Home Repair & Renew (Home R & R) Origination Guide

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1.00 Introduction

This guide provides our lending partners with the information needed to understand WHEDA's origination requirements for its Home Repair and Renew (Home R & R) loan program. Home R & R is a loan program designed to help Wisconsin's low to moderate homeowners' repair and rehabilitate their home to maintain decent and safe housing. Home R & R must be originated and delivered through our Broker Channel. In the Broker Channel, WHEDA will fund the loan at closing, or table fund. These loans should close in the Lender's name.

Home R & R loans must be underwritten by WHEDA in our Broker Channel. In addition to this guide, please refer to the Home R & R Eligibility Matrix, Home R & R Income limits and the WHEDA Policy and Procedures Guide for complete details on originating and closing Home R & R Loans. Underwriting decisions will be based on a borrower's ability to meet the established criteria of this program.

All WHEDA, State, and Federal regulatory compliance requirements must be met.

2.00 WHEDA Paid Compensation Plan

All Broker Channel loans are subject to a WHEDA-Paid Compensation Plan. WHEDA currently offers the following WHEDA-Paid Compensation Plans for Home R & R:

- Home R & R Loan – Compensation Plan is $750

The Lender will receive the amount of compensation identified by the applicable WHEDA-Paid Compensation Plan regardless of any pricing adjustments applied to the loan.

Lender should consult the Broker Channel Price Grid to determine rates and pricing currently available.

3.00 Home R & R Loan Submission

This Chapter provides instruction to deliver Home R & R loans to WHEDA in the Broker Channel, also called the "Table Funding Channel." It is important to note that funds for the Home R & R program are limited. Reservation of funds will be on a first come, first served basis. This chapter also provides instructions for the reservation of funds.

3.01 Home R & R Loan Registration and Locking

A Home R & R Loan must be registered and locked prior to submitting for WHEDA underwriting.

- Registration for a Home R & R loan occurs when the lender submits the Home Improvement and Rehab Registration and Lock Request form (HI Form 1a) via email to underwriting@wheda.com.
- Upon receipt of the Home Improvement and Rehab Registration and Lock Request form (HI Form 1a), WHEDA will register the loan, assign a unique WHEDA loan number and establish the Registration Date. The interest rate will also be locked at this time.
- Registration of a Home R & R loan constitutes a reservation of funds.
- Following completion of the registration and lock process, WHEDA will send a confirmation email to the Lender. The loan will now be viewable in WHEDA-Connect in the Broker Channel.
- Only (1) R & R loan per borrower(s)/address

3.02 Home R & R Loan Submission

To submit a loan for underwriting, Lender must upload a complete Application Package into WHEDA-Connect, using the Home Improvement and Rehab Loan Application Package Checklist (HI Form 1). The Application Package must contain a Valuation Order Request Form (Form 48). To be considered complete, the application must include sufficient documentation to make a credit decision and include a scope of work with corresponding bids.

Upon receipt of the complete Application Package, WHEDA will order the AVM, underwrite the loan and render one of the following decisions:

- Approved – The Approval Certificate will specify any conditions and documentation required for final loan approval.
- Suspended – Lender will receive a Suspense Notice detailing the items necessary to make a credit decision on the application.

- Denied – If the application does not meet underwriting or regulatory compliance requirements, Lender will be notified, and a Notice of Adverse Action will be mailed to the borrower and Lender.

Documentation submitted may not be dated more than thirty (30) days prior to the Registration Date. If the loan is locked and proceeds to closing, Lender is responsible for ensuring documentation is not stale as of the Note Date. If documentation on which WHEDA based an approval becomes stale dated prior to the Closing Date, funding could be delayed.

