



## **REHAB MORTGAGE PROGRAM**

### **I. NACA Eligibility Criteria**

NACA's program eligibility criteria apply to both the Purchase and Rehab mortgage products, including:

1. No ownership interest in secondary investment properties,
2. Must owner occupy the subject property,
3. Be an eligible property type, as defined below:
  - Single Family
  - Condominium/Townhome
  - Co-op (CT, FL, MD, MA, DC, NY, and IL only)
  - Multi-Family Homes – Two to Four Units
  - Mixed Use (at least 50% residential)
  - Manufactured/Modular Home (permanently affixed to land and titled as real estate)
4. Additional eligibility will apply for a NACA Rehab Mortgage, such as:
  - For Priority Members only – Household eligible Income is at or below the median income for the MSA the property to be refinanced is located; as determined on FFIEC website:
    - [Geomap.ffiec.gov/ffiecgeomap/](http://Geomap.ffiec.gov/ffiecgeomap/)
    - Year: 2022
    - Enter Address
    - Select Census Demographic Data
5. For Repairs Only – NACA's Rehab Mortgage product is for the purpose making homes safe and habitable. This product may only be used to fund necessary code, safety or health related repairs and improvements. It may not be used for debt reduction, cash out, home equity line of credit (HELOC) or rate and term only reduction.
6. Seasoned Homeownership – The Member and/or family must have been in the house for at least three years.
7. Maximum Loan Limits Apply – The Rehab Mortgage consisting of the mortgage payoff (if any) and total rehab repair cost, which cannot exceed Maximum Acquisition Costs, as outlined in policies and procedures and at [www.NACA.com/loan-limits/](http://www.NACA.com/loan-limits/)
8. Loan cannot exceed 110% of appraised market value (combined loan to value, or CLTV). It can go up to 125% CLTV on an exception basis for required repairs and when the monthly mortgage payment is being reduced. The loan to value is calculated by dividing the total loan amount by the appraised value.

9. Neighborhood Stabilization Agreement Terms – all terms apply to both Purchase and Rehab mortgage products, including the Reimbursement Amount and Neighborhood Stabilization Payment (NSP) in the event of a default (Default Action).
  - \$25,000.00 Security 2<sup>nd</sup> Lien
  - Must pay recapture fee (\$25,000) if home is sold within five (5) years of closing; reduces by \$5,000 every year for the first five years.
  - Must occupy the property for as long as the Member has the NACA Mortgage.
  - Security lien of \$25,000 becomes due if the Member defaults on the Rehab Escrow.
10. Workshops. The Member must attend a NACA Workshop to begin the process. Prior to submission for Credit Access and bank application, the Member must also attend a HAND Rehab Escrow Webinar.
11. Disclosures. Review, agree and sign in the Member Portal the below disclosures which are available online at [naca.com](http://naca.com) under Tools and Resources:
  - NACA Agreement
  - Neighborhood Stabilization Agreement
  - NACA - Member Rehabilitation Disclosure & Agreement
  - Bank of America – Rehabilitation Escrow Agreement

## **II. Rehab Mortgage Qualification Criteria**

The Member must be NACA Qualified. NACA's Qualification criteria applies to both the Purchase and Rehab mortgage products with the following requirements for the Rehab Mortgage:

1. Must have on-time payments if there is an existing mortgage for the most recent twenty-four months unless reducing payment (1x30 or reasonable and documented explanations is acceptable). If there are non-payments or late payments because the payment is unaffordable, the Member would need to show where the affordable portion went.
2. If Member has previously refinanced or taken out a home equity loan, and funds were not used for repairs, the Member must provide an explanation. NACA must determine if funds were used to assist with the mortgage payment which would indicate that the existing mortgage payment may not be affordable.
3. Qualify the Member for their maximum mortgage payment. The housing ratio cannot exceed thirty-five percent (35%). The debt-to-income ratio can be up to fifty percent as long as 1) the most recent 24 months there were on time payments; and 2) the future mortgage payment will stay the same or be reduced.
4. Determine the available funds for the rehab by backing out the existing mortgage payment from the maximum mortgage payment.
5. HAND Rehab Specialist using the property inspection determines whether the Member has sufficient funds for the necessary and desired repairs.
6. Member must be current on taxes and insurance for the property. Some Members without a mortgage may not have homeowners insurance. Also, exceptions are considered for Members who need modifications on their property due to disabilities.
7. Taxes and Homeowners Insurance is a requirement for a Rehab Mortgage, and monthly escrow calculations will be included in the PITI monthly mortgage calculation

for NACA Qualification, as well as escrows established for taxes and insurance at the time of closing.

8. Minimum Required Funds will include cost for property and pest inspections, as well as funds for taxes and insurance, and at least one month mortgage payment as a reserve when the future mortgage payment is more than 10% greater than the existing mortgage payment. The reserves for a multi-family would be greater and follow the requirements for home purchasing.

