



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

1 Date: **XXXX, 2025**

2 Mortgagee Letter 2025-XX

3 To: All FHA-Approved Mortgagees
4 All Direct Endorsement Underwriters
5 All Eligible Submission Sources for Condominium Project Approvals
6 All FHA Roster Appraisers
7 All FHA-Approved 203(k) Consultants
8 All HUD-Certified Housing Counselors
9 All HUD-Approved Nonprofit Organizations
10 All Governmental Entity Participants
11 All Real Estate Brokers
12 All Closing Agents

18 **Effective Date** The provisions of this ML are effective immediately.

19 All updates will be incorporated into a forthcoming update of the HUD
20 Handbook 4000.1, *FHA Single Family Housing Policy Handbook*
21 (Handbook 4000.1).

24 **Background** On July 9, 2024, FHA increased the maximum rehabilitation amount under
25 the Limited 203(k) program from \$35,000 to \$75,000 and extended the
26 rehabilitation period from six months to nine months through ML 2024-13,
27 *Revisions to the 203(k) Rehabilitation Mortgage Insurance Program*
28 *including updates to the 203(k) Consultant Requirements and Fees*. With no
29 changes to the draw structure or maximum number of allowable draws

1 accompanying these changes, FHA's Mutual Mortgage Insurance Fund
2 (MMIF) was put at risk through larger advancements of funds for work yet
3 to be completed. Further, the existing draw framework under Limited 203(k)
4 has become increasingly challenging for Mortgagees as the two-draw limit
5 does not align with the larger scope of work now permitted. Specifically,
6 Mortgagee feedback notes that this limitation disrupts contractor cash flow,
7 which increases the risk of delays and in some instances project
8 abandonment. For this reason, both FHA and industry stakeholders believe it
9 is in the best interest of the program to increase the number of allowable
10 draws for Limited 203(k).

11 FHA is updating Limited 203(k) draw request policy to allow a maximum of
12 four draws per contractor and to clarify the treatment of initial, intermediate,
13 and final draws. A scheduled intermediate draw may be split into two
14 disbursements when warranted by the nature of the work without increasing
15 the total number of draws permitted. While FHA has not increased the
16 number of allowable draws under Standard 203(k), FHA has made
17 conforming changes to incorporate the same clarification regarding split
18 draws, which ensures consistent guidance under both Limited and Standard
19 203(k) programs.

20 FHA believes these operational changes will streamline rehabilitation
21 escrow administration, strengthen risk controls, bring FHA requirements in
22 line with industry standards, give Mortgagees and repair escrow managers
23 clearer guidelines for draw requests, and ensure rehabilitation loan funds are
24 managed more appropriately.

25 **Summary of
26 Changes**

27 This ML:

28

- 29 • updates Limited 203(k) Ineligible Improvements/Repairs
30 (II.A.8.a.vii(B)) for rehabilitation activities that require more than
31 two payments per contractor;
- 32 • clarifies that a draw can be split into two releases for both Standard
33 203(k) Release of Funds (II.A.8.a.xviii(C)(1)(d)(i)) and Limited
203(k) Release of Funds (II.A.8.a.xviii(C)(1)(d)(ii)); and
- increases the maximum number of draw requests for Limited 203(k)
Release of Funds (II.A.8.a.xviii(C)(1)(d)(ii)).

34 The Handbook 4000.1 sections impacted by this ML are provided in
35 [Attachment 1](#), with changes tracked in redline to help users clearly identify
36 the policy requirements being revised or removed from the Handbook.

