



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
SINGLE FAMILY HOUSING



Welcome to...
203(k) Rehabilitation Mortgage Insurance Program
and 203(k) Consultant Requirements

Today's webinar begins
at 2:00 PM (Eastern)

We will be underway shortly

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Question and Answer Session

- The presentation team will answer questions submitted in advance.
- Not all submitted questions will be answered today due to time limitations.



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Single Family Housing Policy Handbook 4000.1
**203(k) Rehabilitation Mortgage Insurance Program
and 203(k) Consultant Requirements**

September 22, 2022

**Philadelphia Homeownership
Center**



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Disclaimer

The purpose of this presentation is to provide an overview of Federal Housing Administration (FHA) policy. It introduces and explains official policy issued in Department of Housing and Urban Development (HUD) Handbooks and Mortgagee Letters. If you find a discrepancy between the presentation and Handbooks, Mortgagee Letters, etc., the official policies prevail. Please note the information provided in this presentation is subject to change.

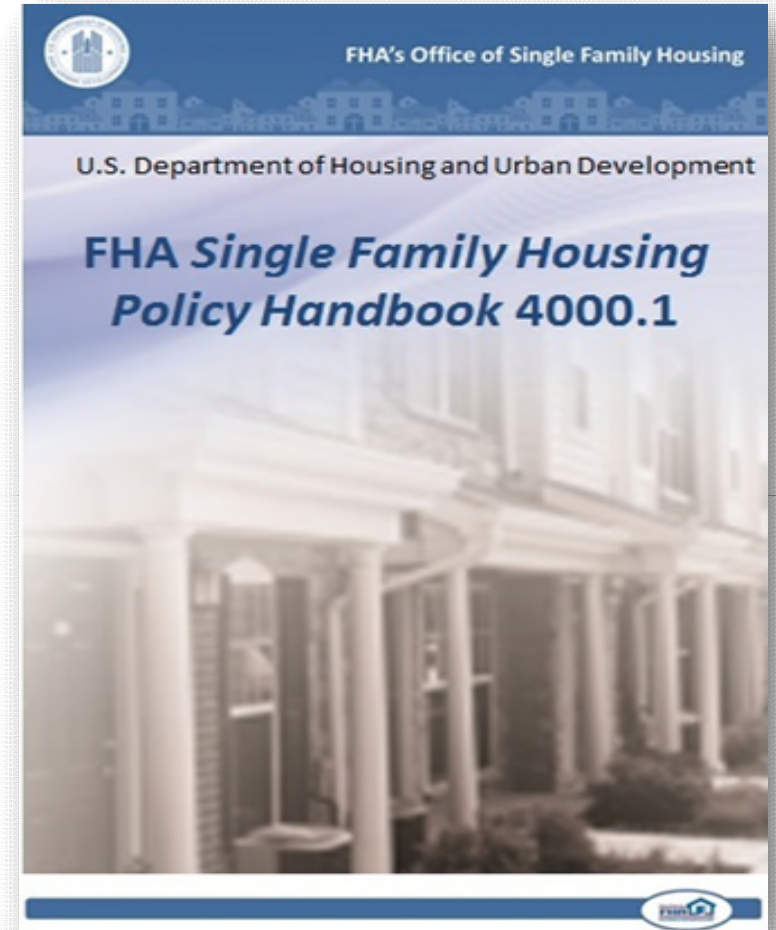
The information in this document is current as of the June 29, 2022 publication of Handbook 4000.1, FHA Single Family Housing Policy Handbook.

Please consult *FHA Single Family Housing Policy Handbook 4000.1* and Mortgagee Letters through HUDClips for the most recent updates and current policy.



Single Family Housing Policy Handbook 4000.1 Overview

- The structure follows the logical process flow for stakeholders.
- The five major sections are:
 - I. Doing Business with FHA
 - II. Origination through Post-Closing/Endorsement
 - III. Servicing and Loss Mitigation
 - IV. Claims and Disposition
 - V. Quality Control, Oversight, and Compliance



Glossary Terms

(b) Information Obtained via Internet

The **Mortgagee** must authenticate documents obtained from an Internet website and examine portions of printouts downloaded from the Internet including the Uniform Resource Locator (URL) address, as well as the date. The Mortgagee must visit the URL or password protected to verify the website exists and print out evidence documenting the Mortgagee's visit to the URL and website.

Documentation obtained through the Internet must contain the same information as would be found in an original hard copy of the document.

Single Family Handbook Topics

II. Origination through Post-Closing/Endorsement

A. Title II Insured Housing Programs Forward Mortgages

8. Programs and Products

a. 203(k) Rehabilitation Mortgage Insurance Program

9. 203(k) Consultant Requirements

Agenda

Part 1: Policy Updates

Part 2: 203(k) Origination through Post-Closing/Endorsement and Relative 203(k) Consultant Requirements



Part 1: Policy Updates



Policy Updates (April 2021 – June 2022)

Single Family Handbook Policy Updates April 2021 – June 2022 (203(k) Rehabilitation Programs and Consultant Requirements)

04-19-2021 II.A.8.a.i.(A)(2) Limited 203(k) II.A.8.a.xi. Maximum Mortgage Amounts for Energy Efficient Mortgages, Weatherization Items, and Solar Energy Systems	<i>Added: For the first 15,000 Mortgages secured by Properties in Qualified Opportunity Zones (QOZ) during each calendar year through December 31, 2028, the total rehabilitation cost must not exceed \$50,000. FHA will provide advanced notice via Mortgagee Letter suspending such increase prior to the 15,000 mortgage limit being reached.</i>
7-20-2021 II.A.8.a.xvi Data Delivery/203(k) Calculator	Removed obsolete effective date information
10-26-2021 II.A.8.a.i 203(k) Rehabilitation Mortgage Insurance Program, Overview	<i>Updated the list of eligible projects to include the interior space of a condominium unit to conform with 24 CFR § 203.43 and updated the definition of Structure.</i>

Policy Updates (April 2021 – June 2022)

Single Family Handbook Policy Updates June 2021 – June 2022 (203(k) Rehabilitation Programs and Consultant Requirements)

10/26/2021 II.A.8.a.i(A)(2) Types of 203(k) Rehabilitation Mortgages – Limited 203(k); II.A.8.a.vii(A) Limited 203(k) Eligible Improvements; II.A.8.a.xi Maximum Mortgage Amounts for Energy Efficient Mortgages, Weatherization Items, and Solar Energy Systems	Added hyperlinks to the Treasury Department's list of Qualified Opportunity Zones.
10/26/2021 II.A.8.a.xvii(B) Extension Requests; II.A.8.a.xx(A) Servicing – Delinquencies	Added guidance that Mortgages in forbearance must be treated as not delinquent for the purpose of administering the 203(k) repair escrow
06/29/2022 II.A.9.b.ii Consultant Duties – Consultant Inspection	Clarified language on Consultant requirements to Personally Conduct an on-site property inspection.

