

U.S. Department of Housing and Urban Development

H O U S I N G

Special Attention of:
DIRECTORS, HOUSING DEVELOPMENT
DIVISION AND HOUSING MANAGEMENT
DIVISION; FIELD OFFICE MANAGERS
AND CHIEFS; BRANCH CHIEFS AND STAFF,
HOUSING DEVELOPMENT DIVISION AND
PROPERTY DISPOSITION BRANCH

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Rehabilitation Home Mortgage Insurance, dated December 1991

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This handbook has been revised to update the processing
procedures and policies required in the Section 203(k)
Rehabilitation Insured Mortgage Program.

3. Handbook Cancellations:

None

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Handbook 4240.4 REV-1
Dated August 1989

Insert
Handbook 4240.4 REV-2
Dated December 1991

Assistant Secretary for
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Handbook 4240.4 REV-2

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Departmental Staff
and Program Participants

December 1991

203 (k) Handbook
Rehabilitation
Home Mortgage Insurance

TABLE OF CONTENTS

Paragraph	Page
CHAPTER 1. GENERAL INFORMATION	
1-1. Introduction	1-1
1-2. Regulations	1-1
1-3. 203(k) - How It Is Different	1-1
1-4. Eligible Property	1-2
1-5. How The Program Can Be Used	1-3
1-6. Mortgage Position	1-3
1-7. Eligible Improvements	1-4
1-8. Required Improvements	1-5
1-9. Definitions for Use in the 203(k) Program	1-6
Insurance of Advances	1-6
Rehabilitation Escrow Account	1-7
Rehabilitation Loan Agreement	1-9
Inspections	1-9
Holdback	1-10
Contingency Reserve	1-10
Mortgage Payment Reserve	1-11
1-10. Maximum Mortgage Amount	1-12
Maximum Mortgage Calculation	1-12
Cost of Rehabilitation	1-15
Waiver of the Market Value Limitation	1-15
Solar Energy Increase in Dollar Limitation	1-15
1-11. Interest Rate and Discount Points	1-16
1-12. Amortization	1-16
1-13. Maximum Charges and Fees	1-16
Supplemental Origination Fee	1-16
Plan Review Fee	1-16
Appraisal Fee	1-17
Inspection Fee	1-17
Title Update Fee	1-18
1-14. Application Forms and Required Documentation	1-18
1-15. Mortgage Documents	1-19
1-16. Section of the Act Codes	1-20
1-17. Acceptable Risk - Insurance Fund	1-20
1-18. Claim for Insurance Benefits	1-20
1-19. Direct Endorsement	1-21
1-20. Lender's Quality Control Plan	1-22

iii

 4240.4 REV-2

Paragraph	Page
CHAPTER 2. VALUATION PROCEDURES	
2-1. General	2-1
2-2. Required Appraisals	2-1
2-3. Valuation Analysis and Review	2-1

2-4.	Issuance of Conditional Commitment or Direct Endorsement Statement of Appraised Value	2-2
2-5.	Section 223(e)	2-3
2-6.	Market Value	2-3

CHAPTER 3. PROCESSING PROCEDURES

3-1.	General	3-1
3-2.	Step-by-Step Procedures	3-1
	Preliminary Feasibility Analysis	3-1
	Sales Contract	3-1
	Architectural Exhibits	3-1
	Homebuyer Selects Mortgage Lender	3-3
	Acceptance of Borrower's Application	3-4
	Plan Reviewer's Responsibilities	3-4
	Appraiser's Responsibilities	3-5
	Receiving Clerk Responsibilities	3-6
	Valuation Processing	3-6
	Contingency Reserve	3-6
	Issuance of Conditional Commitment/ DE Statement of Appraised Value	3-6

CHAPTER 4. MORTGAGE CREDIT PROCEDURES

4-1.	General	4-1
4-2.	Value of the Property	4-1
4-3.	Acquisition Cost	4-1
4-4.	Maximum Mortgage Amount	4-1
4-5.	Investors Using the Escrow Commitment Procedure	4-1
4-6.	7-Unit Limitation	4-2
4-7.	Refinancing	4-3
4-8.	Firm Commitment	4-4
4-9.	Mortgage Loan Closing	4-5
4-10.	Debt Service Requirement	4-5

Paragraph	Page
-----------	------

CHAPTER 5. ENDORSEMENT THROUGH COMPLETION OF REHABILITATION

5-1.	Endorsement	5-1
5-2.	Rehabilitation Period	5-1
	Rehabilitation Construction Period	5-1
	Change Order Request	5-2
	Release of Funds from the Rehabilitation Escrow Account	5-3
	Mechanic's and Materialmen's Lien Waivers	5-5
	Final Release Notice	5-6
	Foreclosure of Mortgage During Rehabilitation	5-6
5-3.	Disposition of Case Binder	5-7

CHAPTER 6. HUD-OWNED PROPERTIES

6-1.	General	6-1
------	---------	-----

6-2.	Offer to Purchase	6-2
6-3.	Acceptance of Bid	6-2
6-4.	Inspection of Utilities	6-2
6-5.	Sales Contract Addendum	6-3
6-6.	Earnest Money Deposit	6-3
6-7.	Newspaper Notice	6-4
6-8.	Sale to Local Governments	6-4

CHAPTER 7. COMMUNITY PARTICIPATION

7-1.	General	7-1
7-2.	Local Programs	7-2

v

4240.4 REV-2

Appendices

1. Rehabilitation Checklist
2. Rehabilitation Loan Agreement
3. Mortgage Rehabilitation Rider
4. 203(k) Applicant Acknowledgement
5. Mortgagee/Mortgagor Completion Letter (HUD Processed)
6. Contingency Release Letter
7. HUD Final Release Notice
8. Escrow Commitment Procedure - Statement of Understanding
9. Draw Request
10. Example of Escrow Commitment Procedure
11. 203(k) Maximum Mortgage Worksheet
12. Questions and Answers
13. Reserved for a New Form
(Accounting for 203(k) Rehabilitation Funds)
14. Denver Affordable Homeownership Program

Refer to the 203(k) Index to locate different topics within this handbook

vi

4240.4 REV-2

		Approval #
FHA 314	Escrow Commitment Certificate	N/A
HUD 428	Home Mortgage ADP Code Chart	N/A
HUD 9548	Sales Contract	#2502-0306
HUD 9746-A	Draw Request	#2502-0386
HUD 54113	Underwriter/Mortgagee Certification	#2502-0274
HUD 59100	Mortgage Insurance Certificate	N/A
HUD 92005	Description of Materials	#2502-0192
HUD 92051	Compliance Inspection Report	#2502-0189
HUD 92577	Request for Acceptance of Changes in Approved Drawings and Specifications	#2502-0117
HUD 92700	203(k) Maximum Mortgage Worksheet	N/A
HUD 92800	HUD Application for Property Appraisal and Commitment	#2502-0111
HUD 92800.5B	Conditional Commitment/Direct Endorsement Statement of Appraised Value	#2502-0111
HUD 92900	HUD/FHA Application for Commitment for Insurance Under the National Housing Act	#2900-0144
Other Form:	Uniform Residential Appraisal Report (URAR)	N/A

FOREWORD

This Handbook sets forth a program description and basic processing instructions for HUD's Section 203(k) Rehabilitation Mortgage Insurance Program. General processing instructions for the Department's basic home mortgage insurance program, Section 203(b) are to be followed except as modified by this Handbook.

Because of the unique nature of this insured financing program, there may be questions that arise which have not been foreseen and appropriately addressed in this Handbook. Should this occur, program participants and

HUD Field Office staff should direct such questions to the Director, Office of Single Family Development Division, HUD Headquarters, Washington, DC.

References:

- (1) 4000.4 - Single Family Direct Endorsement Program
- (2) 4150.1 - Valuation Analysis for Home Mortgage Insurance
- (3) 4260.1 - Miscellaneous Type Home Mortgage Insurance
- (4) 4310.5 - Property Disposition Handbook, One- to Four-Family Properties
- (5) 4330.1 - Administration of Insured Home Mortgages
- (6) 4905.1 - Requirements for Existing Housing, One- to Four-Family Living Units
- (7) 4910.1 - Minimum Property Standards for Housing
- (8) 4155.1 - Mortgage Credit Analysis for Mortgage Insurance One- to Four-Family Properties
- (9) 4165.1 - Endorsement for Insurance for Home Mortgage Programs
- (10) 4145.1 - Architectural Processing and Inspections for Home Mortgage Insurance

4240.4 REV-2

- (11) 24 CFR Part 39 - Cost-Effective Energy Conservation and Effectiveness Standards
- (12) 24 CFR 200.163 - Direct Endorsement
- (13) 24 CFR 200.926d - Minimum Property Standard for One- and Two Family Dwellings (Also in HUD Handbook 4910.1, Appendix K)
- (14) 24 CFR Part 203 - Mutual Mortgage Insurance and Rehabilitation Loans
- (15) 24 CFR Part 220 - Mortgage Insurance and Insured Improvement Loans for Urban Renewal and Concentrated Development Areas

CHAPTER 1. GENERAL INFORMATION

- 1-1. INTRODUCTION. Section 101(c)(1) of the Housing and Community Development Amendments of 1978 (Public Law 95-557) amends Section 203(k) of the National Housing Act (NHA). The objective of the revision is to enable HUD to promote and facilitate the restoration and preservation of the Nation's existing housing stock.

As in the other single family mortgage insurance programs, a Section 203(k) mortgage is funded by a HUD approved lender and the mortgage is insured by the Department. This Handbook details the procedures to follow to insure a mortgage under Section 203(k). Where a change in processing is not specifically identified, outstanding instructions established for mortgages insured under the Section 203(b) program will apply.

- 1-2. REGULATIONS. The provisions of Section 203(k) are located in Chapter II of Title 24 of the Code of Federal Regulations under Section 203.50 and Sections 203.440 through 203.495.

- 1.3. 203(k) - HOW IT IS DIFFERENT. Most mortgage financing plans provide only permanent financing. That is, the lender will not usually close the loan and release the mortgage proceeds unless the condition and value of the property provide adequate loan security. When rehabilitation is involved, this means that a lender typically requires the improvements to be finished before a long-term mortgage is made.

When a homebuyer wants to purchase a house in need of repair or modernization, the homebuyer usually has to obtain financing first to purchase the dwelling; additional financing to do the rehabilitation construction; and a permanent mortgage when the work is completed to pay off the interim loans with a permanent mortgage. Often the interim financing (the acquisition and construction loans) involves relatively high interest rates and relatively short amortization periods. The Section 203(k) program was designed to address this situation. The borrower can get just one mortgage loan, at a long-term fixed (or adjustable) rate, to finance both the acquisition and the rehabilitation of the property. To provide funds for the rehabilitation, the mortgage amount is based on the projected value of the property with the work completed, taking into account the cost of the work.

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4240.4 REV-2

(1-3).

To minimize the risk to the mortgage lender, the mortgage loan (the maximum allowable amount) is eligible for endorsement by HUD as soon as the mortgage proceeds are disbursed and a rehabilitation escrow account is established. At this point the lender has a fully insured

mortgage loan.

- 1-4. ELIGIBLE PROPERTY. To be eligible, the property must be a one- to four-family dwelling that has been completed for at least one year. The number of units on the site must be acceptable according to the provisions of local zoning requirements. All newly constructed units must be attached to the existing dwelling. Condominium and Cooperative units are not eligible.

Homes that have never been completed cannot be accepted into the 203(k) program; construction of the property must have been completed for at least one year. Evidence of completion would be a Certificate of Occupancy or other similar documentation from the local jurisdiction.

Homes that have been demolished, or will be razed as part of the rehabilitation work, are eligible provided the existing foundation system is not affected and will still be used. The complete foundation system must remain in place. A report from a licensed structural engineer is required stating that the existing foundation is structurally sound and capable of supporting the proposed construction of the dwelling. Where the home has been completely razed (or where only the footings remain), including the demolition of the foundation, the property is not eligible for a 203(k) insured loan, but could be acceptable as new construction under Section 203(b).

In addition to typical home rehabilitation projects, this program can be used to convert a one family dwelling to a two, three, or four-family dwelling. An existing multi-unit dwelling could be decreased to a one- to four-family unit.

An existing house on another site can be moved onto the mortgaged property; however, release of loan proceeds for the existing structure on the non-mortgaged property is not allowed until the new foundation has been properly inspected and the dwelling has been properly placed and secured to the new foundation.

A manufactured (mobile) home that was built after June 15, 1976, and has been on a permanent foundation for over one year, can be rehabbed with this

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4240.4 REV-2

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program. The unit must have been delivered to the site when it was new, prior to being occupied. The rehabilitation cannot affect the structural components of the home that were designed and constructed in conformance with the Federal Manufacturers Construction and Safety Standards. Refer to HUD Handbook 4145.1 REV-2 for additional information, especially for the licensed engineer's certification.

- 1-5. HOW THE PROGRAM CAN BE USED. This program can be used to

accomplish rehabilitation and/or improvement of an existing one-to-four unit dwelling in one of four ways:

- A. To purchase a dwelling and the land on which the dwelling is located and rehabilitate it.
 - B. To purchase a dwelling on another site, move it onto a new foundation on the mortgaged property and rehabilitate it.
 - C. To refinance existing indebtedness and rehabilitate such a dwelling.
 - D. To rehabilitate such a dwelling.
- 1-6. MORTGAGE POSITION. Mortgages that do not involve the insurance of advances, the refinancing of outstanding indebtedness or the purchase of the property need not be a first lien on the property, but will not be junior to any lien other than a first mortgage.

For A and C in paragraph 1-5., the mortgage must be a first lien on the property and the loan proceeds (other than rehabilitation funds) may be available before the rehabilitation begins.

For B in paragraph 1-5., the mortgage must be a first lien on the property; however, loan proceeds cannot be made available until the unit is attached to the new foundation (see paragraph 1-4.).

For D in paragraph 1-5., the mortgage may be a second lien on the property; however, no insured advances will be allowed and the mortgage cannot be endorsed until all work is satisfactorily completed (see paragraph 5-1.A.). The minimum mortgage amount must exceed the limits of a loan under Title I of the National Housing Act.

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4240.4 REV-2

- 1-7. ELIGIBLE IMPROVEMENTS. Mortgage proceeds must be used in part for rehabilitation and/or improvements to a property. There is a minimum \$5000.00 requirement for the eligible improvements on the existing structure on the property. Minor or cosmetic repairs by themselves are impracticable and unacceptable; however, they may be added to the minimum requirement (in addition to \$5,000). The mortgage must include one or more of the items listed below, with a cumulative minimum of \$5,000.
- A. Structural alterations and reconstruction (e.g., additions to the structure, finished attics, repair of termite damage and the treatment against termite infestation, etc.)
 - B. Changes for improved functions and modernization (e.g., remodeled kitchens and bathrooms).
 - C. Elimination of health and safety hazards (including the resolution of defective paint surfaces and/or lead-based paint

problems on homes built prior to 1978).

- D. Changes for aesthetic appeal and elimination of obsolescence (e.g., new exterior siding).
- F. Reconditioning or replacement of plumbing (including connecting to public water and/or sewer system), heating, air conditioning and electrical systems.
- F. Roofing, gutters and downspouts.
- G. Flooring, tiling and carpeting.
- H. Energy conservation improvements (e.g., new double pane windows, insulation, solar domestic hot water systems, etc.).
- I. Major landscape work and site improvement, patios and terraces that improve the value of the property equal to the dollar amount spent on the improvements or required to preserve the property from erosion.
- J. Improvements for accessibility to the Handicapped.

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4240.4 REV-2

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When basic improvements are involved, the following costs can be included in addition to the minimum \$5,000 requirement for the existing structure:

- Construction or rehabilitation of a detached garage or an attached unit(s) to the existing dwelling (if allowed by the local zoning ordinances).
- New cooking ranges, refrigerators and other appurtenances (Used appliances are not eligible).
- Interior or exterior painting.

Luxury items and improvements that do not become a permanent part of the real property are not eligible as a cost rehabilitation. The items listed below (not limited to this list) are not acceptable under the 203(k) program, including the repair of any of the following:

Barbecue pits; bathhouses; dumbwaiters; exterior hot tubs, saunas, spas and whirlpool baths; outdoor fireplaces or hearths; photo murals; swimming pools; television antennas and satellite dishes; tennis courts; tree surgery. Additions or alterations to provide for commercial use are not eligible.

- 1-8. REQUIRED IMPROVEMENTS. All rehabilitation construction and/or additions financed with Section 203(k) mortgage proceeds must comply

with the following:

A. Cost Effective Energy Conservation Standards.

- 1) Addition to Existing Structure. New construction must conform with local codes and HUD Minimum Property Standards in 24 CFR 200.926d (HUD Handbook 4910.1, Appendix K) is required.
- 2) Rehabilitation of Existing Structure. To improve the thermal efficiency of the dwelling, the following are required:
 - a) Weatherstrip all doors and windows to reduce infiltration of

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4240.4 REV-2

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air when existing weatherstripping is inadequate or nonexistent.

- b) Caulk or seal all openings, cracks or joints in the building envelope to reduce air infiltration.
- c) Insulate all openings in exterior walls where the cavity has been exposed as a result of the rehabilitation. Insulate ceiling areas where necessary.
- d) Adequately ventilate attic and crawl space areas.

For additional requirements, refer to 24 CFR Part 39, Appendix A-1 through A-6 for standards that apply to improvements proposed as part of the rehabilitation.

3) Replacement Systems.

- a) Heating, ventilating, and air conditioning system supply and return pipes and ducts must be insulated whenever they run through unconditioned spaces.
- b) Heating systems, burners, and air conditioning systems must be carefully sized to be no greater than 15 percent oversized, except to satisfy the manufacturers' next closest nominal size.

If a new heating/cooling system is proposed, provide heat loss/heat gain calculations for the entire house to ensure proper sizing of heating system. Use the design criteria developed by the American Society of Heating, Refrigerating and Air Conditioning Engineers (ASHRAE) or Manual J developed by the National Environmental Systems Contractors Association.

(1-8.)

- B. Smoke detectors. Each sleeping area must be provided with a minimum of one (1) approved, listed and labeled smoke detector installed adjacent to the sleeping area. The detector must sense visible or invisible particles of combustion. When activated, the detector must provide an alarm suitable to warn occupants within the sleeping area.

Smoke detectors may be battery powered when installed in existing or rehabilitated dwellings. However, where new construction is being added to an existing building, the smoke detector must receive its primary power from the building wiring, in conformance to local codes and ordinances.

1-9. DEFINITIONS FOR USE IN THE 203(k) PROGRAM.

- A. Insurance of advances. This refers to insurance of the mortgage prior to the rehabilitation period.

A mortgage that is a first lien on the property is eligible to be endorsed for insurance following mortgage loan closing, disbursement of the mortgage proceeds, and establishment of the Rehabilitation Escrow Account.

The mortgage amount may include funds for the purchase of the property or the refinance of existing indebtedness, the costs incidental to closing the transaction, and the completion of the proposed rehabilitation. The mortgage proceeds allocated for the rehabilitation will be escrowed at closing in a Rehabilitation Escrow Account.

- B. Rehabilitation Escrow Account. When the loan is closed and Insurance of Advances is used, the proceeds designated for the rehabilitation or improvement, including the contingency reserve, mortgage payment reserve and monies retained under the Escrow Commitment Procedure, are to be placed in an interest bearing escrow account insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA). This account is not an escrow for the

(1-9.B.)

paying of real estate taxes, insurance premiums, delinquent notes, ground rents or assessments, and is not to be treated as such.

- 1) The lender (or its agent) will release escrowed funds upon

completion of the proposed rehabilitation in accordance with the Work Write-up (see example of a Rehabilitation Checklist in Appendix 1) and the Draw Request (Form HUD 9746-A in Appendix 9). Release of funds for completed work cannot occur until one day following loan closing (see paragraph 4-9).

- 2) The net income earned by the Rehabilitation Escrow Account must be paid to the mortgagor. The method of such payment is subject to agreement between mortgagor and mortgagee. However, payment of the interest income on the Rehabilitation Escrow Account can accumulate and be paid in one lump sum after completion of rehabilitation and issuance of the Final Release Notice. When the Escrow Commitment Procedure is used, interest on the investor's escrow account can be paid when the loan is assumed. Provide an Applicant's Acknowledgement shown in Appendix 4.
- 3) During rehabilitation the lender may not release funds from the Rehabilitation Escrow Account until the lender has received a Compliance Inspection Report (Form HUD 92051) and the Draw Request (Form HUD 9746-A), certifying that the work has been completed in compliance with the accepted architectural exhibits.

The final release of the escrowed rehabilitation funds is to take place only after the local jurisdiction has provided its final acceptance of the work and the HUD or the Direct Endorsement (DE) Underwriter has reviewed the final Compliance Inspection Report and the Draw Request form.

The Final Release Notice (Appendix 7, as applicable) can be issued, authorizing the final payment, which may include the interest earned on the escrow account and the total of all holdbacks (see paragraph 1-9.B. and E.). This Notice also directs the prepayment of the mortgage by the amount remaining in the contingency reserve and any unused inspection fees or mortgage payments, when applicable.

(1-9.)

- C. Rehabilitation Loan Agreement. When the mortgage involves the insurance of advances, a Rehabilitation Loan Agreement must be executed by the lender and the borrower (see Appendix 2). The Rehabilitation Loan Agreement establishes the conditions under which the lender (or its agent) will release funds from the Rehabilitation Escrow Account to aid the borrower in the rehabilitation or improvement of the property. When the lender uses the services of an agent, the lender remains responsible for the actions of that agent. See paragraph 5-2.C. for information on how to release funds.

