



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

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

Date: **XXXX, 2023**

Mortgagee Letter **2023-XX**

To: All FHA-Approved Mortgagees  
All Direct Endorsement Underwriters  
All Eligible Submission Sources for Condominium Project Approvals  
All FHA Roster Appraisers  
All FHA-Approved 203(k) Consultants  
All HUD-Certified Housing Counselors  
All HUD-Approved Nonprofit Organizations  
All Governmental Entity Participants  
All Real Estate Brokers  
All Closing Agents

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**Subject** Revisions to Increase the Maximum Rehabilitation Costs for Limited 203(k), Rehabilitation Period for both Standard and Limited 203(k), and Consultant Fees Schedule for the 203(k) Rehabilitation Mortgage Insurance Program (Section 203(k) Program).

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**Purpose** This Mortgagee Letter (ML) implements updates to Section 203(k) program guidelines which are intended to reduce barriers to the use of the program.

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**Effective Date** The provisions of this ML may be implemented immediately but must be implemented for FHA case numbers assigned on or after [enter date].  
  
All policy updates in the ML will be incorporated into a forthcoming update of the HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

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**Affected Programs** The provisions of this ML apply to applicable Section 203(k) program transactions.

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**Background** HUD is committed to using its programs to increase the supply of affordable housing in the United States, particularly in underserved communities. An important means of expanding available supply is through the restoration and modernization of the nation's existing homes. As the country's housing

stock ages, property renovation is important to preserving the quality and affordability of single family properties.

The FHA 203(k) Rehabilitation Mortgage Insurance Program provides mortgage insurance for Mortgages used to purchase a home or refinance an existing Mortgage and that include funds to pay for the repair or rehabilitation of a home. Unfortunately, use of the 203(k) program has declined in recent years. In an effort to identify potential causes of that decline and opportunities to address them, on February 14, 2023, FHA published a request for information (RFI) in the Federal Register (Vol. 88, No. 30), seeking public input regarding the barriers that limit usage of the Section 203(k) program by lenders and consumers. FHA received 146 comments from a wide variety of commenters, including trade associations, lenders, consumers, 203(k) Consultants, contractors, appraisers, nonprofit organizations, housing counselors, and local governments. The RFI posed 15 questions designed to garner information about the particular features of the 203(k) program that may limit its originations and to obtain recommendations for ways that FHA could improve the program to increase its usefulness in facilitating the preservation, renovation, and expansion of housing.

To support the Biden-Harris Administration goals of increasing the stock of affordable housing and expanding homeownership opportunities, FHA is making improvements to the Section 203(k) program to make it easier for Mortgagees to originate and for Borrowers to complete needed or desired rehabilitation of their homes. In this ML, FHA is updating the 203(k) Rehabilitation Mortgage Insurance Program guidelines to increase the Limited 203(k) total rehabilitation costs limits, extend the rehabilitation period for both Standard 203(k) and Limited 203(k), and revise the 203(k) Consultant fee schedule.

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**Summary of  
Changes**

**This ML:**

- raises the total rehabilitation cost limit for Limited 203(k) (II.A.8.a.i(A)(2), II.A.8.a.vii(A), and II.A.8.a.xi);
- increases the number of months a Mortgagee may establish a financeable Mortgage Payment Reserve (II.A.8.a.vi(F));
- increases the number of Days that a Borrower is unable to occupy a Property during the rehabilitation period in Limited 203(k) Ineligible Improvements/Repairs (II.A.8.a.vii(B));
- allows Consultant fees to be financed in Limited 203(k) Financeable Repair and Improvement Costs and Fees (II.A.8.a.vii(D));
- removes the 203(k) Consultant fee from the list of fees and costs that may not be financed under the Limited 203(k) (II.A.8.a.vii(G));
- raises the initial draw at closing for Standard 203(k) (II.A.8.a.xv(A)(2)(a));

- extends the time frame for completion of repairs in the Rehabilitation Loan Agreement (II.A.8.a.xv(B)(1)); and
- updates the Consultant Fee Schedule (II.A.9.c).

**FHA Single  
Family Housing  
Policy  
Handbook  
4000.1**

**Origination  
through Post-  
closing/  
Endorsement**

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The policy changes will be incorporated into Handbook 4000.1 as follows:

**203(k) Rehabilitation Mortgage Insurance Program – Overview  
(II.A.8.a.i)**

**(A) Types of 203(k) Rehabilitation Mortgages**

There are two types of 203(k) Rehabilitation Mortgages: Standard 203(k) and Limited 203(k), as described below. The guidance in this appendix is applicable to both Standard 203(k) and Limited 203(k) Mortgages unless noted otherwise.

