

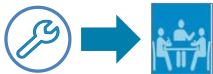
The renovation market has grown more than 50 percent since 2009. The U.S. market for home improvement and repairs is now over \$400 billion annually, according to the Harvard University's Joint Center for Housing Studies (JCHS). Given the increasing age of existing housing stock, there is a need to provide an affordable way for borrowers to finance older properties in need of repairs.

CHOICERenovation® is our new home improvement offering that allows renovation costs to be included in the mortgage loan amount. It is available across the broad market and all underserved, high-needs markets, including the following Duty to Serve markets: affordable housing preservation, rural housing and manufactured housing.

While CHOICERenovation is valuable in supporting Duty to Serve and other affordable-related lending, there is no requirement that it be used in conjunction with those offerings. There are also no borrower income limitations. For complete details, refer to the *Freddie Mac Single-Family Seller/Servicer Guide* (Guide), Chapter [4607](#).

## Two delivery options

### Mortgages with Settlement Dates after completion of renovations:



The renovations and the final inspection **must** have been completed prior to the loan being delivered to Freddie Mac. The loans will be delivered without recourse and Seller must deliver IFI code J25.

### Mortgages with Settlement Dates prior to completion of the renovations:



Approved Sellers can deliver the loans to Freddie Mac prior to completion of the renovations. These loans must be delivered with recourse and Seller must deliver IFI code J24.

Freddie Mac has a streamlined eligibility process that reviews the lender's ability to sell mortgages with Settlement Dates prior to the completion of the renovations. The Seller can request approval by calling either its Freddie Mac representative or (800) FREDDIE.

## Eligible Mortgages



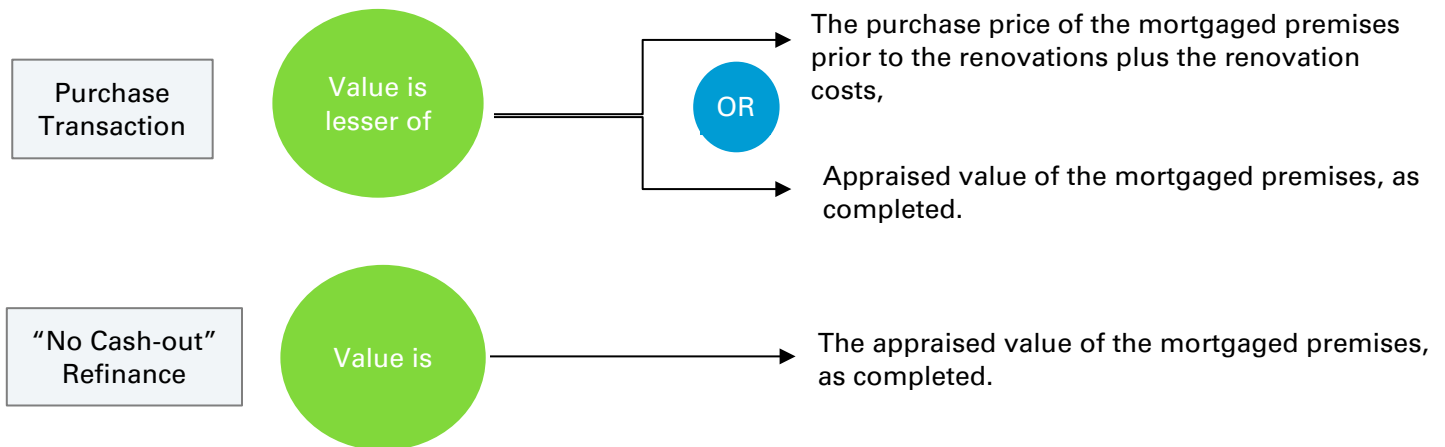
CHOICERenovation Mortgages must be first-lien mortgages and may be many different mortgage products or offerings within the Guide, including Home Possible® and HomeOne<sup>SM</sup> mortgages. See Section [4607.2\(b\)](#) for the list of mortgage characteristics that are ineligible with CHOICERenovation.

# CHOICERenovation Mortgages Offering

Note: A CHOICERenovation Mortgage secured by a property previously owned free and clear by the Borrower is considered a “no cash-out” refinance Mortgage if the proceeds are used only to finance the eligible renovations described in Section [4607.6](#).

## Determining value

The value used to determine the LTV, TLTV and HLTIV ratios must be established as follows:



## Maximum financed renovation cost for CHOICERenovation Mortgages

### Purchase transactions



For purchase transaction mortgages, 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 costs of the renovations, or
- “As completed” value of the property as determined by the appraiser pursuant to Section [4607.9](#)

### Refinance mortgages







For “no cash-out” refinance mortgages, the total cost of the financed renovations must not exceed 75% of the “as completed” value of the property as determined by the appraiser pursuant to Section [4607.9](#)

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 pursuant to Section [4607.9](#).