- D. Inspections. All inspections are performed by HUD-approved fee inspectors assigned by the HUD Field Office (but paid by the lender) or on the HUD-accepted staff of the DE lender (see paragraph 5-2.C.). The fee inspector is to use the architectural exhibits in order to make a determination of compliance or non-compliance. The HUD accepted Plan Reviewer can be allowed to do the fee inspections on the property, because he/she is already familiar with the proposed improvements and can inspect the rehabilitation knowing what was accepted in the work write-up (see paragraph 3-2.F.).

When the inspection is scheduled due to a request for payment, the inspector is to indicate on the Compliance Inspection Report (Form HUD 92051) whether or not the work has been completed. Also, the inspector must use the Draw Request form (Form HUD 9746-A, Appendix 9). The first draw must not be scheduled until the lender has determined that the applicable building permits have been issued.

The inspection fees are paid by the mortgagor, but, the lender is responsible to ensure that payment is made to the inspector (see paragraph 1-13.D.). If the inspection fee is part of the escrow, then it can be released along with the release of the escrow funds as a result of an acceptable Draw Request.

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4240.4 REV-2

(1-9.)

- E. Holdback. A ten (10) percent holdback is required on each release from the Rehabilitation Escrow Account. The total of all holdbacks may be released only after a final inspection of the rehabilitation and issuance of the Final Release Notice. The lender (or its agent) may retain the holdback for a maximum of 35 calendar days unless State law allows for a longer time period to ensure that no liens are placed on the property. At lenders option, the holdback is not required when a subcontractor is 100% complete with a work item, the work completed is acceptable to the inspector and the subcontractor provides the necessary lien waivers. Also refer to paragraph 5-2.E.
- F. Contingency Reserve. At the discretion of the Field Office or the DE Underwriter, the cost estimate may include a contingency reserve if the existing construction is less than 30 years old or the nature of the work is complex or extensive. A contingency reserve is required when there is evidence of termite damage or previous termite infestation.

For properties older than 30 years the cost estimate must include a contingency reserve of a minimum of ten (10) percent of the cost of rehabilitation; however, the contingency reserve may not exceed twenty (20) percent where major remodeling is contemplated. If the utilities were not turned on for inspection, a minimum fifteen (15) percent is required. If the

scope of work is well defined and uncomplicated, and the rehabilitation cost is less than \$7,500, the lender may waive the requirement for a contingency reserve. A notice about the Contingency Reserve must be provided to the borrower prior to, or at, the closing of the loan (see Appendix 4).

The reserve cannot be used to make additional improvements to the dwelling that are considered luxury items; however, it may be used to pay for added construction costs caused by deficiencies (health, safety and necessity) discovered during rehabilitation. Use a Request for Change, Form HUD 92577, when the scope of rehabilitation will be affected. When adjustments to the proposed rehabilitation (i.e., deleting a skylight from the work writeup) are made following loan closing, the amount by which the costs are reduced are added to the contingency reserve. Any

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4240.4 REV-2

(1-9.F.)

unused portion of the Contingency Reserve Fund remaining at the time of issuance of the Final Release Notice must be applied to reduce the mortgage balance. Work items cannot be deleted from the rehabilitation if it will decrease the value of the home, since the loan has already closed.

If the Borrower feels that the contingency reserve will not be used and they wish to avoid having the reserve applied to reduce the mortgage balance after issuance of the Final Release Notice, the borrower (or any other person, organization or agency on the borrower's behalf) may place their own funds into the contingency reserve account. In this case, if monies are remaining in the account after the Final Release Notice is issued, the monies may be released back to the borrower (or other person, organization or agency who placed the money in the contingency reserve).

If the mortgage is at the maximum mortgage limit for the area or for the particular type of transaction, but a contingency reserve is required, the contingency reserve must be placed into an escrow account from other funds of the borrower at closing. Under these circumstances, if the contingency reserve is not used, the remaining funds in the escrow account will be released to the borrower after the Final Release Notice has been issued.

- G. Mortgage Payment Reserve. Funds not to exceed the amount of six (6) mortgage payments (including PITI and the mortgage insurance premium) can be included in the cost of rehabilitation and deposited in the rehabilitation escrow account to assist a mortgagor (whether a principal residence or an investment property) when the property is not occupied during rehabilitation.

On multi-unit properties, if one or more units is occupied, the mortgage payment must be reduced accordingly. If the owner

occupies one of the units, or if the rents received are not sufficient to cover that portion of the mortgage, then the mortgage payment will be reduced by dividing the PITI by the number of units in the property (i.e., the monthly mortgage payment for a triplex is \$1,248; if one unit is occupied, the mortgage payment is reduced to \$832).

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4240.4 REV-2

(1-9.G.)

The number of mortgage payments cannot exceed the completion time frame required in the Rehabilitation Loan Agreement. The lender must make the monthly mortgage payments directly from the interest bearing reserve account. Monies remaining in the reserve account after the Final Release Notice is issued, or occupancy of the property, must be used to reduce the mortgage principal.

1-10. MAXIMUM MORTGAGE AMOUNT. The mortgage amount, when added to any other existing indebtedness against the property, cannot exceed the applicable loan-to-value ratio and maximum dollar amount limitations described in 24 CFR 203.50. The downpayment requirements are the same as under the Section 203(b) program (refer to HUD Handbook 4155.1, paragraph 2-4 for additional information. Also refer to paragraph 6-1 for requirements for incentives to sell HUD-owned properties). The Mortgage Payment Reserve is considered a part of the cost of rehabilitation for determining the maximum mortgage amount (see paragraph 1-9.G.).

A. Maximum Mortgage Calculation. Based on the lesser of:

- 1) The estimate of As-is value or the purchase price of the property before rehabilitation, whichever is less, plus the estimated cost of rehabilitation and allowable closing costs; or
- 2) 110 percent of the expected market value of the property upon completion of the work plus allowable closing costs.

Principal Residence (Owner-occupant)

The maximum mortgage amount is based on 97/95 percent of 1) or 2) above.

Investment Property (Non-Occupant Mortgagor or Builder/Rehabber)

The maximum mortgage amount is based on 85 percent of 1) or 2) above.

1-12

4240.4 REV-2

(1-10.A.)

Escrow Commitment Procedure (Builder/Rehabber)

See Appendix 10 for an example for calculating the maximum mortgage amount using the escrow commitment procedure. This procedure cannot be used for a loan amount less than the 97/95% calculated for an owner-occupant (the loan can be assumed by an investor, however, the mortgage principal must be paid down to what the mortgage would be to an investor).

A mortgagor (Builder/Rehabber/Investor, not an owner/occupant) that purchases or refines an investment property but intends to sell the rehabilitated property to a mortgagor acceptable to HUD (who intends to occupy the property as a principal residence) can obtain a mortgage based on the loan-to-value ratio and maximum dollar amount limitations prescribed under Section 203(b) for a principal residence, provided:

-- The dollar difference between the maximum mortgage amount (97/95 of the fair market value for an owner-occupant) and the mortgage amount available to an investor (85% of acquisition cost) will remain in escrow with the lender until the property is assumed by an owner-occupant acceptable to the Commissioner;

and

-- The escrowed funds will be administered under the Escrow Commitment Procedure;

Use Form FHA-314, Escrow Commitment Certificate, for this procedure. The commitment may be issued for the maximum mortgage amount for the longest term permissible, 30 years. Refer to paragraph 4-5 for information concerning financial requirements for an investor who uses this procedure.

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4240.4 REV-2

(1-10.A.)

To allow for maximum owner-occupant financing when the loan is assumed (by an owner-occupant acceptable to HUD) and to avoid the extra cost for a new mortgage, the mortgage may be based on the market value of the property after rehabilitation. The difference between the maximum mortgage requirements for an owner-occupant and an investor would be retained in an escrow account.

The investor/builder must sign a Statement of Understanding similar to that shown in Appendix 8 and must provide the lender an acceptable plan on how the

property will be marketed for assumption by an acceptable owner-occupant purchaser.

The investor/builder may elect to use the escrow funds to reduce the principal balance at any time prior to the 18th month. If the property is not sold prior the 18th amortization payment of the mortgage, the entire escrow amount must be applied to reduce the principal balance and reduce the mortgage amount to an amount available as an investment property.

The owner-occupant who assumes the loan must provide a downpayment based on 97/95% (unless they qualify under the first time homebuyer provision below). If the resale price is less than the appraised value of the property, the mortgage amount must be reduced accordingly based on the acquisition price. If the resale price is greater than the appraised value, the purchaser must make a larger downpayment. Refer to the example in Appendix 10. For mortgage calculations for refinance transactions, see paragraph 4-7.

If the purchaser is a "first time homebuyer," the assumption can be done with no downpayment requirement. A "first time homebuyer" is defined as a person(s) who has not had an ownership interest in a principal residence within the three years preceding the date of the execution of the mortgage loan documents. Each borrower must certify to the above ownership interest. To verify this requirement, the lender must obtain certified copies of signed federal income tax returns filed by the eligible borrower for the three tax years immediately preceding execution of the mortgage loan documents. If the borrower was not required by law to file a federal income tax return for any of these three years and did not so file and certifies to such, then the requirement is waived.

(1-10.)

- B. Cost of Rehabilitation. Expenses eligible to be included in the cost of rehabilitation are materials, labor, contingency reserve, overhead and construction profit (put in each work item), up to six (6) months of mortgage payments, plus expenses related to the rehabilitation such as permits, fees, inspection fees by a qualified home inspector (i.e., a member of the American Society of Home Inspectors), licenses, inspection fees during construction by a HUD accepted inspector, lien protection fees for title updates and architectural/ engineering fees.

The cost of rehabilitation may also include the supplemental origination fee which the mortgagor is permitted to pay when the

mortgage involves insurance of advances, and the discounts which the mortgagor will pay on that portion of the mortgage proceeds allocated to the rehabilitation.

- C. Waiver of the Market Value Limitation. The 203(k) Regulations allow for a waiver of the market value limitation stated in paragraph 1-10.A. to facilitate use of the program. Such requests must be forwarded to the Assistant Secretary for Housing-Federal Housing Commissioner at the HUD Headquarters. Requests must include documentation that the three following conditions are present:
- 1) The property is located within an area which is subject to a community sponsored program of concentrated redevelopment or revitalization (see 24 CFR Part 220). Use the same criteria as in paragraph 4-6 to determine if the communities plan for redevelopment or revitalization will be adequate.
 - 2) The market value loan limitation prevents the use of the program to accomplish rehabilitation in the subject area.
 - 3) The interests of the borrower and the Secretary of HUD are adequately protected.
- D. Solar Energy Increase in Dollar Limitation. A mortgage is eligible for an increase of up to 20 percent in the maximum insurable mortgage amount, if such an increase is necessary for the installation of solar energy equipment. The solar energy system's contribution to value will be limited by its replacement cost or by its effect on the value of the dwelling.

1-15

4240.4 REV-2

- 1-11. INTEREST RATE and DISCOUNT POINTS. These are not regulated and are negotiable between the borrower and the lender.
- 1-12. AMORTIZATION. Provisions of the Section 203(k) mortgage (prescribed in Section 203.21 of the Regulations) are the same as prescribed under Section 203(b).
- 1-13. MAXIMUM CHARGES AND FEES. The statutory requirements and administrative policies of Section 203(k) result in deviations from the maximum amount of charges and fees permitted under Section 203(b). The lender is responsible to ensure that the plan reviewer, appraiser and inspector are paid for their services.
- A. Supplemental Origination Fee. When the Section 203(k) mortgage involves insurance of advances, the mortgagee may collect from the mortgagor a supplemental origination fee. This supplemental origination fee is calculated as one and one-half percent (1 1/2%) of the portion of the mortgage allocated to rehabilitation, or \$350, whichever is greater. This supplemental origination fee is collected in addition to the one percent origination fee on the total mortgage amount.

B. Plan Review Fee. Prior to the appraisal, a HUD accepted plan reviewer (or fee consultant, paid by the lender) must visit the site to ensure compliance with the program requirements in this handbook. The utilities should be on for this site review to take place; if the utilities are off, the contingency reserve will be 25% (see paragraph 1-9.F.). The fee is as follows and may not be changed without HUD Headquarters approval:

1) Initial review prior to appraisal:

Cost of repairs	Fee
< \$15,000	\$100.00
> \$15,001; = < \$30,000	\$150.00
> \$30,001	\$200.00

2) Additional unit review (two to four units with same case number) - \$ 50.00 per unit

1-16

4240.4 REV-2

(1-13.B.)

3) Additional review
(reinspection of the same unit) - \$50.00

When travel distance exceeds 30 miles round trip from the reviewer's place of business, a mileage charge of 33 cents per mile may be applied to the above charges, including toll road and other charges where applicable.

If the Plan Reviewer is acting as a consultant for the borrower, then the plan review stage can be eliminated and the Plan Review Fee is not applicable. The Plan Reviewer can still do the inspections during the construction stage. The Plan Reviewer cannot be the contractor on the job, because it is considered a conflict-of-interest.

C. Appraisal Fee. Two appraisals must be performed: (1) As-is value of the property; and (2) Estimated market value of the property assuming completion of the rehabilitation. The maximum fee which a lender may collect for these two appraisals is one and one-half times the amount permitted for a Section 203(b) proposed construction appraisal, as established by the HUD Field Office.

D. Inspection Fee (during the rehabilitation construction period). Established by the local HUD Field Office (see paragraph 5-2.C.), however, Field Offices wanting to set a fee greater than \$50 must obtain Headquarters approval.

1) Fees for inspections will be allowed for inclusion in the cost of rehabilitation. If all inspections are not required, remaining funds will be applied to the principal

after the final release notice is issued.

- 2) If additional inspections are required by the lender to ensure satisfactory compliance with exhibits, the borrower or contractor will be responsible for payment; however, the lender has ultimate responsibility.

1-17

4240.4 REV-2

(1-13.)

- E. Title Update Fee. To protect the validity of the mortgage position from mechanics liens on the property, reasonable fees charged by a title company may be included as an allowable cost of rehabilitation. Where the mortgage position is protected and is not in jeopardy, this fee may not apply. Borrowers may wish to obtain lien protection, but the fees must be paid by the borrower where such lien protection is not required to ensure the validity of the security instrument (see paragraph 1-20).

The allowable fee should not exceed \$50.00 per draw release. If all draw inspections are not made, monies left in escrow must be applied to reduce the mortgage balance.

- 1-14. APPLICATION FORMS AND REQUIRED DOCUMENTATION. The lender prepares applications for conditional commitment for mortgage insurance on Form HUD-92800, HUD Application for Property Appraisal and Commitment. Form HUD-92900, HUD/FHA Application for Commitment for Insurance under the National Housing Act or other form approved by HUD, is used for the firm commitment application. Other appropriate forms will be used to complete the processing of the application and exhibits as described in this Handbook.

- A. Supporting Documentation. The borrower may pay discounts on the rehabilitation and, when applicable, the refinance portion of the mortgage, as well as an additional origination fee when the mortgage involves the insurance of advances. These charges are to be totaled and included as part of the cost of rehabilitation to be posted in line (b) of Section 24 of the Form HUD-92900.

When the Section 203(k) mortgage is to be subordinate to an existing first mortgage, the mortgagee is to submit a complete verification of the first mortgage. Include the name and address of the note holder; the type of mortgage; date of obligation; original mortgage amount; unpaid balance; monthly payment to principal and interest; the maturity date; and whether the amount required for taxes and insurance is impounded.

1-18

4240.4 REV-2

(1-14)

- B. Processing. As with the Department's other single family programs, the mortgage insurance application procedure consists of three separate steps: application for the conditional commitment; application for the firm commitment; and request for mortgage insurance endorsement. Processing by a DE lender is described in paragraph 1-19.

1-15. MORTGAGE DOCUMENTS. The Rehabilitation Loan Agreement, Security Instrument, Note and other documents used in processing and closing the mortgage must comply with State and local requirements.

- A. Rehabilitation Loan Agreement. This agreement between the lender and the borrower establishes the conditions under which the lender will advance the 203(k) mortgage proceeds. The language of the Rehabilitation Loan Agreement is to follow the format presented in Appendix 2.

The Rehabilitation Loan Agreement is incorporated by reference and made a part of the Security Instrument.

- B. Security Instrument. Modifications to the Security Instrument are necessary for these mortgages. Refer to discussion of the Security Instrument in the Federal Register, dated June 29, 1989.

- 1) If the mortgage involves releases from the Rehabilitation Escrow Account, the following language should be typed in the form:

"Provisions pertaining to releases are contained in the Rehabilitation Rider which is attached to this mortgage, and made a part hereof."

A Rehabilitation Rider is contained in Appendix 3 and is a required modification to the Security Instrument.

- 2) In those cases where the mortgage is a second lien, the following language should be typed in the form:

"Notwithstanding any other provision to the contrary, this Security Instrument is superior to all liens on the property, other than a mortgage dated _____, 19____, and published in book _____ at _____."

1-16. SECTION OF THE ACT CODES. Refer to Form HUD 428.

1-17. ACCEPTABLE RISK - INSURANCE FUND. Section 203(k) of the NHA directs that a rehabilitation mortgage insured under Section 203(k) must be an "acceptable risk, as defined by the Secretary." To be an acceptable risk the mortgage obligation must: (1) be secured by a

property which meets the standards as prescribed, or referenced, in this Handbook; and (2) be taken by a mortgagor who complies with the mortgage credit provisions as prescribed, or referenced in this Handbook.

All insurance funds received and all disbursements made pursuant to a Section 203(k) mortgage are credited or charged to the General Insurance Fund. The Mortgage Insurance Premium is paid monthly.

- 1-18. CLAIM FOR INSURANCE BENEFITS. Refer to paragraph 5-2.F. A claim for insurance benefits on a loan secured by a first mortgage is to be made, and insurance benefits are paid, in accordance with the provisions of Section 203.350 through Section 203.404 of Title 24 of the Code of Federal Regulations. These sections explain under what conditions a mortgage is to be assigned or conveyed to the Secretary in exchange for payment of insurance benefits. Insurance benefits are paid in cash or debentures, at the Secretary's discretion.

In the event of a mortgagor default on a Section 203(k) mortgage secured by other than a first mortgage, in order to be eligible for insurance benefits the lender must assign the mortgage to the Secretary in the manner prescribed in Sections 203.440 through 203.495 of Title 24 of the Code of Federal Regulations. A 203(k) mortgage endorsed as a second mortgage must, at the time of assignment, be prior to all mechanics and materialmen's liens filed of record, regardless of when such liens attach, and prior to all liens and encumbrances or defects which may arise, with the exception of the first mortgage. The lender may not, except with the approval of the Department, proceed against the security and also make claim against the contract for insurance. Insurance benefits are paid in cash, although HUD regulations provide for payment in debentures if the claimant requests.

1-20

4240.4 REV-2

- 1-19. DIRECT ENDORSEMENT (DE). DE Lenders have the option of (1) processing 203(k) insured loans fully under the DE program, or (2) obtaining a conditional commitment from HUD and processing the borrower under DE, or (3) processing the case totally through HUD's prior approval process.

Although DE lenders will be eligible to process 203(k) under the DE procedure, the underwriters must be trained and submit 203(k) test cases before full approval for DE processing of 203(k) insured loans will be granted. The following conditions apply:

- A. All unconditionally approved DE lenders are eligible to process Section 203(k) applications after satisfactorily completing a training session given by the local HUD Field Office. Of particular importance at the training session is a discussion of the proper submission of the architectural exhibits and the Draw Request (Form HUD 9746-A, Appendix 9).

In addition, the HUD Field Office will review several 203(k)

cases on a pre-closing basis to ensure conformity with outstanding instructions. The number of cases reviewed (typically 3 to 5 cases) is dependent on the assessment of quality in underwriting and exhibit preparation. If the lender has not been authorized DE authority under the 203(b) program and wishes to obtain DE authority under 203(k), then the pre-closing review of 15 cases is required. Upon successful completion, the mortgagee may submit the cases for endorsement. HUD field reviews of the construction and a post-endorsement review of the file documentation must be adequate to ensure compliance with outstanding instructions.

- B. An eligible DE lender may process a Section 203(k) application for any property located within the jurisdiction of the appropriate HUD Field Office. If a property is in a Section 223(e) area, the DE lender cannot process this type of property and must refer the case the HUD Field Office for processing.
- C. Eligible lenders may use their own staff to perform Section 203(k) appraisals, compliance inspections and review of architectural exhibits. However, these individuals must be approved by the HUD Field Office and attend any training session that is required by HUD. Lenders may also use HUD fee panel members which can be assigned by the local HUD Field Office.

1-21

4240.4 REV-2

(1-19.)

- D. The DE lender will be fully responsible for processing the Section 203(k) application, including the authority to make releases from the rehabilitation escrow account as the work progresses. The lender's DE Underwriter must sign and date the Compliance Inspection Report (Form HUD 92051) and the Draw Request (Form HUD 9746-A) authorizing release of the monies from the escrow account. Copies of the forms must be sent to the appropriate HUD Field Office (Architectural Branch) after each inspection for recordkeeping and field review purposes.
- E. If a problem is noticed, the HUD Field Office may request the Departmental Monitoring Division to review the DE Underwriter's file in the lender's office.
- F. The DE lender must provide certifications with each mortgage as required under 24 CFR 200.163 (b), (c) and (f). The DE lender must use Form HUD 54113 to comply with the certification requirements. The certifications are in Mortgagee Letter 90-36, dated September 28, 1990, and will be treated as an Addendum to Appendix 3 and Appendix 4 of HUD Handbook 4000.4 REV-1, until that handbook can be updated to incorporate the 203(k) certifications. Form HUD 54113 must be modified by adding "or applicable Mortgagee Letter" immediately after the phrase "as detailed in the Single Family Direct Endorsement Program Handbook" which appears in both the underwriter certification

and the mortgagee certification.