3.03 Home R & R Loan Reservation and Lock Policy

Funds are reserved at the time the Home R & R loan is registered and locked. Reservations will be honored on a first come first served basis. Home R & R loans not submitted for underwriting prior to the expiration of the initial 45-day lock period will receive an automatic 30-day extension at no cost to the lender or borrower. If following the 30-day extension, the loan has not been submitted for underwriting, the loan and reservation will be canceled. Exceptions will not be granted. Following cancelation, a new registration/reservation would be subject to availability of program funding. Additional rate extensions may be considered, only if a complete loan package including a scope of work and corresponding work bids have been submitted for underwriting prior to the expiration of the 30-day extension period.

At a minimum, WHEDA will communicate via email with the originating Lender at the following times regarding the reservation and lock:

- Initial Lock request and reservation have been processed,
- Expiration of initial 45-day lock period to notify the lender an extension has been granted for 30 days, and
- At expiration of 30-day lock extension period to notify the lender the loan has been canceled.

4.00 Home R & R Mortgage Eligibility

WHEDA provides junior lien Home R & R loans for properties that are a borrower's principal residence. The first mortgage, if applicable, does not need to be a WHEDA mortgage. Refer to Section 10.02 for eligible property types.

4.01 Home Equity Combined Loan-to-Value (HCLTV)

For first mortgages that have subordinate financing, the lender must calculate the HCLTV ratio. The value of the property will be determined by an AVM, which will be ordered and paid for by WHEDA. The HCLTV is determined by dividing the sum of the items listed below by the value of the property.

- the unpaid principal balance of the first mortgage
- the full amount of any Home Equity Lines of Credit (HELOCs) whether or not funds have been drawn, and
- the unpaid principal balance of all closed-end subordinate financing including but not limited to forgivable down payment assistance (DPA) and zero percent interest deferred DPA programs.
  - Subordinate financing that is recorded with a retention agreement and include~~s~~ an automatic subordination provision is not required to be included in the HCLTV calculation.

See the Home R&R Eligibility Matrix for maximum HCLTV requirements.

4.02 Lien Position

The Home R & R loan may be in first, second, or third lien position, regardless of who holds the first or second liens. WHEDA may subordinate to a Rate & Term refinance.

No judgments or non-mortgage liens may be on title. Borrowers may not be listed on the Wisconsin Child Support Lien Docket.

4.03 Prohibited Mortgage Transactions

- High Priced Mortgage Loan (HPML) under the Truth in Lending Act (TILA)
- High-Cost Mortgage Loan (HCML) under the Home Owners and Equity Protection Act (HOEPA)
- First mortgage acquisition financing
- Payoff of existing mortgage(s)
- Loans with ineligible improvements as defined in Section 13.08
- Borrowers may not have another loan under this section pending with Wisconsin Housing and Economic Development Authority at time of application
- Refer to the Policy and Procedures Guide Section 4.05-Higher Priced Mortgage Loans for additional guidance.
- Multiple Home R & R transactions

5.00 Borrower Eligibility

This Chapter provides guidance on determining a borrower’s eligibility for a WHEDA Home R&R loan.

5.01 Income Limits

Income Limits are based on property location.

The combined gross annual income of all people who occupy the subject property cannot exceed the applicable Home R & R Income Limit for the county in which the property is located.

The borrowers must complete a Home R & R Borrower's Affidavit (RR Form 2) listing all persons that will occupy or intend to occupy the subject property, their names, age, relationship to each borrower, and gross annual income.

Refer to the Home R&R Income Limit Chart and Section 6.0 – Determining Household Size and Section 7.0 – Calculating Compliance Income for additional guidance.

Good to Know

The number of household occupants may be different than the number of loan applicants.

5.02 Citizenship

All borrowers must have a valid Social Security Number and be one of the following:

- U.S. citizen
- Permanent resident alien (I-551)
- Temporary resident alien (I-766, I-94 or I-551 temporary stamp) with a card issued by the Department of Homeland Security U.S. Citizenship and Immigration Services. A copy of the card must be included in the application package.