1	FHA Single	The policy changes will be incorporated into Handbook 4000.1 as follows:
2	Family Housing	
3	Policy	
4	Handbook	
5	4000.1	
6	Origination	Limited 203(k) Transactions (II.A.8.a.vii)
7	Through Post-	
8	Closing/	
9	Endorsement	(B) Limited 203(k) Ineligible Improvements/Repairs
10		The Limited 203(k) mortgage proceeds may not be used to finance major
11		rehabilitation or major remodeling. FHA considers a repair to be “major”
12		when any of the following are applicable:
13		<ul style="list-style-type: none">• the repair or improvements are expected to require more than nine months to complete;• the rehabilitation activities require more than four payments per contractor;• the required repairs arising from the appraisal:<ul style="list-style-type: none">◦ necessitate a Consultant to develop a specification of repairs/Work Write-Up; or◦ require plans or architectural exhibits; or• the repair prevents the Borrower from occupying the Property for more than a total of 30 Days during the rehabilitation period.
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19	Release of Funds (II.A.8.a.xviii(C)(1))
20	(d) Timeliness of Release
21	The Mortgagee must release funds within five business days after receipt of
22	a properly executed draw request and title update when necessary.
23	(i) Standard 203(k) Release of Funds
24	Maximum Draw Requests
25	The Mortgagee may approve a maximum of five draw requests (four
26	intermediate and one final).
27	The Mortgagee may split a draw into two separate disbursements.
28	Splitting a draw does not count toward the maximum number of draws.
29	Contingency Reserve
30	To allow use of contingency funds for improvements other than health
31	and safety when rehabilitation is incomplete, the Mortgagee must
32	determine that it is unlikely that any health or safety deficiency will be
33	discovered, and that the Mortgage will not exceed 95 percent of the
34	After Improved Value.

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1 When the rehabilitation is complete, the Borrower may use the
2 Contingency Reserve account to fund additional improvements not
3 included in the original Work Write-Up.

4 The Mortgagee must obtain a change order detailing the additional
5 improvements, including the costs of labor and materials.

6 The Mortgagee must inform the Borrower in writing of the approval or
7 rejection of the request to use funds from the Contingency Reserve
8 account for additional improvements within five business days.

9 **Method of Payment**

10 The Mortgagee will release escrow funds upon completion of the
11 rehabilitation in compliance with the Work Write-Up.

12 The Mortgagee must issue checks to both the Borrower and contractors
13 as co-payees, unless the Borrower provides written authorization, at each
14 draw, to issue the check directly to the contractor.

15 The Mortgagee may issue the check directly to the Borrower alone if the
16 release is for:

- 17 • materials for work performed under a self-help agreement; or
- 18 • materials for items prepaid by the Borrower under contract with
19 the supplier.

20 **(ii) Limited 203(k) Release of Funds**

21 **Maximum Number of Draw Requests**

22 The Mortgagee may approve a maximum of four draw requests per
23 contractor or for the Borrower (if acting as the contractor). These consist
24 of the initial draw at closing, no more than two intermediate draws
25 during the rehabilitation process, and release of the final draw.

26 The Mortgagee may split a draw into two separate disbursements.
27 Splitting a draw does not count toward the maximum number of draws.

28 **Total Repair Costs Less Than or Equal to \$15,000**

29 The Mortgagee must ensure that the repairs and/or improvements have
30 been completed by obtaining contractor's receipts or a signed
31 [Borrower's Letter of Completion](#). The Mortgagee is not required to
32 perform or have others perform inspections of the completed work.

33 The Mortgagee may choose to obtain or perform inspections if they
34 believe such actions are necessary for program compliance or risk
35 mitigation. If the Mortgagee determines that an inspection by a third

party is necessary to ensure proper completion of the proposed repair or improvement item, the Mortgagee may charge the Borrower for the costs of no more than two inspections per contractor.

Total Repair Costs Exceeding \$15,000

The Mortgagee must ensure that the repairs and/or improvements have been completed by performing an inspection or by obtaining an inspection by a third party to determine that the repairs have been satisfactorily completed. The Mortgagee must obtain a signed [Borrower's Letter of Completion](#).

Contingency Reserve

The Mortgagee must ensure funds escrowed in the Contingency Reserve are used solely to pay for the proposed repairs or improvements and any unforeseen items related to these repair items.

Method of Payment

The Mortgagee will release rehabilitation escrow funds upon completion of the rehabilitation in compliance with the work plan.

The Mortgagee may issue checks solely to the contractor, or issue checks to the Borrower and the contractor as co-payees.

The Mortgagee may issue the check directly to the Borrower alone if the release is for:

- materials for work performed under a self-help agreement; or
- materials for items prepaid by the Borrower under contract with the supplier.