- 1-20. LENDER'S QUALITY CONTROL PLAN. It is extremely important to properly monitor the receipt and disbursement of the rehabilitation funds, including the interest earned on the escrow account. Lender's originating a Section 203(k) mortgage and the investing mortgagee buying these mortgages must provide a Quality Control Plan to the local HUD Field Office that describes the method(s) they will use to account for the release of Rehabilitation Escrow funds. Each lender's quality control plan must also describe the method the lender uses to comply with 24 CFR 203.4(b)(3).

The originating lender, its sponsor or the investing mortgagee must maintain an accounting system acceptable to HUD that properly records all transactions from the escrow account. If the originating lender's sponsor or investor is recording the transactions, it must distribute copies of the record of transactions to the

1-22

4240.4 REV-2

(1-20.)

originating mortgagee, the borrower and to HUD on each Draw Request (refer to Appendix 13 for a suggested format).

Unless otherwise agreed to by the mortgagee's sponsor and/or the investing mortgagee, the originating mortgagee is responsible to ensure timely coordinated draw requests, change orders, contingency requests, lien endorsements as necessary, and escrow account releases with the borrower, contractor, inspector, HUD (or DE Underwriter) and the investing mortgagee, and to maintain recordkeeping reflecting such requests and disbursements.

The investing mortgagee is ultimately responsible for the proper and timely "good funds" distribution from the escrow account and the validity of the mortgage position. However, HUD looks to the originating lender, its sponsor and the investing mortgagee to ensure the proper distribution of all funds. The Department encourages lenders to use independent title companies to ensure the proper distribution of the escrow account funds at loan settlement and to protect the validity of the security instrument position against liens.

"Identity-of-interest" closing agents are not allowed under the 203(k) program. An identity-of-interest exists if the originating lender, mortgagee of record, or mortgagor (or any general or limited partner, shareholder, director, officer, employee or authorized representative of the lender) can directly, or through one or more intermediaries, control or influence the decisions or policies of the closing agent or its employees, or vice versa. An identity-of-interest exists whenever there is a financial, family relationship, professional or business affiliation involved.

HUD encourages investing (secondary) mortgagees to have Errors and Omissions coverage and Fidelity coverage. The investing mortgagee should require it for the originating lender when the originating lender is administering the rehabilitation escrow account to ensure compliance with the mortgagee's responsibilities to their mortgagors.

CHAPTER 2 - VALUATION PROCEDURES

- 2-1. GENERAL. This chapter describes the valuation processing required to underwrite a Section 203(k) mortgage. Valuation procedures for applications submitted under this program must follow the instructions outlined in HUD Handbook 4150.1, Valuation Analysis for Home Mortgage Insurance, except as set forth in this chapter.
- 2-2. REQUIRED APPRAISALS. In order to determine the maximum mortgage amount, valuation analysis consists of two separate appraisals, to be recorded on two separate appraisal (Uniform Residential Appraisal Report) packages.
- A. As-Is Value. Appraise the property in its present condition. Reflect those benefits to be derived from the legal use of the property. Do not include repair requirements in this as-is value appraisal.
- As-is appraisal is not required for a HUD-owned property. Refer to paragraph 6-3.
- B. Value After Rehabilitation. Determine the expected market value of the property upon completion of the proposed rehabilitation and/or improvements. The appraisal report should be noted: "Subject to Repairs, Alterations, etc."
- 2-3. VALUATION ANALYSIS AND REVIEW. Using the two appraisals, the Review Appraiser or DE Underwriter determines the as-is value plus cost of rehabilitation and completes the value after rehabilitation for mortgage insurance purposes. Complete Form HUD 92700, 203(k) Maximum Mortgage Worksheet (Appendix 11), to determine market value of the property after rehabilitation and the maximum mortgage amount to be shown on the Conditional Commitment/Statement of Appraised Value (Form HUD 92800.5B). If HUD issues the Conditional Commitment, the lender should provide the Field Office with sufficient information to complete the Form HUD 92700.

2-1

 4240.4 REV-2

- 2-4. ISSUANCE OF CONDITIONAL COMMITMENT or STATEMENT OF APPRAISED VALUE. Maximum mortgage amount is based on the appraised value. Issue Form HUD 92800.5B with a term of 12 months. The name of the fee inspector should be placed on the form. The following exhibits must be issued as part of the Conditional Commitment/Statement of Appraised Value:
- A. Homebuyer's Statement of Appraised Value (Homebuyer's Copy of Form HUD 92800.5B). The value placed on the form should always be the as-is value plus the cost of rehabilitation, or 110 percent of the value, whichever is less. Input the figure on line C3 for a purchase transaction and line D4 for a refinance transaction from Form HUD 92700. If the Escrow Commitment

Procedure is used, refer to paragraph 1-10 for additional information on the use of the market value in lieu of the above mentioned values;

- B. Maximum Mortgage Worksheet (Form HUD 92700, see paragraph 1-10 and Appendix 11);
- C. Architectural Exhibits (See paragraph 3-2.C.); and
- D. Contingency Reserve Notice, where applicable (See paragraph 1-9.F. and Appendix 4). This notice will explain to the homebuyer that the contingency reserve can only be used for health, safety and necessity items and what happens to the contingency reserve if it is not used.

If DE processed, lender provides to the builder one set of the accepted architectural exhibits for use during the construction period, marked "Builders/Inspector's Copy. Maintain a "File Copy" in the lender's office. If HUD processed, send "Builder's/Inspector's Copy." Maintain a "File Copy" in the case binder.

Rehabilitation construction should not begin until the Conditional Commitment or Statement of Appraised Value is issued. The As-is Value must reflect the condition of the property at the time of appraisal. Repairs completed prior to issuance of Form HUD 92800.5B will be appraised as part of the As-is Value and cannot be included into the cost of rehabilitation. Repairs completed after issuance of Form HUD 92800.5B, but prior to loan closing, can be included in the first Draw Request, no earlier than one day after closing occurs.

2-2

4240.4 REV-2

- 2-5. SECTION 223(e). Properties located in older, declining urban areas, where one or more of the requirements of Section 203(b) cannot be met, may be eligible for Section 203(k) pursuant to Section 223(e). The instructions are in HUD Handbook 4260.1. DE Lenders cannot process loans in a 223 (e) area.
- 2-6. MARKET VALUE. To determine the estimate of market value after rehabilitation in any neighborhood, the appraiser must give full consideration to neighborhood improvements that are proposed and in progress through government action and/or organized community effort. In areas undergoing rehabilitation or revitalization, either with public or private funds, the value estimate must use market data from similar areas, including those that have been revitalized, as would be done in any other appraisal.

2-3

CHAPTER 3. PROCESSING PROCEDURES

- 3-1. GENERAL. This chapter describes the processing procedures required to obtain a Conditional Commitment from HUD or a Statement of Appraised Value from a Direct Endorsement lender. This information is required whether the mortgage on the property is in a first or second lien position.
- 3-2. STEP-BY-STEP PROCEDURES.
- A. Preliminary Feasibility Analysis. After the property is located, the homebuyer should make a marketability analysis prior to signing the sales contract. The following should be determined:
- 1) The extent of the rehabilitation work required;
 - 2) Rough cost estimate of the work; and
 - 3) The expected market value of the property after completion of the rehabilitation of the property.

The borrower does not want to spend money for appraisals and repair specifications (plans), then discover that the value of the property will be less than the purchase price (or existing indebtedness) plus the cost of improvements.

- B. Sales Contract. A provision should be included in the sales contract that the buyer has applied for Section 203(k) financing and that the contract is contingent upon loan approval and buyer's acceptance of additional required improvements as determined by HUD or the DE lender.
- C. Architectural Exhibits. The improvements must comply with HUD's Minimum Property Standards (24 CFR 200.926d and/or HUD Handbook 4905.1) and all local codes and ordinances. The homebuyer may decide to employ an architect or a design consultant to prepare the proposal. The homebuyer must provide the lender the appropriate architectural

3-1

 4240.4 REV-2

(3-2.C.)

exhibits that clearly show the scope of work to be accomplished. The following list of exhibits are recommended, but may be modified by the local HUD Field Office as required:

- 1) Plot Plan (for new additions) showing the location of the structure(s), walks, drives, streets, and other relevant detail. Include finished grade elevations at the property corners and building corners. Show the required flood elevation.

- 2) Existing Plan of the structure.
- 3) Proposed Plan (show where structural or planning changes are contemplated; if there are no major changes, then only an existing plan is needed).
- 4) Description of Materials (HUD Form 92005) or similar acceptable format acceptable to the HUD Field Office.
- 5) Work Writ-up. Any format may be used, however, quantity and cost of each item must be shown. Use the Rehabilitation Checklist in Appendix 1 to ensure all work items are considered. Transfer costs to the Draw Request (Form HUD 9746-A).

Cost estimates must include labor and materials sufficient to complete the work. Homebuyers doing their own work cannot eliminate the cost estimate for labor, because if they cannot complete the work there must be sufficient money in the escrow account to get a subcontractor to do the work. The Work Write-up does not need to reflect the color or specific model numbers of appliances, bathroom fixtures, carpeting, etc., unless they are non-standard units.

- 6) Draw Request (Form HUD 9746-A) or similar acceptable computerized form.

3-2

4240.4 REV-2

(3-2.C.)

- 7) Inspection Report from a qualified architectural, engineering or home inspection service (i.e., members of the American Society of Home Inspectors) to:
 - a. Report on existence of rodents, dryrot, termites and other infestation; include information on how to correct the problem.
 - b. Report on any item in the property that may affect the health and safety of the occupants (i.e., lead based paint, etc.)
 - c. Report on the adequacy of the existing structural, heating, plumbing, electrical, and roofing systems. The report should include requirements for upgrading of thermal protection.

Where required by the local HUD Field Office, provide an earthquake hazard evaluation for seismic stability (Seismic zones 3 and 4).

D. Homebuyer Selects Mortgage Lender. Names of FHA approved lending

institutions which fund mortgages are generally listed in the Yellow Pages under "Mortgages." Homebuyer submits two sets of architectural exhibits to the lender. After review and acceptance of the architectural exhibits, the lender prepares the following:

- 1) HUD Form 92800, HUD Application for Property Appraisal and Commitment;
- 2) HUD Form 92900, Application for Commitment for Insurance Under the National Housing Act;
- 3) Homebuyer's Qualification Statement, where applicable.

Adequate documentation from the homebuyer is required when the homebuyer is doing some or all of the rehabilitation work, confirming that homebuyer is competent to do the work.

3-3

4240.4 REV-2

(3-2.)

- E. Acceptance of Borrower's Application. Lender calls HUD Field Office for the assignment of a case number, plan reviewer, fee appraiser and fee inspector. Lender must state that the application will be submitted under Section 203(k). All sets of exhibits are provided to the plan reviewer for scheduling of a review inspection on-site with the homebuyer and contractor. The HUD Case Binder should be marked "203(k)."
- F. Plan Reviewer's Responsibilities (HUD fee panel, DE staff or fee consultant). Field Offices must establish a fee plan reviewer on their fee inspector panel. Existing fee inspectors can be trained as a plan reviewer, however, limit the number of plan reviewers that review these documents so they will become proficient at processing a 203(k) property.
 - 1) Review the architectural exhibits for compliance with HUD requirements. Homebuyer and contractor should be in attendance, when possible;
 - 2) Inspect the house to determine that all health and safety items have been properly noted on architectural exhibits.
 - 3) Review adequacy of the Work Write-up, Description of Materials and Draw Request.

Upon completion, return the exhibits to the lender with a letter indicating acceptance of the architectural exhibits. If exhibits are unacceptable, return them to the homebuyer for correction. If exhibits are acceptable, the lender sends appraisal package and two sets of exhibits to the appraiser (If DE lender, then only one set is necessary).

The plan reviewer reviews the submitted documents for completeness to ensure they accurately reflect the proposed work, including the repair of all health and safety items. The plan reviewer should not require additional items that do not affect the health and safety of the home, or the provisions of Handbook 4905.1, Requirements for Existing Housing. The plan reviewer is not responsible for an in-depth review of the cost estimate(s), but reviews them to determine they are reasonable and do not exceed the cost data publications from R.S. Means Co., Inc., "Repair and Remodeling Cost Data" book or the "Home-Tech Remodeling and

3-4

4240.4 REV-2

(3-2.F.)

Renovation Cost Estimator." If these books are used the field office will not question the reliability of the cost estimates.

Where possible, the plan reviewer should try to avoid rejecting the case by correcting the exhibits for simple changes and ask the homebuyer and contractor to initial them. However, the plan reviewer may reject a case not in compliance with the architectural exhibit requirements. The rejection should be explained, but the plan reviewer has no responsibility to assist in correcting the deficiencies in the exhibits, nor is the plan reviewer responsible for coordinating the efforts of the homebuyers and the contractors.

G. Appraiser's Responsibilities. Perform two appraisals; See paragraph 2-2:

- 1) An "As-is" appraisal, establishing the value of the property prior to any rehabilitation; and
- 2) An "After Rehab" appraisal, establishing the value of the property after the rehabilitation work has been completed.

Field Office should designate only certain appraisers to do 203(k) appraisals after training them in the procedures outlined in this handbook. Not all appraisers on the HUD panel should be assigned 203(k) properties.

The appraiser does not include VC Conditions on the appraisal report. The loan cannot be completed unless all of the work items are in the cost estimate. If the appraiser believes that additional items that may affect the health and safety of the occupants should be added to the work writeup, then the appraisal should not be done and the plan reviewer should be consulted to reevaluate the problem(s). An additional fee cannot be charged by the plan reviewer. The appraisal can be completed only after the plan reviewer ensures that the items have been included in the work writeup and cost estimate.

Upon Completion, return appraisal package and all exhibits to DE lender or HUD Field Office.

3-5

4240.4 REV-2

(3-2.)

H. Receiving Clerk Responsibilities (HUD processed case).

1) Upon receipt of the appraisal package:

- a. Review the appraisal and the architectural exhibits for completeness; ensure that all plans have the correct case number.
- b. Date stamp appraisals and place all documents in appropriate case binder. Enter date received on CHUMS Appraisal Receiving Logging Screen.
- c. Stamp one set of architectural exhibits "Builder's/Inspector's Copy".

2) If acceptable, forward case binder to Valuation Branch.

3) If unacceptable, return exhibits to fee appraiser for correction.

I. Valuation Processing. Refer to paragraph 2-3.

J. Contingency Reserve. Refer to paragraph 1-9.F.

K. Issuance of Conditional Commitment/Statement of Appraised Value. Refer to paragraph 2-4.

3-6

CHAPTER 4. MORTGAGE CREDIT PROCEDURES

- 4-1. GENERAL. Mortgage Credit analysis is to be completed as prescribed in HUD Handbook 4155.1 - Mortgage Credit Analysis for Mortgage Insurance on One-to Four-Family Properties, except as modified in this Chapter. Mortgagors must have sufficient assets to close the loan and to maintain the mortgage payments during rehabilitation. The Section 203(k) insured loan is part of the General Insurance Fund, therefore, the Mortgage Insurance Premium is paid monthly.
- 4-2. VALUE OF THE PROPERTY. The value of the property is either the as-is value plus the cost of rehabilitation, or 110 percent of the value after rehabilitation, whichever is less. The Conditional Commitment/Statement of Appraised Value (Form HUD 92800.5B) reflects the lesser of the two values (refer to paragraph 2-4.A.).
- 4-3. ACQUISITION COST. The acquisition cost includes the following:
- A. The purchase price of the property, or the existing debt in cases involving refinancing.
 - B. The cost incidental to closing the transaction.
 - C. HUD's accepted rehabilitation cost estimate. This figure represents the proposed improvement and any required repairs, including the cost of rehabilitation described in paragraphs 1-10.B. and 1-13).
- 4-4. MAXIMUM MORTGAGE AMOUNT. Refer to paragraph 1-10.
- 4-5. INVESTORS USING THE ESCROW COMMITMENT PROCEDURE. A mortgagor purchasing investment property will not be eligible for an insured 203(k) mortgage unless the lender is satisfied that the mortgagor has the ability to support the mortgage payments, complete the rehabilitation and rent or lease the properties within 12 months of completion of rehabilitation. Lease agreement(s) prior to closing are not required. On properties with two-to-four units, income analysis should include the projected rents for the subject property.

4-1

4240.4 REV-2

- 4-6. 7-UNIT LIMITATION. A Borrower that purchases property for rental purposes rather than rehabilitation and sale, will be subject to the 7-unit limitation in 24 CFR 203.42.

An investor should not be allowed to rapidly accumulate FHA insured properties that clearly and collectively constitute a multifamily project. Only under very specific conditions should a field office allow a mortgagor to have a financial interest in eight or more rental units. A field office can allow more than seven (7) units in a contiguous area under the following specific conditions:

- The neighborhood has been targeted by a State or local government for redevelopment or revitalization; and
- The State or local government has approved, and submitted the following to the field office: (1) A plan describing its program of neighborhood redevelopment and revitalization; (2) The geographic area targeted for redevelopment; and (3) The nature and proportion of public and/or private commitments that have been made in support of the redevelopment program. These commitments should include programs to expand homeownership and affordable housing opportunities and help create jobs and promote economic development of the area. The Plan can include, for example, the use of Section 8 rent subsidies, redevelopment grants, and interest rate buydowns for homeowner-occupants.

If certain geographic areas are targeted for comprehensive community, housing, or economic development assistance, such areas should be defined with maps, so as to demonstrate that the subject property is located in a targeted area. Through legislation, States frequently define and recognize such areas as Community Redevelopment Areas (CRA's) or Enterprise Zones. Communities may also have taken official action, independently or with the support of State legislation, to designate targeted geographic areas as redevelopment areas as well. Evidence (legal documentation, such as resolutions or ordinances) should be obtained from the appropriate jurisdiction indicating the official approval (by the Chief Elected Officials), or adoption of such areas along with

(4-6.)

evidence that such areas are currently still recognized and actually treated as targeted areas.

Funding and actual expenditures demonstrate the sincerity of the State or local government's commitment to the target area. It is advisable to ask for a "Sources and Uses" type statement or expenditures summary statement from the applicable jurisdiction that clearly demonstrates the expenditures to date, as well as any planned expenditures, by type of activity (e.g., public improvements, housing improvements, or economic development) for that targeted area for the subject property. Ideally, the information provided should be sufficient to fully demonstrate an ongoing commitment (past, present, and future). Future commitment is applicable if the targeted area is still officially recognized as an area with need for certain public support or assistance. A supporting document that large communities can provide as additional evidence of the expenditures in certain targeted areas is the CDBG (Community Development Block Grant) Grantee Performance Report. This report is limited to CDBG funded activities only. However, for some targeted areas this may be the only funding available.

Exceptions to the seven (7) unit requirement should be made only where the property is located in an area that is reasonably viable and there is a demonstrated need in the area for adequate rental housing for families of low and moderate income. Appraisers should be trained to monitor vacancies and absorption of units in rental dominated neighborhoods.

- 4-7. REFINANCING. Although Section 203(k) may be used to refinance and rehabilitate a property, it may not be used as a means of withdrawing or recapturing equity, and thus, no cash back to an investor mortgagor is permitted. It is essential that any existing debt or obligation(s) be clearly limited to the property to be rehabilitated. A line of credit made available to the refinancing mortgagor without a clear connection to the subject property does not meet HUD requirements unless there is documentation, acceptable to the Secretary, indicating loan proceeds were used for the purchase and/or repair of the

4-3

4240.4 REV-2

(4-7.)

property. The same is true for any first mortgage or other junior liens secured by the property for at least one year prior to loan application.

The maximum mortgage amount allowed is limited to the lesser of: (1) The sum of the existing principal balance, costs of rehabilitation, non-recurring closing costs, and reasonable discount points, or (2) The sum of the As-Is Value (or the acquisition cost if owned less than one year from the date of application, whichever is less), the cost of rehabilitation, non-recurring closing costs and reasonable discount points.

Refer to the Maximum Mortgage Worksheet. in Appendix 11. Additional information is contained in paragraph 1-10.

- 4-8. FIRM COMMITMENT. Complete Form HUD 92700, Section 203(k) Maximum Mortgage Worksheet (Appendix 11), to determine the maximum insurable mortgage amount; make this form a part of the firm commitment. In addition, Form HUD-92900WS (Mortgage Credit Analysis Worksheet) is used to determine the mortgagor's required cash investment and credit worthiness. However, since the Form HUD 92700 is used for mortgage calculation purposes, the maximum mortgage calculation section of the Mortgage Credit Analysis Worksheet (Form HUD 9290WS) should be left blank. Attach Form HUD 92700 to the firm commitment upon issuing to the mortgagor.

On Form HUD-92900, Application for Commitment for Insurance Under the National Housing Act, the lender enters the total for the alterations, improvements and repairs as part of the computation of the acquisition cost. Itemize the discounts and origination fee components of the cost of the rehabilitation on the application.

Either HUD or a DE Underwriter will review the application and, if acceptable, issue the appropriate Certificate of Commitment.

4-4

4240.4 REV-2

- 4-9. MORTGAGE LOAN CLOSING. Prepare the Rehabilitation Loan Agreement. The agreement establishes the conditions under which the lender is to release funds from the Rehabilitation Escrow Account.