Part 2: 203(k) Origination through Post-Closing/Endorsement and Relative 203(k) Consultant Requirements



Section 203(k) program

FHA's primary program for the rehabilitation and repair of an existing one-to four-unit Structure, including a Condominium Unit, used primarily for residential purposes.

How the 203(k) Rehabilitation MIP Can Be Used?

The Section 203(k) Rehabilitation Mortgage Insurance Program (MIP) can be 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.

Benefits/Requirements of the 203(k) Program

Make improvements after closing

Increase Property value and build equity

Refinance, stay in home, make improvements after closing

Combine the cost of the home and the renovation into one Mortgage

Benefits/Requirements of the 203(k) Program (cont.)

- ➡ Must meet standard FHA 203(b) credit qualifications
- ➡ Must meet standard FHA 203(b) down payment requirements
- ➡ Must pay Up-front and Annual MIP as with most 203(b) Mortgages
- ➡ Property does not have to meet FHA's Minimum Property Standards (MPS) or Minimum Property Requirements (MPR) at closing, but must meet MPS/MPR at Project Completion

203(k) Programs for Two Renovation Project Needs

There are two types of 203(k) Rehabilitation Mortgages:

Standard 203(k)

Limited 203(k)

The guidance per the Single Family Handbook's Program and Product section is applicable to both the Standard 203(k) and Limited 203(k) Mortgages, unless noted otherwise.

Eligible Supplemental Programs and Products

A 203(k) Mortgage may be used in conjunction with:



Section 203(h) Mortgage
Insurance for Disaster Victims



Energy Efficient Mortgages



Solar and Wind Technologies

Property Eligibility

Property Eligibility

- The Property must be an existing Property that has been completed for at least one year prior to the case number assignment date.
- If the Mortgagee is unsure whether the Property has been completed for at least one year, the Mortgagee must request a copy of the Certificate of Occupancy (CO) or equivalent.



Acceptable Property Types

- One- to Four-Unit Single Family Structures
- Condominiums
 - Individual Condominium Unit
 - Site Condominium Unit
- Manufactured Housing
- Mixed Use
- HUD REO



Insuring Mortgages on Condominium Units

The Federal Housing Administration (FHA) will insure Mortgages on Condominium Units (Units):

- In Approved Condominium Projects that have been approved under the HUD Review and Approval Process (HRAP) or Direct Endorsement Lender Review and Approval Process (DELRAP);
- On Units approved in accordance with the Single-Unit Approval process; or
- That meet the definition and standards for a Site Condominium.

The guidance can be found in the Single Family Handbook 4000.1 in Section II.A.8.p "Condominiums," Section II.C "Condominium Project Approval," and Section II.D.6 "Condominium Projects".



Condominium 203(k) Specific Policies



Rehabilitation or improvements are limited to the interior of the Dwelling Unit, except for the installation of firewalls in the attic of the Dwelling Unit.

Condominium 203(k) Specific Policies (cont.)

- No more than five Dwelling Units per condominium association, or 25 percent of the total number of units, whichever is less, can undergo rehabilitation at any time.
- After rehabilitation is complete, the Dwelling Unit is located in a Structure containing no more than four Dwelling Units.
- The LTV is limited to 100 percent.



Acceptable Property Types: Site Condominiums



Site Condominium Dwelling Unit

Acceptable Property Types: Manufactured Housing



NOTE: Modular Homes are not “manufactured homes.”

Mixed Use 203(k) Specific Policies

Mixed Use Property with one to four residential Dwelling Units, is acceptable, provided:

51 percent of gross building area is for residential use, and

Any commercial use will not affect the health and safety of the occupants of the residential Property.

Acceptable Property Types: HUD REO

The Property is identified as eligible for 203(k) financing as evidenced in the sales contract or addendum.

HUD REO properties that are listed as uninsurable can only be insured under FHA's 203(k) program.

Good Neighbor Next Door and \$100 Down Programs can be used with 203(k).

Investor purchases of HUD REO properties are not eligible for 203(k) financing.

Standard 203(k) Transactions

Standard 203(k)

A Standard 203(k) has the following general requirements:

- ➡ A minimum of \$5,000 in eligible improvements are required to qualify for the product.
- ➡ Standard FHA credit and cash investment requirements apply.
- ➡ Standard FHA Property guidelines apply, unless otherwise stated in 203(k) policies.
- ➡ A 203(k) HUD-approved consultant is required.
- ➡ Fees and costs related to the renovation can be rolled into the loan amount.

The Origination Process of a Standard 203(k)

1. Borrower selects a Property.
2. Borrower selects an FHA-approved Mortgagee.
3. Mortgagee takes loan application.
4. Mortgagee selects 203(k) consultant.
5. Consultant visits Property with Borrower.
6. Consultant prepares “Work Write-up.”
7. Borrower hires Contractor.
8. Work write-up and bids are provided to the Mortgagee.
9. Mortgagee processes, underwrites, closes, and funds the transaction.
10. FHA insures the loan.
11. Improvements to the Property begin.

Repair/Improvements Begin

1. Contractor completes first phase of the project.
2. Borrower contacts the 203(k) consultant and requests an inspection and a draw request to pay the contractor.
3. The consultant and Borrower sign the request.
4. Draw request is submitted to the Mortgagee.
5. The consultant performs the inspection, which is satisfactory, and informs the Mortgagee.
6. Mortgagee disburses a check made payable to Borrower and contractor.
7. This process continues until the work is completed.

Project Completion

1. Final draw is requested.
2. Borrower provides release letter indicating work is completed.
3. Consultant verifies completion.
4. Remaining Rehabilitation Escrow Account funds are released.

Note: The project must be completed within six months.

Eligible Improvements

Types of eligible improvements include, but are not limited to:

- Reconstructing a Structure that has been, or will be demolished, provided the complete existing foundation system is not affected and will still be used.
- Repairing, reconstructing, or elevating an existing foundation where the Structure will not be demolished.



Eligible Improvements (cont.)

Types of eligible improvements include, but are not limited to:



Installing or repairing wells and/or septic systems



Repairing or removing an in-ground swimming pool



Constructing a windstorm shelter

Improvement Standards

Existing Structures

All improvements to existing Structures must comply with FHA's Minimum Property Requirements (MPR) and meet or exceed local building codes.

Newly Constructed Addition

For a newly constructed addition to the existing Structure, the energy improvements must meet or exceed local codes and the requirements of the energy code standard that has been adopted by FHA for its MPS.

Specific Improvement Standards

Any Additions

Must be attached to the existing Structure.

