

STEP SIX

PROPERTY CONDITION & RENOVATION

Apart from NACA and its agents, most parties you will deal with in the purchase process are only interested in closing the sale. Even the lender's main concern is for the equity in the home and not the potential financial strain and difficulties you may face due to unexpected repairs. NACA, however, is determined that you find a house that is affordable and sustainable over the long-term. To facilitate this, NACA requires a professional home inspection and provides an unprecedented renovation program.

HOME INSPECTIONS

The home inspection must be done by an inspector who is independent of the seller and listing broker, and who utilizes a state-of-the-art software program called HomeGauge-NACA. NACA strongly recommends that you use an inspector identified by NACA on the NACA vendor list. Otherwise, if an adequate report is not provided, a second inspection may be required at your expense.

The HomeGauge-NACA report ensures that all aspects of the property have been inspected and describes, in a clear and concise manner, the condition of each part of the property and systems (inspectors will provide pictures of problem areas). It also requires that all items requiring repair or renovation are fully described. While the cost of this software is over \$1,200, NACA provides it to inspectors doing NACA mortgages for free. The home inspector will upload their completed inspection report directly into the NACA-Lynx network. Your Housing Consultant will have immediate access to the report and begin to address any items needing repair or renovation. Such items are categorized as either a Maintenance Item or Trade Item. A Maintenance Item is often not required to be repaired as a condition of the mortgage, but should be addressed by the buyer as soon as possible. A Trade Item is often a code, safety or major system that must be addressed as a condition for Credit Access and mortgage approval. A sample home inspection report may be found online at www.naca.com.

What is a Home Inspection? A home inspection is a visual examination of the physical structure and systems of a home, from the foundation to the roof. The standard report includes an evaluation of the following:

- Heating system and central air conditioning system (temperature permitting)
- Interior plumbing and electrical system
- Roof, attic and visible insulation
- Walls, ceilings, floors, windows and doors
- Foundation, basement and visible structure

Why do you need a home inspection? Purchasing a home is the largest investment you will ever make. You should learn as much as you can about the property and the need for any major repairs before you buy, so that you know what you are paying for and what costs may lie

ahead. A home inspection also points out the positive features of a home and the routine maintenance that will be necessary.

What will it cost? Inspection fees vary by region, usually ranging from \$150 to \$400. Within a given area the cost will depend on the size of the house, the features of the house, and additional services such as septic, mold, well or radon testing. It is usually more expensive to inspect a multi-family house.

Can you do it yourself? No! Even the most experienced homeowner lacks the knowledge and expertise of a professional home inspector. However, NACA requires that you and the agent attend the inspection so that you can become familiar with the home you intend to buy.

How do you find a home inspector? NACA provides a Vendor List of approved home inspectors in your area. You can use any licensed property inspector as long as he or she was not referred to you by the seller or listing broker and has no ties to either. He or she must use the HomeGauge-NACA software (provided free to all inspectors from NACA). Home inspectors must register online at www.naca.com in order to receive a password from NACA that will allow the inspection to be uploaded directly into the NACA network. The software is available for download from the same registration area.

When do you call in the home inspector? An inspector is typically hired immediately after the Offer or Purchase and Sale Agreement is signed and executed. Always make your purchase obligations contingent upon a home inspection that you deem satisfactory.

Additional inspections: A home inspector has general knowledge of house construction and will base the report on visual inspections of accessible areas of the house. It is often necessary to have a specialist inspect and test specific areas of concern that are listed in the home inspection report. Consider additional costs for inspections, including roof certification, structural engineering inspection, licensed HVAC inspection, mold inspection, and home warranty.

REHAB - HOME AND NEIGHBORHOOD DEVELOPMENT (HAND)

NACA's mortgage product includes a Purchase/Rehab option that allows you to buy a home and fix it up at the same time. While it may be difficult to find a home that is just right, this program provides a unique opportunity to make necessary improvements to your home. Because NACA does not want you to be financially burdened by unanticipated lump-sum costs for future repairs, NACA may also require renovation if the Home Inspection indicates existing or potential problems. In either case, *the costs of renovation will be added into your mortgage.* The only up-front expense to you may be an evaluation and scope of work, called the work write-up.