At loan closing, the mortgage proceeds disbursed by the lender and the cash from the borrower must equal the total cost of acquisition or refinance. The lender must establish the Rehabilitation Escrow Account and place in the account the total amount to finance the construction, plus the contingency reserve, inspection fees and any mortgage payments, where applicable.

Following closing, the borrower is required to begin making monthly mortgage payments on the entire principal amount of the mortgage, including the amount in the Rehabilitation Escrow Account, which has not yet been disbursed, according to the same guidelines as a 203(b) insured loan.

If the construction is partially or fully completed, a Draw Inspection cannot occur for at least one day following the closing of the loan. Release of monies in the Rehabilitation Escrow Account at closing is not allowed except for the allowable fees designated in paragraph 5-2.C.1).

The borrower must to obtain all licenses and/or permits that are required by local governmental authorities. Draws releases cannot be given until the field office or DE Underwriter is assured that these requirements have been satisfied and the fees paid.

- 4-10. DEBT SERVICE REQUIREMENTS. All three- and four-unit properties, investor-owned as well as owner-occupied, must be self-sustaining (i.e., the net rent from all units must equal or exceed the monthly debt service). The debt service ratio is computed by dividing the monthly mortgage payment (PITI) by the net rental income from all units and may not exceed 100 percent. The net rent is calculated using all units, even if one unit is to be occupied by the mortgagor(s).

"Net Rental" is defined as HUD's estimate of after-improved market rent for the property less an allowance for vacancy and collections.

For 203(k) insured loans, the additional requirements of three months debt service in reserve following closing does not apply where the loan contains a monthly mortgage payment reserve (paragraph 1-9.G.), except when using the Escrow Commitment Procedure (see paragraph 4-5).

4-5

CHAPTER 5. ENDORSEMENT THROUGH COMPLETION OF REHABILITATION

- 5-1. ENDORSEMENT. The endorsement procedure for cases is dependent upon whether or not the mortgage involves the insurance of advances. If DE processed, the lender prepares the processing and closing documents (including one set of architectural exhibits) and submits them to HUD for endorsement of the mortgage.
- A. No Insured Advances. Cases not involving insured advances are to be endorsed only after all work has been satisfactorily completed, following instructions contained in HUD Handbook 4165.1. Endorsement for Insurance for Home Mortgage Programs, Chapter 1, paragraphs 1-1 through 1-8. Paragraph 1-9(d) is not applicable.
 - B. Insured Advances. Cases involving insured advances are eligible for endorsement once mortgage proceeds have been disbursed to the mortgagor, to the mortgagor's creditors for his/her account and with his/her consent, or to the Rehabilitation Escrow Account, assuming other conditions of the firm commitment have been met. The closing documents must include an original Rehabilitation Loan Agreement executed by both the lender and mortgagor.
 - C. Issuance of Mortgage Insurance Certificate. Following the endorsement, Form HUD-59100, Mortgage Insurance Certificate, is mailed to the lender; place one copy in the HUD Case Binder.
- 5-2. REHABILITATION PERIOD. HUD (Architectural Branch) monitors the progress of the work during the rehabilitation construction period.
- A. Rehabilitation Construction Period. Begins when the mortgage loan is closed. If work is not started within 30 days, or if the work ceases for more than 30 consecutive days, or is not progressing reasonably during the rehabilitation period, the lender may consider the loan to be in default.

The length of the rehabilitation period will be no longer than six (6) months. However, the lender should not allow a time period longer

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than that required to complete the work. Where the rehabilitation work is not complicated, or where a contractor should be able to accomplish the work in a reasonably short time frame, a 2 or 3 month rehabilitation period would be justified. If a shorter time period less than six months is specified in the Rehabilitation Loan Agreement, and the work is not completed within that time frame, the borrower/builder must request an extension of time on Form HUD 92577 for consideration, providing adequate documentation to justify the extension.

If the work is not complete within the six (6) month period, the lender should verify the status of the work and notify the Field Office and request a field review of the property. DE Lenders can approve extensions within the 6 month window, however, the Field Office Architectural Branch must concur on any time extension over the 6th month time period following closing. An extension can only be granted if the loan payments are current.

In cold climate areas, some exterior work items may be impossible to complete. Owners and contractors should try their best to complete this work when the weather is not a factor. However, if closing occurred in mid-winter, it may be difficult to schedule these exterior items. Submit Form HUD 92577, with adequate documentation, to request an extension for weather related items.

- B. Change Order Request (Form HUD 92577). Prepared by the borrower, or builder, and submitted through the lender, to HUD or the DE Underwriter for acceptance. The Change Order Request is used for contingency items and other changes that may increase or decrease the cost of rehabilitation and/or the value of the property. Work must be 100% complete on each change order item before release of any monies to the borrower, or builder.

The contingency reserve can only be used on those changes that affect the health, safety, or items of necessity of the occupants. If the contingency reserve is insufficient, the borrower must place additional

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monies into the account for payment upon acceptance of the change. If a change order results in a decrease in costs, the amount will be added to the contingency reserve. Additional improvements that do not affect the health and safety, or an increase in cost due to a necessity item, must be paid for by the homebuyer and not paid out of the contingency reserve fund. If the work is complicated, a 10 to 20 percent contingency reserve may be added to the change order request.

- C. Release of Funds (Draw) from the Rehabilitation Escrow Account. The lender (originating or secondary) who controls the Rehabilitation Escrow Account should release monies to the borrower (and builder, where applicable) within 24 to 48 hours after receipt of a properly executed: (1) Draw Request, Form HUD 9746-A, see Appendix 9; (2) Compliance Inspection Report, Form HUD 92051; (3) Title update, where necessary; and (4) Fee inspector's bill if the payment will be released from the Rehabilitation Escrow account. Funds may be released under the following conditions:

- 1) Initial draw may be released at loan closing. Allowable fees

paid by the borrower, or on his/her behalf, may be reimbursed provided they are listed on Form HUD 92700, 203(k) Maximum Mortgage Worksheet (Appendix 11).

Permits from the local or State building authority are required, where necessary. Actual cost of permits and other fees will be paid at the initial draw at closing. Excess in estimated fees must be put in the contingency reserve.

Under no circumstances is a draw request to be approved for work that is not yet complete, including materials that have been paid for but not yet installed. An exception may be allowed for kitchen and bath cabinetry, or floor covering, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date. Release of any of these items must be authorized on the Conditional Commitment/ Statement of Appraised Value, Form HUD 92800.5B.

5-3

4240.4 REV-2

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- 2) Intermediate draws (four maximum) are inspected by the HUD assigned fee (or DE staff, where applicable) inspector (see paragraph 4-9). If the cost of rehabilitation exceeds \$10,000, then additional draw inspections are authorized provided the lender and borrower agree in writing, and the number of draw inspections are shown on Form HUD 92700, 203(k) Maximum Mortgage Worksheet.

The inspector visits the site with the accepted architectural exhibits. Improvements must be satisfactorily completed in compliance with industry standards, local practices and to the satisfaction of the fee inspector. Escrowed funds may be partially released based on the percentage of completion of each line item shown on Form HUD 9746-A. If the work is acceptable, the inspector completes a Form HUD 92051, Compliance Inspection Report and the Draw Request (Form HUD 9746-A), and sends it to the DE Underwriter or to HUD for review. A holdback of 10 percent (10%) will be made on all intermediate draws.

If the owner does the work and it only cost 60% of the line item for materials, upon completion of the work item, the draw release would be 100% minus 10% holdback, thereby paying the owner for the "sweat" in completing the work. If the owner subcontracts the work for less than the line item, then 100% of the line item would be released upon completion minus the 10% holdback.

The lender or HUD may determine that additional compliance inspections are required throughout the rehabilitation period to ensure that the work is progressing in a satisfactory

manner. Release of funds is not authorized on this type of inspection, however, the borrower is responsible for paying the inspection fee. A lender may require a property inspection if there have been no draw requests for 30 days or more.

5-4

4240.4 REV-2

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- 3) Contingency item inspections will be assigned to the fee inspector by the lender. The inspector will complete a Compliance Inspection Report, Form HUD-92051, and return the report to HUD/DE underwriter. If acceptable, HUD/DE underwriter prepares Contingency Release Letter (Appendix 6) and sends it to the borrower. Partial release of contingency items is unacceptable. The work for each contingency item must be complete and in compliance with industry standards. Ten (10) percent (10%) holdback is required.
- 4) Final Inspection will be approved when all work has been satisfactorily completed in compliance with industry standards, local practices and to the satisfaction of the fee inspector (refer to paragraph 4-9). The borrower must provide a letter to the lender requesting final inspection and indicating that the work is satisfactorily complete (see Appendix 5). Upon receipt, the lender will schedule the inspection with the inspector. The inspector visits the site, makes the inspection to determine whether or not the work has been completed according to the accepted exhibits and completes the Compliance Inspection Report (Form HUD-92051) and the Draw Request (Form HUD 9746-A, Appendix 9). The inspector returns the report to HUD or the DE lender.

Note: See paragraph 1-9.B. for instructions on releasing interest accumulated in the Rehabilitation Escrow Account.

- D. Mechanic's and Materialmen's Lien Waivers. Lenders are advised to obtain legal counsel and should obtain lien waivers at the time of any disbursement of funds from the Rehabilitation Escrow Account. Lenders are responsible to ensure the validity of the first lien on the property. It is suggested that all disbursements be made by check or money order, through the lender (or its agent).

Endorsement of the check by payee (and payment of same) acknowledges payment in full of any and all claims which payee has, to date of the check, and specifically releases all rights to claim a

5-5

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mechanic's lien for material furnished and/or labor performed upon the property. The payee represents in obtaining the payment that all bills for labor and/or materials furnished by, through or under payee have been paid in full.

- E. Final Release Notice. Issued by HUD or the DE Underwriter after reviewing the case file to ensure that all work has been satisfactorily completed (see Appendix 7). If an occupancy permit is required by the local jurisdiction, it must be provided prior to the issuance of the Final Release Notice.

Acceptance of the final inspection report will authorize the release of all monies remaining in the Rehabilitation Escrow Account, including all holdbacks from previous draws. However, if required to protect the priority of the security instrument, the lender may retain the holdback, for a period not to exceed 35 days (or the time period required by law to file a lien, whichever is longer), to ensure compliance with state lien waiver laws or other state requirements. A copy of the final inspection report and Final Release Notice will be provided to the borrower.

If there are unused contingency funds, inspection fees or mortgage payments remaining in the account, the lender must apply the funds to prepay the mortgage principal. Also see paragraph 3-2.J. After final distribution of all escrow monies, the lender must notify the Field Office of completion and provide an accounting of all funds (see Appendix 13).

- F. Foreclosure of Mortgage During Rehabilitation. In the event of a default and subsequent assignment of the mortgage or conveyance of the property during rehabilitation, the lender is to notify the Chief of the Architectural Branch by letter that a final inspection is being made in order to compensate the contractor for all work completed to date of assignment.

The fee inspector is to document on the Compliance Inspection Report (Form HUD 92051) and the Draw Request (Form HUD 9746-A, Appendix 9) the amount of work that has been completed since the start

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of construction. HUD or a DE Underwriter will determine the value of the completed work and authorize the release of escrow funds. Using a format similar to the Final Release Notice, authorize release of payment for completed work, as well as the release of holdbacks on advances previously released (do not release the money to the borrower). Lender is to submit a copy

of the Final Release Notice with claim for insurance benefits. If funds remain in the escrow account, the amount of the claim (the unpaid principal balance) must be reduced by the unexpended funds remaining in the account.

- 5-3. DISPOSITION OF CASE BINDER. Case binders for mortgages involving insured advances are retained in the Field Office until the completion of the rehabilitation construction, then shipped to Headquarters in accordance with outstanding instructions.

CHAPTER 6. HUD-OWNED PROPERTIES

6-1. GENERAL. The provisions of this chapter supercede the applicable provisions of Handbook 4310.5 REV-1, Property Disposition Handbook, One to Four Family Properties, Chapter 3, Section XI. Purchasers of HUD-owned properties may finance their purchase with an insured 203(k) mortgage, provided:

- There are lenders in the area that will process the 203(k) application;
- The value of the property plus the cost of rehabilitation make 203(k) financing feasible

(i.e., Properties for which the "as-is" value plus the cost of rehabilitation does not exceed 110 percent of the after-repaired market value by more than 10 percent; example: as-is value plus cost of rehabilitation = \$70,000, but 110 percent of the after-repaired market value = \$62,000. This makes the property infeasible, because the as-is value plus the cost of rehabilitation is 13 percent higher than 110 percent of the after-repaired market value. To make it feasible, the "as-is" value plus the cost of rehabilitation should not exceed \$68,200; however, the purchaser must realize that the maximum mortgage amount will be limited to \$62,000 plus closing costs. The purchaser must place the difference in cost in the escrow account in cash, out-of-pocket); and
- Sound underwriting principles are followed.

All properties in HUD's inventory (except condominiums) that are not eligible for insured financing under Section 203(b), needing a minimum \$5,000 in major repairs (and/or eligible improvements as listed in paragraph 1-7), are potentially eligible for the 203(k) program, including vacant land where an existing home will be moved to the site.

If the application is HUD processed, the Field Office will provide priority processing to ensure that all reviews are accomplished in a timely manner, thereby, allowing the lender to close the loan within 60 days of bid acceptance. Direct Endorsement Lenders may process these loans if properly trained and approved by the HUD Field Office.

6-1

4240.4 REV-2

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Investors are allowed to obtain 203(k) insured loans with 85 percent loan-to-value financing. Purchasers who will become owner-occupants of the property can obtain 97/95 percent loan-to-value financing. 97 percent loan-to-value financing is acceptable if the bid price plus the cost of rehabilitation does not exceed \$50,000.

If the HUD Field Office allows a reduced downpayment to owner-occupant purchasers, then no further downpayment is required on the rehabilitation costs of the mortgage. If the PD Sales Contract does not allow a reduced downpayment, then the required downpayment is the same as for a regular loan under the 203(k) program. Non-occupant purchasers (investors) that purchase PD properties are not allowed a reduced downpayment and must have a minimum 15% downpayment.

Prior to closing the loan, the borrower(s) should walk through the dwelling to ensure that no additional damage has occurred due to vandalism, etc. Corrections to the work-writeup may be necessary to ensure that there are sufficient funds to pay for the added repairs; otherwise, the borrower(s) may be required to use their own funds to make the repairs if the work is not considered eligible as a contingency item (see paragraph 1-9.F.).

- 6-2. OFFER TO PURCHASE. Selling brokers must indicate on line 4, Form HUD 9548, that the buyer intends to obtain 203(k) financing.
- 6-3. ACCEPTANCE OF BID. HUD will accept the "highest net offer" on the property. The HUD-accepted bid (contract price) will be considered the "As-is" value of the property. Only one appraisal is required to establish the estimated market value of the property after rehabilitation. The maximum fee a lender may collect for this appraisal is the amount permitted for a 203(b) proposed construction appraisal, as established by the HUD Field Office.
- 6-4. INSPECTION OF UTILITIES. After the bid acceptance by HUD, the selling broker should arrange to have the utilities turned on in the purchasers name to ensure the working condition of the heating, plumbing and electrical systems. If the utilities are not turned on for inspection, a 15 percent contingency reserve will be required. If the utilities are subsequently turned off, the purchaser is responsible to notify the HUD Field Office and rewinterize the dwelling, if necessary. All costs are borne by the purchaser.

6-2

4240.4 REV-2

- 6-5. SALES CONTRACT ADDENDUM. Successful bidders will be given 60 calendar days to close the 203(k) insured loan. Sales contracts should include the following addendum:

The purchaser agrees to make all additional improvements required by HUD or the lender, provided the improvements are intended to bring the property into compliance with the Requirements for Existing Housing in HUD Handbook 4905.1. The purchaser must submit the architectural exhibits to HUD or the Direct Endorsement Lender within 15 calendar days of bid acceptance or be subject to forfeiture of the earnest money deposit if the property transaction does not close.

To eliminate the need for double closings, an extension to the sales

contract may occur beyond the 60 day time frame; however, non-refundable fees will be required by the HUD Field Office as a condition for granting an extension. In addition, the earnest money deposit may be forfeited should the transaction not close.

If HUD determines at a later date that the property is not eligible for 203(k) insured financing for reasons beyond the control of the purchaser, the purchaser will have the option to have HUD refund the entire earnest money deposit and any extension fees to the purchaser, or continue the sale without the benefit of any FHA insured financing.

- 6-6. EARNEST MONEY DEPOSIT. The successful bidder must provide a sales deposit according to the instructions in HUD Handbook 4310.5, paragraph 6-4. Architectural exhibits (see Chapter 3) should be completed and submitted for review within 15 days of bid acceptance or the purchaser may be subject to forfeiture of the earnest money deposit if closing on the HUD-owned property does not occur within the contract stated time frame or the approved contract extension date.

6-3

4240.4 REV-2

- 6-7. NEWSPAPER NOTICE. Public advertisements of HUD-owned properties should designate which properties are eligible for 203(k) insured financing. The following sample statement should be used in the broker information package:

203(k) Insured Loans
Available on HUD Homes

If you're looking at a HUD home that needs repairs, ask your lender about the FHA 203(k) insured loan program. Through this program a lender can provide in the mortgage, funds to rehabilitate and repair the property. A minimum of \$5,000 in improvements or repairs is required. Condominiums and properties eligible for 203(b) insured financing are not eligible.

- 6-8. SALE TO LOCAL GOVERNMENTS and NON-PROFIT ORGANIZATIONS. Refer to Chapter 7.

6-4

CHAPTER 7 - COMMUNITY PARTICIPATION

- 7-1. GENERAL. In an effort to provide both homeownership opportunities to families and much needed redevelopment to cities and towns, a number of communities and non-profit organizations are searching for means to assist first-time homebuyers to purchase their own home. Since many first-time homebuyers can manage the monthly mortgage payments but have not been able to save enough money to cover their downpayment, the assistance typically takes the form of providing all or part of the purchaser's required investment (downpayment) in the property.

The Department's policy is not to insure mortgages that restrict the homeowners ability to freely transfer his or her property (see HUD Handbook 4330.1, Chapter 36, paragraph 91). However, deed restrictions that relate to the assistance granted are permitted if they will be permanently void if title is acquired by a mortgagee, HUD or another party upon foreclosure, or by deed-in-lieu of foreclosure, or if the mortgage is assigned to HUD. This policy is only applicable where a State or local government agency, or non-profit organization operates a program to assist low, moderate and/or middle income families to acquire home ownership.

Under 24 CFR 203.650, a mortgagor becomes eligible for consideration for the Department's assignment program when HUD receives a notice from the lender that the mortgage is 90 days or more delinquent and the lender is capable of foreclosing on the loan. If an agency enters into a conditional title agreement with their purchasers and faithfully discharges its agreement to make the mortgage payments once the mortgage loan has reached a 60 day default status, the assignment of the mortgage will never become an issue. However, if for any reason the mortgage reaches a 90 day default status, the law regarding the mortgagor's right to request assignment of the mortgage to HUD becomes applicable.

In order for HUD to insure a first mortgage where the second mortgage contains resale restrictions or resale restrictions are otherwise placed on the property, the second mortgage and/or documents that contain the resale

7-1

4240.4 REV-2

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restrictions must provide that the restrictions must terminate and have no further force or effect upon title being acquired by a mortgagee or HUD or another party upon foreclosure; upon title being acquired by a mortgagee or HUD by a deed-in-lieu of foreclosure; or upon assignment of the mortgage to HUD.

- 7-2. LOCAL PROGRAMS. One of the avenues to accomplish providing all or a portion of the downpayment has been the issuance of tax-exempt bonds

by the state or local government agency or the use of Community Development Block Grant (CDBG) funds to rehabilitate housing units and writedown the acquisition costs. Sometimes units can also be leased under a lease/purchase program by the local government. Some or all of the rent monies collected by the local government are then earmarked for a future downpayment when the tenant exercises the right to purchase the unit. In other programs, these monies are used to rehabilitate properties in need of repair and subsequently sold to homebuyers without the lease portion of the program.

The Department will permit a state, local government agency or instrumentality (which is a seller of a property) or a non-profit organization to provide a gift of funds (typically in the form of a credit or a grant) to the purchaser who is seeking an insured mortgage. (Transactions in which a builder or other party funds the downpayment through the local community in order to sell a house are not permitted.) The key ingredients in any such program are the involvement of a governmental agency or non-profit organization and the methods used to generate the funds they provide to the purchaser(s). The agency's involvement can take the form of direct participation or written confirmation from the agency establishing a formal link to a non-profit entity that will operate as an instrumentality of that agency.

A governmental agency can be approved as a Direct Endorsement Lender on the same basis as an FHA approved lender. Their staff may perform the appraisal, plan review and inspection functions provided they are qualified and are properly trained by the field office for the 203(k) program.

Also, an agency can obtain a conditional commitment or statement of appraised value in its own name by completing the construction exhibits and cost

7-2

4240.4 REV-2

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estimates. A borrower can be qualified to make the purchase of the home at closing and a contractor can be scheduled to do the work.

When a state or local government agency, or non-profit organization purchase a property, rehabilitates the property with a 203(k) insured mortgage and remains as the mortgagor, the Department will allow high loan-to-value financing (97/95 percent), the same as an owner-occupant. At a later date, the agency can sell the property to a mortgagor acceptable to HUD (who intends to occupy the property as a principal residence) by using the assumption process described in HUD Handbook 4155.1.

These frequently used methods do not preclude localities from creatively developing their own techniques for reducing the costs of homeownership for lower income families. Such techniques might include forming a consortium of private lenders interested in meeting

their community reinvestment responsibilities. They may be able to pool their risk or secure the needed capital from a community-based foundation to establish a revolving loan fund.

