



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

April 29, 2005

MORTGAGEE LETTER 2005-19

TO: ALL APPROVED MORTGAGEES
ALL APPROVED APPRAISERS
ALL APPROVED 203(k) CONSULTANTS

SUBJECT: "Streamline(K)" Limited Repair Program

The Department of Housing and Urban Development has developed a limited repair program, designated as the Streamline(K) Limited Repair Program, to augment its existing 203(k) program. The 203(k) program has been the primary tool of the Federal Housing Administration (FHA) for providing insured mortgage financing for the purchase of single-family properties in need of rehabilitation. The Streamline(K) program is a modification of the 203(k) program to facilitate purchase transactions in which the property needs minor rehabilitation work, as identified in a pre-purchase home inspection or the FHA appraisal. The Streamline(K) program is intended to assist homeowners with basic repairs costing between \$5,000 and \$15,000. Unlike the standard 203(k) program, any FHA approved mortgagee may originate a Streamline(K) mortgage. The mortgage amount will allow for acquisition of the property and up to \$15,000 in the loan proceeds to be applied toward repair/rehabilitation of the property as detailed below. The Mortgagee Letter is effective for all case number assignments issued on or after June 4, 2005.

Streamline 203(K) Eligible Work Items

Use of the Streamline(K) program is limited to properties with the following work category items:

- Repair/Replacement roofs, gutters and downspouts
- Repair/Replacement/upgrade of existing HVAC systems
- Repair/Replacement/upgrade of plumbing and electrical systems
- Repair/Replacement of existing flooring
- Minor remodeling, such as kitchens, which does not involve structural repairs
- Exterior and interior painting
- Weatherization: including storm windows and doors, insulation, weather stripping, etc.
- Appliances - when at least \$3,000 of basic home repairs are involved. Appliances may include free-standing ranges, refrigerators, washers/dryers, dishwashers and microwaves and may not exceed \$2,000 in total cost.
- Improvements for accessibility for persons with disabilities

Repairs must comply with all local codes and ordinances. The mortgagor and/or contractor

must obtain all required permits prior to the commencement of work. Once the mortgage is approved and closed, the list of repair items cannot be changed unless the Direct Endorsement (DE) Underwriter approves a written change order. Change orders are limited to unforeseen conditions that are discovered during the course of the rehabilitation process (such as hidden damage caused by termites, mold or water damage). Costs related to change orders cannot be used to increase the mortgage amount. Change orders may result in the reallocation of mortgage proceeds among cost categories or in the substitution of work items covered by the proceeds. Therefore, any change order permitting additional work must also delete a corresponding dollar amount of previously approved rehabilitation work. If change orders result in a net cost increase, the mortgagor is responsible for the additional costs. If change orders result in a net cost decrease, the excess mortgage proceeds must be used to reduce the principle balance of the mortgage. If, for any reason, the costs incurred during the rehabilitation exceed the mortgage amount, the mortgagor is responsible for the additional costs.

The cost of work to be performed must be at least \$5,000, and the overall cost of repairs or improvements must not be greater than \$15,000. Program requirements for HUD's Section 203(b) and 203(k) Home Purchase and Rehabilitation loan apply if not addressed by this letter.

Streamline 203(K) Ineligible Work Items

Properties that require the following work items are not eligible for financing under the Streamline(K):

- major rehabilitation or major remodeling, such as the relocation of a load-bearing wall;
- new construction (including room additions);
- repair of structural damage;
- repairs requiring detailed drawings or architectural exhibits;
- any environmental mitigations including modifications involving disturbance of painted surfaces in pre-1978 properties or any lead based paint abatement;
- landscaping or similar site amenity improvements;
- any repair or improvement requiring a work schedule longer than six (6) months; or
- rehabilitation activities that require more than two (2) payments per specialized contractor.