**(1) Standard 203(k)**

The Standard 203(k) Mortgage may be used for remodeling and repairs. There is a minimum repair cost of \$5,000 and the use of a [203\(k\) Consultant](#) (II.A.9) is required.

**(2) Limited 203(k)**

The Limited 203(k) may only be used for [minor remodeling and nonstructural repairs](#) (II.A.8.a.vii(B)). The Limited 203(k) does not require the use of a 203(k) Consultant, but a Consultant may be used. The total rehabilitation costs must not exceed \$50,000. For Properties located in high-cost areas, the total rehabilitation costs must not exceed \$75,000.

FHA may choose one or more indexing methods to periodically adjust the total rehabilitation costs under the Limited 203(k).

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**Standard 203(k) Transactions (II.A.8.a.vi)**

**(F) Standard 203(k) Financeable Mortgage Payment Reserves**

A Mortgage Payment Reserve refers to an amount set aside to make Mortgage Payments when the Property cannot be occupied during rehabilitation.

A Mortgagee may establish a financeable Mortgage Payment Reserve, not to exceed **10 months** of Mortgage Payments. The Mortgage Payment Reserve may include Mortgage Payments only for the period during which the Property cannot be occupied. The number of Mortgage Payments cannot

exceed the completion time frame required in the Rehabilitation Loan Agreement.

For multi-unit Properties, if one or more units are occupied, the Mortgage Payment Reserve may only include the portion of the Mortgage Payment attributable to the units that cannot be occupied. To calculate the amount that can be included in the Mortgage Payment Reserve, the Mortgagee will divide the monthly Mortgage Payment by the number of units in the Property, and multiply that figure by the number of units that cannot be occupied. The resulting figure is the amount of the Mortgage Payment that will be paid through the Mortgage Payment Reserve. The Borrower is responsible for paying the servicing Mortgagee the portion of the Mortgage not covered by the Mortgage Payment Reserve.

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**Limited 203(k) Transactions (II.A.8.a.vii)**

**(A) Limited 203(k) Eligible Improvements**

The Limited 203(k) may only be used for minor remodeling and nonstructural repairs. The total rehabilitation costs may not exceed \$50,000. For Properties located in high-cost areas, the total rehabilitation costs must not exceed \$75,000.

FHA may choose one or more indexing methods to periodically adjust the total rehabilitation costs under the Limited 203(k).

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**Limited 203(k) Transactions (II.A.8.a.vii)**

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

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

- the repair or improvements are expected to require more than seven months to complete;
- the rehabilitation activities require more than two 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.

**Limited 203(k) Transactions (II.A.8.a.vii)**

**(D) Limited 203(k) Financeable Repair and Improvement Costs and Fees**

The following costs and fees may be financed:

- costs of construction, repairs, and rehabilitation;
- inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- the 203(k) Consultant fee subject to the limits in the 203(k) [Consultant Fee Schedule](#) section;
- title update fees; and
- permits.

Any costs for [Energy Efficient Mortgages](#) (II.A.8.c) and [Solar Energy Systems](#) (II.A.2.a.v(C)) must not be included in financeable repair and improvement costs.

For Borrowers performing their own work, the Mortgagee must include the costs for labor and materials for each Work Item to be completed by the Borrower under a [Rehabilitation \(Self-Help\) Loan Agreement](#).

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**Limited 203(k) Transactions (II.A.8.a.vii)**

**(G) Limited 203(k) Ineligible Fees and Costs [Text was deleted in this section.]**

The following fees and costs **may not** be financed under the Limited 203(k):

- Mortgage Payment Reserves
  - architectural/engineering professional fees
  - a Feasibility Study
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**203(k) Rehabilitation Mortgage Insurance Program (II.A.8.a)**

**xi. Maximum Mortgage Amounts for Energy Efficient Mortgages, Weatherization Items, and Solar Energy Systems**

The cost of [Energy Efficient Mortgage \(EEM\)](#) (II.A.8.c) items cannot be included in the 203(k) rehabilitation costs. The Mortgagee must calculate the maximum mortgage amount without factoring in the cost of EEM items, [Weatherization](#) (II.A.8.1) items, and [solar energy systems](#) (II.A.8.m). The Mortgagee may then add the cost of these improvements as agreed to by the Borrower in the energy package to determine the Base Loan Amount. The

Base Loan Amount may not exceed 110 percent of the After Improved Value of the Property (100 percent for condominiums).