Appendix 14 has an example of legal documents for a program using Conditional Title Agreements. Publication of these sample documents is not an endorsement of the contents, within the agreements, by the U.S. Department of Housing and Urban Development. The contents within Appendix 14 may not include all information necessary to implement a Section 203(k) program, given changing facts in every negotiation and agreement process.

APPENDIX 1

Rehabilitation Checklist Section 203 (k)

	Unit		Unit
1. Masonry:		7. Walks	
Point brick work at:	SF	Install new concrete walks at:	SF
Stucco at:	SF		
Build brick wall at:	SF	Install concrete steps at:	LF
Build masonry, brick, or stone chimney	SF		
Others:		Others:	
		8. Driveways:	
2. Siding:		Remove old driveway and apron	SF
Replace defective siding	SF	Install blacktop drive (min.2") over existing drive and apron	SF
Replace defective fascia	LF		
Replace defective soffit	L	Install new concrete driveway (min.4") and apron with wire mesh	SF
Others:		Others:	
		9. Painting:	
3. Gutters & Downspouts:		Scrape, sand smooth and paint a min. 2 coats of good quality paint at all exterior woodwork and metal	LS
Replace bad gutters & downspouts	LF		
Clean gutters & open downspouts	LS	Others:	
Others:			
		10. Caulking:	
4. Roof:		Caulk all windows and door frames	SF
Install a new builtup roof, with new metal gravel stops	SF	Others:	
Install 240# Sealab asphalt shingles on all roofs with a 3:12 pitch or greater	SF	11. Fencing:	
		Install new fencing	LF
		Re-set existing fencing	
		Others:	
5. Shutters:			
Install shutters at windows at:	Pair	12. Grading:	
Others:		Remove debris from yards, finish earth; then grade and seed	LS
		Others:	
6. Exteriors:		13. Windows:	
Remove defective, buckled wood members	LF	Install new metal replacement windows	EA
		Replace rotted or defective sash	EA
Provide a structurally sound porch floor, properly finished	SF	Replace all rotted sills at exterior	EA
		Replace basement windows	EA
Replace existing porch with masonry steps and stoops	SF	Replace cracked/broken glass	EA
		Replace missing glazing putty	EA
Provide ornamental iron or wood railing or bars	LF	Repair/Replace missing screens	EA
Others:		Others:	

APPENDIX 1

Rehabilitation Checklist Section 203 (k) *cont.*

	Unit		Unit
14. Weather-stripping:		20. Wood Trim:	
Install new weatherstripping at all exterior doors	LF	Replace <i>all</i> , cracked, broken, mismatched trim, jambs, etc.	LF
Weatherstrip all windows	EA	Remove all unused hinges, curtain rod hangers, nails, screws, etc.	EA
Install metal interlocking thresholds at exterior doors	EA	Replace all wood trim at interior door units, base, shoe & other trim	LF
Others:		Replace defective wall paneling at:	SF
		Others:	
15. Doors :		21. Stairs:	
Install new 1 3/4" exterior doors	EA	Replace bad bsmt., treads & risers	LF
Install three (3) new door butts	EA	Replace main stairs, treads & risers	LF
Install exterior door trim	LF	Replace broken &/or missing baluster	LF
Install new lockset	EA	Provide hand rails, etc.	LF
Others:		Install new stairs at basement	LS
		Install new stairs at:	LS
		Others:	
16. Doors :		22. Closets:	
Replace defective doors	EA	Install new shelves	LF
Install new doors with new locksets	EA	Install new clothes rods	LF
Install lockset where missing or malfunctioning	EA	Others:	
Readjust all doors for proper closing	EA		
Install bedroom closet doors	EA	23. Wood Floors:	
Install bi-fold doors at:	EA	Replace all defective flooring, holes in floors, etc., with wood flooring to match existing floors	SF
Install trim around doors at:	EA	Sand, fill and refinish wood floors	SF
Others:		Install new hardwood floors	SF
		Others:	
17. Partitions		24. Finish Floors:	
Framing of new walls and partitions (Do not include drywall cost)	SF	Install vinyl asbestos tile or sheet goods with 1/4" underlayment at:	
Others:		Kitchen:	SY
		Bath:	SY
		Install carpet & pad at:	
		Others:	
18. Plaster/		25. Ceramic Tile:	
Patch <i>all</i> defective plaster/drywall, finish smooth with existing wall or ceiling finish:	LS	Install ceramic tile wainscot in bathtub area for shower height	SF
Install drywall at:	SF	Install ceramic tile floor at:	SF
Others:		Install Marlite wainscot in bathtub area for shower height	SF
		Replace defective tile in bath	SF
19. Decorating:		Replace defective tile in vestibule	SF
Paint interior walls	LS	Replace defective tile in kitchen	SF
Remove <i>all</i> existing wallpaper at:	SF	Others:	
Wallpaper walls at:	SF		
Others:			

APPENDIX 1

Rehabilitation Checklist Section 203 (k) *cont.*

	Unit		Unit
26. Bath	Replace medicine cabinet in bath	EA	
Accessories	Install paper holder	EA	
	Install towel bar	EA	
	Install soap dish:	EA	
	Install grab bar in tub/shower	EA	
	Others:		
27. Plumbing:	Install new hot & cold water piping	LF	
	Install 30 gal. (min.) glass lined gas hot water heater (52 gal. if electric)	EA	
	Install new kitchen sink	EA	
	Install three (3) piece bathroom with shower over tub	LS	
	Install laundry tray with faucet	EA	
	Replace washers at faucets	EA	
	Replace defective sewer lines	LF	
	Replace defective kitchen faucet	EA	
	Replace defective bath faucet	EA	
	Others:		
28. Electrical:	Install 100 amp. service	LS	
	Replace all frayed exterior wire from service to main & into exterior panel box	LS	
	Install new ceiling-light wall switches	EA	
	Install new lighting fixtures at:	EA	
	Install new exterior lighting	EA	
	Replace wall receptacles	EA	
	Install three (3) way switch	EA	
	Smoke detector(s)	EA	
	Exterior wall exhaust fan(s)	EA	
	Others:		
29. Heating	Install new forced warm air heater	EA	
	Install new hot water boiler	EA	
	Install automatic flow control valve	EA	
	Install temp. control valve at boiler	EA	
	Install heat supply outlet in each room	LS	
	Install heat (FWA) grills at:	EA	
	Others:		
30. Insulation	Install insulation in crawl space: R-		SF
	Install insulation batts attic: R-		SF
	Install R-13 insulation batts in exterior walls		SF
	Other:		
31. Cabinetry:	Base cabinets		LF
	Kitchen countertop		LS
	Wall cabinets:		LF
	Vanities		LF
	Vanity countertop(s)		LS
	Others:		
32. Appliances:	Range		EA
	Refrigerator		EA
	Dishwasher		EA
	Disposal		EA
	Other:		
33. Basements:	Install a min. 3" thick concrete floor		SF
	Cement parge basement walls		SF
	Provide dry basement		LS
	Install new sump pump		EA
	Replace damaged joists (termite damaged)		EA
	Others:		
34. Cleanup	Remove debris from property exterior		LS
	Remove debris from property interior		LS
	Broom clean floors, clean ALL windows		LS
	Clean all plumbing fixtures and appliances		LS
	Other:		
35. Miscellaneous			

APPENDIX 2

REHABILITATION LOAN AGREEMENT

This Agreement is made this _____ day of _____ 19__, between _____ (Borrower) and _____ (Lender) to establish the conditions under which the lender will advance proceeds of a loan to be used to purchase and rehabilitate or refinance and rehabilitate the property described below. The property is located in the County of _____ State of _____ and is described as:

1. The loan will be in the principal sum of _____ Dollars (\$ _____) to be advanced by Lender to Borrower as provided in this agreement and will be secured by a mortgage or deed of trust ("Mortgage"), which will be a first lien on the property.
2. Payments required under the mortgage or deed of trust must be made by the borrower on the date specified, even though the proposed rehabilitation or improvement may not be completed, or the property may not be suitable for occupancy, on the anticipated date.
3. The Lender intends to request the Assistant Secretary for Housing - Federal Housing Commissioner ("Commissioner") to insure the loan under the provisions of Section 203(k) of the National Housing Act; therefore, Borrower agrees to conform to, and to cause improvements to be constructed in conformance with, all requirements of the Commissioner.
4. The Lender will place that portion of the principal amount of the mortgage allocated to rehabilitation (\$ _____) in an interest bearing account, trust or escrow for the benefit of the Borrower. The income earned on the interest bearing account will be paid upon issuance of the Final Release Notice or such earlier time as agreeable to the lender.

Lender shall release the escrow funds by check, payable to the Borrower and appropriate payee who performed the work and supplied the materials in connection with this contract. The funds will be released upon completion of the proposed rehabilitation in accordance with the Work Write-up and the Draw Request (Form HUD 9746-A) and the issuance of an acceptable Compliance Inspection Report (Form HUD 92051). The final release of the escrow funds is to take place only after the local jurisdiction has provided its final acceptance of the work.

The lender or HUD may determine that additional compliance inspections are required throughout the rehabilitation period to ensure that the work is progressing in a satisfactory manner. Release of funds is not authorized on this type of inspection, however, the borrower is responsible for paying the inspection fee. The lender may require a property inspection if there have been no draw requests for more than 30 days.

If a Mortgage Payment Reserve is established in the escrow account,

the lender may draw from the account to make the monthly mortgage payments provided the dwelling has not been occupied and/or the Final Release Notice has not been issued.

APPENDIX 2

5. The principal amount of the loan specified in paragraph 1 contains a contingency reserve. If the contingency reserve or any part thereof is not used, the remaining balance will be applied as a partial prepayment of the loan, if the contingency reserve is part of the mortgage. However, such prepayment will not extend or postpone the due date of any monthly installment due under the note, nor change the amount of such installments. If the borrower, (or other person, organization or agency) put his/her own money into the contingency reserve account, then the borrower can be refunded the money remaining in the account after the issuance of the Final Release Notice.
6. The Borrower will complete all improvements on the property in accordance with the architectural exhibits as accepted by the Lender and/or Commissioner.
7. Changes in the architectural exhibits must be approved in writing by HUD or the Direct Endorsement Underwriter, prior to the beginning of the work. Work must be 100% complete on each change order item before release of any monies.
8. Borrower will cause all improvements to be made in a workmanlike manner and in accordance with all applicable statutes and regulations. All licenses, permits and privileges required by local governmental authorities to rehabilitate the property will be obtained by the Borrower(s) or his/her contractor.
9. Representatives of the Lender and of the Commissioner shall have the right to enter upon the property at all times during the period of construction and on completion of construction to determine whether the work conforms with this agreement and to determine the amount of the rehabilitation escrow account to be released by the Lender.
10. Borrower will furnish such records, contracts, bills and other documents relating to the property and the improvements as the Lender or the Commissioner may require.
11. Without prior, written consent of the Lender, no materials, equipment, fixtures or any part of improvements financed with this loan shall be purchased or installed subject to conditional sales contracts, security agreements, lease agreements or other arrangements whereby title is retained or the right is reserved or accrues to anyone to remove or repossess any item, or to consider it as personal property.
12. The Borrower shall cause either this instrument or the construction contract under which the improvements are to be made to be filed in the public records, if the effect of recording will be to relieve the

mortgaged property from mechanics' and materialmen's liens. Before any advance under this agreement, the Lender may require the Borrower to obtain acknowledgement of payment and releases of lien from the contractor and all subcontractors and materialmen dealing directly with the principal contractor. These releases shall cover the period down to the date covered by the last advance, and concurrently with the final payment for the entire project. Such acknowledgements and releases shall be in the form required by local or state lien laws and shall cover all work done, labor performed and materials (including equipment and fixtures) furnished for the project.

APPENDIX 2

13. Borrower shall cause work to begin within 30 days following the date of this agreement Borrower shall have work completed within _____ months following the date of this agreement. Work shall be performed with reasonable diligence; therefore, work is never to cease for more than 30 consecutive days. Should Borrower fail to comply with the terms, the Lender may refuse to make further payments under this agreement. Any funds remaining in the Rehabilitation Escrow Account shall be applied as a prepayment to the mortgage.
14. In the event any Stop Notices, Notices to Withhold, Mechanic's liens, or claims of lien are filed against the property, the Lender, after five (5) days' notice to the undersigned of its intention to do so, may pay any or all of such liens or claims, or may contest the validity of any of them, paying all costs and expenses of contesting the same.
15. Failure of the Borrower to perform under the terms of this Rehabilitation Loan Agreement shall make the loan amount, at the option of the lender, due and payable.
16. The mortgagor acknowledges receipt of the accepted architectural exhibits that are incorporated into this agreement, which copies are maintained by the lender and in the HUD Field Office.

Date

Signature(s) of Mortgagor(s)

Date

Signature of Mortgagee

Title

APPENDIX 3

REHABILITATION LOAN RIDER

THIS REHABILITATION LOAN RIDER is made this _____ day of _____, 19____, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note ("Note") to

("Lender") of the same date and covering the property described in the Security Instrument and located at:

(Property Address)

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

- A. Loan proceeds are to be advanced for the rehabilitation of the premises in accordance with the Rehabilitation Loan Agreement dated _____, 19__, between the borrower and lender. This agreement is incorporated by reference and made a part of this mortgage. No advances shall be made unless approved by a Direct Endorsement Underwriter or the Assistant Secretary of Housing - Federal Housing Commissioner, Department of Housing and Urban Development.
- B. If the rehabilitation is not properly completed, performed with reasonable diligence, or is discontinued at any time except for strikes or lockouts, the lender is vested with full authority to take the necessary steps to protect the rehabilitation improvements and the property from harm, continue existing contracts or enter into necessary contracts to complete the rehabilitation. All sums expended for such protection, exclusive of the advances of the principal indebtedness, shall be added to the principal indebtedness, and be secured by the mortgage and be due and payable on demand with interest as set out in the note.
- C. If the borrower fails to make any payment or to perform any other obligation under the loan, including the commencement, progress and completion provisions of the Rehabilitation Loan Agreement, and such failure continues for a period of 30 days, the loan shall, at the option of the lender, be in default,

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Rehabilitation Loan Rider.

Borrower (Seal)

Borrower (Seal)

APPENDIX 4

203(k) APPLICANT ACKNOWLEDGEMENT

I/We, the undersigned, do hereby acknowledge and understand that at the time of the loan closing of an FHA 203(k) Rehabilitation Loan, for which I/we have applied to _____ (Lender), the proceeds designated for the rehabilitation or improvement, including a contingency reserve in the amount of \$ _____ (received from the borrower/ loan proceeds), are to be placed in an interest bearing escrow account.

If there are unused contingency funds, mortgage payments or inspection fees in the Rehabilitation Escrow Account after the Final Release is processed, _____ (Lender), in compliance with HUD regulations, must apply those funds to prepay the mortgage principal, provided those items are a part of the mortgage.

The net income (interest) earned by the Rehabilitation Escrow Accounts will be (1) paid to me/us or (2) applied to prepay the mortgage principal upon completion of the rehabilitation. This account is not, nor shall it be treated as an escrow for the paying of real estate taxes, insurance premiums, delinquent notes, ground rents or assessments.

I/We hereby request that _____ (Lender), after final inspection is satisfactorily complete and the final release has been processed, will:

- _____ Pay the net interest income directly to me/us.
- _____ Apply the net interest income directly to the mortgage principal balance for an equal amount of principal reduction.
- _____ Other:

I/We further acknowledge, that if required to protect the priority of the Security Instrument, that _____ (Lender) may retain the holdback, for a period not to exceed 35 days (or the time period required by law to file a lien, whichever is longer), to ensure compliance with state lien waiver laws or other state requirements. A copy of the final inspection report and Final Release Notice will be provided to me/us.

I/We further understand that the Plan Reviewer, Appraiser and Inspector's obligation is to assist the lender in determining the eligibility of the property for FHA mortgage insurance purposes only and that I/we are responsible to determine the soundness of the property before and after rehabilitation, including the value, cost estimates and the ability of the contractor to complete the rehabilitation in a satisfactory workmanlike manner in compliance with all accepted exhibits and local codes and ordinances.

Applicant Signature Date

Co-Applicant Signature Date

APPENDIX 5

MORTGAGOR'S LETTER OF COMPLETION *

To: Lender

RE: FHA Case Number: _____

Lender's Loan Number: _____

Property Address: _____

The rehabilitation construction and/or improvements, as outlined in the Rehabilitation Loan Agreement (including Architectural Exhibits), have been completed in a workmanlike manner to my/our satisfaction to the above-mentioned property.

I/We request that the Final Inspection by the HUD approved inspector and the Final Release of funds from the Rehabilitation Escrow Account be made to me/us after you receive an acceptable Final Compliance Inspection Report.

I/We understand that you, the lender, if required to protect the priority of the Security Instrument, may retain any "Holdback" reserve funds for a period of not more than thirty five (35) days or a longer time period allowable by state laws to ensure against any liens resulting from the Rehabilitation work done at the subject property. However, at the earliest possible date, I/we request any such funds be released to as appropriate.

This request also directs you to properly distribute the funds remaining in the Rehabilitation Escrow Account that represent the balance of the Contingency Reserve, Mortgage Payment Reserve and inspection fees and other miscellaneous fees that were not used.

Borrower(s) Signature

Date

* (If HUD processed, lender should forward to HUD for review)

APPENDIX 6

CONTINGENCY RELEASE LETTER

(To Mortgagee, if HUD Processed)

(To Mortgagor, if DE Processed)

203(k) Case No: _____

Property Address: _____

We have received and reviewed your request for release of \$ _____
the contingency reserve for your 203(k) mortgage. Your request is
approved/disapproved, for the amount of \$ _____.

Chief, Architectural Branch or DE Underwriter

APPENDIX 7

FINAL RELEASE NOTICE

203(k) Case Number: _____

Property Address: _____

To: Mortgagee (HUD processed)

Mortgagor (DE processed)

We have reviewed the final inspection of the improvements made to the subject property.

Based on our findings and the documentation in the file, you are hereby authorized to release the final draw along with the holdback. However, if it is required to protect the priority of the Security Instrument, the holdback may be retain for a period not to exceed 35 days (or the time period required by law to file a lien, whichever is longer), to ensure compliance with state lien waiver laws or other state requirements.


The mortgage must be prepaid in the amount of \$_____, which represents the balance of the contingency reserve, mortgage payment reserve, inspection fees or other miscellaneous fees that were financed and not approved for release.

Chief, Architectural Branch or DE Underwriter

APPENDIX 9

**Draw Request
Section 203(k)**

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



OMB Approval No. 2502-0046 (exp. 6-30-08)

Public reporting burden for this collection of information is estimated to average 1.50 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing the burden, to the Paperwork Reduction Project (2502-0046), U.S. Department of Housing and Urban Development, Washington, D.C. 20510-2088 and to the Office of Management and Budget, Paperwork Reduction Project (2502-0046), Washington, D.C. 20503.

Contractor's Name and Address: _____
 Contractor's Name and Address: _____
 Plot, Case Number: _____
 The Case Number: _____
 Case: _____

Observation Item	How Observed	Proposed Case Value	Amount for This Draw	Total of Proposed and This Request	Unpaid Amount (Amount Due)	Draw #
1: Masonry						1
2: Siding						2
3: Curbs/Chimneys						3
4: Roof						4
5: Shutters						5
6: Entrances						6
7: Walls						7
8: Windows						8
9: Porches (Ext.)						9
10: Caulking						10
11: Flooring						11
12: Grading						12
13: Windows						13
14: Washers						14
15: Doors (Ext.)						15
16: Doors (Int.)						16
17: Partition Wall						17
18: Raster/Crown						18
19: Casework						19
20: Wood Trim						20
21: Stairs						21
22: Closets						22
23: Wood Floors						23
24: Finished Floors						24
25: Carpet/Tile						25
26: Bath Accessories						26
27: Fixtures						27
28: Recessed						28
29: Lighting						29
30: Insulation						30
31: Ceiling						31
32: Appliances						32
33: Bathroom						33
34: Cleanup						34
35: Miscellaneous						35
36: Totals						36

This draw request is submitted for payment. All completed work has been done in a workmanlike manner. It is understood that a 10% holdback will not be released until all work is complete and it is determined that no deficiencies and corrections have been placed on the property.