Mortgagors may not use the Streamline(K) program to finance any required repairs arising from the appraisal that do not appear on the list of **Streamline 203(K) Eligible Work Items** or that would:

- Necessitate a "consultant" to develop a "Specification of Repairs/Work Write-Up";
- Require plans or architectural exhibits;
- Require a plan reviewer;
- Require more than six months to complete (HUD will not grant extensions);
- Result in work not starting within 30 days after loan closing; or
- Cause the mortgagor to be displaced from the property for more than 30 days during the time the rehabilitation work is being conducted. (HUD anticipates that, in a typical case, the mortgagor would be able to occupy the property after mortgage loan closing).

Acceptance of Contractors and Rehabilitation Criteria

The mortgagor must use the services of one or more contractors to complete the repairs. Mortgagees may not approve “self-help” arrangements in which the mortgagor is performing the work, unless the mortgagor can sufficiently demonstrate to the mortgagee that he or she has the necessary expertise and experience to competently perform the work (i.e., mortgagor is an electrician and will perform electrical repairs/upgrades to the property securing the mortgage loan). Such “self-help” arrangements are strongly discouraged unless the mortgagor’s ability to competently perform the work in a timely and workmanlike manner is self-evident and easily documented.

The mortgagor will select the contractor or contractors who will provide estimates for work to be done. The mortgagee will work directly with the mortgagor, reviewing the mortgagor’s proposed work plan and cost estimates to ensure the planned work meets all program and repair requirements as noted by the appraiser on the VC Form (form HUD-92564), unless addressed prior to mortgage loan closing. Since this is a limited repair program, no general contractor is required. However, the mortgagor must provide the mortgagee with a written cost estimate(s) and references from a duly licensed and bonded contractor(s) for each specialized repair or improvement. If “self-help” arrangements are utilized, the mortgagor must provide written estimates from the suppliers of the materials that the mortgagor will purchase. Only “fixed price” contracts, which are subject to written change orders approved by the DE Underwriter in the event of unforeseen conditions, are acceptable. “Cost plus” or “time and material” contracts are prohibited. The mortgagee is responsible for ensuring that the cost of the repair is reasonable and customary for the area in which the property is located. When the mortgagee determines a repair(s) is eligible under the Streamline(K) Limited Repair program, the preparation of architectural exhibits, as listed in Handbook 4240.4 REV-2, Paragraph 3-2, is not required.

The cost estimate(s) must clearly state the nature and type of repair and the cost for completion of the work item and must be made even if the mortgagor is performing some or all of the work under a self-help arrangement. The mortgagee must review the contractor’s credentials, work experience and client references and may require the mortgagor to provide additional cost estimates if necessary. After review, the selected contractor(s) must agree in writing to complete the work for the amount of the cost estimate and within the allotted time frame. A copy of the contractor’s cost estimate(s) and the Homeowner/Contractor Agreement(s) must be placed in the insuring binder. The contractor must finish the work in accordance with the written estimate and Homeowner/Contractor Agreement and any approved change order. As in the standard 203(k) program, the Rehabilitation Construction Period begins when the mortgage loan is closed.

Streamline 203(K) Supplemental Origination Fee

For a Streamline (K) mortgage, the mortgagee may collect a supplemental origination fee equal to the greater of \$350.00 or 2.5% of the cost of the improvement project not to exceed \$375.00 from the mortgagor for the rehabilitation portion of the mortgage. This is in addition to the origination fee of one percent of the mortgage amount related to the purchase price.

Valuation Conditions/Appraisal Requirements

For the Streamline(K) mortgage, the mortgagee must request the assignment of a HUD case number and select an appraiser from the FHA Appraiser Roster. Since a 203(k) Consultant will not provide a “Specification of Repairs - Work Write-Up” for a Streamline(K) case, the appraiser must complete the form HUD-92564-VC (VC Form) as part of the appraisal determining the after-improved value.

