



we do so you can.

# **WHEDA**

# **Home Improvement**

# **Advantage**

# **Origination Guide**



# WHEDA Home Improvement Advantage Loan

Eligible Borrower	Borrowers who presently have a WHEDA First Mortgage
Eligible Repairs	Additions and remodeling projects Home repairs, including repairs to make a home handicap accessible Energy-related items which are permanent in nature Energy Star appliances
Maximum Loan	\$10,000
Maximum Loan Term	10 years
Interest Rate	8% Fixed rate
CLTV	110% - lower of the appraised or assessed value
Minimum Credit Score	620 No 30 day lates on the WHEDA Home Loan within the last 6 months
Single Qualifying Ratio	45%
Servicing	All loans will be serviced by WHEDA
Lender Fee	\$250 paid by WHEDA
Exclusions	Luxury improvements and fireplaces Self-Employed borrowers Section 8 Homeownership Voucher recipients
Important:	<ul style="list-style-type: none"> <li>All loans will be manually underwritten by WHEDA</li> <li>Must meet WHEDA Home Improvement Advantage income limits</li> <li>Borrower must have made timely payments on the WHEDA first mortgage for a minimum of 6 months</li> </ul>

Any WHEDA approved lender may process a Home Improvement loan application. This loan offers a fixed interest rate for the life of the loan. Lenders should encourage borrowers to visit the National Association of the Remodeling Industry website ([www.nari.org](http://www.nari.org)) for important information on remodeling tips. Borrowers participating under a Section 8 Housing Voucher mortgage program are not eligible for this product.

### Compliance Requirements

#### Income Limits

The combined gross annual income of all adults intending to occupy the property cannot exceed the [income limit](#) for the county in which the property is located.

#### **GOOD TO KNOW:**

Compliance income applies to all adult occupants. The number of occupants may be different than the number of loan applicants.

#### Citizenship

All borrowers must have a Social Security Number and:

- Be a U.S. citizen; or
- Be a permanent resident alien (I-551); or
- Be a 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. Include a copy of the card in the application package

#### Child Support/Maintenance

Arrearages for child support, birthing, maintenance or other expenses owed to the state must be paid in full prior to closing.

### Eligibility

- The borrower(s) must presently have a WHEDA First Mortgage and have made timely payments for a minimum of 6 months
- The minimum loan amount is \$1,000 and the maximum loan amount is \$10,000, including financed fees
- Maximum term of the loan is 10 years
- Total debt ratio, including the Home Improvement loan payment and the first mortgage (PITI), should not exceed 45% of the borrower's gross monthly income
- Borrower(s) minimum FICO Score is 620 with no 30 day lates on the WHEDA Home Loan within the last 6 months
- Borrower(s) cannot be self-employed

### **Combined Loan to Value (CLTV)**

The maximum CLTV is 110% of the lower of the assessed value as shown on the most recent tax bill or the appraisal obtained with the first mortgage.

The borrower has the option to obtain a new appraisal at the borrower's expense dated within 60 days of the application. The appraisal must be submitted as a part of the loan application. The "as is" appraised value will be used to establish the maximum CLTV and the assessed value would no longer be considered.

### **Interest Rate**

The interest rate is subject to change weekly. Interest rate information is posted on our website.

### **Other Financing**

If the borrower(s) are obtaining other financing to supplement the Home Improvement loan, WHEDA's mortgage must have priority over the other lien.

## **Income**

### **Required Employment Documentation**

Provide the previous 2 years W-2 forms, and most recent 30 day's worth of paystubs which show year-to-date earnings. The sum of the W-2s must match the federal tax returns.

If the borrower has been on their present job for less than one year, a full written Verification of Employment (VOE) is required.

### **Current Employment Documentation**

Documentation for current employment must include:

- Wage rate
- Average hours and overtime hours worked per week
- Year-to-date earnings
- Date of employment
- Frequency of payment
- Previous year earnings

### **Previous Employment Documentation**

For all previous employment in the last 2 years provide a verbal Verification of Termination which must include the start and termination dates of employment.

### **Other Income Documentation:**

- Current Social Security Award Letter
- One year history of child support verified through the Department of Workforce Development
- Pension Letter
- A disability policy or benefits statement and a statement from the benefits payer

### Tax Return

A signed copy of the 2 most recent years Federal Tax Return including all schedules, attachments, and W-2s will be required for all individuals who intend to occupy the property.

Tax returns will be reviewed for compliance income, self employed activity, unreimbursed employee expenses, and income from assets.