# CHOICERenovation Mortgages Offering

## Purchase Transaction Example

	Subject Single Family Residence was purchased for:	<b>\$75,000</b>
	Cost of the improvements on the subject property:	<b>\$180,000</b>
<hr/>		
	Total acquisition cost of the property equals:	<b>\$255,000</b>
	"As completed" value of the property:	<b>\$250,000</b>

The value must be established using the lesser of



The maximum allowable renovation cost is 75% of the value<sup>1</sup>

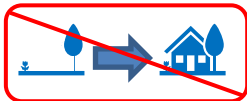
$$\begin{array}{r} \$250,000 \\ \times 75\% \\ \hline \$187,500 \end{array}$$

<sup>1</sup>See guidelines above for Manufactured Home requirements

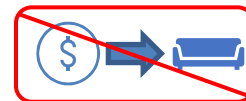
## Eligible Renovations

### Eligible and ineligible uses of mortgage proceeds

There are few restrictions on the type of renovations that may be financed in accordance with this offering. Proceeds may not be used:



To raze an existing structure and build a new dwelling



To finance personal property with the exception of new appliances

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)



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

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

## Loan Product Advisor®



All CHOICERenovation mortgages must be submitted to Loan Product Advisor in accordance with the requirements of Section [5101](#) and must receive a risk class of “accept”.

If the mortgage receives a Loan Product Advisor evaluation status of invalid, ineligible or incomplete, it is ineligible for sale to Freddie Mac. The Seller may take all steps possible in accordance with Section [5101](#) to correct the information and resubmit the mortgage to Loan Product Advisor to obtain a risk class of accept.

## Entering information into Loan Product Advisor

### Purchase transaction<sup>1</sup>:

Purchase Price Field:	Enter the purchase price plus the cost of the renovations
Appraised Value Field:	Enter the “as completed” value of the mortgaged premises
Loan Amount Field:	Enter the lesser of: <ul style="list-style-type: none"><li>• The combined sales price of the property and cost of the renovations minus the down payment</li></ul> <p><b>Or</b></p> <ul style="list-style-type: none"><li>• The “as completed” value listed on the appraisal report minus the down payment</li></ul>

### “No cash-out” refinance transaction<sup>1</sup>:

Appraised Value Field:	Enter the “as completed” value of the mortgaged premises
Loan Amount Field:	Enter the amount of the mortgage payoff plus the cost of the renovations

<sup>1</sup> Must be within the maximum LTV ratios for whichever program you are choosing.

## Appraisal Requirements



The Seller must obtain an appraisal based on an interior and exterior inspection. The appraisal report must include an “as completed” value of the subject property subject to completion of the proposed renovations.

The Seller must provide the appraiser with the cost estimates, plans and specifications for the renovations.

If, after the appraiser provides the “as completed” value, changes are made to the original plans and specifications in accordance with Section [4607.10\(a\)\(ii\)](#), the Seller must notify the appraiser of the changes and provide change documentation to the appraiser. The appraiser must provide a revised appraisal to reflect the changes and account for the impact on the “as completed” value.

Upon completion of the renovations, the appraiser must perform a final inspection of the property in accordance with Section [5601.11](#) and complete a certification of completion. The completion report must document that all renovations were completed in accordance with the plans and specifications and must include photographs of the completed renovations.

## Transferring Servicing



A Transfer of Servicing involving CHOICERenovation Mortgages with renovations not completed by the Settlement Date (as described in Section [4607.1\(b\)](#))

Subsequent Transfer of Servicing is prohibited until:

- All renovations have been completed,
- The Seller has obtained a completion report pursuant to Section [4607.9](#), and
- Freddie Mac has approved removal of recourse pursuant to Section [4607.15](#).

Concurrent Transfers of Servicing is permitted for:

- Sellers who have obtained Freddie Mac’s prior written approval and provided the special requirements in Section 4607.18 (link to be added) are met. Sellers may request approval by contacting their Freddie Mac representative or the Customer Support Contact Center at 800-FREDDIE.

(See Chapter [7101](#) regarding Transfers of Servicing.)

Accordingly, CHOICERenovation Mortgages originated under the provisions of this Chapter [4607](#) and pursuant to Section [4607.1\(b\)](#) may not be sold through Cash Released XChange<sup>SM</sup>.

### COVID-19 Response Notice:

Visit our [COVID-19 Resources](#) web page for temporary guidance related to credit underwriting and property valuations effective immediately for all mortgages in process and remain in place for mortgages with Application Received Dates on or before September 30, 2020.

This document is not a replacement or substitute for the information found in the *Freddie Mac Single-Family Seller/Servicer Guide* or terms of your Master Agreement or other Pricing Identifier Terms.

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