Site Improvements

Must increase the Property Value equal to the dollar amount spent on the improvements or be necessary to preserve the Property from erosion.

Ineligible Improvements/Repairs

The 203(k) Mortgage proceeds may not be used to finance costs associated with the purchase or repair of any luxury item, any improvement that does not become a permanent part of the subject Property, or improvements that solely benefit commercial functions within the Property.

Ineligible Improvements/Repairs Examples

Examples of ineligible improvements are:



Swimming Pools



Hot Tubs



Satellite Dishes

Also, additions or alterations to support commercial use or to equip or refurbish space for commercial use.

Standard 203(k) Establishing Repairs & Improvements

Mortgagee Responsibility in Consultant Selection and Monitoring

Select an FHA-approved 203(k) consultant from the FHA 203(k) consultant Roster in FHAC.

Must not use the services of a consultant who has demonstrated previous poor performance based on reviews performed by the Mortgagee.

Report poor performance by a consultant with proof of wrongdoing to the jurisdictional HOC for administrative review.

Consultant/Borrower Agreement



The written agreement must disclose to the Borrower that any inspection performed by the consultant is not a “Home Inspection” as detailed in the disclosure Form HUD-92564-CN, “For Your Protection: Get a Home Inspection.”

203(k) Consultant Fee Schedule: Work Write-Up

- Consultant may charge the fees listed for the preparation of the Work Write-Up and review of architectural exhibits.
- Mileage Fee may be charged at the current Internal Revenue Service (IRS) mileage rate when the consultant's place of business is more than 15 miles from the Property.

<u>Cost of Improvements</u>	<u>Fees</u>
< \$7,500	\$400
\$7,501 - \$15,000	\$500
\$15,001 - \$30,000	\$600
\$30,001 - \$50,000	\$700
\$50,001 - \$75,000	\$800
\$75,001 - \$100,000	\$900
> \$100,000	\$1,000

\$25 per additional Dwelling Unit

Feasibility Study



- The Borrower or the Mortgagee may request a 203(k) consultant to determine if a project is financially feasible.
- When required, the consultant must perform a Feasibility Study that consists of:
 - A preliminary inspection of the Property; and
 - An estimate of the materials and cost for the work that will be necessary to comply with FHA requirements.

The Consultant Inspection

The consultant must inspect the Property to ensure:

- There are no rodents, dry rot, termites, or other infestation on the Property;
- There are no defects that will affect the health and safety of the occupants;
- There are adequate structural, heating, plumbing, electrical, and roofing systems; and
- There are upgrades to the Structure's thermal protection (as required).

Note: A consultant's Inspection is not a "Home Inspection" as detailed in the disclosure "For Your Protection: Get a Home Inspection (Form HUD-92564-CN)"

Consultant 35 Point Checklist

Consultant 35 Point Checklist				
Masonry	Driveways	Doors (Exterior)	Closets	Heating
Siding	Painting (Exterior)	Doors (Interior)	Wood Floors	Insulation
Gutters and Downspouts	Caulking	Partitions	Finish Floors	Cabinetry
Roof	Fencing	Plaster/ Drywall	Ceramic Tile	Appliances
Shutters	Grading	Decorating	Bath Accessories	Basements
Exteriors	Windows	Wood Trim	Plumbing	Cleanup
Walks	Weather-stripping	Stair	Electrical	Miscellaneous

Architectural Exhibits: Prepare, Obtain, and Review

Architectural exhibits may include, but are not limited to:

- Well certification and septic certifications.
- Termite report (including all outbuildings).
- Proposed plot plans for new additions.
- Foundation certification by a licensed structural engineer if:
 - The existing Structure will be moved to a new foundation;
 - The Structure is being reconstructed on the existing foundation; or
 - The existing Structure will be elevated.
- Cabinetry plans and elevations.
- New Construction exhibits to obtain a building permit for an addition.

The Work Write-Up and Cost Estimate

The consultant must prepare an unbiased Work Write-Up and Cost Estimate without the use of the contractor's estimate.

The Work Write-Up refers to the report prepared by a 203(k) consultant that identifies each Work Item to be performed and the specifications for completion of the repair or improvement.

Work Item refers to a specific repair or improvement that will be performed.

The Work Write-Up

The Work Write-Up must:

- Be prepared in a categorical manner that addresses each of the 35 point checklist items;
- Detail the work being performed per the project proposal, including architectural exhibits and certifications;
- Identify each Work Item;
- Identify each Work item to be performed by the Borrower;
- Indicate which Work Items require permits;
- Indicate if the Work Item is required to meet a MPS or MPR, or is a Borrower elective Work Item; and
- Address all health and safety concerns and any appraiser requirements first before the addition of any Borrower elective Work Items.

The Cost Estimate

Cost Estimate refers to a breakdown of the cost for each proposed Work Item, prepared by a 203(k) consultant.

The consultant must use Cost Estimates that are reasonable for the area in which the Property is located.

The Cost Estimate must separately identify labor costs and itemize the cost of materials per Work Item.

Lump sum costs are permitted only in line items where a lump sum estimate is reasonable and customary.

Consultant's Work Write-Up Package

The Mortgagee must obtain from the 203(k) consultant an acceptable:

- Work Write-Up;
- Cost Estimate;
- Architectural Exhibits;
- 203(k) consultant's Certification; and
- Consultant/Borrower Agreement.



Borrowers Doing Own Work (Self-Help)



- The Mortgagee must approve any Borrower who wishes to act as the general contractor or to complete their own work.
- The Mortgagee must verify and document that the Borrower is a licensed general contractor or has experience in completing rehabilitation projects.
- The consultant must identify on the Work Write-Up each Work Item to be performed by the Borrower.
- The Borrower must not be reimbursed for labor costs.

Standard 203(k) Financeable Repair, Costs, and Fees

The following repairs, improvement costs and fees may be financed:



- Costs of construction, repairs, and rehabilitation;
- Architectural/engineering professional fees;
- The 203(k) Consultant fee (limited to the 203(k) Consultant Fee Schedule in Section 9 of HUD Handbook 4000.1);
- Inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- Title update fees; and
- Permits.

Standard 203(k) Financeable Contingency Reserve

Contingency Reserve

Funds that are set aside to cover unforeseen project costs.

Minimum and Maximum Contingency Reserve

Established as a percentage of the Financeable Repair and Improvement Costs.

Contingency Reserve Requirements

Structures with actual age of less than 30 years:		
	Minimum	Maximum
Evidence of termite damage	10%	20%
Discretionary	No Minimum	20%

Structures with actual age of 30 years or more:		
	Minimum	Maximum
Required	10%	20%
Utilities are not operable as referenced in the Work Write-Up	15%	20%

Rehabilitation Period

Rehabilitation Loan Agreement:

Begin

Borrower shall cause work to begin within 30 days following the date of this Agreement.