If the validity of the Social Security Number is in question, the lender must verify and validate the Social Security Number through one of the following:

- Social Security Administration
- Acceptable third-party vendor

5.03 Child Support/Maintenance

Arrearages reported on the State of Wisconsin Support Lien Docket must be paid in full prior to closing or the borrower must provide a payment agreement that has been approved by the county child support agency with a 6-month satisfactory payment history.

5.04 Occupancy

A borrower must occupy the subject property as their primary residence.

5.05 Ownership of Other Property

A borrower may own other real estate.

5.06 Guarantors and Co-Signors

A guarantor or co-signor is not allowed.

5.07 Non-Occupant Co-Borrowers

Non-occupant Co-Borrowers are not allowed.

6.00 Income and Employment Documentation

The lender is required to document a 2-year history of stable employment and a reliable stream of income.

Income and employment documentation must be no more than 30 days old from the application date. The lender must update the documentation if it has expired.

6.01 Paystub

The paystub must be dated no earlier than 30 days prior to the initial loan application date, reflect a minimum 30 days of income, identify the name of the employer and the borrower, and include all year-to-date earnings. The paystub must include sufficient information to appropriately calculate income. If the borrower has been on the job for less than one year, the lender must obtain a Verbal Verification of

Employment confirming the borrower's "start date" so that credit and compliance income can be calculated.

6.02 Request for Verification of Employment (VOE)

The lender may use the Request for Verification of Employment (Form 1005 or Form 1005(S)) to document income from a salaried or commissioned borrower. The date of the document must meet the Allowable Age of Credit Documents requirement. The information on the VOE must be legible. The following fields on the form are optional:

- Probability of Continued Employment
- If overtime or bonus is applicable, is its continuance likely?
- Date of Applicant's next pay increase
- Projected amount of next pay increase
- Date of applicant's last pay increase
- Amount of last pay increase
- Reason for leaving (Part III – Verification Previous Employment)

The remaining fields on the form must be completed as applicable to the borrower.

Lenders must obtain a blanket authorization from the borrower to request the information, or the borrower must sign Form 1005 or Form 1005(S).

6.03 W-2 Forms

IRS W-2 forms must cover the most recent two-year period and clearly identify the borrower as the employee. The sum of the W-2's should match the wages earned on the borrower's federal tax returns or transcripts.

The most recent year's IRS W-2 Forms are required for all non-borrowing adult occupants. The sum of the W-2's should match the wages earned on the borrower's federal tax returns or transcripts.

6.04 Tax Returns/Transcripts

The lender must obtain Federal Income Tax Returns for the most recent two-year period for all borrowers.

The lender must obtain the most recent year's Federal Income Tax Return for all non-borrowing adult occupants.

Tax transcripts are not required for the Home R & R Plus loan program, however the lender may obtain tax transcripts in lieu of tax returns if desired.

Tax Returns will be reviewed to ensure all sources of income are accounted for in the compliance income calculation.

6.05 Verbal Verification of Employment (VVOE) Requirements

A VVOE for all active employment for each borrower must be obtained and dated within 10 business days prior to the Note date.

Hourly, salary and commission income employees

Verify and document the employer's phone number, and if possible, their address, independently through the phone book, the internet, directory assistance, or by contacting the applicable licensing bureau.

The VVOE should include:

- The name and title of the person who confirmed the employment,
- The date of the call, and
- The source of the phone number, if the internet – provide the website address
- Employment status

If a VVOE cannot be obtained, one of the following methods may be used:

- The Work Number Website - If the verification is obtained from The Work Number website, the 10-day business period is measured from the date of the Client's request to the vendor, not the date the information was updated in the vendor's database.
- A written verification of employment sent directly to the employer.

Self-employed borrowers

Verify the existence of the borrower's business within 30 calendar days prior to the Note Date through one of the following methods:

- From a third-party such as a CPA, regulatory agency, or the applicable licensing bureau, if possible
- By a phone listing and address for the borrower's business using a telephone book, internet, or directory assistance
- By verbal contact: Document the source of the information, and document the name and title of the lender's employee who obtained the information

Seasonal employment

If verbal verification occurs during the off season and the borrower is currently not working for that business, independent verification that the business exists, and that the borrower previously worked for that business as stated on the loan application is required.