### **III. Required Process Steps:**

1. **Education** - Member must attend a NACA Workshop.
2. **Portal Tasks** - Member must complete Member portal to provide information and upload documents. The Member must also sign the NACA documents including the NACA Agreement and Member Rehabilitation & Disclosure Agreement.
3. **Counseling** - Member will be assigned a counselor to complete an Intake session and follow-up sessions to become NACA Qualified. The counselor will determine the Member's maximum mortgage payment, less any existing mortgage payment, to determine the available funds for required and desired repairs ("Maximum Rehab Budget").
4. **Property Value Assessment** - Counselor will run an AVM to determine estimated value. If additional tools are not provided, an average from Zillow, Redfin, Trulia and Realtor.com can be used. This can be used to determine whether a NACA Mortgage with the repairs is realistic (loan amount equal to or less than the maximum LTV or loan limits). It is not to be used as the final determination since there may be additional options or requirements.
5. **Qualification Ready** – Once the Member documents they are ready to be NACA Qualified for an affordable PITI mortgage payment, the counselor submits the file for NACA Underwriting review. Once NACA Qualified, the Member works with the HAND department to determine a final Scope of Work and approved Rehab Budget. The Member would not need to attend the Purchase Workshop but would attend the HAND Rehab Webinar to address the HAND clearance, Credit Access approval, mortgage processing and post close responsibilities utilizing the Rehab Escrow funds. The Member will also need to attend a Landlord Training Webinar if they have tenants.
6. **Property Inspections** - The Member will be assigned to a HAND Rehab Specialist (RS) once inspections are uploaded to the Member's file by a registered property inspector, and a wood destroying organism report (pest inspection) by a licensed pest control operator.
7. **NACA Repair List (NRL)** – After all the inspections are uploaded to the Member's file, the HAND RS will review the inspections and complete a NACA Repair list (NRL). The NRL documents all repair requirements and recommended repairs including estimations of cost for each repair. Additional evaluations, tests or other reports may be required to support a preliminary scope of work to determine that all required repairs are identified and included. If affordability is met for the necessary total loan amount, the Member should start looking for eligible contractors.
8. **Contractors & Bid(s)** – With their NRL, the Member will be ready to research and identify eligible contractors to supply proposed bids to address all items on the NRL and Member desired repairs. Unlike a purchase transaction, the Member already owns the property and can give full access to contractors to evaluate and determine

final costs needed to support the NRL repairs. Once the Member has identified one or more contractors, they would like to hire to complete the work after the loan is closed, HAND will review the selected contractor bid(s), work write-up and/or other evaluations to draft a final Scope of Work. The Contractor(s) must be registered and approved by NACA and the lender, so that work can start immediately after the loan closes. HAND will assist contractors to become registered and approved. Unlike purchase, the Member may not change their contractor(s) after closing.

9. **HAND Rehab Budget & Scope of Work Approval** – working with the Member and their approved contractor(s), the RS will complete a final Scope of Work detailing all work to take place after the loan is closed, and finalize all costs associated to a Rehab Budget, staying within the Member's affordability. The Rehab Budget will document any applicable pay off amounts, the total cost of repairs, a minimum 10% contingency, a 3% administrative HAND Fee, inspection fees and applicable construction management fee. All costs will define the total rehab cost to be financed. If the Member cannot live in the home while work is taking place, HAND will determine if six (6) months of mortgage payments can be added to the mortgage with a corresponding reduction in the interest rate by .375% at no cost to the Member. This prevents the new mortgage payment from increasing due adding six months of payments to the loan to cover the non-payment of the mortgage during the six months of renovations. If the final mortgage amount is within the maximum NACA Qualified amount and within the max acquisition limits, HAND will clear the file.
10. **Credit Access Pending** – HAND clearance will trigger the Member's file as ready for Credit Access submission. The Member and Counselor will reengage to update documents before submitting for Credit Access approval. The submission will include a mortgage payoff good for 25/30 days if the Member has an existing mortgage, rehab amount, and adjustment for non-mortgage payment during construction (i.e., increased mortgage amount with reduced interest rate), if applicable.
11. **Credit Access Decision** - Mortgage Specialist will review the Rehab Budget and Mortgage payoff (Mortgage Amount) for affordability at Credit Access.
12. **Order Subject to Appraisal**– Using the HAND Rehab Budget package, a subject to appraisal considering the repairs will be ordered from the lender. The appraiser will utilize the approved HAND Scope of Work and Rehab Budget to support a value subject to the work that will take place after the loan is closed. If the loan to value (LTV) exceeds maximum limits, HAND will work to amend the proposed scope of work to bring the loan amount within limits. If the work is required and there are no options to reduce the Scope of Work or rehab costs to support a lower loan amount, HAND will be required to issue a property decline, and the loan will be withdrawn.
13. **Bank Application** - Upon Credit Access Approval, a 1003 bank application will be completed by Member through the Member Portal with the applicable regulatory documents, income and asset documentation, rehab package and mortgage payoff.
14. **Required Documents** – A Closing Protection letter, property tax bill, and title commitment are ordered through the assigned Settlement Agent.
15. **Mortgage Processing to Close** - Counselor, Mortgage Specialist, Closing Coordinator and Rehab Specialist will address any lender conditions to get the file cleared to close. A Member can anticipate closing within 25 days of submitting their bank application, provided the appraisal meets value and no unforeseen title issues or secondary liens are identified.