Complete

Borrower shall have the work completed within six months following the date of this Agreement.

Standard: Consultant Responsibility

The consultant must inform the Mortgagee of the progress of the rehabilitation and of any problems that arise, including:

Work Stoppages

Work stoppages of more than 30 consecutive Days or work not progressing reasonably during the rehabilitation period;

Deviations

Significant deviations from the Work Write-Up without the consultant's approval;

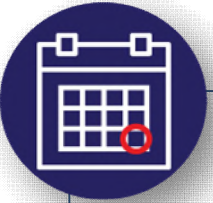
Adherence

Any issues that could affect adherence to the program requirements or Property eligibility; or

Health and Safety

Any issues that could affect the health and safety of the occupants or the security of the Structure.

Project Management

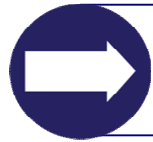


- The Mortgagee must ensure work is completed on schedule and workmanship is acceptable.
- When notified of an issue, Mortgagees must intercede in disagreements among Borrowers, contractors, or consultants.

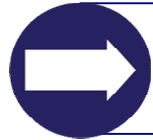
Standard 203(k) Additional Mortgagee Responsibilities During Processing

Review of Contractor Qualifications

Prior to closing, the Mortgagee must ensure that a qualified general or specialized contractor has been hired and, by contract, has agreed to complete the work described in the Work Write-Up:



For the amount of the Cost Estimate; and



Within the allotted time frame.

Review of Contractor Qualifications and Contract

- To determine the contractor is qualified, the Mortgagee must review the contractor's:
 - Credentials,
 - Work experience, and
 - Client references; and
- Ensure the contractor meets all jurisdictional licensing and bonding requirements.



Limited 203(k)



Limited 203(k)

May only be used for

Minor remodeling and non-structural repairs

Does not require

The use of a 203(k) consultant, however, the Borrower can elect to hire a consultant, but the fee cannot be financed

May not exceed

\$35,000 (or \$50,000 in a Qualified Opportunity Zone)

Limited 203(k): Types of Improvements

Eligible improvement types include, but are not limited to:

Eliminating health and safety hazards that would violate FHA's MPR.

Repairing or replacing wells and/or septic systems.

Connecting to public water and sewage systems.

Repairing/replacing plumbing, heating, air conditioning, and electrical systems.

Making changes for improved functions and modernization.

Eliminating obsolescence.

Repairing or installing new roofing, siding, gutters, and downspouts.

Limited 203(k): Ineligible Improvements/Repairs

FHA considers a repair to be “major” when any of the following are applicable:

The repair or improvements are expected to require more than six 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 Work Write-Up, or require plans or architectural exhibits.

The repair prevents the Borrower from occupying the Property for more than 15 days during the rehabilitation period.

Limited 203(k): Ineligible Improvements/Repairs

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

- Converting a one-family Structure to a two-, three-, or four-family Structure.
- Reconstructing a Structure that has been or will be demolished.
- Repairing, reconstructing, or elevating an existing foundation.
- Purchasing an existing Structure on another site and moving it onto a new foundation.
- Making structural alterations.

**Note: This is a partial list.*

Limited 203(k): General/Specific Improvement Standard

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

Patios and decks must increase the Property Value equal to the dollar amount spent on the improvements.

Limited 203(k): Work Plan

- The Borrower must provide a work plan detailing the proposed repairs or improvements.
- The Borrower may develop the work plan themselves or engage an outside party, including a Contractor or a 203(k) consultant, to assist.
- There is no required format for the work plan.



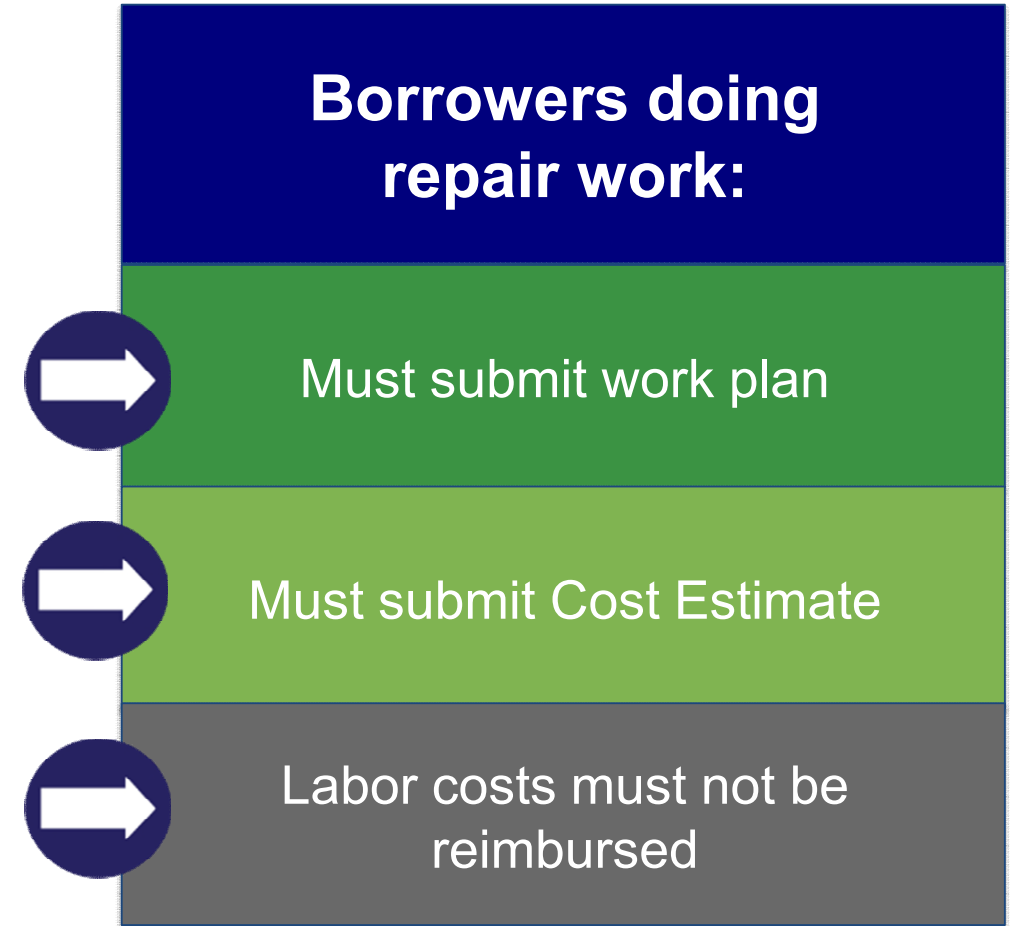
Limited 203(k): Written Proposal/Cost Estimates



- The Mortgagee must obtain a written proposal and Cost Estimate from a contractor for each specialized repair or improvement.
- The Cost Estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials.

