interest rate shown
- The payment associated with the housing ratio in the DTI section is the amortized payment for the loan term less the construction term
- GUS procedures:

### Underwriting

The OTC loan program is underwritten per the long-term guidelines outlined in the USDA Purchase Snapshot and Chapter 14 | USDA | Lending Guide located in the Cardinal HUB. To determine if the borrower is eligible, see http://eligibility.sc.egov.usda.gov. Follow the USDA underwriting guidelines for income eligibility and verification.

Construction-specific documents that are required prior to closing will be reviewed and cleared by the Construction / Renovation team. These documents include the following:

- Architectural Exhibits
- Authorization to Wire Funds

- Builder/Contractor Questionnaire
- Builder's Risk Insurance
- Construction-to-Permanent Loan Disclosure
- Contractor (Builder) Liability Insurance Coverage
- Evidence of Licensing
- Government Issued Photo ID (Contractor/Builder)
- Prepaid Accounting Worksheet
- Project Review Checklist
- Purchase Contract
- Request for Taxpayer ID (W-9)
- Standard Budget

The credit underwriter will review the Construction screen to see the breakdown of the construction costs.

The appraisal is reviewed per USDA guidelines by the Collateral Underwriter:

- The Final Inspection 1004D and all required construction documents will be obtained at the time of home completion.
- All appraisals completed for a One Time Close product require the Opinion of Site Value be completed by the appraiser, regardless of individual Agency requirements.

The loan data at delivery to the agency must match the data in the final AUS submission of the loan case file.

## Construction | Two-Closing *Coming Soon*

Cardinal Financial offers a Construction Loan to be used to build a new home while qualifying for a conventional take-out mortgage loan. The construction loan will require interest-only payments during the construction phase.

### Resources

For additional information related to Origination, Transaction Management, and Underwriting, refer to Construction & Renovation Lending | Underwriting Submission.

### Builder Requirements

Construction should be completed by a licensed builder that the borrower chooses. A Builder Review is completed to determine that qualifications are met to the standards set forth by Cardinal Financial.

Each builder seeking to participate will be subject to a process that involves:

- License verification
- Insurance validation
- Financial validation
- Credit examination,
- Reference verification
- Criminal background check

The Validating the Builder/Contractor Procedure must be followed to obtain approval for the builder / contractor.

### Construction Funds

Construction funds will be held by Cardinal Financial in an amount sufficient to construct the premises. Any amount over and above the net loan proceeds and the total contract price must be collected from the borrower at the time of loan closing.

The funds will be held in an interest-bearing account. Since interest on the construction loan begins to accrue on the day the first construction loan proceeds are disbursed, borrower-contributed escrow monies are always used first, before construction loan monies, thus saving the borrower from paying interest on construction monies until absolutely necessary. A monthly statement is sent from the servicer to the borrower for interest due on construction loan disbursements.

Principal pay downs are allowed to be made by the borrower during the course of construction. This will be handled like any other payment through the loan servicer.

Completion inspections, disbursement of amounts to the builder, title updating, and interest-only billings will be administered by the Cardinal Construction/Renovation Team.

### Construction Term

Construction terms of 4 months, 6 months, 9 months or 12 months are available. The length of the construction term will be determined in the construction approval process by the Cardinal Construction Renovation Team.

Please note that the 4-month and 6-month option is only available for manufactured homes.

### Cost Breakdown & Budget Approval

The construction contract determines the cost of the construction and forms the basis for the loan amount. The Construction / Renovation Team will use the contractor's budget list of line items to create a budget that will be used throughout the process for requesting draws, etc.

The construction contract may not have any of the following present:

- No language about the customer being responsible for rise in materials or cost,
- No language about delays in construction commencement or build delay.

A mandatory 5% contingency is added to the budget to account for unanticipated expenses that often occur during the course of construction.

- The 5% contingency may be waived if the property is a manufactured home
- Additional 5-10% contingency may be required depending on the scope of work

The cost of periodic inspections is added to the cost of construction, along with title updates. Any required permits or other fees are added to the cost of construction and should be accounted for in the builder contract.

## Draw / Disbursement Process

**Resource:** Company | Construction Draw Policy

Processing Construction Draw Requests

## Insurance Requirements

Property Insurance:

- An "All Risk" Policy (HO3 or better) with fire and extended coverage, including vandalism and malicious mischief, is required to be in effect throughout the construction period.
- The policy must cover the dwelling during construction.
- Minimum coverage must equal the loan amount or replacement cost.
- If the coverage is being obtained by the builder through their existing Builder's Risk Policy, we must receive proof that the collateralized property is added to the builder's policy. In addition, the borrower must be named as "additional insured," and Cardinal Financial must be listed as the "Loss Payee; or "Mortgagee."

Flood Insurance:

- If the property is located in a Flood Zone, proof of Flood Insurance is required at the time of closing on the OTC loan per requirements noted in Chapter 16 | Insurance | Lending Guide. The flood premium will be collected on the closing disclosure.
- If the Builder's Risk policy includes flood coverage, the following documentation is required:
    - Document the coverage amount on the Builder's Risk policy includes the dwelling replacement cost,

## Homeowners Association Approval

For properties located in a Planned Unit Development (PUD), the Homeowner's Association must approve the plans and specifications for the new construction prior to our loan closing.

## Interest Reserve & Loan Payments

A separate interest reserve may be collected at closing to fund the interest payments due during construction. This will be negotiated and approved by the Cardinal Construction/Renovation Team.

During the course of construction, the borrower will receive a statement on the first business day of the month that details the interest payment required on all disbursed funds from the construction loan. If the Interest Reserve is sufficient to clear the amount due for the month, $0 will be required.