### Compliance Income

Compliance income is the anticipated income of anyone age 18 or older who intends to occupy the property, regardless of their relationship to the borrower. This may include adult children, parents, aunts, uncles, grandparents, partners, companions, etc.

Compliance income is generally calculated using the greater of:

- Current gross income projected 12 months forward, or
- Gross income from all sources earned in the last tax year

**GOOD TO KNOW:**  
Compliance income is not the same as qualifying income.

### Inclusions:

- Earned income of all occupants over the age of 18
- Unearned income of all occupants under the age of 18
- Social Security Income (SSI)
- Child support
- Alimony
- Pension/retirement
- Disability
- Public Assistance
- Interest and dividend income on funds retained after closing
- 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

### Exclusions:

- Earned income for all occupants under the age of 18
- Foster care income
- Food stamps
- Non-recurring payments from:
  - Inheritances
  - Insurance settlements
  - Lottery winnings
  - Gambling winnings
  - Capital gains
  - Settlements for personal loss

### Compliance Income Guarantee

To guarantee compliance with WHEDA's Income Limit, fax the [Compliance Income Evaluation](#) (Form 29), including paycheck stubs and W2s, to WHEDA. The Evaluation will be faxed back to the lender with the compliance income decision. If household income is well below the Income Limit or you feel you do not need a guarantee, you do not need to use this form.

### Qualifying Income

Qualifying income is the verified stable income of the borrower and is used to calculate ratios. A two-year history of stable employment is required.

**GOOD TO KNOW:**  
Qualifying income is not the same as Compliance income.

### Overtime

Overtime income must show a history of at least 24 months with the current employer.

### Commission, Bonus, Tip, and Profit Sharing

Commission, bonus, tip, and profit sharing income must show a history of at least 24 months with the current employer.

### Non-taxable Income (Child Support, SSI)

Non-taxable income is adjusted upward 125%. This source of income should be expected to continue for the next 3 years.

Child support and alimony must be documented with a 12 month history from the Department of Workforce Development.

Social Security, pension/retirement, and public assistance must be verified with a current award letter.

Disability income must be verified with a copy of the disability policy or benefits statement and a statement from the benefits payer.

### Second Job

Second job (part-time or full-time) income requires a 24 month history and a strong likelihood of continuation.

### Military Income

For full time military personnel, use base pay plus additional pay (hazard pay, rations, clothing allowance, etc) if the additional pay is likely to be received in the future.

Reserve pay may be used as qualifying income if it can be verified as having been uninterrupted for the previous two years and has a strong likelihood of continuation.

### Seasonal and Unemployment

Seasonal employment and unemployment compensation may be considered if there is a minimum 2 year history with the same employer.

### **Rental Income from Subject Property**

The gross rental income from the property is equal to the lesser of the market rent that was established by the appraiser or the current rent based on the existing lease agreement. Use 75% of the gross rental income when calculating qualifying income.

### **Other Real Estate Owned**

Rental income from other real estate owned properties must be documented with 2 years federal tax returns and a Schedule E. Add depreciation to the net income or loss. Positive rental income can be used for qualifying purposes. Negative rental income must be treated as a recurring liability.

If the property was acquired since the last income tax filing and is not shown on the Schedule E, a current lease or other rental agreement must be provided. Only 75% of the gross rental amount can be used for qualifying purposes.

### **Unreimbursed Employee Expense**

Calculate a 24 month average of Unreimbursed Employee Expenses as listed on the borrower's personal tax returns and reduce monthly qualifying income. If the expenses are auto lease or auto loan related, count the monthly payment as a debt.

## **Credit**

### **Credit Report**

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

### **Credit Scores**

Refer to the Home Improvement Fact Sheet for minimum credit score requirements.

### **Length of Credit History**

The borrower's credit report must have 2 years of active credit history with a minimum of three 12-month trade lines.

### **Thin Credit Files**

Alternative credit references may be used to supplement a thin file. See Non-traditional credit section for acceptable sources.

### **Analysis of Credit Report**

Credit history within the past 12 months will be a strong factor in the underwriting decision. Borrowers should exhibit no late payments, judgments or new collections within the past 12 months.

### **Collections**

Medical collections cannot exceed an aggregate total of \$1,000.

Non-medical collections must be paid-in-full.

### **Judgments, Tax Liens, Charge-Offs, Repossessions**

Must be paid-in-full prior to closing. Provide a recorded satisfaction.

### **Derogatory Accounts, Foreclosures, Bankruptcy's, etc.**

A Bankruptcy must have been discharged for a minimum of 4 years prior to application. A previous foreclosure is generally not allowed.