7.00 Determining Household Size

Total Household Size includes all persons who will occupy the subject property. Occupants include but are not limited to the following:

- Adults aged 18 or older
- Children
    - If a borrower shares placement of a minor child, a copy of the final divorce decree and marital settlement agreement or any other type of written legal agreement or court decree is required to determine if the borrower has at least 50/50 placement.
- Partner, companion
- Parent, Grandparent
- Niece, nephew
- Aunt, uncle
- Boarder, Renter (2-4 unit property)

The borrower is required to complete the Home R & R Borrower's Affidavit (RR Form 2) listing the names, ages, relationship to each borrower and the amount of income earned or received on behalf of each household occupant.

8.00 Calculating Compliance Income

Compliance income is the anticipated gross income of all persons who will occupy the subject property. Calculating total gross household income is key to determining if the borrowers are income compliant for the Home R&R loan.

When calculating compliance income, it is important to ensure that the outcome is fair and reasonable. Certain types of incomes will, at times, warrant a different approach and/or averaging. This chapter will discuss income inclusions and exclusions, periodic vs variable income, and a couple of examples of how to approach variable income.

Good to Know

Compliance income is not the same as qualifying income.
Submit Form 29 - Compliance Income Evaluation for a WHEDA compliance income review.

8.01 Calculating the Household Compliance Income

Compliance income includes all earned and unearned income of all persons occupying the subject property. Lenders should review and compare information on the loan application to other documents in the loan file such as, the borrower's affidavit, paystubs, asset documentation and tax returns to identify other potential occupants.

Refer to Section 4.1-Income Limits for additional guidance.

For each source of income, Compliance income is generally calculated using the greater of:

- ***Current gross income projected 12 months forward, or***
- ***Gross income in the last tax year.***

All sources of income must be included into the household compliance income calculation regardless of its consideration for use in the qualifying income.

8.02 Compliance Income Inclusions and Exclusions

Income Inclusions	
• Earned income of all occupants over the age of 18 • Unearned income of all occupants under the age of 18 • Social Security • Social Security Disability Income (SSI) • Child support • Alimony • Pension/retirement • Disability Income • Public Assistance • Interest and dividend income on funds retained after closing	• Re-occurring capital gain income • Self-employment income (adding back depreciation, depletion, meals and entertainment, and business use of home). If a business is operated at a loss, such loss may not be used to offset income generated from other sources. • Rental income from the subject property, being used to qualify • Rental income from other investment properties as reported on a Schedule E.

Income Exclusions	
• Earned income from a child under the age of 18 • Foster care income • Food Share Wisconsin • Rental income, from the subject property, not being used to qualify	• Non-recurring payments from: ○ Inheritances ○ Insurance settlements ○ Lottery winnings ○ Gambling winnings ○ Capital gains ○ Settlements for personal loss

Good to Know

Re-occurring non-payroll deposits may indicate additional undisclosed sources of income that may be required to be documented for household income compliance.

8.03 Base Pay or Periodic Payment Income

Base income is defined as:

- a base wage multiplied by a predetermined number of hours per week, per pay-period, or
- a base salary.

Periodic Payments are defined as predetermined set dollar amount and can be paid monthly, bi-weekly, semi-monthly, etc.

Generally base pay and periodic pay is straight forward and must not be modified.

Examples of Base Pay or Periodic Payments may include, but are not limited to:	
• Hourly Wages with a predetermined number of hours • Salary Wages • Child Support • Long-Term Disability • Automobile Allowance	• Supplemental Social Security Payments • Retirement payments (Pension, 401K etc) • Social Security Payments • Housing Vouchers (Section 8)

8.04 Variable Income

Variable income is defined as income that fluctuates from pay period to pay period. Variable income can be a result of fluctuating hours, multiple types of pay based on a specific job duty, different shifts worked, or business structures that base certain income from profits and losses.