Paperwork Reduction Act

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the

Mortgagee Letter 2025-XX, Continued

1 Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and
2 assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-
3 0189; 2502-0302; 2502-0306; 2502-0322; 2502-0328; 2502-0358; 2502-
4 0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-
5 0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-
6 0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-
7 0610; and 2502-0611. In accordance with the PRA, HUD may not conduct
8 or sponsor, and a person is not required to respond to, a collection of
9 information unless the collection displays a currently valid OMB control
10 number.

11 **Signature**

13 Frank Cassidy
14 Principal Deputy Assistant Secretary for Housing

Attachment 1
Handbook 4000.1 Pages Impacted by this Mortgagee Letter

The Handbook 4000.1 sections impacted by this Mortgagee Letter (ML) are provided in this Attachment 1, with changes tracked in redline to help users clearly identify the policy requirements being revised or removed from the Handbook.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

A. Title II Insured Housing Programs Forward Mortgages

8. Programs and Products – 203(k) Rehabilitation Mortgage Insurance Program (04/10/2025)

- creating accessibility for persons with disabilities;
- installing or repairing fences, walkways, and driveways;
- installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven, and washer/dryer;
- repairing or removing an in-ground swimming pool;
- installing smoke detectors;
- installing, replacing or repairing exterior decks, patios, and porches; and
- covering lead-based paint stabilization costs (above and beyond what is paid for by HUD when it sells REO properties) if the Structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule and EPA's [Renovation, Repair and Repainting Rule](#).

12 (2) Improvements Standards

13 (a) General Improvement Standards

14 All improvements to existing Structures must comply with HUD's MPR and
15 meet or exceed local building codes.

16 (b) Specific Improvement Standards

17 Patios and decks must increase the As-Is Property Value equal to the dollar
18 amount spent on the improvements.

19 (B) Limited 203(k) Ineligible Improvements/Repairs

20 The Limited 203(k) mortgage proceeds **may not** be used to finance major
21 rehabilitation or major remodeling. FHA considers a repair to be "major" when any of
22 the following are applicable:

- the repair or improvements are expected to require more than nine months to complete;
- the rehabilitation activities require more than ~~two~~ four payments per **specialized** contractor;
- the required repairs arising from the appraisal:
 - necessitate a Consultant to develop a specification of repairs/Work Write-Up; or
 - require plans or architectural exhibits; or
- the repair prevents the Borrower from occupying the Property for more than a total of 30 Days during the rehabilitation period.

33 Additionally, the Limited 203(k) mortgage proceeds **may not** be used to finance the
34 following specific repairs:

- converting a one-family Structure to a two-, three- or four-family Structure;
- decreasing an existing multi-unit Structure to a one- to four-family Structure;

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1 (c) Holdbacks

2 The Mortgagee must hold back 10 percent of each draw request prior to
3 release of funds from the rehabilitation escrow account.

4 Exception

5 When a subcontractor is 100 percent complete with a Work Item, the work
6 completed is acceptable to the inspector, and the contractor and subcontractor
7 provide the necessary Lien Waivers, or equivalent, the Mortgagee is not
8 required to hold back funds; the Mortgagee has discretion to hold back funds
9 if not required.

10 (d) Timeliness of Release

11 The Mortgagee must release funds within five business days after receipt of a
12 properly executed draw request and title update when necessary.

13 (i) Standard 203(k) Release of Funds

14 Maximum Draw Requests

15 The Mortgagee may approve a maximum of five draw requests (three
16 intermediate and one final).

17 The Mortgagee may split a draw request into two separate disbursements.
18 Splitting a draw does not count toward the maximum number of draws.

19 Contingency Reserve

20 To allow use of contingency funds for improvements other than health and
21 safety when rehabilitation is incomplete, the Mortgagee must determine
22 that it is unlikely that any health or safety deficiency will be discovered,
23 and that the Mortgage will not exceed 95 percent of the After Improved
24 Value.

25 When the rehabilitation is complete, the Borrower may use the
26 Contingency Reserve account to fund additional improvements not
27 included in the original Work Write-Up.

28 The Mortgagee must obtain a change order detailing the additional
29 improvements, including the costs of labor and materials.