### **Debt Management**

Borrowers who have used the services of a debt management company must have 12 months of re-established credit from the conclusion of the plan.

### **Non-traditional Credit**

Alternative credit references are acceptable when sufficient traditional sources are not available. Document 3 sources of alternative credit references each having at least a 12 month history of being paid on time. One source of nontraditional credit must be the first mortgage payment history and 1 must be a utility.

References must include the: creditor's name, name of person providing the reference, date account was opened, amount of highest credit, current status of the account, required payment amount, unpaid balance, and payment history.

Examples of alternative credit references are:

- Utilities (i.e. telephone, cell phone, gas, electric, cable bills)
- Auto insurance premiums paid monthly

Verify alternative credit references by obtaining 12 months of cancelled checks or 12 months of payment history. Banks statements do not, by themselves, validate payments, but can be used to supplement other sources.

### **Undisclosed Debt**

Document any discrepancies between the credit report and information disclosed in the application or elsewhere. All debts must be documented and the payments will be included in ratios.

## Debt Analysis

### Single Qualifying Ratio

Refer to product specific Fact Sheet for details.

### Housing Payment

The monthly payment includes principal and interest, taxes, hazard insurance and primary mortgage insurance premium (PITI). Add to the PITI any monthly condominium association fees and/or flood insurance premium.

### Revolving Accounts

Use the greater of 3% of the outstanding balance or the payment amount reported on the credit report. Use 5% of the balance if no payment amount is listed on the credit report.

Payment in full of revolving debts to obtain satisfactory qualifying ratios is not allowed.

### Installment Debt

Include all installment debt with a remaining term of 10 months or more.

Installment debts with fewer than 10 months remaining are generally excluded. However, debts with less than 10 months must be counted if the amount of the debt affects the borrower's ability to pay the mortgage payments immediately after closing.

Principal reductions of installment debt to reduce the remaining term to less than 10 payments are not allowed.

Lease payments are always included in ratios.

### Authorized User Accounts

Do not count authorized user accounts as a credit reference unless the borrower can prove, via cancelled checks, they have been making the payments for at least 12 months. If the borrower has been making the payments, include the monthly payment in the total debt ratio.

If the applicant is an authorized user of a trade line that belongs to a non-applicant spouse the lender must include the monthly payment when calculating the borrower's total debt ratio.

### Non-applicant Spouse Debt

All open and active accounts will be included in ratios.

The borrower will not be held responsible for payment of collections and judgments incurred by a non-applicant spouse prior to the documented date of the marriage.

### Child Support and Maintenance

Include all child support obligations with a remaining term of ten months or more.

All child support, birthing expenses, and maintenance arrearages must be paid prior to closing

### **Student Loans**

Payments for deferred loans (student loans) must be included in the borrower's total debt ratio.

### **Business Debt**

Obtain 12 months of cancelled checks to verify the obligation was paid with company funds. If delinquencies have occurred in past 12 months, include the debt as part of the borrower's individual obligations.

### **Business Operated at a Loss**

Business loss reported on the borrower's individual income tax return will be amortized over a 12 month period and included in the ratios. If the business is operated at a loss, such loss may not be used to offset income generated from other sources.

### **Co-Signature Debt**

A borrower's co-signed obligation is not considered debt if the borrower can provide documentation that the last 12 months of payments have been paid by the primary debtor.

## **Property Improvement Eligibility**

Property Type:

- One to four-unit
- Owner-occupied
- No more than 15% of the property can be used for trade or business purposes

Eligible improvements include additions, remodeling, repairs, or energy-related items which are permanent in nature and Energy Star appliances. Ineligible Improvements are items of a luxury nature. Fireplaces are generally not eligible.

Loan proceeds cannot be used to refinance any existing debt, complete an unfinished structure, or complete work already in progress.

All improvements must comply with state, county and municipal code.

## Procedures

Submit the [Application Package Checklist](#) (Home Improvement Form 1) to WHEDA for a manual underwrite.

### Fees charged to the Borrower

The following fees may be financed or paid in cash:

- Credit report
- Written title search
- Standard Flood Hazard Determination (FEMA)
- Recording fees
- Permit fees
- \$25 processing fee

### When work may begin

Work cannot start until the loan application has been approved

### Inspection of Improvements

WHEDA will perform an inspection of the completed improvements. In addition all loans are subject to audit to verify compliance with Home Improvement Guidelines.

### Title Search

Obtain a written title search 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.

### Contract/Bids

Provide a copy of the cost estimate for all improvements.

### Lien Waivers

Lien waivers are recommended but not required.

## Prepare for Closing the Loan

### Loan Servicing

All Home Improvement Loans will be serviced by WHEDA.