Contractor's Signature: _____ Date: _____
 Owner/Contractor's Signature if not: _____ Date: _____

The above draw amounts are acceptable in total as stated here on in HUD/DE Accounting column. Check/Contractor Payment Report, form HUD-42301, Submitted: _____

Fee Inspector's Signature: _____ Date: _____

HUD/DE Authorized Agent: _____ Date: _____

<p>Amount of Release</p> <p>Total from Above: \$ _____</p> <p>Less 10% Holdback: \$ _____</p> <p>Net Amount Due Mortgagee: \$ _____</p> <p>Additional Amounts Released from Advance Fees: \$ _____</p>	<p>Total to Due: \$ _____</p> <p>Total to Due: \$ _____</p>	<p>The Mortgagee is hereby authorized to release the following from the draw advance:</p> <p>Payable to the Mortgagee \$ _____;</p> <p>Payable to the Fee Inspector \$ _____;</p> <p>Payable to _____ \$ _____;</p> <p>Signature: _____ Date: _____</p> <p><input type="checkbox"/> HUD Authorized Agent <input type="checkbox"/> DE Underwriter</p>
--	---	--

Form HUD-SP98-A (7/99)
not handwritten 4240.4

APPENDIX 10

ESCROW COMMITMENT PROCEDURE
 (Example of Maximum Mortgage Calculation)

A.	Lesser of as-is value or sales price (line C-1 or D-1 of form HUD 92700)	22,200
B.	Rehabilitation cost (line B-14 of form HUD 92700)	37,791
C.	Total Acquisition cost (A + B above) (line C-3 or D-3 of 92700)	57,991
D.	After-Improved (Market) Value after Rehabilitation (line A-3 of 92700)	75,000
E.	Allowable Closing Costs (line A-5 of 92700, based on line D above)	1,973
F.	Mortgage basis for assuming mortgagor (line D + E above)	76,973
G.	Maximum assumtor mortgage (97/95 of line F above) (line E-1 of 92700 rounded down to 50 increment)	73,600
H.	Maximum investor loan (85% X (line C + E) above) (line C-5 or D-5 of 92700)	50,969
I.	Investor downpayment requirement (line C - H above)	7,022
J.	Excess loan proceeds (line G - C above)	15,609
K.	Investor escrow required (line G - H or line I + J above)	22,631
L.	Actual sales price	70,900
M.	Actual allowable closing costs to assuming mortgagor	1,000
N.	Actual sales price plus allowable closing costs (line L + M above)	71,900
O.	Maximum mortgage amount to be assumed (97/95% of line N above)	68,805
P.	Estimated balance at time of assumption (line G above)	73,600

APPENDIX 10

Q.	Principal reduction from investor escrow (line P - O above)	4,795
R.	Original investor escrow (K above)	22,631
S.	Release to the investor (line R - Q above)	17,836

1.	Buyer's total aquisition cost, including allowable closing costs (line N above)	71,900
2.	Principal balance being assumed (line O above)	68,805
3.	Buyer's cash to close (not including recurring closing costs)	3,095
4.	Allowable non-recurring closing costs (line M above)	1,000
5.	Funds to the investor from the buyer (line 3 - 4)	2,095
6.	Funds to the investor from the escrow account (line S above)	17,836
7.	Total amount released to the investor (line 5 + 6)	19,931
8.	Original downpayment by the investor (line I above)	7,022
9.	Difference between the estimated Market value after rehabilitation and the actual sales price (line D - L above)	4,100
10.	Investor's gross speculative profit (line D - C above)	17,009
11.	Gross profit by the investor (does not include construction profit) (line 7 - 6 or line 10 - 9 above)	12,909

A mortgage of 68,805 (line O) can be assumed by an owner-occupant acceptable to the Secretary. The investor's speculative profit would be 17,009 (line D minus line C), plus the construction profit for doing the work, provided the property was sold at 75,000 (market value after rehabilitation). The maximum mortgage amount will be reduced accordingly since the property was sold for less than 75,000. The purchaser is required to make a downpayment of 3,095, which includes closing costs.

APPENDIX 11

203(K) Maximum Mortgage Worksheet

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



Borrower's Name and Property Address (including street, city, State, and zip code)		FHA Case Number:	Number of Units:
		Commitment Stage: <input type="checkbox"/> Conditional <input type="checkbox"/> Firm	
		Type: <input type="checkbox"/> Owner-Occupant <input type="checkbox"/> Purchase <input type="checkbox"/> Investor <input type="checkbox"/> Refinance <input type="checkbox"/> Escrow Commitment	

A. Property Information	1. Contract Sales Price \$ _____ Or <input type="checkbox"/> Existing Debt	2. "As-Is" Value \$ _____	3. After-Improved Value \$ _____	4. 110% After-Improved Value \$ _____	5. Estimated Closing Costs \$ _____
--------------------------------	--	------------------------------	-------------------------------------	--	--

B. Rehabilitation and Other Allowable Costs	1. Total Cost of Repairs (Line 36, HUD-9746-A)	\$ _____
	2. Contingency Reserve on Repair Costs (_____ % (10 to 20% of B1)	\$ _____
	3. Inspection Fees (_____ x \$ _____ per inspection) + Title Update Fee (_____ x \$ _____ per draw)	\$ _____
	4. Mortgage Payments Escrowed (_____ months x \$ _____) if vacant	\$ _____
	5. Sub-Total for Rehabilitation Escrow Account (Total of B1 thru B4)	\$ _____
	6. Architectural and Engineering Fees (Exhibits)	\$ _____
	7. Independent Consultant Fees	\$ _____
	8. Permits and Other Fees (Explain in Remarks)	\$ _____
	9. Plan Reviewer Fees (including mileage, if applicable: _____ miles @ \$ _____ per mile)	\$ _____
	10. Sub-Total (Total of B5 thru B9)	\$ _____
	11. Supplemental Origination Fee (greater of \$350 or 1.5% of B10)	\$ _____
	12. Discount Points on Repair Costs and Fees (B10 x _____ %)	\$ _____
	13. Sub-Total for Release at Closing (Total of B6 thru B9 + B11 and B12)**	\$ _____
	14. Total Rehabilitation Cost (Total of B5 and B13)	\$ _____

C. Mortgage Calculation for Purchase Transactions (See note below)	1. Lesser of Sales Price (A1) or As-Is Value (A2)	\$ _____
	2. Total Rehabilitation Cost (B14)	\$ _____
	3. Lesser of Sum of C1 + C2 (\$ _____) or 110% of After-Improved Value (A4)	\$ _____
	4. Estimated Closing Costs (A5)	\$ _____
	5. Maximum Mortgage Amount: Sum of C3 + C4 (\$ _____) x 85% (Investor) or 97.95% (Owner-Occupant)	\$ _____

D. Mortgage Calculation for Refinance Transactions (See note below)	1. Sum of Existing Debt (A1) + Rehabilitation Cost (B14) + Estimated Closing Costs (A5) + Discount on Refinance (_____ % on \$ _____)***	\$ _____
	2. Lesser of Sum of As-Is Value + (A2) + Rehabilitation Costs (B14) (\$ _____) or 110% of After-Improved Value (A4)	\$ _____
	3. Estimated Closing Cost (A5) + Discount Points on Refinance (_____ % on \$ _____)***	\$ _____
	4. Sum of D3 + D4 (\$ _____) x 85% (Investor) or 97.95% (Owner-Occupant)	\$ _____
	5. Maximum Mortgage Amount: Lesser of D1 or D4, not to exceed Statutory Amount	\$ _____

E. Mortgage Calculation for Escrow Commitment Procedure	1. Maximum Mortgage Amount: After-Improved Value (A3) + Estimated Closing Costs (A5) X 97.95% (Owner-Occupant Assumptor)	\$ _____
	2. Enter the Value Established in C5 or D5	\$ _____
	3. Investors Required Escrow: E2 minus E1 ****	\$ _____

Remarks:

* If owned less than 1 year, use lesser of A2 or Original Acquisition Cost
 ** These Allowable Costs may be released at closing, provided paid receipts or contractual agreements requiring payment are obtained
 *** Discount Points on Rehabilitation already included in B12. Include Discount Points only on refinance portion
 **** Release when an acceptable owner-occupant assumes the mortgage

Preparer's Signature	Title	Date
----------------------	-------	------

Note: Complete Section C or D, as applicable.

ref: Handbook 4240.4 form HUD-92700 (11/91)

APPENDIX 12

QUESTIONS AND ANSWERS
Section 203(k) Rehabilitation
Mortgage Insurance

1. Is there a secondary mortgage market for Section 203(k) mortgage loans?

Yes. The Government National Mortgage Association (GNMA) permits the Section 203(k) mortgage to be placed in both GNMA I and II pools with Section 203(b) mortgages. GNMA accepts the 203(k) mortgage after the loan is insured by HUD. The Federal National Mortgage Association (FNMA) will purchase a Section 203(k) first mortgage only when all the work has been completed and all funds have been disbursed from the rehabilitation escrow account. FNMA will not purchase Section 203(k) second mortgages.

2. Can a Section 203(k) mortgage have the graduated payment feature?

Yes. A Section 203(k) mortgage may be amortized according to any one of the five graduated payment mortgage plans available under Section 245(a).

3. Is the Section 203(k) program restricted to single-family dwellings?

No. The program can be used for one- to four unit dwellings. Maximum mortgage limitations are the same as for properties under Section 203(b). The number of units on a property can be no more than what the local zoning ordinances allow.

4. Can Section 203(k) be used to improve a condominium unit?

No.

5. Can Section 203(k) be used to move an existing house onto another site?

Yes. However, release of loan proceeds for the existing structure on the non-mortgaged property is not allowed until the new foundation has been properly inspected and the dwelling has been properly placed and secured to the new foundation.

At closing, funds would be released to purchase the site; the rest of the mortgage proceeds would be placed in the Rehabilitation Escrow Account. The Borrower would have the site prepared to accept the dwelling. The first release would be based on the improvements made to the site, including the installation of the existing structure on the new foundation.

APPENDIX 12

6. What is the minimum amount of rehabilitation required for a Section 203(k) mortgage?

There is a minimum \$5,000 requirement for the eligible improvements on the existing structure on the property. Minor or cosmetic repairs by themselves are unacceptable; however, they may be added to the minimum requirement.

7. Can a detached garage or another detached dwelling be placed on the mortgaged property?

Yes. However, the \$5,000 requirement must be applied to the existing dwelling prior to adding additional structures to the site. The new structures must comply with HUD's Minimum Property Standards in 24 CFR 200.926d and all local codes and ordinances.

8. Is there a time limit on the rehabilitation construction period?

Yes. The Rehabilitation Loan Agreement contains three provisions concerning the timeliness of the work. The work must begin within 30 days of execution of the Agreement. The work must not cease prior to completion for more than 30 consecutive days. The work is to be completed within six (6) months following the execution of the Agreement; however, the lender should not allow a time period longer than that required to complete the work.

9. What happens if the Borrower fails to perform under the terms of the Agreement?

The lender may refuse to make further releases from the Rehabilitation Escrow Account. The funds remaining in the Account can be applied to reduce the mortgage principal. Also, the lender has the option to call the mortgage loan due and payable if the work is not started within 30 days of closing or if work ceases for more than 30 consecutive days.

10. Does the rehabilitation construction have to comply with HUD's Minimum Property Standards?

Yes. The improvements must comply with HUD's Minimum Property Standards (24 CFR 200.926d and/or HUD Handbook 4905.1) and all local codes and ordinances.

11. Can Section 203(k) be processed under the Direct Endorsement program?

Yes, however, Direct Endorsement Lenders are required to attend special training prior to processing 203(k) loans and they must submit test cases as determined by the local office.

12. Does HUD always require a contingency reserve to cover unexpected cost increases?

Typically, Yes. On properties older than 30 years and over \$7,500 in rehabilitation costs, the cost estimate must include a contingency reserve. The reserve must be a minimum ten (10) percent of the cost of rehabilitation, however, the contingency reserve may not exceed twenty (20) percent where major remodeling is contemplated. The reserve cannot be used to make additional improvements to the dwelling that are considered luxury items; however, it may be used to pay for added construction costs caused by deficiencies (health, safety or necessity) discovered during rehabilitation.

13. What eligible improvements are acceptable under the \$5,000 minimum requirement?

- A. Structural alterations and reconstruction (e.g., additions to the structure, finished attics, repair of termite damage and the treatment against termite infestation, etc.)
- B. Changes for improved functions and modernization (e.g., remodeled kitchens and bathrooms).
- C. Elimination of health and safety hazards (including the resolution of defective paint surfaces and/or lead-based paint problems on homes built prior to 1978).
- D. Changes for aesthetic appeal and elimination of obsolescence (e.g., new exterior siding).
- E. Reconditioning or replacement of plumbing (including connecting to public water and/or sewer system), heating, air conditioning and electrical systems.
- F. Roofing, gutters and downspouts.
- G. Flooring, tiling and carpeting.
- H. Energy conservation improvements (e.g., new double pane windows, insulation, solar domestic hot water systems, etc.).
- I. Major landscape work and site improvement, patios and terraces that improve the value of the property equal to the dollar amount spent on the improvements or required to preserve the property from erosion.
- J. Improvements for accessibility to the Handicapped.

Related fixtures such as new cooking ranges, refrigerators and other appurtenances, as well as general painting are also eligible, however, it must be in addition to the \$5,000 requirement.

APPENDIX 12

14. How many draw releases can be scheduled during the rehabilitation period?

As many as five (5) releases (four plus a final) can be scheduled. If the cost of rehabilitation exceeds \$10,000, then additional draw inspections are authorized provided the lender and the borrower agree in writing. The number of releases is normally dictated by the cash-flow requirements of the contractor. An inspection is always required with a scheduled release; however, inspections may be scheduled more often than releases if necessary to ensure compliance with the architectural exhibits, HUD's Minimum Property Standards and all local codes and ordinances.

15. Can the architectural exhibits, including the cost estimate, be modified after the mortgage loan is closed?

Yes. The changes must be approved by HUD or a DE lender prior to beginning the work. If the change affects the health, safety or necessity of the dwelling, the contingency reserve can be used to pay for the change. However, if the health, safety or necessity of the dwelling is not affected and an increase in cost occurs, the Borrower must apply monies into the contingency reserve fund to pay for the change. Should the change result in a reduced cost of rehabilitation, the difference will be placed in the contingency reserve fund; if unused, it will be applied as a mortgage prepayment after completion of construction.

16. What happens if the cost of the rehabilitation increases during the rehabilitation period? Can the 203(k) mortgage amount be increased to cover the additional expenses?

No. This emphasizes the importance of carefully selecting a contractor that will accurately estimate the cost of the improvements and satisfactorily complete the rehabilitation at or below the estimate.

APPENDIX 13

Reserved for the inclusion of an Accounting form being reviewed by the Office of Management and Budget and required by the Office of Inspector General.

APPENDIX 14

The documents contained in Appendix 14 are examples of legal documents necessary to implement a Section 203(k) program by a State or local government agency. Publication of these sample documents is not an endorsement of the contents, or with the agreements, by the U.S. Department of Housing and Urban Development. The contents within this appendix may not include all information necessary to implement a Section 203(k) program, given changing facts in every negotiation and agreement process. Your attorney should be consulted to ensure that the requirements you would like in the agreements satisfy your needs and the rights of your homebuyers.

APPENDIX 14

AGREEMENT FOR DENVER AFFORDABLE HOMEOWNERSHIP PROGRAM
(Lender Agreement)

This agreement is made and entered into this _____ day of _____, 1990, by and between Universal Lending Corporation ("ULC"), and the Denver Urban Renewal Authority ("DURA") (the "Agreement"),

WITNESSETH

WHEREAS, the Federal Home Loan Bank of Topeka ("FHLB") has implemented an Affordable Housing Program ("AHP") pursuant to the authority granted by the United States Congress in the Federal Home Loan Bank Act (12 U.S.C. (1430(j)) and the regulations of the Federal Housing Finance Board (12 C.F.R. Part 960);

WHEREAS, Columbia Savings, a Federal Savings and Loan Association ("Columbia"), in cooperation with the City and County of Denver submitted an application for subsidy funding to the FHLB in connection with the FHLB's AHP of Four Hundred Seventy-three thousand, four hundred and no/100 Dollars (\$473,400), which application was approved by the FHLB; and,

WHEREAS, DURA has been designated by the City and County of Denver as the agency in charge of administering the Denver Affordable Homeownership Program ("DAHP") through the acquisition of federally-owned residential properties within the City's community development neighborhoods from the Department of Housing and Urban Development ("HUD") for use in connection with the DAHP for conditional conveyance of such properties to eligible DAHP Participants and, through agreements for program administration with Columbia and ULC; and,

WHEREAS, DURA, in cooperation with Columbia, the City and County of Denver, HUD and ULC has developed the DAHP which requires eligible and qualified DAHP Participants to obtain financing to complete necessary repairs to DAHP properties; and,

WHEREAS, ULC is a Federal Housing Administration-approved mortgagee; and,

WHEREAS, ULC has been approved by the Colorado Housing and Finance Authority ("CHFA") as a seller/servicer for Bond money; and,

WHEREAS, ULC desires to provide loan assistance to qualified DAHP participants for the rehabilitation of DAHP properties using Section 203(k) loans insured by the Federal Housing Administration, and CHFA funds; and,

WHEREAS, DURA and ULC desire to implement the DAHP utilizing the direct subsidy to be received from the FHLB and the 203(k) and CHFA funds pursuant to the terms, conditions and procedures imposed on those funds by their respective authorizing legislation, the regulations governing their use and the requirements promulgated by their overseeing agencies.

i

4240.4 REV.2

APPENDIX 14

NOW THEREFORE, THE PARTIES HERETO AGREE AS FOLLOWS:

I. COMMITMENT OF FUNDS

ULC agrees to allocate \$2,000,000 of funds set aside by CHFA for the purchase of Federal Housing Administration Section 203(k) loans to accommodate the purchase and rehabilitation by eligible DAHP Participants of DAHP properties. These loans shall be referred to as "203(k)DAHP Loans", and shall be secured with a first mortgage against the DAHP property.

ULC agrees to allocate \$473,400 of subsidy funds provided by the FHLB for assistance to eligible purchasers of DAHP properties with downpayment, closing costs, and prepaid expense requirements associated with the purchase of DAHP properties, and purchase and rehabilitation expenses of those properties calculated according to a formula specified by Columbia. These loans shall be known as "Columbia Loans" and shall be secured with a second or third mortgage against the DAHP property.

ULC shall have the sole authority and responsibility to apply federal 203(k), CHFA and FHLB requirements to determine the eligibility of borrowers for 203(k)DAHP Loans and Columbia Loans; and, to approve properties and proposed rehabilitation upon said properties pursuant to the provisions of Section 203(k) and all applicable regulations and guidelines.

II. CONDITIONAL CONVEYANCE OF TITLE

With each DAHP Participant approved by ULC and selected by the City through a lottery process, DURA will execute (1) a Purchase and Sale Contract ("Sales Contract") and (2) a DAHP Purchase Agreement (the "Purchase Agreement") which shall set forth the terms and conditions of the sale of property to the Participant as required by the Federal Home Loan Bank Act and the Federal Housing Finance Board regulations. DURA will also

execute a Special Warranty Deed which will conditionally convey title to the DAHP property to the Participant's name, subject to a Right of Re-Entry for Condition Broken as defined by the Purchase Agreement.

Under the terms of said Purchase Agreement each Participant will agree to substantially rehabilitate the property, maintain it and occupy it as his/her primary residence for at least five (5) years. After said five year period, if the Participant has satisfied all conditions subsequent set forth in the Purchase Agreement, DURA will record, and deliver to the Participant a Certificate of Satisfaction and a Renunciation of Right of Re-Entry whereby DURA will divest itself of any Right of Re-Entry previously reserved. The Participant will then hold fee simple title to the DAHP property.

III. LOAN REPAYMENT GUARANTEE BY DURA

DURA recognizes that the loan security offered for the 203(k) Loans may be at risk during the five year period of conditional title; and also that the loans made to Participants pursuant to this Agreement are at interest rates substantially below prevailing market rates.

To eliminate any risk arising out of the conditional conveyance of DAHP property, and in consideration of the preferred interest rates afforded to

ii

4240.4 REV-2

APPENDIX 14

Participants, DURA agrees to guarantee the repayment of each 203(k) Loan made pursuant to this Agreement. This guarantee shall remain in effect only while DURA is vested with Right of Re-Entry in a DAHP Property, and shall be effective only upon the default of the Participant as defined in this Article III, paragraph 1, and according to the following terms and conditions:

1. The Participant shall be in default for purposes of this guarantee if he/she:
 - a. fails to make any payment, or part thereof, for 60 consecutive days from the original due date or such payment; or
 - b. defaults under the Deed of Trust from the Participant, to the Public Trustee of the County in which the DAHP Property is located for the benefit of ULC; or
 - c. shall have made a general assignment for the benefit of creditors, or any proceeding shall be instituted by or against such Participant seeking to adjudicate him/her a bankrupt or insolvent, or if all or any part of the property or an interest therein is foreclosed upon or is sold, transferred or assigned by Participant; or
 - d. The Participant fails to keep all DAHP property insured for

fire and extended coverage in an amount specified by ULC, with loss payable to ULC, DURA and Columbia (as applicable) the FHLB; or

e. The Participant fails to pay all taxes and assessments against the DAHP property; AND

2. ULC has notified DURA of any loan payment which is 30 days past due, or any other event of default within 10 days of ULC's acquisition of knowledge Of such default, by certified mail, return receipt requested, sent to DURA at the following address: Denver Place, Suite 2750, South Tower, 999 18th Street, Denver, Colorado 80202; and

3. ULC has made reasonable and diligent attempts to collect delinquent payments and/or remedy other events of default, including at least:

a. transmittal of notification to the Participant, by certified mail, return receipt requested, sent to the Participant's last known residential address, of the nature of default and the amount of action needed to cure the default; and

b. certified attempt to contact the Participant by telephone at his/her last known residential and work telephone numbers; and

c. certified attempt to contact the Participant, in person, at the last known residential address; and

d. If the Participant fails to cure his/her default on or before the expiration of 30 days from the date of certified notice to Participant of said default by ULC, then ULC shall send a Notice of Default to DURA

iii

4240.4 REV-2

APPENDIX 14

by certified mail, return receipt requested, to the address indicated infra at Article III, paragraph 2. Said Notice of Default shall set forth the name of the Participant, the nature of the default, the amount needed to reinstate the loan, and documented collection efforts. DURA shall commence the cure of the default within 20 days of receipt of the Notice of Default either by: (1) tendering the amount required to reinstate the loan and continue to make payments on the loan; or (2) paying the entire outstanding loan balance. DURA shall have the sole discretion to select the method of curing the default.

4. In order to encumber DURA's conditional interest in the DAHP property during the five year period in which it retains a conditional right of re-entry, and in order to make DURA's interest in the property subordinate to the interests of the Secretary of HUD, DURA will execute the first mortgage Deed of Trust.