Examples of Variable income may include, but are not limited to:	
• Hourly Wages with fluctuating hours • Commission • Bonus • Tips • Self-employment, business income • Secondary employment • Interest / dividend income	• Capital Gains • Shift differential • Per Piece • Per mile • Seasonal employment, or seasonal unemployment • Rental income (see inclusions and exclusions)

Things to consider when analyzing variable income include:

- Seasonal peaks and lows
- Lump-sum payments

Examples:

Construction Workers

Construction workers tend to see higher income from late spring through the summer months. If you are reviewing this type of income at the end of August, chances are the projected income would be higher than expected since it is towards the end of the peak season. Therefore, it may be reasonable to average the year-to-date income with the previous year's income.

Tipped Employees

Tipped employees tend to see higher income during the months of November and December due to the holidays. If you are reviewing this type of income during the month of September, chances are the projected income would be less than expected. Therefore, higher total income from the previous year may be more reasonable to use.

Bonuses

It is important to understand the frequency of when bonuses are paid. For example, if you are reviewing a paystub in March, and the borrower just received an annual bonus, it is likely the projected income would be higher than expected. Therefore, it is reasonable to exclude the bonus income from the total gross income to make the "projected" annual calculation. Then add back the annual bonus to the tail end of the calculation.

9.00 Credit

A borrower's credit history is an account of how well the borrower handled credit in the past and it is a good indicator of how the borrower is likely to handle their credit in the future.

9.01 Credit Report

Obtain a credit report for all borrowers, including a non-applicant spouse, if applicable.

The credit report must be no more than 90 days old and dated no earlier than 30 days from the application date. If the credit report is stale dated, the lender must provide an updated report.

9.02 Credit Scores

There is no minimum credit score requirement for the Home R&R loan program.

9.03 Analysis of Credit Report

Borrowers must be current on their first mortgage.
Unpaid tax liens, child support liens, or judgments that may impact lien priority are not allowed.

9.04 Analysis of Mortgage Payment History

Borrowers must be current on their first mortgage.

10.00 Debt Analysis

The debt-to-income ratio impacts the borrower's ability to repay the mortgage loan. Generally, the lower the borrower's total debt-to-income (DTI) ratio, the lower the risk. As the ratio increases, so does the level of risk.

10.01 Ratios

The maximum total debt-to-income ratio for the Home R&R loan program is 50%.

10.02 Housing Payment

The monthly housing expense is the sum of the following:

- Principal and interest (P&I)
- Real estate taxes
- Hazard insurance
- Flood Insurance premium, if applicable,
- Private Mortgage Insurance premium, if applicable
- Special Assessments
- Second Mortgages
  - WHEDA Home Improvement Loans
  - Hard Seconds: Home Equity Line of Credit (HELOC)
  - Soft Seconds: Community Seconds as defined by Fannie Mae

If the first mortgage is not a WHEDA loan, the Lender must provide proof of the principal, interest, taxes and insurance (PITI) payment. The mortgage payment reflected on the credit report in itself is not verification of the total PITI amount.

11.00 Property Eligibility

This Section provides guidance on the property eligibility requirements for the program.

11.01 Location

The property must be located in Wisconsin.

11.02 Eligible Property Types

- Single Family Residence
- 2-unit property
- Condominiums
- Manufactured homes that are legally classified as real estate

Properties must be constructed at least 40 years prior to application date, which will be verified by the AVM ordered by WHEDA.

11.03 Ineligible Property Types

- Commercially used properties
- Time share units
- Manufactured homes **not** legally classified as real estate.

11.04 Property Use

If a borrower claims a deduction for "Business Use of Home" on their federal income tax return, then no more than 15% of the total square footage of finished space of the home including finished space in the basement can be used for trade or business purposes.

The property cannot be subdivided, farmed, or used commercially.

11.05 Code Requirements

The property should meet state and local code compliance requirements. If code violations are noted in documentation through the course of the normal standard underwriting review, bids must be obtained to correct the violations.