## Land Acquisition

When the land is acquired outside of the subject transaction, a Smart Document | Land Acquisition will be present in Octane. Documentation must be provided to show how the borrower acquired the land. Examples include:

- Purchase, documented by a settlement statement,
  - If purchased within 60 days from the TRID Application Date, the source of funds must be documented.
  - If purchased greater than 12 months from the TRID Application Date, the settlement statement is not required.
- Inherited, documented by a will or other legal documentation,
  - If inherited greater than 12 months from the TRID Application Date, the will or other legal documentation is not required.
- Gift, documented by a Gift Letter.
  - If the land gift was provided greater than 12 months from the TRID Application Date, the gift letter is not required.

All forms of land acquisition documentation must show title held in the borrower's name prior to closing the subject transaction. The legal description will also match the Title | Preliminary Report provided on the loan.

Smart Document Reference 127.010 - Land Acquisition

## Ratios

Borrowers are qualified at the Construction loan rate + .5%

- Borrowers are qualified on a fully amortizing 30-fixed rate conventional loan with a PITIA payment to include projected insurance, property taxes, mortgage insurance (if applicable) and HOA dues (if applicable).
- Property tax and insurance amounts must be included in the qualifying payment as follows:
  - An Insurance Quote will be received during underwriting to outline the proposed premium once the home is completed
  - A Tax Cert or Estimate will be provided outlining the amount due if taxes as real property vs land only
    - If the taxes cannot be reasonably determined using the documents provided, then the Tax Payment can be calculated by using the CoreLogic Property Tax Estimate for the proposed taxes.
- The AUS is run on the loan using the Qualifying Payment on the fully amortized 30-year fixed rate loan terms

### Title Commitment

The Title Company must provide Mechanic Lien protection coverage during construction and may require title updates or date downs at the time of each draw. The Cardinal Construction/Renovation Team will confirm if this is required in order to include it in the cost of construction.

If work has started prior to approval / closing of the loan, the title company must provide protection against mechanics liens during the construction period. Work started includes, but is not limited to, clearing the lot, staking the lot, delivering materials, delivering equipment, cutting down trees, pouring foundation, etc.

## References

| Reference List |
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## Revision History

| Date | Version | Description | Approver |
|---|---|---|---|

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|---|---|---|---|
| 1.9.24 | V20 | Added Rental Income Received from the Subject Property One-Unit with an Accessory Dwelling Unit under the FHA 203(k) Loan Program section | Kristen Bellon |
| 11.17.23 | V19 | Clarified flood insurance coverage requirements and documentation for One-Time and Two-Time Close products | Ellen Clayson |
| 7.11.23 | V18 | Added Homeowners Association approval of the plans and specifications for all new construction in a PUD | Ellen Clayson |
| 5.11.23 | V17 | Added Preparing the Modification Agreement and The Signing Appointment sections to the Modification at Time of Conversion section of the One Time Close program | Ellen Clayson |
| 5.11.23 | - | Clarified on One Time Close and Two Time Close transactions when additional documentation supporting the land acquisition is required | Ellen Clayson |
| 5.4.23 | V16 | Revised Lending Guide Chapter 12 links | Kristen Bellon |
| 4.27.23 | V15 | Clarified on One Time Close Conventional refinance transaction that any builder deposit provided by the borrower prior to closing is not available to refund back to the borrower on the Closing Disclosure | Ellen Clayson |
| 4.5.23 | V14 | Added Fannie Mae HomeStyle Renovation section - Coming Soon and Construction \| Twp-Closing - Coming Soon | Ellen Clayson |
| 3.30.23 | V13 | Revised 203(k) Standard and Limited Contingency Required Percentages | Ellen Clayson |
| 3.7.23 | V12 | Revised calculation for property tax calculations for new construction properties in Texas and New Mexico | Ellen Clayson |
| 2.24.23 | V11 | Updated One Time Close Impound Account section using new functionality for projected taxes in qualifying, but allows current taxes to be used for closing if the borrower requests | Ellen Clayson |
| 2.24.23 | V11 | Updated Identity of Interest section to permit transactions for tenant/landlords which meet the requirements for FHA Exceptions to the Maximum LTV | Kristen Bellon |
| 1.4.23 | V10 | Added Policy documents for Draws | Ellen Clayson |
| 11.7.22 | V9 | Added Manufactured homes as an eligible property type for FHA 203(k) | Ellen Clayson |

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|---|---|---|---|
| 10.20.22 | V8 | Added CHOICERenovation and CHOICEReno eXPress sections to the guide | Ellen Clayson |
| 10.4.22 | V7 | Added Construction Term and noted that the 6-month option is only available for manufactured homes | Ellen Clayson |
| 8.28.22 | V6 | Added section Family Relationship Between the Builder and Borrower | Kristen Bellon |
| 8.4.22 | V5 | Added new requalification requirements based on Fannie Mae changes effective for loans closed on or after June 1, 2022 | Ellen Clayson |
| 5.23.22 | V4 | Added section for Insurance - Construction Completion outlining steps to be taken to review the final policy. Also added clarification regarding flood insurance required at the time of closing if located in a flood zone. | Ellen Clayson |
| 5.23.22 | V4 | Clarified that proposed tax amounts will be derived from the CoreLogic Property Tax Estimate if a Tax Certificate cannot be obtained from the taxing authority. | Ellen Clayson |
| 2.28.22 | V3 | Added that all appraisals completed for a One Time Close product require the Opinion of Site Value be completed by the appraiser | Kristen Bellon |
| 1.4.22 | V2 | Immaterial changes. Corrected grammar and formatting to align with company standards | Ellen Clayson |
| 11.3.21 | V1 | Published new Chapter for Construction and Renovation Lending Products | Ellen Clayson |