IV. ASSUMPTIONS

ULC agrees to allow a qualified borrower to assume the loan of a Participant in the event the Participant defaulted on the terms of the Purchase Agreement or DURA is required to guarantee repayment of the loan. The qualifications of a proposed assumptor shall be determined by ULC in accordance with the requirements and limitations upon 203(k) DAHP and CHFA loans, as well as the Federal Home Loan Bank Act Affordable Housing Program.

ULC, in cooperation with the CHFA, shall have sole authority and responsibility to qualify a new borrower and is entitled to a maximum of five hundred and no/100 dollars (\$500.00) for fees and costs incurred as a result of the assumption process. The guarantee under Section III of this agreement shall apply to any loan that is assumed by a replacement Participant under this program. ULC agrees that it will make a determination within ten (10) calendar days after completion of processing the assumptor's loan application regarding the eligibility of a proposed assumptor presented to ULC by DURA, that it will notify DURA of its action and the reasons therefore within two (2) days of taking such action; and that it will not unreasonably withhold approval.

V. LOAN FEES

Upon approval by ULC of a 203(k) loan application referred to ULC by DURA, ULC shall receive the allowable closing costs as provided by 203(k) loan regulations, as well as fees allowed pursuant to the commitment of funds as outlined by the CHFA. The loan amount shall be established using HUD and CHFA guidelines. Items known as prepaid expenses for taxes, hazard insurance premiums, and interest adjustments, shall also be appropriated and accounted for in the 203(k) DAHP Loans and Columbia Loans as permitted in the applicable law and regulations. These costs shall be charged to the Participant or DURA (as seller) as is customary.

iv

4240.4 REV-2

APPENDIX 14

VI. INTEREST RATE

The 203(k) DAHP Loans shall be made at an interest rate of no more than eight and three-tenths percent (8.30%), or any other rate of interest mutually agreed upon by DURA, ULC and CHFA.

The Columbia Loans shall be made on a 20 year deferred basis at no interest.

VII. LOAN TERM

The 203(k) DAHP Loans shall be made for a term of 20 years. The Columbia Loans shall be deferred loans with terms of 20 years. Both types of loans are due upon sale of the DAHP Property.

VIII. FIRST PAYMENT DATE

The first payment date on the 203(k) DAHP Loans shall be the first day

of the second month following the loan closing. In the event the property will not be habitable during the rehabilitation period, the monthly payments (up to a maximum of 6 months) that would become due and payable during that rehabilitation period can be included in the loan amount and paid out of the construction fund.

IX. LOAN APPLICATIONS

ULC agrees to review and consider loan applications, to act on such loan applications within ten (10) days of completion of processing, and to notify DURA of its actions and the reasons therefore within two (2) days of taking action on the loan application.

Loan applications will include or be accompanied by, to the extent feasible, the following:

1. The borrower(s) name(s), address, telephone number, and the address and legal description of the DAHP property.
2. Borrower(s) income and sources of income, major debts and monthly payments.
3. Purposes of the loan, including a summary of work to be done for improvement of the property and the estimated cost.
4. The required exhibits for rehabilitation under FHA 203(k).
5. Credit report and preliminary title report shall be ordered by ULC and a copy of the title report shall be furnished to DURA.

X. SUCCESSORS AND ASSIGNS

The covenants herein contained shall bind, and the benefits and advantages inure to, the respective successors and assigns of the parties hereto.

v

4240.4 REV-2

APPENDIX 14

XI. AMENDMENTS

This agreement may be modified or amended only with the prior written consent of the parties.

XII. INDEMNIFICATION

DURA and ULC agree that the only relationship established through this Agreement is for the provision of 203(k)DAHP and Columbia Loans and Loan guarantees as provided for in this Agreement.

XIII. TERM

The term of this Agreement shall expire one year from the date of the

Agreement (although the repayment guarantee shall survive the Term of this Agreement).

Attest _____
Susan Powers, Secretary

DENVER URBAN RENEWAL AUTHORITY

By _____
John E. Moye, Chairman

Attest: _____

UNIVERSAL LENDING CORPORATION

By: _____
A. Bruce Bowler,
Chief Executive Officer

APPENDIX 14

PURCHASE AND SALE CONTRACT

ATTENTION AFFORDABLE HOMEOWNERSHIP PROGRAM PARTICIPANT. THIS CONTRACT CREATES A BINDING OBLIGATION TO PURCHASE THE HOME AWARDED TO YOU IF YOUR APPLICATION FOR FINANCING IS APPROVED.

In consideration of the premises and mutual covenants contained herein, the parties to this Contract agree as follows:

1. I (We), _____ (Participant(s)) agree to purchase, according to the rules and regulations of the Denver Affordable Homeownership Program ("DAHP") and financing agreements issued in connection therewith, and the terms and conditions set forth herein, the following described property:

(the "Property")

Also known and numbered as: _____.

The purchase price for said Property shall be U.S. \$ _____, payable as follows:

Full purchase price, in cash, at closing.

Provided however, that if our (my) loan for financing to purchase and rehabilitate the Property is not approved this contract shall be null and void and I (we) shall not be obligated to purchase the Property and shall forfeit only the following costs:

\$ _____ Credit Report Fee;

\$ _____ Appraisal Fee

2. The Denver Urban Renewal Authority ("Seller") agrees to sell the Property to Participant(s) according to the rules and regulations of the AHP, and the terms and conditions set forth herein, provided however, that it shall not be required to sell the Property to Participant if:

- a. Seller is unable to acquire the Property from the Department of Housing and Urban Development or other entity through no fault of its own.
- b. Seller is unable or unwilling to remove valid objections to the title prior to closing.
- c. Seller determines that Participant is not eligible to participate in the DAHP.

vii

4240.4 REV-2

APPENDIX 14

3. Participant(s) agrees to promptly and diligently execute all documents and furnish all information and documents required by the Universal Lending Corporation, and to pay all required costs associated with the application and financing process.

- a. If Participant's loan application is approved, but Participant(s) defaults on its obligation under this Contract to purchase the Property, all payments made by Participant(s) as are more specifically described below shall be forfeited by Participant and both parties shall thereafter be released from all obligations hereunder.

\$ _____ Credit Report

\$ _____ Appraisal Fee

\$ _____ CHFA Commitment Fee

- b. The DAHP is being conducted under special arrangements with the Colorado Housing Finance Authority ("CHFA") and Participant, and the Property must meet all rules, regulations and requirements of CHFA including, but not limited to, the payment of a commitment fee to release CHFA funds.

4. Participant will accept the Property in the condition existing on the date of closing. Seller does not warrant the condition of the Property, including, but not limited to, mechanical systems, or compliance with code requirements and will make no repairs to the Property after execution of this contract.

5. The rehabilitated, appraised value of the Property as defined under FHA Section 203K guidelines must be no less than the combined purchase price plus all costs of rehabilitation or the Borrower may rescind this contract and be reimbursed all unexpended funds associated with the processing of this loan.

6. Participant shall not assign or transfer Participant's rights or

obligations under this Contract without prior written consent of the Seller.

7. This contract contains the final and entire agreement between Seller and Participant and they shall not be bound by any terms, conditions, statements, or representations, oral or written, not contained in this contract.

8. Participant and Seller agree that in the event of controversy arising out of the operation of this contract, the parties will submit said controversy or dispute to binding arbitration. Such arbitration shall be conducted in Denver, Colorado in accordance with the Colorado Rules of Civil Procedure and Colorado statutory provision governing arbitration as then constituted.

_____	_____	_____	_____
Participant	Date	Participant	Date
Denver Urban Renewal Authority:			
By: _____			
_____		_____	
Title		Date	

viii

4240.4 REV-2

APPENDIX 14

AFFORDABLE HOMEOWNERSHIP PROGRAM PURCHASE AGREEMENT

THIS AGREEMENT, made and entered into this _____ of _____, 1989, by and between the Denver Urban Renewal Authority ("DURA") and _____ and _____ ("Participant"), whose address is _____, Denver, Colorado 802__ (the "Agreement").

WHEREAS, the Federal Home Loan Bank of Topeka ("FHLB") has implemented an Affordable Housing Program ("AHP") pursuant to the authority granted by the United States Congress in the Federal Home Loan Bank Act (12 U.S.C. (1430(j)) and the regulations of the Federal Housing Finance Board (12 C.F.R. Part 960);

WHEREAS, Columbia Savings, a Federal Savings and Loan Association ("Columbia"), in cooperation with the City and County of Denver submitted an application for subsidy funding to the FHLB in connection with the FHLB's AHP of Four Hundred Seventy-three thousand, Four Hundred and no/100 Dollars (\$473,400), which application was approved by the FHLB; and,

WHEREAS, DURA has been designated by the City and County of Denver as the agency in charge of administering the Denver Affordable Homeownership Program ("DAHP") through the acquisition of federally-owned residential properties within the City's community development neighborhoods from the Department of Housing and Urban Development ("HUD") for use in connection

with the AHP for conditional conveyance of such properties to eligible DAHP Participants and, through agreements for program administration with Columbia and Universal Lending Corporation ("ULC"); and,

WHEREAS, DURA, in cooperation with Columbia, the City and County of Denver, HUD and ULC has developed the DAHP which requires eligible and qualified Participants to obtain financing to complete necessary repairs to DAHP properties; and,

WHEREAS, the Participant is an eligible purchaser under all applicable rules and regulations of the DAHP, and is ready, willing and able to meet the conditions associated with the program;

NOW, THEREFORE, in consideration of the premises and mutual agreements contained herein, the parties agree as follows:

ARTICLE 1. DAHP PROPERTY. DURA will conditionally convey to the Participant, together with the improvements thereon and subject to any easements and/or restrictions of record, if any, the following property commonly known and numbered as _____, located in the City and County of Denver, Colorado, more fully described in Exhibit A, attached and incorporated hereto (the "DAHP Property").

ARTICLE 2. PURCHASE PRICE. Subject to the terms and conditions of this Agreement, DURA will conditionally convey the DAHP Property to the Participant and the Participant will pay the amount of U.S. \$ _____ and no/100 Dollars (\$_____), to be paid in cash simultaneously with the delivery of a "Special Warranty Deed (Conditional Conveyance)" conditionally conveying the DAHP Property to the Participant.

ix

4240.4 REV-2

APPENDIX 14

ARTICLE 3. CONDITIONAL CONVEYANCE OF DAHP PROPERTY.

(a) Form of Deed. DURA shall conditionally convey to the Participant title to the DAHP Property by a Special Warranty Deed containing a right of re-entry for condition broken (the "Deed"). The Deed shall be in the form of the document entitled "Special Warranty Deed (Conditional Conveyance)", a copy of which is attached hereto as Exhibit B. Such conveyance and title shall, in addition to the condition subsequent provided for in Article 19 of this Agreement, be subject to:

(1) Easements of record for public streets, sewer and water utilities and such other easements or rights-of-way as are a matter of public record and recorded in the records of the Clerk and Recorder, City and County of Denver.

(2) Such conditions and covenants, consistent with the Denver Affordable Housing Program rules and regulations, and restrictions running with the land as are imposed by the Deed.

(b) Recordation of Deed. DURA shall promptly file the Deed for recordation in the land records of the City and County of Denver.

(c) Title Insurance. Participant will be responsible for paying all title insurance costs.

ARTICLE 4. DAHP PROPERTY CONVEYED WAS "AS IS" FOR REHABILITATION. Participant will accept the DAHP Property in the condition existing on the date of closing. DURA does not warrant the condition of the DAHP Property, (including but not limited to mechanical systems) nor compliance with City Building Code requirements. All rehabilitation and property maintenance responsibilities will be assumed by the Participant upon the delivery of the Deed. Participant agrees to protect the DAHP Property from vandalism beginning from the date of conditional conveyance until the date of occupancy.

ARTICLE 5. RIGHTS OF ACCESS TO DAHP PROPERTY.

(a) DURA shall permit the Participant or his representative to have access to the DAHP Property prior to conditional conveyance to the Participant.

(b) After conditional conveyance of the DAHP Property and during the operation of this Agreement, the Participant shall permit DURA or the City and County of Denver, or their agents or designees, to make reasonable inspections at reasonable times in order to assure compliance with the terms and conditions of this Agreement and the Deed.

ARTICLE 6. REHABILITATION PLANS AND CONTRACTS. The plans and specifications for the rehabilitation of the DAHP Property shall conform with the DAHP Program rules and regulations, this Agreement, any rules and regulations or covenants governing the rehabilitation financing secured by the Participant through ULC and insured by the Federal Housing Administration, and all applicable State and local laws and regulations. Rehabilitation plans and contracts between the Participant and any contractors must be approved in writing by ULC before any work begins. Any changes in rehabilitation plans or construction contracts must also be approved, in writing, by ULC.

x

4240.4 REV-2

APPENDIX 14

ARTICLE 7. COMMENCEMENT AND COMPLETION OF REHABILITATION.

(a) Participant agrees to begin rehabilitation on or before thirty (30) days after the date of conditional conveyance of title.

(b) Any defects that pose a substantial danger to health and safety, such as, but not limited to, plumbing, heating and electrical code violations shall be corrected before the expiration of one (1) year from the date of conditional conveyance of the DAHP Property to the Participant, or within the time specified in any rehabilitation finance agreement executed by the Participant in connection with this program, whichever is less. However the Participant may not, under any circumstances, commence occupancy of the DAHP Property until such defects have been corrected and a Certificate of Occupancy has been issued.

(c) Any other repairs or improvements required in order to meet

applicable standards of the City and County of Denver for decent, safe and sanitary housing, or any energy conservation measures required by the City and County of Denver, must be completed within three (3) years from the date of conditional conveyance to the Participant, or within the time specified in any rehabilitation finance agreement executed by the Participant in connection with this Program, whichever is less.

(d) All work pertaining to any electrical, heating and/or plumbing will be performed by licensed contractors, and pursuant to permits required and issued by the City and County of Denver.

ARTICLE 8. LEAD-BASED PAINT HAZARDS. The rehabilitation of the DAHP Property under this Agreement is subject to HUD Lead-Based Paint Regulations, 24 C.F.R. Part 35. Any contracts made by the Participant for the rehabilitation of the DAHP Property shall be made subject to provisions for the inspection and elimination of lead-based paint hazards under Subpart B of the aforementioned regulations, and the Participant shall be responsible for the inspections and certifications required under 24 C.F.R. 35.14(f).

ARTICLE 9. CERTIFICATE OF COMPLETION OF REHABILITATION. After completion of the rehabilitation required by Article 7 of this Agreement, and receipt by DURA of a Notice of Completion of Rehabilitation from ULC, DURA will furnish the Participant with an appropriate instrument so certifying. The certification shall be a conclusive determination of satisfaction and termination of the agreements and covenants in this Agreement and in the Deed with respect to the rehabilitation of the Property by the Participant, and his heirs and assigns.

ARTICLE 10. CERTIFICATE OF SATISFACTION.

(a) After completion of all the terms and conditions of this Agreement by the Participant, including occupancy as a principal residence for five (5) consecutive years as provided in Article 12, DURA will furnish the Participant with an appropriate instrument so certifying. This certification by DURA shall be conclusive determination of satisfaction and termination of the agreements and covenants in the Agreement and in the Deed with respect to the obligations of the Participant, and his heirs and assigns.

(b) The Certificate of Satisfaction shall be in such form as will enable it to be recorded in the Clerk and Recorder's Office in the City and

APPENDIX 14

County of Denver. DURA shall record the Certificate of Satisfaction, and all recording fees are to be paid by the Participant. If DURA fails to provide this certification within thirty (30) days after written request by the Participant, DURA shall provide the Participant with a written statement, indicating in detail in what respects the Participant has failed to meet the provisions of this Agreement, or is otherwise in default, and what remedial measures, if any, the Participant must take in order to obtain such certification.

(c) Once the Certificate of Satisfaction is recorded, the conditions contained in this Agreement and in the Deed shall cease to have any force and effect except for the restriction against non-discrimination contained in Article 12(b). The Participant shall thereafter hold fee simple title to the DAHP Property.

ARTICLE 11. INSURANCE. Upon conditional conveyance of the DAHP Property, the Participant will obtain All Risks Coverage Insurance on the DAHP Property in at least the amount required by ULC. This insurance must be maintained during the life of this Agreement. The City and County of Denver and DURA shall be included as additional insureds. The Participant agrees to furnish evidence of insurance prior to beginning any work on the DAHP Property.

ARTICLE 12. RESTRICTIONS UPON USE OF THE DAHP PROPERTY.

(a) The Participant agrees, and the Deed shall contain such covenants, that the Participant shall occupy the DAHP Property as his principal residence for not less than five (5) consecutive years from the date of initial occupancy of the DAHP Property, except as otherwise first approved in writing by HUD, on a case-by-case basis, when emergency conditions make compliance with this requirement unfeasible. This restriction and covenant shall continue in full force and effect for five (5) years from the date of initial occupancy of the DAHP Property.

(b) The Participant agrees for himself, his heirs and assigns, and every successor in interest to the DAHP Property, and the Deed shall contain such covenants, that the Participant and his heirs and assigns, shall not discriminate upon the basis of race, color, creed, sex or national origin in the sale, lease or rental or in the use or occupancy of the DAHP Property or any rehabilitation of the Property. It is intended, and the Deed shall so state, that this restriction and covenant shall be a covenant running with the land and that it shall be binding, to the fullest extent permitted by law and equity, for the benefit and in favor of, and enforceable by, DURA and the United States of America. This restriction and covenant shall remain with the land forever.

ARTICLE 13. REPRESENTATIONS AS TO REHABILITATION.

The Participant represents and agrees that his purchase of the DAHP Property, and his other undertakings pursuant to this Agreement are, and will be used, for the purpose of rehabilitation of the DAHP Property and not for speculation in land holding.

APPENDIX 14

ARTICLE 14. PROHIBITION AGAINST TRANSFER OF DAHP PROPERTY AND ASSIGNMENT OF DAHP PROPERTY. The Participant will not make or suffer to be made any sale, conveyance, lease or transfer of this Agreement or the Property, without the prior written approval of the DURA, for a period of five (5) years after the date of initial occupancy.

ARTICLE 15. LIMITATION UPON ENCUMBRANCE OF DAHP PROPERTY. The Participant shall not engage in any financing or any other transaction

creating any mortgage or other encumbrance upon the DAHP Property except for the purpose of financing the reconstruction and improvement of the DAHP Property, prior to a period of five (5) years after the date of initial occupancy.

ARTICLE 16. TAXES. Participant agrees to assume full responsibility for payment of all taxes on the DAHP Property as of the date of signing of the Deed.

ARTICLE 17. REMEDIES IN GENERAL. In the event of any breach of this Agreement, the breaching party shall, upon receipt of written notice from the other, proceed immediately to cure or remedy such breach on or before the expiration of thirty (30) days after receipt of such notice. In case such action is not taken or not diligently pursued, or the breach is not cured within thirty (30) days, the aggrieved party may institute proceedings to cure and remedy such breach including, but not limited to, proceedings to compel specific performance by the party in breach of its obligation.

ARTICLE 18. BREACH BY THE PARTICIPANT: RIGHT OF AUTHORITY TO RE-TAKE DAHP PROPERTY.

(a) Any of the following shall constitute breach of this Agreement by the Participant;

(1) Any default in, or violation of, the Participant's obligations with respect to the rehabilitation or, abandonment or substantial suspension of rehabilitation work, and any such default, violation, abandonment, or suspension is not cured, or remedied within thirty (30) days after receipt of written demand by DURA so to do; or

(2) Failure of the Participant to pay real estate taxes on the DAHP Property when due, or the placing of any encumbrance or lien on the DAHP Property not authorized by the Agreement, or suffering any levy or attachment to be made, or any mechanics lien, or any other unauthorized encumbrance or lien; and, such taxes or assessments are not paid, or the encumbrance or lien is not removed or discharged; or, provision satisfactory to ULC for such payment, removal, or discharge is not made within thirty (30) days after written demand by ULC; or

(3) Any transfer of the DAHP Property in violation of the Agreement and such violation is not cured within thirty (30) days after written demand by the Authority; or

(4) Failure of the Participant to continue to occupy the DAHP Property as his principal residence as required in Article 12; or

(5) Failure of the Participant to regularly and adequately maintain the DAHP Property in accordance with the "Minimum Guidelines for Maintenance of DAHP Property" which were distributed to the Participant during an orientation session; or

(6) Any material breach of this Agreement, or any default in the performance of covenants made, or payment requirements in connection with any rehabilitation financing secured by the DAHP Property; or

(7) Any misrepresentation by the Participant made to DURA or the City and County of Denver which affects the Participant's eligibility to participate in the DAHP, or any misrepresentation by the Participant to ULC which would affect the Participant's eligibility for the rehabilitation financing for the DAHP Property.

(b) Upon default, the Participant agrees to voluntarily vacate and surrender possession of, and any interest in, the DAHP Property to DURA, which shall attempt to find a qualified assumptor. In order to facilitate the transfer of the DAHP Property to a new Participant in the event of default, the Participant(s) shall execute a limited Power of Attorney on the same date as the date of this Agreement, which Power of Attorney shall give DURA consent in advance to transfer the financing obligations of Participants to a successor.