This may be your only opportunity to get financing for home improvement work in the near future, so it is important to carefully consider making improvements at this time. In addition to making your home more comfortable, renovation can increase the rental value of your other units and the future sale price as well. It is important to consider the long term operating costs of maintenance and energy use for your home. Improvements such as insulation, window

replacement and upgraded HVAC equipment will often reduce a home's monthly operating costs by reducing energy consumption and service calls.

If you are making substantial repairs and cannot live in the property during the renovation, you may be able to defer your mortgage payments for six months. This prevents the overwhelming burden of paying both the mortgage payment and rent, but also prevents the mortgage payments from increasing once the renovation is completed. NACA's incredible financing permanently reduces the interest rate by an additional 3/8% and the deferred mortgage payments are added to the loan. This keeps the mortgage payments the same as they were before the deferred payments. At the mortgage closing, the money for the rehab work will be escrowed by the closing agent or held by the lender. This insures that the agreed upon renovations are completed.

Renovations and repairs can be difficult and stressful. Factors such as age, neglect and hidden conditions often complicate a renovation. NACA's Home and Neighborhood Development (**HAND**) department provides assistance, review, monitoring and oversight of the renovation process to ensure that it adheres to NACA's procedures. For this work, and for access to the **HAND** program, NACA receives a fee. The fee is based on the cost of the renovation and may be included in the mortgage (the member pays directly for the home inspection and any costs for a work write-up). You may contact your Housing Consultant for the specific fee. *You should never pay the Rehab Specialist yourself, even for work not directly related to the NACA project.* You will be responsible for the cost of the work write-up and home inspection regardless of whether you actually close on your loan and complete the renovation.

REHAB PROCESS:

A NACA-approved home inspector will create a detailed report of the condition of the home you intend to purchase. The summary section of the inspection report identifies items that need to be addressed. These items are divided into two categories: (1) Maintenance items which are ongoing issues that often can be addressed by the buyer at a later date and which are not necessary to the basic performance of the house; and (2) Trade items that are required by building code, energy code, structural considerations, major systems problems, and items that are functional but not likely to last more than five years.

NACA REPAIR LIST

The list of all Maintenance and Trade items is generated by the Housing Consultant and given to the Member. The Member and their agent should request that the seller repair or renovate as many of the items as possible. With seller repairs, an inspection is often required to assure that the repairs were properly completed. When a seller refuses to complete repairs, the **HAND** staff will review the repair items to determine which ones are required ("Repair/Rehab List"). In most instances, few of the Maintenance items and most of the Trade items have to be addressed as a condition for the Member to be Credit Access and mortgage approved. At this time, the member can choose to increase their loan amount to include the required repairs, or the member may choose to pay for repairs out of pocket.

The Member should review the NACA repair list with his or her housing consultant and real estate agent. The agent may attempt to negotiate for the seller to do all repairs. If the seller refuses to do some or all required repairs, the Member would then be responsible for having the repairs done once they close. The NACA Repair List must be signed and returned to the Housing Consultant.

Members can add additional items to the Repair/Rehab List if there are sufficient funds to complete such work. Provided the Member does not exceed the maximum approved loan amount, the following repair items can be included on a NACA Rehab loan. Allowable repair items generally fall under three categories, Code, Home Improvement & Wish List. An exception will be required from the **HAND** Department for any repairs not listed below.

| Code | Home Improvement | Wish List |
|-----------------------------|-------------------------|-------------------|
| Safety/structure compliance | Windows | Additions |
| Termites/ants | Doors | Kitchen cabinets |
| Roof condition | Ventilation | Additional bath |
| Heating | Interior finishes | Landscape |
| Plumbing | Exterior finishes | Decks |
| Electrical | Masonry | Skylights |
| Asbestos removal | Paint | Ceramic tiles |
| Lead paint | Insulation | Optional finishes |
| Energy efficiency | Kitchen remodel | Upgrades |
| | Bathroom remodel | Improvements |

In some instances, the **HAND** department may require a Work Write-up to provide the detail of the work to be done in order to obtain more accurate and definitive bids from contractors. A Rehab Specialist would develop the scope of work from the home inspection report, site visit and discussions with you. The Work Write-up is then submitted to NACA-approved building contractors to bid.

If the Member wishes to enter into a NACA Rehab Loan, he or she should request a one-on-one rehab meeting with the NACA Housing Consultant. The Housing Consultant will discuss the detailed requirements for a rehabilitation loan and go over all the necessary rehab forms and documents required throughout the rehab process.