Limited 203(k): Borrowers Doing Own Work

- The Borrower must submit a work plan detailing the Work Items to be performed by the Borrower.
- The Borrower must submit a Cost Estimate from a contractor, other than the Borrower, that provides a breakdown of the cost for labor and materials for each Work Item. The contractor must be licensed and bonded, if required by the local jurisdiction.
- The Borrower must not be reimbursed for labor costs.



Limited 203(k): Rehabilitation Period

The Mortgagee must consult the Borrower Contractor Agreement to determine the time frame for completion of repairs.

The Mortgagee must confirm the completion of repairs will not exceed a six month period.

Limited 203(k): Contingency Reserves

Contingency Reserves are not mandated, however, at the Mortgagee's discretion, a Contingency Reserve account may be established and may be financed.

The Contingency Reserve account may not exceed 20 percent of the Financeable Repair and Improvement Costs.

Borrower Eligibility

Borrower Eligibility

- The Borrower must meet the eligibility requirements found in the Borrower Eligibility section of the Single Family Handbook.
- Non-occupant co-Borrowers are permitted.



Application Requirements

Purchase Contract and 203(k): Amendatory Clause

FHA does not require the amendatory clause for any 203(k) transactions, regardless of the type of seller or purchaser.

The Mortgagee must ensure the sales contract includes a provision that:

- ➡ The Borrower has applied for Section 203(k) financing;
- ➡ The contract is contingent upon Mortgage approval and;
- ➡ Borrower's acceptance of additional required improvements as determined by the Mortgagee.

HUD-92700-A, 203(k) Borrower's Acknowledgment

The Mortgagee must provide the Borrower with the Form HUD-92700-A, 203(k) Borrower's Acknowledgment, at time of application.

Identity of Interest Transactions: Family Members

Sales transactions between Family Members are permitted however, restrictions and exceptions to the maximum LTV may apply.

The Mortgagee must ensure there are not other instances of Identity of Interest or conflict of interest between parties in the 203(k) transaction.

Refinancing an Existing 203(k)

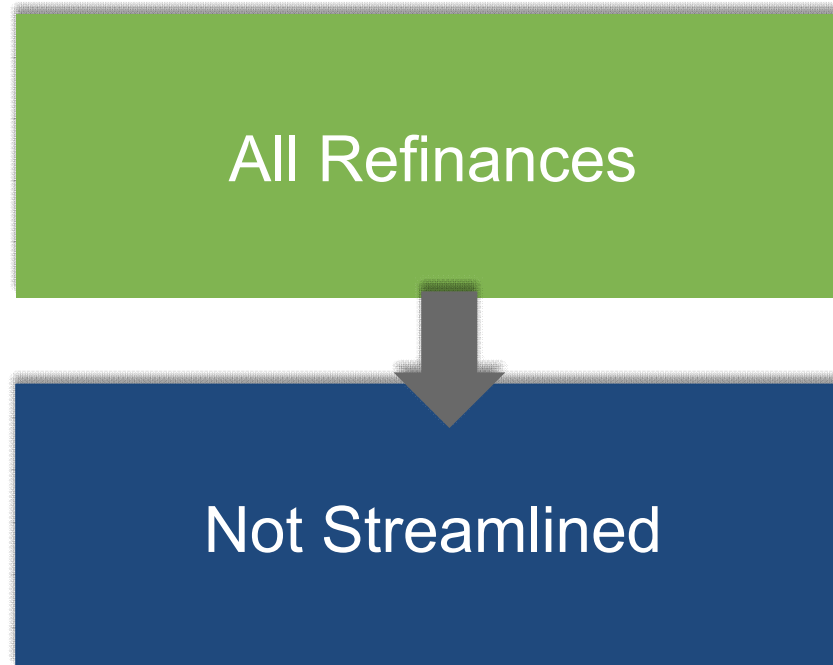
A Property with an existing 203(k) Mortgage is not eligible to be refinanced until all repairs are completed and the case has been closed out electronically.



Case Number Assignment

Case Number Assignment Refinance Type for 203(k)

For a refinance transaction, the Mortgagee must select “Not Streamlined” in the drop-down menu labeled “All Refinances.”



Data Delivery/203(k) Calculator



Case Number Assignment Refinance Type for 203(k)

- New tool provides ability to accurately calculate the maximum Mortgage amount for a 203(k) purchase or refinance case.

Also used to determine:

- LTV factor for maximum Mortgage eligibility;
- Calculates LTV for application of Annual MIP; and
- Establishes details of 203(k) escrow account.

- All required information in FHAC must be completed before processing Insurance Application screen and endorsing the case.

203(k) Calculator: Versions

Two versions of 203(k) Calculator are available:

203(k) Calculator (Public Version)

- No FHAC sign on required;
- Results out for later reference but are not saved; and
- Located on HUD.gov website at:
[https://entp.hud.gov/idapp/html/f17203\(k\)-look.cf](https://entp.hud.gov/idapp/html/f17203(k)-look.cf).

203(k) Calculator (FHAC Version)

- Sign on to FHAC required;
- FHA case number required; and
- When it is successfully processed, the data is saved and used to pre-fill certain Insurance Application screen fields.

Standard 203(k) Financeable Mortgage Fees

The Mortgagee may finance a portion of the Borrower-paid origination fee not to exceed the greater of \$350; or

1.5 percent of the total of the:

- Financeable Repair and Improvement Costs and Fees;
- Financeable Contingency Reserves; and
- Financeable Mortgage Payment Reserves.

Standard 203(k) Financeable Mortgage Fees

The Mortgagee may finance a portion of the Borrower-paid discount points not to exceed an amount equal to the discount point percentage multiplied by the total of:

Financeable Repair and Improvement Costs and Fees;

Financeable Contingency Reserves; and

Financeable Mortgage Payment Reserves.

Standard 203(k) 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 six 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.



Standard 203(k) Mortgage Payment Reserves

To calculate the amount that can be included in the Mortgage Payment Reserve:

- 1 Divide the monthly Mortgage Payment by the number of units in the Property; and
- 2 Multiply that figure by the number of units that cannot be occupied.

Example

Monthly Mortgage Payment = \$800

Number of units = 4

Units that cannot be occupied = 2

Calculation

1 $\$800 \div 4 \text{ units} = \$200/\text{unit}$

2 $\$200 \times 2 = \400

Mortgage Payment Reserve = \$400

Appraisals

Standard 203(k) and Limited 203(k)

Establishing Value

- The Mortgagee must establish both an Adjusted As-Is Value and an After Improved Value of the Property.
- The Mortgagee must provide the following documents to the appraiser at assignment:

Standard 203(k)

A copy of the consultant's Work Write-Up and Cost Estimate.

