U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

SINGLE FAMILY HOUSING

Originating FHA-Insured Forward Mortgages in Major Disaster Areas

October 12, 2017

Agenda

203(h) Mortgage Insurance for Disaster Victims

203(k) Rehabilitation Mortgage Insurance Program

203(h) Mortgage Insurance for Disaster Victims Program

Section 203(h) Program Eligibility Requirements

- The applicant's residence must have been in a Presidentially- Declared Major Disaster Area (PDMDA).
  - The applicant's residence must have been destroyed or damaged to such an extent that reconstruction or replacement is necessary.

- Refer to the Federal Emergency Management Agency's (FEMA) website for areas affected and declaration dates at: www.fema.gov/disasters.
  - Disaster declarations can be found under the "Navigation" tab.

203(h): Borrower Eligibility Requirements

- The FHA case number must be assigned within one year of the date the PDMDA is declared, unless an additional period of eligibility is provided;
- The mortgaged property must be the borrower's principal residence; and
- The borrower must have a minimum credit score of 500.

203(h): Property Eligibility Requirements

- **Previous** residence (owned or rented) must have been located in a PDMDA and destroyed or damaged to such an extent that reconstruction or replacement is necessary.

- The purchased or reconstructed property must be a single family property or a unit in an FHA-approved Condominium Project.

- The new residence being purchased does not need to be **located** in the PDMDA where the previous house was located.

203(h): Disaster Loan MRI/LTV

- The borrower is not required to make the Minimum Required Investment (MRI).
- The maximum loan-to-value (LTV) ratio limit is 100 percent of the Adjusted Value.
- If a 203(k) is used in conjunction with a 203(h), the 203(k) LTV ratio applies.

203(h): Underwriting

- Mortgagees should be as flexible as prudent decision-making permits.

- Where traditional documentation regarding employment, assets, and credit are unavailable, mortgagees may use alternative documentation.

- The Mortgage Insurance Premium and maximum mortgage amounts are the same as those for Section 203(b) mortgages.

203(h): Underwriting (cont.)

- Credit
  - The borrower may be considered a satisfactory credit risk if the credit report indicates satisfactory credit prior to a disaster; and
  - Any derogatory credit subsequent to the date of the disaster is related to the effects of the disaster.

- Income
  - If prior employment cannot be verified because records were destroyed by the disaster and the borrower is in the same/similar field, then FHA will accept W-2s and tax returns from the Internal Revenue Service to confirm prior employment and income.
  - The mortgagee may also include short-term employment obtained following the disaster in the calculation of Effective Income.

203(h): Underwriting (cont.)

- Liabilities
  - When the borrower is purchasing a new house, the mortgagee may exclude the mortgage payment on the destroyed residence located in a PDMDA from the liabilities.
    - The mortgagee must obtain information that the borrower is working with the servicing mortgagee to appropriately address their mortgage obligation related to the destroyed property; and
    - Apply any property insurance proceeds to the mortgage of the damaged house.

- Assets
  - If traditional asset documentation is not available, the mortgagee may use statements downloaded from the borrower's financial institution website to confirm the borrower has sufficient assets to close the mortgage.

203(h) Underwriting (cont.)

- Housing Payment History
  - The mortgagee may disregard any late mortgage payments on a property that was destroyed/damaged in the disaster, where:
    - The late payments were a result of the disaster; and
    - The borrower was not three or more months delinquent at the time of the disaster.
  - The mortgagee may justify approval if the borrower was three or more months delinquent if extenuating circumstances are documented by the mortgagee.

203(k) Rehabilitation Mortgage Insurance Program

203(k) Rehabilitation Mortgage Insurance Program

- The Section 203(k) Rehabilitation Mortgage Insurance Program is used to:
  - Rehabilitate an existing one- to four-unit Structure, which will be used primarily for residential purposes;
  - Rehabilitate such a Structure and refinance outstanding indebtedness on the Structure and the Real Property on which the Structure is located; or
  - Purchase and rehabilitate a Structure and purchase the Real Property on which the Structure is located.

- Structure refers to a building that has a roof and walls, stands permanently in one place, and contains single or multiple housing units that are used for human habitation.

203(k) Rehabilitation Mortgage Insurance Program (cont.)

Key features of the 203(k):

- Buyers can purchase and make approved improvements after closing.
- Current owners can refinance, stay in their homes, and make approved changes after closing.
- Combines the cost of the home and the renovation into one mortgage.

How Is the 203(k) Program Different?

Traditional Rehabilitation Mortgage Program

- Property must meet minimum property standards prior to closing.
- Short term financing for repair costs.
- Value of the property does not support adequate loan security.
- Refinance – permanent transaction.

203(k) Rehabilitation Mortgage Program

- Property does not meet minimum property standards at closing.
- Funds for the rehabilitation costs are financed into the mortgage amount.
- “After improved” value is used for the basis of collateral evaluation.
- 203(k) is a permanent transaction.

Two Types of 203(k) Rehabilitation Mortgages

Standard 203(k)

- The Standard 203(k) Mortgage may be used for repairs.

Limited 203(k)

- The Limited 203(k) Mortgage may only be used for <u>minor</u> remodeling and <u>non-structural</u> repairs.

203(k) Standard Rehabilitation Mortgage

- Standard 203(b) requirements.
- Monthly MIP.
- Repair cost ≥ $5,000.
- Maximum mortgage limits apply.
- At least 3.5 percent down payment.
- Repair/rehabilitate 1- to 4-unit structures.
- Consultant required.
- Razed/demolished structure is eligible if foundation still exists.
- Damaged residences located in a PDMDA are eligible; residence only needs to be completed and ready for occupancy within one year.
- Borrowers may be displaced for up to six months; mortgage payments may be paid.

Limited 203(k) Rehabilitation Mortgage

Limited 203(k) Rehabilitation Mortgage

Unique features designed to expedite the Limited 203(k) Mortgage Program:

- Total rehabilitation cost ≤ $35,000.
- No 203(k) Consultant is required.
- No inspection is required if repairs are less than $15,000.

Standard 203(k) vs. Limited 203(k) Mortgage

Standard 203(k)

- Repairs/Improvements ≥ $5,000.
- No maximum repair amount.
- To facilitate major repairs and improvements.
- 203(k) Consultant required.
- Architectural exhibits required.

Limited 203(k)

- No minimum repair amount.
- Maximum of $35,000.
- To facilitate non-structural repairs and improvements.
- No 203(k) Consultant required.
- Architectural exhibits not applicable.

More Information

- 203(h) Mortgage Insurance for Disaster Victims
  – *Single Family Housing Policy Handbook* 4000.1, Section II.A.8.b, Disasters and Mortgages Insurance for Disaster Victims

- 203(k) Rehabilitation Mortgage Insurance Program
  – *Single Family Housing Policy Handbook* 4000.1, Section II.A.8.a, 203(k) Rehabilitation Mortgage Insurance Program

FHA Resource Center

	Option	Point of Contact	Hours Available	Comments
1	**FHA Knowledge Base – FAQs**	www.hud.gov/answers	24/7/365	Knowledge Base web page includes option to email questions.
2	**Email**	answers@hud.gov	24/7/365	
3	**Telephone**	1-800-CALL-FHA (1-800-225-5342) Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.	8:00 AM to 8:00 PM Eastern M-F	Voicemail is available after hours or during extended wait periods.

***FHA INFO* emails**: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at: https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe

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