Bids

The next step for the Member is to obtain bids for all necessary repairs. There may be an approved NACA Vendor List with contractors available in each NACA office to assist Members with this process. The Member and agent should attempt to obtain bids from contractors as quickly as possible on the items on the Repair/Rehab List, including additional items requested by the Member. Time is of the essence since the mortgage application needs to be submitted within ten business days of the executed P&S (extensions are possible and must be approved in advance by the seller). Included on the Vendor List may be names of contractors who have satisfactorily completed work for NACA Members. A Member may use any professional contractor that meets all state and local requirements for the work to be performed, and has been approved by NACA prior to accepting a bid. All contractors must complete the online

NACA contractor application form at www.naca.com under the “Partners” section, or submit a written application to the local NACA office. The contractor(s) must provide a copy of his or her license and insurance along with the application. The local NACA office can work directly with the contractor to answer any questions as they process the contractor’s application.

A contractor can submit a bid, but he or she will need to be approved by **HAND** staff prior to acceptance of the bid. Relatives or close family friends are not allowed to bid on your project. When bids cannot be obtained within a reasonable amount of time, the costs estimate from the **HAND** Department will be used to complete the loan application. Members should request a “Guide to Hiring Contractors” which contains details on how to choose the right contractor for your project. Forms and agreements required for a rehab can be obtained from the local NACA office or national office.

All cost for completing the Repair/Rehab List and program management fees (**HAND** Fee) are included in your total loan amount. This includes funds for the construction to be paid to the contractor(s), contingency (usually ten percent to cover unforeseen conditions), inspection fees paid by the Member (Draw Inspections are usually paid by the lender), and a fee to **HAND** of three percent of the construction costs for the management and administration of the rehab program.

The total amount available for repair/rehab is the difference between the Maximum Mortgage Amount and the purchase price on the P&S (“Rehab Budget”). This is a final calculation of your full loan amount and a complete breakdown of all expenses for the Rehab loan. The total cost of the contractor bid plus **HAND** management fees must be less than the Rehab Budget. The Final Rehab Budget must be signed by you prior to closing on the mortgage. You must sign this Final Budget stating that you agree with the allocation of funds for your renovation. You should keep a copy for your records. It is important that the rehab budget line item costs match what is stated on your settlement statement to ensure all rehab funds were properly allocated.

Once the loan application is submitted, an appraisal of the property will be ordered. The property must appraise high enough to cover the total mortgage amount (i.e. purchase price and total rehab costs), which must be no more than the appraised value of the as-improved property (exceptions can be made for up to 110% of value). If the costs for renovations exceed the Final Rehab Budget, you will have three options: (1) You can renegotiate with the seller to lower the price for the home; (2) You can eliminate some non-essential renovations/repairs; or (3) You may back out of the deal. When the home inspection reveals necessary repairs that you are unable to finance, you may back out of the contract on the basis that the home did not pass a satisfactory inspection. If, however, you are unable to finance voluntary renovations (i.e. building a patio, or replacing cabinets, etc.), you may have more difficulty voiding the contract. Therefore, you may wish to negotiate a clause into the P&S that makes the sale contingent upon your ability to complete certain renovations.

Contractor Selection

All bids are to be carefully reviewed by you and the **HAND** Department in order to be sure all items on the Repair/Rehab List have been included in the contractor bids. Remember that the

lowest bid is not always the best; high-quality and timely work are crucial to a successful rehab. It is more important to choose the contractor best qualified to perform the work than to choose the lowest bidder. Accepted contractors must complete an agreement between you and the contractor that specifies the terms and conditions of the work, including that all work meets construction standards as determined by NACA ("Contractor Agreement"). The agreement must clearly itemize each individual work item and its corresponding value which will be used to determine draw payments. The agreement covers the contract cost, scope of work, start and end date of job, permit requirements, quality of work and liabilities for both parties involved, number of Draws required by the contractor and penalty for not meeting the completion date. It is very important that the scope of work is itemized and specified in detail. Both you and the Contractor must sign the agreement prior to close. Contractors with small contracts, as determined by NACA, may be permitted to submit a proposal instead of completing the Contractor Agreement.

HAND can assist you with managing the rehab; however, you are ultimately responsible for selecting the contractor and managing the project. [See the section on Rehab Management.](#)