For Limited 203(k) transactions, the costs for energy improvements can be in addition to the \$50,000 limit on total rehabilitation costs, \$75,000 limit on total rehabilitation costs for high-cost areas.

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## Closing – Standard (II.A.8.a.xv(A))

### (2) Initial Draw at Closing

The Mortgagee must document the amount and purpose of an initial draw at closing on the form [HUD-92900-LT](#), *FHA Loan Underwriting and Transmittal Summary*.

#### (a) Standard 203(k)

For Standard 203(k) transactions, Mortgagees may disburse the following at closing:

- permit fees (the permit must be obtained before work commences);
- prepaid architectural or engineering fees;
- prepaid Consultant fees;
- origination fees;
- Discount Points;
- materials costs for items, prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer, for delivery at a later date; and
- up to 75 percent of materials costs for items, not yet paid for by the Borrower or contractor, where a contract is established with the supplier or manufacturer and an order is placed for delivery at a later date.

For any Disbursements paid to the contractor, the Mortgagee must hold back 10 percent of the draw request in the Contingency Reserve.

#### (b) Limited 203(k)

For Limited 203(k) transactions, Mortgagees may disburse the following at closing:

- permit fees (the permit must be obtained before work commences);
- origination fees;
- Discount Points; and

- up to 50 percent of the estimated materials and labor costs before beginning construction only when the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction. A statement from the contractor is sufficient to document.

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**Closing – Required Documentation (II.A.8.a.xv(B))**

**(1) Rehabilitation Loan Agreement**

The Mortgagee and Borrower must execute the [Rehabilitation Loan Agreement](#), which establishes the conditions under which the Mortgagee will disburse the rehabilitation escrow account funds.

The [Rehabilitation Loan Agreement](#) is incorporated by reference and made a part of the security instrument.

**(a) Standard 203(k) Rehabilitation Period**

The Mortgagee must review the 203(k) Consultant’s Work Write-Up to determine the time frame for completion of repairs not to exceed **10** months.

**(b) Limited 203(k) Rehabilitation Period**

The Mortgagee must consult the Borrower Contractor Agreement to determine the time frame for completion of repairs not to exceed **seven** months.

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**203(k) Consultant Requirements (II.A.9)**

**c. Consultant Fee Schedule**

Below are the maximum fees that may be charged by the Consultant.

**i. Feasibility Study**

If requested by the Borrower or Mortgagee to determine if a 203(k) Mortgage is feasible, the Consultant may charge an additional fee of **\$375** for the preparation of a Feasibility Study.

**ii. Work Write-Up**

The Consultant may charge the fees listed below for the preparation of the Work Write-Up and review of architectural exhibits:

- Up to \$1,000 for repairs less than \$50,000
- Up to \$1,200 for repairs between \$50,001 and \$85,000
- Up to \$1,400 for repairs between \$85,001 and \$140,000
- Up to 1 percent of the repair costs or \$2,000, whichever is lower, for repairs over \$140,000.

The Consultant may charge an additional \$25 per additional Dwelling Unit.

FHA may choose one or more indexing methods to periodically adjust the Consultant Fee Schedule to account for changes in economic conditions, inflation, and other relevant factors.

### iii. Draw Inspection Fee

For each draw request, the Consultant may charge an inspection fee that is reasonable and customary for work performed in the area where the Property is located, provided the fee does not exceed a maximum of \$375.

### iv. Change Order Fee

The Consultant may charge \$120 per change order request.

### v. Reinspection Fee

The Consultant may charge a \$60 fee when reinspection of a Work Item is requested by the Borrower or Mortgagee.

### vi. Mileage Fee

The Consultant may charge a mileage fee at the current Internal Revenue Service ([IRS](#)) [mileage rate](#) when the Consultant's place of business is more than 15 miles from the Property.

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## Paperwork Reduction Act

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0595; 2502-0600; 2502-0610; and 2502-0611. In accordance with the PRA, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of



information unless the collection displays a currently valid OMB control number.

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**Feedback or Questions**

HUD welcomes feedback from interested parties and will consider feedback in determining the need for future updates. Any feedback or questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342), [answers@hud.gov](mailto:answers@hud.gov), or [www.hud.gov/answers](http://www.hud.gov/answers). The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

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**Signature**

Julia R. Gordon  
Assistant Secretary for Housing -  
FHA Commissioner

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