When a mortgagor applies for a Streamline(K) mortgage based on needed repairs identified by a pre-purchase home inspection, the FHA appraiser must be provided with information regarding the mortgagor’s planned repairs and a copy of the pre-purchase home inspection and confirm that the repair is necessary and may be accomplished without a fee consultant, work write-up, plans or exhibits. Additionally, the appraiser must note any health and safety deficiency or FHA Minimum Property Requirements (MPR) on the VC Form that the proposed repair plan does not address.

Completion and Payments

No more than two payments may be made to the contractor, or to the mortgagor if the mortgagor is performing the work under a self-help arrangement. The first payment is intended to defray material costs and shall not be more than 50% of the estimated costs of all repairs/improvements. When permits are required from a local or State building authority, permit fees will be reimbursed to the contractor at closing (1) if they are included in the contractor’s estimate or (2) if not included in the estimate but all proceeds are not needed for the completion of the improvement. The final payment to the contractor will be made following completion of all work and release of any and all liens arising out of the contract or submission of receipts or other evidence of payment covering all subcontractors or suppliers who could file a legal claim. When necessary, the mortgagee may arrange a payment schedule, not to exceed two (2) releases, per specialized contractor (an initial release plus a final release.) Mortgagees are to issue payments solely to the contractor, except if the mortgagor is performing the work under a self-help arrangement, in which case the mortgagor may be reimbursed for materials purchased in accordance with the previously obtained estimates; the mortgagor may not be compensated for his or her labor.

To eliminate the need and cost for an inspection of the completed repair(s) or improvement(s), the mortgagee may accept receipts or proof of completion of the work to the homeowner’s satisfaction from the contractor. Before a final release is made, the mortgagor must sign a statement acknowledging that the work has been completed in a workmanlike and satisfactory manner.

Maximum Mortgage Amount

The Department is concerned about the value of property after the improvements are completed. Amortization of the Streamline 203(K) mortgage will begin at the closing of the loan, which is defined as the settlement date as it appears on the HUD-1 Settlement Statement. A Maximum Mortgage Worksheet (form HUD-92700) is required for the Streamline (K) program.

Data Entry Requirements

In processing a Streamline(K) mortgage in the FHA Connection, a mortgagee must enter “203KS” in the 203(k) Consultant ID field in the Case Number Assignment Screen (and the Insurance Application Screen) to identify the Streamline(K) product. For a regular 203(k) mortgage, the mortgagee must continue to enter a valid 203(k) Consultant ID. Also, the mortgagee must enter the amount of the repairs in the Repair Escrow Amount field in the Insuring Application Screen. In the event that the mortgagee had originally begun processing the case as a purchase mortgage without repairs, the mortgagee should update the existing case date in the Case Number Assignment screen, changing the ADP Code to a valid 203(k) ADP Code and the Construction Code to Substantial Rehabilitation.

Closeout Requirements

A mortgagee making a Streamline(K) mortgage will be required to electronically certify the closeout. However, unlike the standard 203(k) program, the mortgagee will not be required to forward the closeout documents to the HOC. The closeout package will be retained by the mortgagee in its origination and servicer’s case file. The mortgagee will enter information onto the 203(k) Closeout screen on the FHA Connection and thereby certify, electronically, that the Streamline(K) mortgage has been properly closed out. Proper close-out means that the mortgagee will certify that it has reviewed and verified for accuracy the following without limitations: mortgagor’s acknowledgement of satisfactory completion, evidence of release of lien(s), mortgagee’s inspection report(s), change orders, mortgagee accounting of the escrow funds, and record of disbursements.

Information Collection Requirements

The information collection requirements referred to in this Mortgagee Letter have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0527 and 2502-0538. In accordance with the Paperwork Reduction Act, 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.

If you have any questions regarding this Mortgagee Letter, please contact your local Homeownership Center (HOC) in Atlanta (888) 696-4687, Denver (800) 543-9378, Philadelphia (800) 440-8647, or Santa Ana (888) 827-5605.

Sincerely,

John C. Weicher
Assistant secretary for Housing-

Federal Housing Commissioner