30 The Mortgagee must inform the Borrower in writing of the approval or
31 rejection of the request to use funds from the Contingency Reserve
32 account for additional improvements within five business days.

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8. Programs and Products – 203(k) Rehabilitation Mortgage Insurance Program (04/10/2025)

1 **Method of Payment**

2 The Mortgagee will release escrow funds upon completion of the
3 rehabilitation in compliance with the Work Write-Up.

4 The Mortgagee must issue checks to both the Borrower and contractors as
5 co-payees, unless the Borrower provides written authorization, at each
6 draw, to issue the check directly to the contractor.

7 The Mortgagee may issue the check directly to the Borrower alone if the
8 release is for:

- 9 • materials for work performed under a self-help agreement; or
- 10 • materials for items prepaid by the Borrower under contract with
11 the supplier.

12 *(ii) Limited 203(k) Release of Funds*

13 **Maximum Number of Draw Requests**

14 The Mortgagee may approve a maximum of ~~two~~ four draw requests per
15 contractor or for the Borrower (if acting as the contractor). These consist
16 of the initial draw at closing, no more than two intermediate draws during
17 the rehabilitation process, and release of the final draw.

18 The Mortgagee may split a draw request into two separate disbursements.
19 Splitting a draw request does not count toward the maximum number of
20 draws.

21 ~~When necessary there are specialized contractors, the Mortgagee may~~
22 ~~arrange a payment schedule, not to exceed two releases, per specialized~~
23 ~~contractor (an initial release plus a final release.~~

24 **Total Repair Costs Less Than or Equal to \$15,000**

25 The Mortgagee must ensure that the repairs and/or improvements have
26 been completed by obtaining contractor's receipts or a signed [Borrower's](#)
27 [Letter of Completion](#). The Mortgagee is not required to perform or have
28 others perform inspections of the completed work.

29 The Mortgagee may choose to obtain or perform inspections if they
30 believe such actions are necessary for program compliance or risk
31 mitigation. If the Mortgagee determines that an inspection by a third party
32 is necessary to ensure proper completion of the proposed repair or
33 improvement item, the Mortgagee may charge the Borrower for the costs
34 of no more than two inspections per contractor.

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A. Title II Insured Housing Programs Forward Mortgages

8. Programs and Products – 203(k) Rehabilitation Mortgage Insurance Program (04/10/2025)

1 **Total Repair Costs Exceeding \$15,000**

2 The Mortgagee must ensure that the repairs and/or improvements have
3 been completed by performing an inspection or by obtaining an inspection
4 by a third party to determine that the repairs have been satisfactorily
5 completed. The Mortgagee must obtain a signed [Borrower's Letter of](#)
6 [Completion](#).

7 **Contingency Reserve**

8 The Mortgagee must ensure funds escrowed in the Contingency Reserve
9 are used solely to pay for the proposed repairs or improvements and any
10 unforeseen items related to these repair items.

11 **Method of Payment**

12 The Mortgagee will release rehabilitation escrow funds upon completion
13 of the rehabilitation in compliance with the work plan.

14 The Mortgagee may issue checks solely to the contractor, or issue checks
15 to the Borrower and the contractor as co-payees.

16 The Mortgagee may issue the check directly to the Borrower alone if the
17 release is for:

- 18 • materials for work performed under a self-help agreement; or
- 19 • materials for items prepaid by the Borrower under contract with
20 the supplier.

21 **(2) Final Escrow Closeout**

22 The Mortgagee must include the interest earned in the final payment on the
23 rehabilitation escrow account and may include the total of all [Holdbacks](#).

24 However, if it is required to protect the priority of the security instrument, the
25 Mortgagee may retain the holdback for a period not to exceed 35 Days (or the
26 time period required by law to file a lien, whichever is longer), to ensure
27 compliance with state Lien Waiver laws or other state requirements.

28 **(a) Standard**

29 **(i) Standard 203(k)**

30 Before final release of rehabilitation escrow funds, the Mortgagee must
31 approve the final inspection and draw request signed by the Consultant,
32 contractor, and Borrower.

33 **(ii) Limited 203(k)**

34 Before a final release is made to any contractor, the Mortgagee must