12.00 Determining Property Value

The value of the property will be determined by an AVM, which will be ordered and paid for by WHEDA.

13.00 Determining Improvement and Repair Costs

Lenders should encourage borrowers to visit the National Association of the Remodeling Industry website (www.nari.org) for important information on remodeling tips.

When determining a scope of work, it is a best practice is to encourage the borrower to obtain multiple bids from qualified contractors or to research multiple retail stores for the cost of material goods to ensure the borrower is obtaining a fair and equitable cost for the improvement. Once the borrower has chosen a contractor, the bid must be converted to a specific scope of work.

13.01 Contractor Requirements

The following Contractor requirements apply to all Home R & R Loans.

- If the borrower is utilizing a Dwelling Contractor, they are subject to WHEDA/Lender's determination that the dwelling contractor is licensed by the State of Wisconsin.
    - The easiest way to search for a Dwelling Contractor is by using their License Number
- Any individual contractor (Non Dwelling Contractors) that are being utilized are subject to WHEDA/Lender's determination that the individual is licensed by the State of Wisconsin.
- "Sweat equity" is not allowed.
- "Do it yourself" option may be allowed on an exception basis.

13.02 Scope of Work Documentation Requirements

The application package must include the following documentation for review of the scope of work:

- Home Improvement Maximum Mortgage Worksheet (HI Form 5) – This form should be completed by the Lender to determine maximum allowed renovations. At a minimum, it must include the hard costs for the work being completed and the 15% contingency reserve. If closing costs are to be financed, the closing costs must also be included in this worksheet.
- Scope of Work – The scope of work will provide detailed information regarding the work to be done and the associated costs of the work. A scope of work must:
    - include a breakdown of materials and labor.
    - be specific to the work being done. A general scope of work, bid or estimate is not acceptable. Examples:
        - hardwood flooring vs. flooring;
        - install granite counter tops vs. install counter tops;

        - all components of a gut rehab to a bathroom, type of vanity, type of bathtub and/or shower, type of flooring, electrical or plumbing needs, etc., vs. remodel of bathroom.
- Renovation Contract Agreement (Form 38) – This contract must be signed and dated by the borrower(s) and ALL contractor(s). This contract provides additional details regarding the repair work to be completed. A Renovation Contract Agreement is required for each dwelling contractor, business entity or individual providing contracted work on the renovation project. The contract must:
    - be executed by the contractor and be co-signed by borrower(s),
    - fully describe the work to be completed,
    - state the agreed upon cost,
    - identify any sub-contractors, and
    - indicate when various stages of the work will be completed including start date and completion date. (Completion date not to exceed 6 months from the date of closing)
- HomeStyle® Renovation Mortgage Consumer Tips (Form 1204) – This form provides tips and best practices for homeowners and borrowers that are completing renovation or repair work on their home with the assistance of a contractor or other third part. The form should be signed and dated by the borrower(s).

13.03 Certified HUD Consultant

HUD consultants are not required for the Home R & R loan program.

13.04 Contingency Reserve

A 15% contingency reserve for cost overruns is required on all Home R & R loans. This is based on the "hard costs" of materials and labor as determined by the final scope of work.

The contingency reserve may be funded by:

- financing it into the loan;
- use of the borrower's own funds; or
- documented gift funds from an acceptable gift donor.

13.05 Title Company Requirements

The use of a title company for the renovation process is required. The role of the title company during the renovation period is to:

- order inspections for work completed,
- collect lien waivers,
- process draw requests, and
- disburse funds to contractor.

13.06 Renovation-Related Costs

Renovation-related and closing costs that may be considered part of the total renovation costs include:

- 15% Contingency Reserve
- Credit report fee
- Title company fee(s), such as:
    - Closing Fee
    - Letter Report or title policy, if required
    - Renovation Escrow Draw/inspection handling fees
- Standard Flood Hazard Determination (FEMA) – life of loan
- Recording fees
- Permit fees
- Any State, County or Local municipal code(s) inspection fees

Work may not begin prior to loan approval.