Limited 203(k)

The work plan, and Contractor's proposal and Cost Estimate.

Appraisal Reports

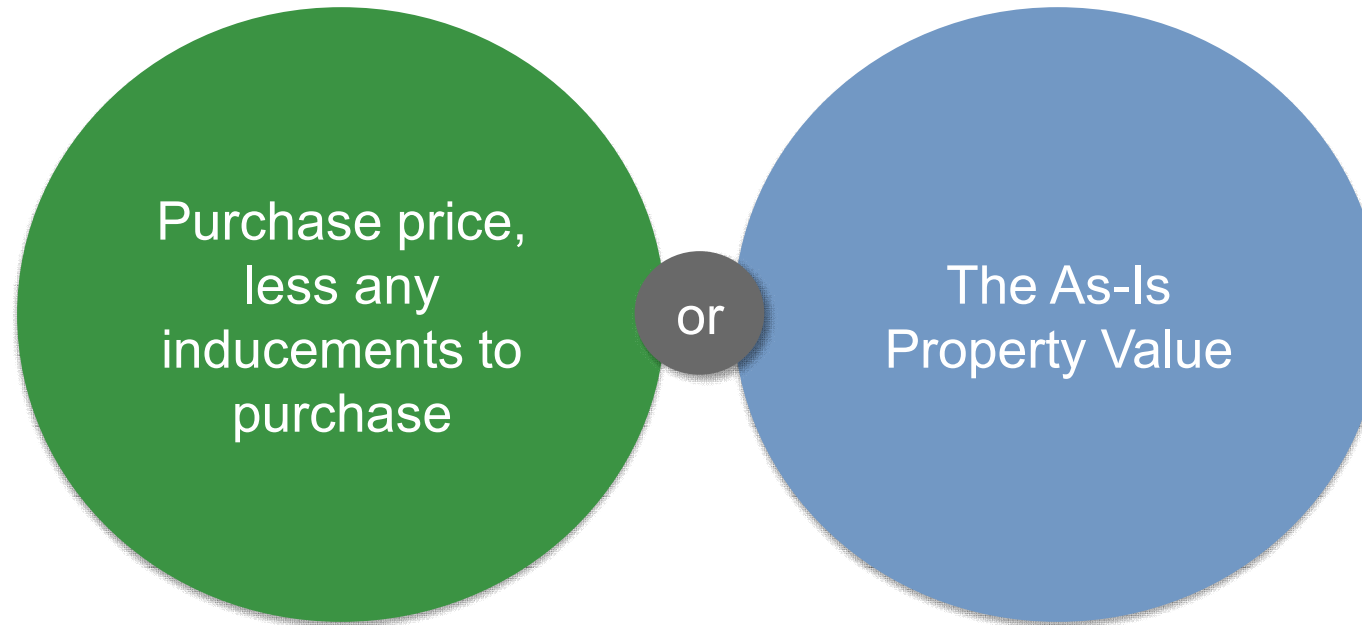
An appraisal by an FHA-approved Roster Appraiser is always required to establish the After Improved Value of the Property.

Except in cases of Property Flipping and refinance transactions, the Mortgagee is not required to obtain an as-is appraisal and may use alternate methods per the 203(k) policies to establish the Adjusted As-Is Value.

If an as-is appraisal is obtained, the Mortgagee must use it in establishing the Adjusted As-Is Value.

Adjusted As-Is Value: Purchase

For purchase transactions, the Adjusted As-Is Value is the lesser of:



Adjusted As-Is Value: Refinance Transactions

Properties Acquired Greater Than or Equal to 12 Months Prior to Case Assignment:

As-is appraisal is required when existing debt plus the following items exceeds the After Improved Value:

- Financeable Repairs and Improvement Costs
- Financeable Mortgage Fees
- Financeable Contingency Reserves
- Financeable Mortgage Payment Reserves (Standard 203(k) Only)

Adjusted As-Is Value: Refinance Transactions (cont.)

Properties Acquired Greater Than or Equal to 12 Months Prior to Case Assignment (cont.):

Mortgagee has the option of using the existing debt plus fees associated with the new Mortgage or obtaining an as-is appraisal to determine the Adjusted As-Is Value when the existing debt plus the following items does not exceed the After Improved Value:

- Financeable Repairs and Improvement Costs
- Financeable Mortgage Fees
- Financeable Contingency Reserves
- Financeable Mortgage Payment Reserves (Standard 203(k) only)

Adjusted As-Is Value: Refinance Transactions (cont.)

Properties Acquired Greater Than or Equal to 12 Months Prior to Case Assignment (cont.):

When an As-is appraisal is obtained, the Adjusted As-Is Value is the As-Is Property Value.

Refinance Transactions

- For properties acquired by the Borrower within 12 months of the case assignment date:
 - By inheritance; or
 - Through a gift from a Family Member.
- The Mortgagee may utilize the calculation of Adjusted As-Is Value for properties acquired greater than or equal to 12 months prior to the case assignment date.

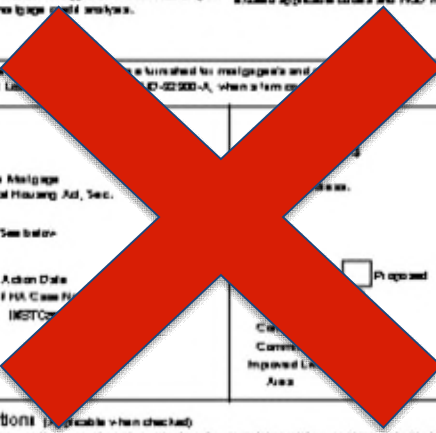


After Improved Value

To establish the After Improved Value, the Mortgagee must obtain an appraisal of the Property subject to the repairs and improvements.

The Conditional Commitment

The Conditional Commitment (Form HUD-92800.5b) *Direct Endorsement Statement of Appraised Value* is not required in connection with the 203(k) program.



Conditional Commitment
Direct Endorsement
Statement of Appraised Value

U.S. Department of Housing
and Urban Development
Office of Housing
Federal Housing Commissioner

OMB Approval No. 2502-0424
(exp. 09/31/2015)

General Commitment Conditions

- Maximum Mortgage Amount and Term: (a) Occupant Mortgage: Mortgage amount and term assume satisfactory owner-occupied mortgage(s). They may be changed depending upon the rating of borrower, health, income and credit. (b) Changes: The Commissioner or Direct Endorsement (DE) Underwriter may, after receiving pertinent information, change the mortgage amount and term.
- Appraisal's Minimum: A determination for approval will be based upon receipt of acceptable application for mortgage credit analysis.
- Validity Period: This document expires 120 days from the effective date of the appraisal or the appraisal update.
- Cancellation: This document may be cancelled after 60 days from the date of issuance if construction has not started.
- Property Standards: Allocation, repairs, or alterations proposed in the application or on the construction schedule returned herewith must equal or exceed applicable codes and HUD minimum property standards requirements.