16. **Closed with Rehab Escrow** – After the Rehab Mortgage closes and any rescission period is completed, the Member will work exclusively with the HAND department to obtain Project Approval and start working with the Contractor(s) HAND approved prior to closing. All work must be completed per the terms of the Rehabilitation Escrow agreement, timeline, and within NACA's HAND program guidelines.

#### **IV. HAND Requirements:**

1. **Property Inspection, Wood Destroying Organism Report & Other Evaluations** – Once NACA Qualified, the Member must obtain the necessary inspections, evaluations, work write up or other reports to support a final scope of work.
  - Inspections and other necessary evaluations will be an out-of-pocket nonrefundable Member expense. Members should not pursue or pay for inspections, other evaluations, testing or reporting until they are NACA Qualified, to avoid unnecessary financial loss if not approved.
  - Once NACA Qualified, inspections must be completed by a registered property inspector. They must inspect the entire property's interior and exterior, including any applicable outbuildings or secondary units present on the property.
  - The property must be fully accessible and have all utilities turned on, if there are no damages that prevent the electric, gas, and water services from being turned on. The inspection report can be rejected if the utilities are off at the time of the inspection, and the inspector did not note damages present at the time of the inspection.
  - The inspection must take place during day light hours, and the Member is required to be in attendance at the time of the property inspection. The inspection report will be rejected otherwise.
  - The Property Inspector must include photographs of all noted defects, as well as photos of all living spaces, units, and all exterior elevations of the home. In addition, the inspector must take a photograph of the Member in front of the home, documenting their attendance.
  - The out-of-pocket payment is due at the time the inspection is completed, paid by the Member directly to the property Inspector they hired.
  - The Inspector will upload the full inspection report directly to the Member's NACAlynx file using NACA's custom Homegauge software.
  - The WDO (pest inspection) report can be completed by any licensed pest control operator. The Member must upload the WDO report through their Member Portal, if not supplied by the property Inspector as part of the property inspection service.
  
2. **Contractors & Bid(s)** – The Member must identify one or more eligible contractors to do the work after the loan closes, which HAND must approve prior to closing on the loan. Since the Member can provide the contractor with full access to the property, both the bidding process and contractor approval steps occur before HAND clearance and loan closing. While NACA may be able to assist, if a Member cannot locate eligible contractor(s) in their market to hire to perform the work, the Rehab Mortgage cannot be approved.
  - Contractor(s) must visit the property and evaluate all repair requirements on the NRL and document any additional code, safety, or health issues.
  - HAND will request up to three bids to support the proposed work, making an exception for less bids when contractors are limited in the area.

- The Member will have to identify who they want to hire as their contractor(s), and work with HAND to register and set up as a Bank of America approved Vendor before final budget approval.

**3. Scope of Work & Final Rehab Budget** – Once all applicable evaluations, plans and specifications of work have been supplied, HAND will draw a final scope of work detailing all work that will be performed as part of the Rehab Mortgage. A Rehab Budget will document the total cost of repairs, contingency, inspections, HAND fees and any other cost associated with the rehab transaction.

- If applicable, 6 months mortgage payments may be added to the loan if the Member cannot live in the home during renovations. The .375 reduction of the posted interest rate will apply.
- The final SOW and Rehab Budget will be sent to the Member to accept.
- Once accepted, HAND will approval and clear the final rehab budget package, triggering the file for Credit Access readiness.
- HAND will keep the account on the HAND Pipeline until the Appraisal is received, and loan to value is met.
- Provided there are no repair or loan to value conditions, this will be HAND's final step until the loan closes.

**4. HAND Rehab Escrow Terms** – After the loan is closed, the Member will work exclusively with NACA's HAND department to obtain Project Approval for work to start, using the approved Contractor's identified before the loan closed.

- The Member cannot change contractor(s) after closing.
- The Scope of Work cannot change after closing.
- Additional funding is not available, outside of the Rehab Mortgage escrow funds collected at close and held by the Member's lender until the Member requests payment to their Contractor.
- NACA's HAND department is the facilitator of the terms of the lender's Rehabilitation Escrow agreement, which the Member is advised to review carefully. It defines who and how rehab escrow funds are held, terms of disbursement and default actions available to the lender, if the Member fails to satisfactorily complete the scope of work.
- HAND must document the completion of all work, supplying Member's lender with inspections and supporting documentation confirming that the work was completed satisfactorily.
- Payments will be disbursed directly to the approved Contractor(s) with the Member's and Lenders approval. All payments are made in the form of a wire, made directly to the Contractor(s) bank account.
- All work must be completed within six months of closing, 12 months if significant rehab.
- Work not completed within rehab escrow timeline, will be subject to default actions as defined in the lender's Rehabilitation Escrow Agreement.
- Members are welcome to speak to their HAND representative after they are NACA Qualified to address questions related to options, guidelines, or other rehab repair requirements. Before they are NACA Qualified, they can attend a Rehab Mortgage webinar for more details related to the NACA Rehab Mortgage process, repair procedures and requirements.