13.07 Eligible Improvements and Repairs

Eligible improvements and repairs include but are not limited to:

- Exterior improvements (such as roofing, windows, and exterior doors)
- Floor coverings
- Water heaters
- Furnace or air conditioning
- Structural repairs
- Internal plumbing
- Electrical system

If a loan recipient's home contains lead paint, asbestos, or mold, the Authority's loan agreement with the recipient shall require the recipient to remediate the hazardous material(s) or condition as required by and in accordance with local, state, and federal laws or regulations.

13.08 Ineligible Improvements/Repairs

Ineligible improvements and repairs include but are not limited to:

- Luxury items
- Swimming pools
- Hot tubs
- Structural additions to manufactured homes
- Appliances

14.00 Disclosures, Fees and Title

Upload all required documentation as indicated on the Home Improvement and Rehab Loans Application Package Checklist (HI Form 1) to WHEDA-Connect.

14.01 Disclosures

The lender is responsible for all regulatory compliance disclosures, including but not limited to the Loan Estimate, Closing Disclosure and Right of Rescission.

The Home R & R loan program is subject to TRID and must be appropriately disclosed.

14.02 Allowable Fees Charged to the Borrower

The following allowable fees may be financed or paid in cash:

- Credit report fee
- Title company fee(s), such as:
    - Closing Fee
    - Letter Report or title policy, if required
    - Renovation Escrow Draw/inspection handling fees
- Standard Flood Hazard Determination (FEMA) – life of loan
- Recording fees
- Permit fees
- Any State, County or Local municipal code(s) inspection fees

14.03 Letter Report/Title Commitment

Lender must obtain a letter report and review the following:

- Title should be held in fee simple and all borrower(s) should be titleholder(s). The borrower(s) must have at least 50% ownership.
- Any outstanding liens or mortgages against the property should have been disclosed in the debt section of the application for consideration in underwriting. Verify actual balances and payment status on the credit report or by the creditor in writing. If previously undisclosed debts are found, verify them in writing and contact WHEDA.
- Verify any judgments against the borrower(s) are satisfied.
- Verify any property taxes due are paid. If the title search does not indicate the status of the prior years' taxes, obtain a copy of the paid tax bill. Property taxes must be paid current with no unpaid tax liens.

A standard title commitment may be used in lieu of a letter report if the title company requires full title, however a title policy is not required for the Home R & R loan program.

15.00 Closing a Home R & R Loan

This chapter provides details to assist Lenders in preparing a Home R & R loan for closing and funding in the Broker Channel. Home R & R loans should close in the name of the Lender.

15.01 Preparing the Note for a Home R & R Loan

Lender may use any Note that is legal to use in Wisconsin for home improvement loans. After Closing, the Lender must endorse the Note to WHEDA with the following required endorsement language:

> **"Pay to the Order of Wisconsin Housing and Economic Development Authority without recourse"**
>
> **______________________________________**
>
> **Officer Name and Title**
> **Lending Institution**

- The first payment is due 30 days following closing. All subsequent payments will be due on that same day each month. (i.e.. A Home R & R loan closed on January 10. The first payment will be due February 10 and all subsequent payments will be due on the 10th of each month.)
- A late fee of 5% or $10, whichever is less, of the unpaid amount will be assessed for any payment received on or before the 15th day after the due date.
- The Lender and Loan originator's NMLSR IDs must be reflected on the Note.

The minimum loan amount is $10,000 and the maximum is $50,000.

15.02 Preparing the Home R & R Loan Mortgage Documents

Lender may use any Mortgage and Assignment of Mortgage that is legal to use in Wisconsin for home improvement loans. The Mortgage must be assigned to Wisconsin Housing and Economic Development Authority. The Mortgage and Assignment of Mortgage must be recorded upon the expiration of the three-day rescission period. The legal description (as it appears on the letter report or title search) must be attached to the recorded documents.