Information: The estimates of the value of the property are for mortgage and... they must be used to prepare the Addendum to the Uniform Residential Loan Application, HUD-92800-A, when a term...

Commitment Terms

☐ Conditional Commitment for Mortgage Insurance under the National Housing Act, Sec. 228.

☐ See below

By: _____

Letter ID: _____ Action Date: _____ FHA Case No.: _____
Special Agent: _____ INVESTOR: _____

Mortgage: _____

☐ Proposed

Monthly Expense Estimate
FHA Insurance: \$ _____
Fees: \$ _____
Costs: \$ _____
Total: \$ _____

Specific Commitment Conditions (Applicable when checked)
HUD's commitment to insure a mortgage on this property is dependent on the completion of the conditions listed below.
HUD Underwriter Guarantees the risk, done to comply with the conditions.

Estimated Remaining Economic Life of this property is _____ years.
This property ☐ is ☐ is NOT eligible for maximum financing (high loan-to-value ratio mortgage).

☐ Manufactured Housing

☐ Assurance of Completion: If the required repairs cannot be completed prior to submission of closing papers, form HUD-92800 made in the amount of \$ _____ (or such additional amount as the lender deems may be established as the means to ensure completion).

☐ See individual additional items on attached
See the following additional conditions on the back:

Mortgage Insurance Premium (MIP)

Calculation of the Mortgage Insurance Premium

To calculate the LTV for application of the MIP



Divide the Base Loan Amount by the After Improved Value.

Underwriting the 203(k) Transaction

Repairs Noted by the Appraiser

When an appraisal report identifies the need for health and safety repairs that were not included in the consultant's Work Write-Up, Borrower's work plan, or contractor's proposal, the Mortgagee must ensure the repairs are included in the consultant's Final Work Write-Up or the Borrower's final work plan.



Standard 203(k) Final Work Write-Up/Cost Estimate

The Mortgagee must obtain the Final Work Write-Up and Cost Estimate from the consultant.

The Final Work Write-Up must include all required repairs and improvements to meet FHA's MPS and MPR (as applicable) and the Borrower's electives.

Closing

Closing

- There is only one closing for the 203(k) transaction that includes the rehabilitation funds.
- The rehabilitation funds are escrowed and disbursed as the work is satisfactorily completed.



Initial Draw at Closing: Standard 203(k)

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

- ① Permit fees (the permit must be obtained before work commences).
- ② Prepaid architectural or engineering fees.
- ③ Prepaid consultant fees.
- ④ 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.
- ⑤ Up to 50 percent of materials costs for items—not yet paid for by the Borrower or contractor—where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

Initial Draw at Closing: 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 Fees



Hold Back Requirements on Disbursements



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

Rehabilitation Escrow Account



When the Mortgage closes, the Mortgagee must place all proceeds designated for the rehabilitation, including the Contingency Reserve, inspection fees, and any Mortgage Payments in an interest bearing escrow account.

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.

Security Instrument and Rehabilitation Loan Rider

The following language must be placed in the security instrument:

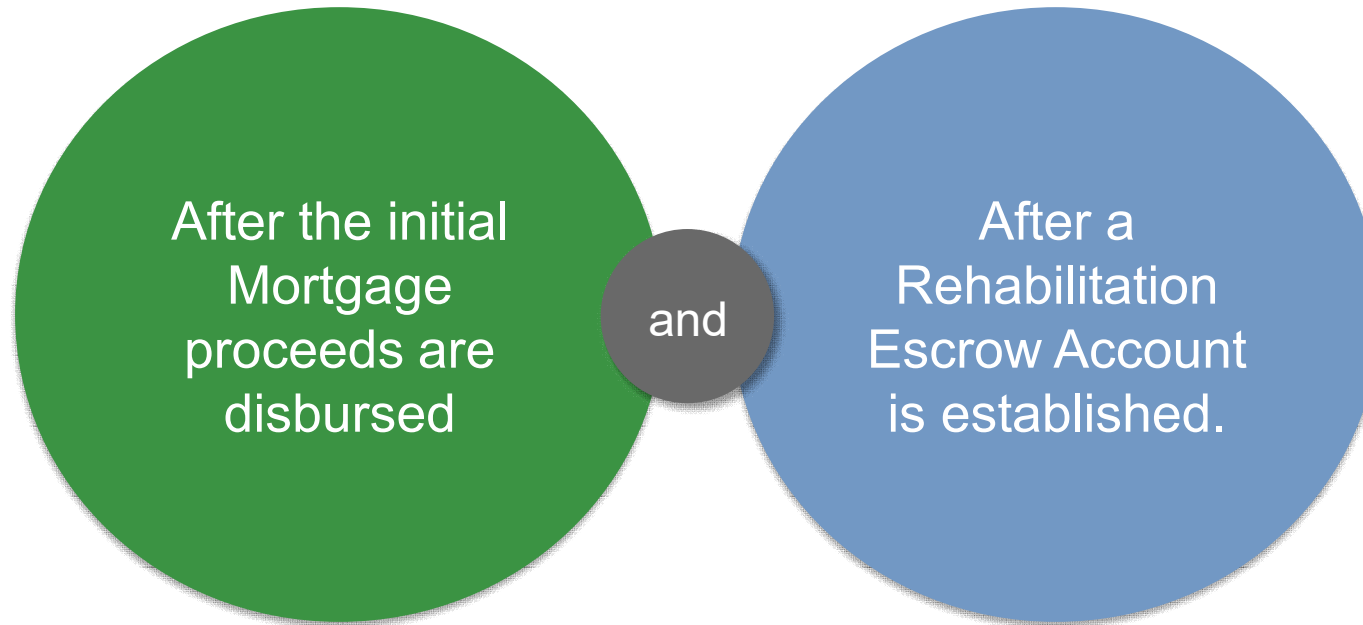
“Provisions pertaining to releases are contained in the Rehabilitation Loan Rider, which is attached to this Mortgage and made a part hereof.”

Endorsement



203(k) Endorsement Eligibility

203(k) Mortgages are eligible for endorsement:



Rehabilitation Period

Rehabilitation Period

The rehabilitation period:



Starts when the
Mortgage is
funded.



Is specified in the
Rehabilitation
Loan Agreement

Work Commencement Requirement

As stated in the Rehabilitation Loan Agreement, the Mortgagee may consider the Mortgage to be in default if work:

Is not started within 30 Days of the Disbursement Date;

Ceases for more than 30 consecutive Days; or

Is not completed within the established time frame or an extended time frame approved by the Mortgagee.