### Note

The lender may use any Note that is legal to use in Wisconsin for home improvement loans. After closing provide the original of the Note endorsed "Pay to the order of WHEDA without recourse".

A late fee of 5% of the unpaid amount or \$10.00, whichever is less, will be assessed for any payment not received on or before the 10<sup>th</sup> day after the due date. There will be no late charge on the final payment.

### Disclosures

It is the responsibility of the Lender to ensure that all settlement/disclosure procedures are complete.

### Mortgage

The lender may use any Mortgage that is legal to use in Wisconsin for home improvement loans. Record the Mortgage upon expiration of the three-day rescission period.

### Assignment of Mortgage

The lender may use any Assignment of Mortgage that is legal to use in Wisconsin for home improvement loans. Record the Assignment of Mortgage upon expiration of the three-day rescission period. Include the complete legal description as it appears on the title search. List WHEDA's name and address in the "Return To" section.

### Notice of Right of Rescission

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

### Flood Insurance

Submit the Standard Flood Hazard Determination Form (FEMA). If the property is located in a 100 year flood plain obtain flood insurance.

Verify the Flood Insurance Policy meets the following requirements:

- Premiums are current and in effect
- Deductible should be the lesser of 1% of the principal balance or \$1000
- Coverage should be equal to the lesser of:
  - Unpaid principal balance of the mortgage; or
  - 100% of the insurable value of the improvements as established by the property insurer and provides for claims to be settled on a replacement cost basis
- Lender must notify the flood insurer of the servicer's loan number and to send annual renewal premium notices to the servicer
- The mortgagee clause should read:

WHEDA, Its Successors and/or Assigns  
PO Box 1728  
Madison, WI 53701-1728

### Homeowner's Insurance

Verify the Hazard Insurance Policy meets the following requirements:

- Premiums are current and in effect
- Deductible should be the lesser of 1% of the principal balance or \$1000
- Coverage should be equal to the lesser of:
  - Unpaid principal balance of the mortgage
  - 100% of the insurable value of the improvements as established by the property insurer and provides for claims to be settled on a replacement cost basis
- Lender must notify the hazard insurer of the servicer's loan number and to send annual renewal premium notices to the servicer.
- The mortgagee clause should read:  
WHEDA, Its successors and/or assigns  
PO Box 1728  
Madison, WI 53701-1728

### Subordinations

WHEDA may, on a case-by-case basis, subordinate its lien position in the event of a refinance.

### Lender's Warranty

It is the responsibility of the Lender to ensure:

- All information submitted to WHEDA is true and correct, based on normal and prudent business practices.
- All information submitted to WHEDA is in compliance with the Loan Purchase Agreement.
- The Borrower has executed the [Borrower's Affidavit](#) (Home Improvement Form 2)
- All proceeds of the loan have been disbursed jointly to the borrower and the contractor.

### Lender Compensation

WHEDA will pay the lender an origination fee of \$250.

## Funding

Submit the [Home Improvement Funding Certificate](#) (Home Improvement Form 3) to WHEDA. Include a copy of the Note, written title search to evidence real estate taxes are paid in full and the signed loan application.

Requests received by noon the day before the anticipated disbursement date will enable WHEDA to electronically transfer the requested funds on the date of disbursement.

Loan proceeds may be placed in an escrow account or they may be disbursed payable jointly to the borrower(s) and the contractor. The lender is encouraged to advise the borrower to disburse funds when the project is complete.

### **Disbursement of Loan Proceeds**

All improvements should be completed within three months of the funding date. In general, disbursements should be made only upon verification that the work has been completed satisfactorily. All disbursements should be made payable jointly to the borrower and the contractor.

Advise borrowers that if the improvements are not completed within three months, they can submit a written request for an extension. WHEDA may grant one extension on a case-by-case basis. If the improvements are not completed within the allotted period of time, WHEDA may call the Note due and payable.

### **Change Orders**

Changes in contractors or improvements must be approved in advance by WHEDA. Unused loan proceeds must be returned to WHEDA and will be applied to the principal amount of the loan.

### **Closing Package**

Submit the closing package to WHEDA within 15 business days using the [Home Improvement Closing Package Checklist](#) (Home Improvement Form 4). Forward the originals of the recorded mortgage and assignments within 90 days of the closing.

### **Repurchase**

Any loan not meeting compliance underwriting will require repurchase if the exception cannot be remedied within 10 business days. Compliance issues include:

- Loan proceeds not disbursed jointly to the borrower and the contractor
- Failure to notify WHEDA of Change Orders