WHEDA is a non-MERS member.

15.03 Notice of Right of Rescission

All persons listed on title must sign the Notice of Right of Rescission. A three-day rescission period begins the next business day after signing the Mortgage.

15.04 Funding Home R & R loans

Lender must submit a Home Improvement and Rehab Loan Funding Request (HI Form 3) at least two (2) business days prior to the disbursement date, including documentation necessary to satisfy all outstanding funding conditions.

Loan proceeds, less any draws taken at closing and the 15% contingency reserve, must be placed in an escrow account managed by the title company. The contingency reserve will be held by WHEDA. The title company will be responsible for processing all renovation draws, including but not limited to progress inspection reports, collection of lien waivers and disbursement of funds according to their standard operating procedures to ensure lien position.

15.05 Changes to the Funding Confirmation

Lender must notify WHEDA of any changes to the Funding Confirmation prior to or at closing. A revised Home Improvement and Rehab Loan Funding Request (HI Form 3) must be uploaded to WHEDA-Connect and an email sent to lockdesk@wheda.com with the changes. Failure to notify WHEDA of any change to the Funding Confirmation may result in a Funding Error Fee that will be debited from the Lender's ACH account.

15.06 Final Package Submission

Lender must upload the complete Closing Package to WHEDA-Connect by no later than the Final Package Due Date, which is the 10th calendar day after the Closing Date. If the 10th day falls on a non-business day, the Final Package Due Date is automatically extended to the next business day.

The Original Note must be shipped to WHEDA via overnight express mail.

In order to be deemed complete, the Closing Package uploaded into WHEDA-Connect must include all documents listed on the Home Improvement and Rehab Closing Package Checklist (HI Form 4), except the recorded Mortgage and recorded Assignment of Mortgage.

The recorded Mortgage and recorded Assignment of Mortgage will be due within 120 days of closing to avoid outstanding document fees.

16.00 Completion of Home Repairs

This chapter will provide an overview of the renovation period following loan closing.

16.01 Home R & R Repair Escrow Account(s)

Renovation proceeds, less the required 15% contingency reserve, must be held in an escrow account managed by the title company. The title company will be responsible for handling all draws, including but not limited to:

- completing progress inspections of completed work,
- collecting lien waivers,
- disbursing proceeds, and
- submission of a change request to WHEDA, if applicable. (See the following section on Contingency Reserve and Cost Overruns for additional information.)

Following completion of all renovation work, the title company must submit all renovation documentation to WHEDA including documentation supporting completion of renovation work and lien waivers. Any funds remaining in the renovation account held by the title company must be returned to WHEDA to be applied as a principal reduction to the borrower's loan.

During the renovation period, a WHEDA Escrow Officer will remain in contact with the title company and borrower to ensure work will be completed within 6 months of closing.

16.02 Contingency Reserve and Cost Overruns

Home R & R loans require a 15% contingency reserve. This contingency reserve may be used for unanticipated costs that may arise, such as cost overruns or unexpected expenses. The contingency reserve cannot be used to extend or change the original scope of work. The contingency reserve proceeds will be held in an escrow account by WHEDA.

In the event that a cost overrun, or an unanticipated expense is experienced during the renovation period, the title company will be responsible to submit a Change Order request to WHEDA. Upon receipt of the change order request, WHEDA will review the request and progress of the repair work completed to date to ensure there is a reasonable expectation that the original scope of work will be completed within the remaining budget, including the funds available in the contingency reserve. If proceeds are available in the contingency reserve to cover the cost overrun, the additional funds will be wired to the title company for disbursement. If the contingency reserve is not sufficient to cover the additional costs, the WHEDA Escrow Officer will contact the borrower to determine the best course of action to move forward.

Following completion of all repair work, any proceeds remaining in the contingency reserve escrow account that were financed will be applied as a principal reduction to the borrower's loan or if the contingency reserve was funded with the borrower's own funds, it may be refunded to the borrower.