Extension Requests

If the work is not completed within the rehabilitation period specified in the Rehabilitation Loan Agreement, the Borrower may request an extension of time and must submit adequate documentation to justify the extension.

The Mortgagee may grant an extension, at its discretion, only if the Mortgage Payments are current.

Extension Requests: Required Documentation

To consider an extension request, the Mortgagee must obtain:

- Evidence the Mortgage is current;
- An explanation for the delay from the Borrower, contractor, or consultant; and
- A new estimated completion date.



Extension Request: Required Documentation

- The Mortgagee must complete the required fields on the Escrow Closeout Certification screen in FHAC to document the approval or the denial for the extension request of the rehabilitation period specified in the Rehabilitation Loan Agreement.
- Fields include:



Approved for Extension Yes/No;



Revised Expected Completion Date; and

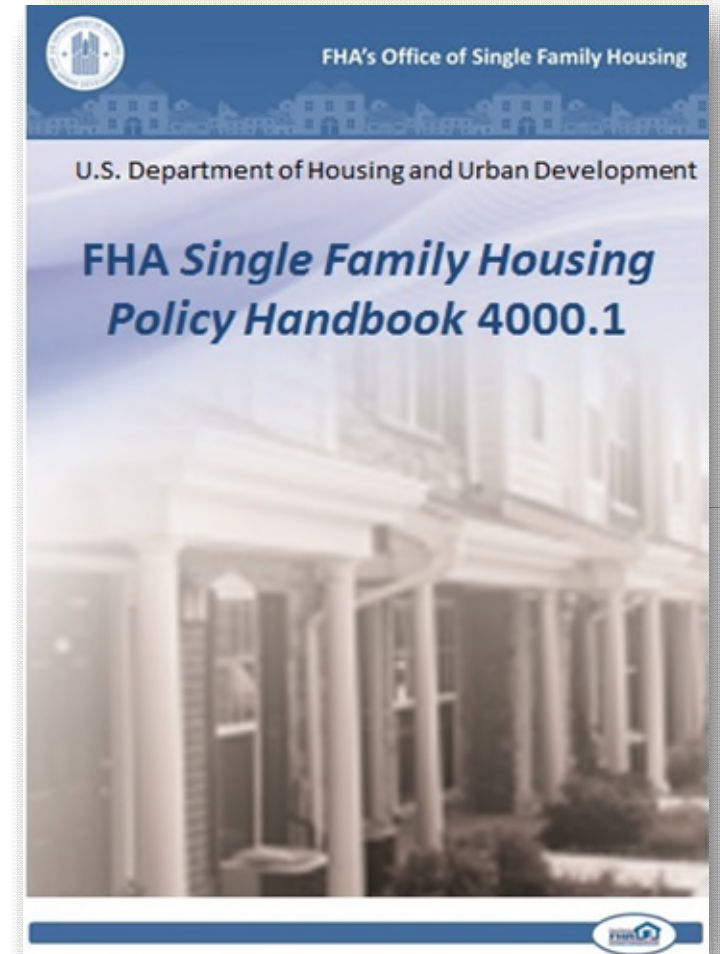


Extension Justification Reason.

Summary

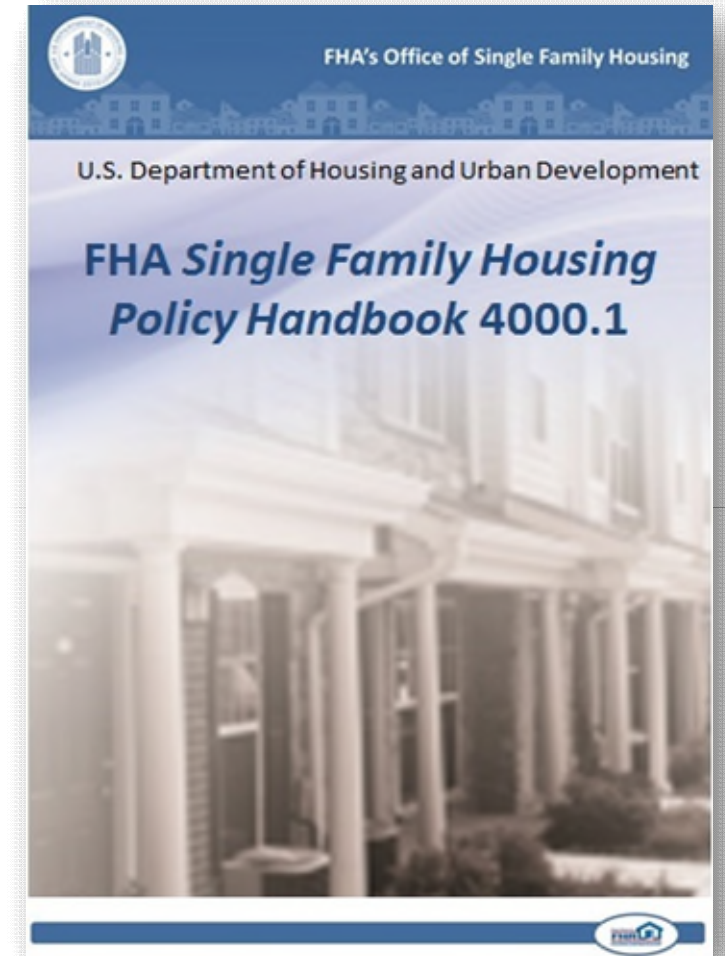
During this presentation, we reviewed:

- Policy changes made in the past year to 203(k) Origination through Post-Closing Endorsement policy;
- Origination through Post-Closing/Endorsement of the 203(k) program:
 - Borrower eligibility;
 - Property eligibility;
 - Application requirement;
 - Case Number assignment;
 - Data Deliver/203(k) Calculator;
 - Standard 203(k) transactions;
 - Establishing repairs and improvements; and
 - Additional Mortgagee responsibilities during processing; and



Summary (cont.)

- Origination through Post-Closing Endorsement of the 203(k) program:
 - Appraisals;
 - Maximum Mortgage amount;
 - Mortgage Insurance Premium;
 - Underwriting 203(k);
 - Limited 203(k);
 - Closing;
 - Endorsement; and
 - Rehabilitation period.



Helpful Links

- Single Family Handbook Information:

https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1

- FHA Webinar Archive:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/events/sfh_webinars

- Subscribe to FHA INFO:

https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe



FHA Resource Center

	Option	Point of Contact	Hours Available	Comments
1	Website	www.hud.gov/answers	24/7/365	Website 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 (including all non-Federal holidays)	Voicemail is available after hours or during extended wait periods. FHA FAQs are available after hours.
FHA INFO emails: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at: https://www.hud.gov/program_offices/housing/sfh/FHA_INFO_subscribe				

Q & A Session



**Thank you
for joining us today!**