(c) Upon default, DURA shall have the right to re-enter and take possession of the DAHP Property and to terminate the estate conveyed by the Deed to the Participant and the DAHP Property shall revert to DURA. It is the intent of this provision that the conveyance of the DAHP Property to the Participant shall be made upon, and the Deed shall contain, a condition subsequent to the effect that in the event of any such default, failure, violation or other action or inaction by the Participant specified in subdivision (a) of this Article, that DURA, will file and record with the Clerk and Recorder of the City and County of Denver a demand for cure of the particular default, failure or violation, and will send such demand or notice to Participant as required in Article 22 of this Agreement. And, unless the terms of such demand are met within the time therein specified, DURA will declare a termination of the title and of all rights and interest in and to the DAHP Property conveyed to the Participant, and the title and all rights and interests therein shall revert to DURA. Such condition subsequent and any reversion of title in DURA shall always be subject to and shall not defeat, or limit in any way the lien of any trust deed authorized by this Agreement.

(d) No waiver of any breach of this Agreement shall constitute a waiver of any later or other breach.

ARTICLE 19. CONFLICT OF INTEREST.

(a) No member, official, or employee of the DURA or of the City and County of Denver shall have any personal interest, direct or indirect, in this Agreement, nor shall any such member, official, or employee participate in any decision relating to this Agreement which affects his personal interests or the interests of any corporation, partnership, or association in which he is directly or indirectly interested.

(b) The following persons are not eligible to become Participants in the DAHP and shall have no interest in the proceeds of a loan or any contract for work, supplies, or services for the rehabilitation of the DAHP Property:

(1) Members of the governing body of the City and County of Denver;
and

APPENDIX 14

(2) Members of the governing body of DURA; and

(3) During his tenure, or for one year thereafter, any officer or employee of the City and County of Denver or DURA who exercises any function or responsibility in connection with the administration of the DAHP.

ARTICLE 20. EQUAL EMPLOYMENT OPPORTUNITY. In connection with the performance of work under this Agreement, the Participant agrees not to refuse to hire, discharge, promote or demote, or to discriminate in matters of compensation against any person otherwise qualified, solely because of race, creed, color, religion, sex, age, national origin or ancestry; and further agrees to insert the foregoing provision in all subcontracts hereunder.

ARTICLE 21. PROVISIONS NOT MERGED WITH DEED. None of the provisions of this Agreement are intended to or shall be merged by reason of any deed transferring title to the Property from the DURA to the Participant or any successor in interest, and any such deed shall not be deemed to affect or impair this Agreement.

ARTICLE 22. WRITTEN NOTICES. All notices required to be sent to either of the parties to this Agreement must be in writing and sent via certified mail, return receipt requested, to the following addresses:

Denver Urban Renewal Authority
999 18th Street
Suite 2750, South Tower
Denver, Colorado 80202

Purchaser's Address:

ARTICLE 23. AMENDMENTS. This Agreement may be modified or amended only with the prior written consent of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

ATTEST:

DENVER URBAN RENEWAL AUTHORITY

By: _____
Susan Powers, Secretary

By: _____
John E. Moye, chairman

DAHP PARTICIPANT:

DAHP PARTICIPANT:

SSN: _____

SSN: _____

APPENDIX 14

STATE OF COLORADO)
City and) ss.
County of Denver)

The foregoing instrument was subscribed and sworn to before me this
____ day of _____, 19__, by

_____ and _____, and the
DENVER URBAN RENEWAL AUTHORITY,

by John E. Moye, its Chairman, and Susan Powers, its Secretary.

My commission expires:_____

Notary Public

SEAL

address

Attachments

- (1) EXHIBIT A: Legal Description of DAHP Property
- (2) EXHIBIT B: SPECIAL WARRANTY DEED (Conditional Conveyance)

APPENDIX 14

DENVER AFFORDABLE HOMEOWNERSHIP PROGRAM
SPECIAL WARRANTY DEED
(Conditional Conveyance)

KNOW ALL MEN BY THESE PRESENTS. That the DENVER URBAN RENEWAL AUTHORITY,
a body corporate and politic of the State of Colorado, whose address is
Denver Place, Suite 2750, South Tower, 999 18th Street, City and County of
Denver, State of Colorado (the "Grantor"), for the consideration of _____
Dollars (U.S. \$ _____) and other valuable consideration,
in hand paid, hereby sells and conveys to _____
whose address is _____, (the "Grantee"),
the following described real property situated in the City and County of
Denver, State of Colorado, to wit:

(the "Property")

Also known and numbered as:_____.

Subject to the reservations and exceptions hereinafter made and with the restrictions and upon the covenants below stated, and subject to any state of facts an accurate survey would show, and subject to any easements, restrictions or other interests of record; with all of its appurtenances and warrants title to the same against all persons claiming under the Grantor; BUT IF:

(a) The Grantee fails to begin rehabilitation on the Property within thirty (30) days from the Date of Conveyance as defined in the Denver Affordable Homeownership Program Purchase Agreement; or

(b) The Grantee fails to correct defects in the Property which poses a substantial danger to health and safety, such as plumbing, heating and electrical code violations, within one (1) year from the date of delivery of this Deed; or

(c) The Grantee fails to make any other repairs or improvements needed to meet applicable standards of the City and County of Denver for clean, safe and sanitary housing, or for energy conservation within three (3) years of the delivery of this Deed; or

(d) The Grantee fails to make any other repairs or improvements required by the Federal Housing Administration Commissioner or his agent or designee as a condition of obtaining rehabilitation financing for the Property; or

(e) The Grantee fails to pay real estate taxes or assessments on the Property; or

(f) The Grantee fails to obtain and/or maintain All Risks Coverage Insurance in at least the after-rehabilitation value of the Property; or

xvii

4240.4 REV-2

APPENDIX 14

(g) The Property shall remain encumbered in any manner whatsoever other than by a mortgage, deed of trust or other security device given by the Grantee for the purposes of financing of construction of the improvements thereon at a date thirty (30) days after the date of recording of a written "Demand for Removal of Encumbrances" by the Grantor, unless the Grantee has recorded written evidence, bearing the approval of the Grantor, of the removal of such encumbrance; or

(h) The Property, or any part thereof or interest therein shall be conveyed without the prior written consent of the Grantor, prior to the expiration of five (5) consecutive years after the date of initial occupancy of the Property by the Grantee, except under a Deed of Trust permitted by this Deed, and except as security for obtaining the financing permitted by this Deed; or

(i) The Grantee shall cease to occupy the Property as his residence

before the expiration of five (5) consecutive years from the date of initial occupancy of the Property; or

(j) The Grantor records a "Demand to Cure Defects" and the improvements on the Property do not, at the end of thirty (30) days from the date of said recording, comply with the provisions of said demand; or

(k) The Grantor records a "Demand to Diligently go Forward with Construction" and fifteen (15) days after such recording there has not been compliance with the provisions of such demand; or

(l) The Grantor records a "Demand to Complete Construction" and sixty (60) days after such recording there has not been compliance with the provisions of said demand; or

(m) The Grantor records a "Demand to Cure Change in Ownership or Occupancy" and thirty (30) days after such recording there has not been compliance with the provisions of said demand; or

(n) The Grantor records a "Demand to Cure Breach of Denver Affordable Homeownership Program Purchase Agreement" specifying the breach of said agreement by and between DURA and Grantee dated _____, and thirty (30) days after such recording there has not been compliance with the provisions of said demand;

Then the Grantor, its successors and assigns, shall have the right to terminate the estate herein granted and to re-enter and retake possession of the Property and to re-vest in the Grantor, its successors and assigns, the estate conveyed by this Deed, subject only to any mortgage, deed of trust or other security device given by the Grantee for the purposes of purchasing the Property and financing construction or rehabilitation of the improvements thereon. It is intended by the parties hereto, and the Grantee expressly acknowledges for itself, and all its successors in interest that the interest so reserved to the Grantor is a RIGHT OF RE-ENTRY FOR CONDITION BROKEN.

The above-described conditions subsequent shall be satisfied, and a "Renunciation of Right of Re-Entry" reserved to the Grantor shall be given,

xviii

4240.4 REV-2

APPENDIX 14

only when the Grantor has filed for record with the Clerk and Recorder for the City and County of Denver the following duly acknowledged certifications:

(a) "Certificate of Completion of Rehabilitation" as described in Article 9 of the Denver Affordable Homeownership Program Purchase Agreement dated _____ by and between Grantor and Grantee.

(b) "Certificate of Satisfaction" as described in Article 10 of the Denver Affordable Homeownership Program Purchase Agreement dated _____ by and between Grantor and Grantee. Such Renunciation of Right of Re-Entry

shall accompany any Certificate of Satisfaction; shall apply only to the property therein described; shall operate to free the designated property from the above conditions subsequent and to divest the Grantor of any right of re-entry and shall be substantially in the following form:

"To have and to hold the above-described premises unto _____ forever, so that neither the Denver Urban Renewal Authority nor any of its successors in interest shall at any time hereafter have, claim, or demand any right, title, or interest in or to the above-described premises, or any part thereof by virtue of the Right of Re-Entry for Condition Broken reserved to the Denver Urban Renewal Authority in the Special Warranty Deed recorded at reception number _____, in the Office of the Clerk and Recorder, City and County of Denver, Colorado."

It is further declared that the Property shall be subject to the following covenants:

(1) Construction of the improvements for the rehabilitation of the Property shall be commenced within one (1) month from the date of delivery of this instrument and shall be diligently prosecuted to completion. Said improvements shall be completed within _____ days/months of the date of this instrument, provided, that if the mortgage securing money loaned to finance the improvements, or any part thereof, is insured by the Federal Housing Administration, then the commencement and completion time shall be within the time specified in the applicable Rehabilitation Loan Agreement approved by the Federal Housing Administration.

(2) Grantee shall comply with the applicable rules and regulations issued by the Secretary of Housing and Urban Development (the "Secretary" of "HUD") which prohibit the use of lead-based paint in residential structures undergoing federally assisted construction or rehabilitation and require the elimination of lead-based paint hazards.

(3) Neither Grantee nor any successor to Grantee's interest shall discriminate upon the basis of race, color, creed, sex, religion, national origin, age or handicap in the sale, lease, or rental or in the use or occupancy of the Property or any improvements erected or to be erected thereon, or any part thereof. The United States shall be deemed a beneficiary of this covenant both for and in its own right and also for the purposes of protecting the interests of the community and other parties, public or private, in whose favor or for whose benefit said covenant has been provided

APPENDIX 14

without regard to whether the United States has at any time been, remains, or is an owner of any land or interest therein to or in favor of which said covenants relate. The United States shall have the right, in the event of any breach of said covenants, to exercise all the rights and remedies, and to maintain any actions or suits at law or in equity or other proper proceedings to enforce the curing of such breach of agreement or covenant,

to which it or any other beneficiary of such agreement or covenant may be entitled.

(4) It is intended by the parties hereto, and the Grantee expressly covenants, for itself and all its successors in interest, that these covenants shall run with the land.

The covenant in this deed governing completion of the construction of the improvements shall be satisfied only by a Certificate of Completion of Rehabilitation duly acknowledged by the Grantor and filed for record. Such Certificate shall be effective to satisfy said covenant only with regard to the real property designated in the Certificate. Upon recording of the Certificate of Completion of Rehabilitation, the burden of said covenant with regard to the real property designated shall dissolve and the term of said covenant shall terminate with regard to that property. The recorded Certificate of Completion of Rehabilitation shall further mean:

(a) That any party purchasing or leasing the property designated therein shall not incur any obligation with respect to the construction of the improvements relating to that property.

(b) That neither the Grantor nor any other party shall thereafter have any right or remedy against the property designated therein for non-compliance with said covenant.

Notwithstanding any of the provisions of this Deed, including but not limited to those which are intended to be covenants running with the land, the holder of any deed of trust or mortgage given to secure the purchase price and the construction of the improvements to the Property by the Grantee (including any holder who obtains title to the Property or any part thereof as a result of foreclosure proceedings, or action in lieu thereof, but not including (a) any other party who thereafter obtains title to the Property or such part from or through such holder or (b) any purchaser at foreclosure sale other than the holder of the deed of trust or mortgage itself) shall not be obligated by the provisions of this Deed to construct or rehabilitate or complete the construction or rehabilitation of the improvements or to guarantee such construction, rehabilitation or completion nor shall any covenant or any other provision in the Deed be construed to so obligate such holder.

Notwithstanding any provisions in the express conditions and covenants to the contrary, if:

(a) Upon foreclosure of a Deed of Trust insured by the Secretary of HUD, title is acquired by the Trustee or beneficiary of the Deed of Trust, the Secretary, or any other party; or

(b) Title is acquired by any party by a deed-in-lieu of foreclosure of a HUD-insured Deed of Trust; or

xx

(c) A Deed of Trust insured by the Secretary is assigned to the Secretary; then the conditions described in subparagraphs (a) - (n) on page 1 of this Deed shall be deemed satisfied or permanently waived and Grantor shall give a "Renunciation of Right of Re-Entry" in substantially the form provided herein to the holder of title, or to the Secretary if the Deed of Trust has been assigned to the Secretary, and the condition described in subparagraph (1) on page 2 of this Deed shall also be deemed satisfied or permanently waived.

Signed and delivered this ____ day of _____, 19__.

ATTEST: DENVER URBAN RENEWAL AUTHORITY

By: _____
Susan Powers, Secretary

By: _____
John E. Moye, Chairman

STATE OF COLORADO)
City and) ss.
County of Denver)

The foregoing instrument was acknowledged before me this ____ day of _____, 19__ by John E. Moye as Chairman, and Susan Powers as Secretary of the Denver Urban Renewal Authority, a body corporate and politic.

WITNESS my hand and official seal.

My commission expires:_____.

SEAL

Notary Public

Address

xxi

4240.4 REV-2

APPENDIX 14

POWER OF ATTORNEY
(Limited)

KNOW ALL MEN BY THESE PRESENTS, that I (We), _____,
of the City and County of Denver, State of Colorado, reposing special trust and confidence in the duly appointed Executive Director of the Denver Urban Renewal Authority ("DURA") or his/her authorized representative, of the City and County of Denver, State of Colorado, have made, constituted and appointed, and by these presents do make, constitute and appoint the said

Executive Director of DURA my (our) true and lawful attorney to act for me (us) and in my (our) name, place and stead, and for my (our) sole use and benefit, with full power and authority to do and perform each and every act necessary, as fully as I (we) might do if personally present, to accomplish and complete the following act or transaction to wit:

In the event of my (our) default in the performance of one or more of the requirements of the Denver Affordable Homeownership Program Purchase Agreement, which I (We) have executed of even date herewith, and the resulting Re-Entry and taking by DURA of the DAHP Property pursuant to the terms of the Special Warranty Deed (Conditional Conveyance), I (We) hereby authorize DURA to locate a qualified assumptor to substitute in my (our) place as the owner-occupant of the DAHP Property and as obligors on my (our) Promissory Notes and Deeds of Trust for loans made to me (us) for the purpose of purchasing and rehabilitating the DAHP Property. We do hereby, unconditionally, consent to the assumption of our rights and obligations by the DURA-nominated assumptor, and understand that in the event this Power of Attorney is exercised by DURA I (we) shall no longer be liable pursuant to the terms of the Note(s) and Deed(s) of Trust.

This Power of Attorney shall be effective and exercisable by any duly appointed Executive Director of DURA, or his/her authorized representative.

This Power of Attorney shall not be affected by the disability of the principal(s).

This Power of Attorney shall automatically expire upon the filing by DURA of the Certificate of Satisfaction, as defined in the Special Warranty Deed.

EXECUTED this _____ day of _____, 19__.

Principal

Principal

xxii

STATE of Colorado)
City and) ss.
County of Denver)

The foregoing instrument was acknowledged before me this ____ day of _____, 19 __, by _____, the

Principal(s) .

Witness my hand and official seal.

Notary Public

xxiii

2

203(k) INDEX

Accounting of Escrow Funds: 1-20, Appendix 13
 Acceptance of Bid: 6-3
 Acceptance of Borrowers Application: 3-2.E
 Acquisition Cost: 4-3
 Additions: 1-7, 1-8
 Advertisement of HUD-owned Property: 6-7
 Affordable Homeownership Program: Chapter 7, Appendix 14
 After Rehab Value: 2-2.B, 2-3, 2-6
 Air Infiltration: 1-8
 American Society of Home Inspectors (ASHI): 3-2.C
 Amortization: 1-12
 Appliances: 1-7
 Applicant's Acknowledgement: 1-9.B, Appendix 4
 Application Forms: 1-14
 Appraisals (Required): 2-2
 Appraisal Fees: 1-10.B, 1-13.C
 Appraiser: 1-19.C, 2-6
 Appraiser's Responsibilities: 3-2.G
 Architect (Consultant): 3-2.C
 Architectural Exhibits: 1-15.A, 2-2, 2-4.C, 3-2.C & F, 5-1
 Architectural Fees: 1-10.B
 As-Is Value: 1-10.A, 1-13.C, 2-2.A, 2-3, 2-4, 4-2, 6-3
 Assignment of Mortgage: 1-18, 5-2.F
 Assumable Loan: 1-10.A
 Assuming Mortgagor: 1-10.A

 Bid Acceptance: 6-1, 6-3
 Bonding: 1-20
 Building Permits: 1-9.D, 1-10.B, 4-9
 Builder/Rehabber: 1-10.A

 Cabinetry: 5-2.C
 Case Binder (Disposition): 3-2.E, 5-3
 Change Order Request: 1-9.F, 5-2.A & B
 Claim for Insurance Benefits: 1-18, 5-2.F
 Closing Costs: 1-10.A, 2-2.A, 4-7
 Compliance Inspection Report: 1-9.B & D, 1-19.D, 5-2.C, E & F
 Community Development Block Grant (CDBG): 7-2
 Community Participation: Chapter 7
 Community Sponsored Program of
 Redevelopment or Revitalization: 1-10.C, 2-2.B, 2-6

Conditional Commitment: 1-14, 2-3, 2-4, 3-1, 4-2
 Conditional Title: 7-2, Appendix 14
 Condominium or Cooperative Unit: 1-4
 Contingency Item Inspections: 5-2.C
 Contingency Release Letter: 5-2.C, Appendix 6
 Contingency Reserve: 1-9.F, 1-10.B, 1-13.B, 5-2.B

Contingency Reserve Notice: 2-4.D, Appendix 4
Consultant: 3-2.C
Converting Non-residential Buildings: 1-4
Cost Estimate: 3-2.A, C, F & G
Cost Estimating Books: 3-2.F
Cost Increase/Decrease: 5-2.B
Cost Incidental to Closing: 4-3
Cost of Rehabilitation: 1-10.A & B, 2-4, 4-3.C

Debt Service Requirement: 4-10
Deed Restrictions: 7-1
Default: 1-18, 5-2.F
Denver Affordable Homeownership Program: Appendix 14
Detached Garage: 1-7
Direct Endorsement (DE): 1-19
DE Staff Appraiser: 1-19.C, 2-6, 3-2.G
DE Staff Inspector: 1-19.C
DE Underwriter: 1-19.D, 2-3
Description of Materials: 3-2.C
Design Consultant: 3-2.C
Discount Points: 1-11, 4-8
Discount Points on Cost of Rehabilitation: 1-10.B, 1-14.A
Downpayment: 1-10, 1-10.A
Draw Request: 1-9.B, C & D, 1-19.D, 2-4, 3-2.C, 4-9, 5-2.C & F, Appendix 9

Earnest Money Deposit: 6-5, 6-6
Earthquake Hazard Evaluation: 3-2.C
Electrical Inspection: 3-2.C, 6-4
Electrical Report: 3-2.C, 6-4
Eligible Improvements: 1-7
Eligible Property: 1-4
Endorsement by HUD: 1-3, 1-14.B, 5-1
Engineering Fees: 1-10.B
Engineering Service: 3-2.C
Escrow Commitment Certificate: 1-10.A
Escrow Commitment Procedure: 1-9.B, 1-10.A, 2-4.A, 4-5, Appendix 10
Escrow Commitment Procedure - Statement of Understanding: Appendix 8

Escrow Release: 1-9.B & C, 5-2.C & D
Existing Indebtedness: 1-10
Existing Plan: 3-2.C
Extension Fees: 6-5, 6-6
Extension of Time: 5-2.A & B
Extension to Sales Contract: 6-6

Fee Inspector (HUD-Approved): 1-9.D, 2-4
Field Reviews: 1-19.A & E
Final Inspection: 1-9.E, 5-2.C & F
Final Inspection Letter: 5-2.C, Appendix 5
Final Inspection Report: 5-2.E
Final Release of Escrow Funds: 1-9.B
Final Release Notice: 1-9.E & F, 5-2.E & F, Appendix 7

Firm Commitment: 1-14, 4-8
First Lien: 1-6, 1-9, 3-1
First Time Homebuyer: 1-10.A
Foreclosure: 5-2.F
Forms Required by this Handbook: Page vi

General Insurance Fund: 1-17

Handicap Accessibility: 1-7.I
Health, Safety and Necessity: 1-9.F, 5-2.B
Heating and Air Conditioning Systems: 1-8.A, 6-4
Heating Report: 3-2.C
Highest Net Offer: 6-3
Holdback: 1-9.B & E, 5-2.C, E & F
Homebuyers Qualification Statement: 3-2.D
Homebuyers Selection of Mortgage Lender: 3-2.D
Home-Tech "Remodeling and Renovation Cost Estimator": 3-2.F
How is the 203(k) Program Different: 1-1
How the 203(k) Program Can be Used: 1-5
Hot Tub: 1-7
HUD-accepted Bid: 6-3
HUD-owned Properties: 2-2, Chapter 6
HUD's Inventory: Chapter 6

Identity of Interest Closing Agents: 1-20
Income Analysis: 4-5
Increased Construction Costs: 1-9.F
Initial Draw Request: 5-2.C
Inspections: 1-9.D, 4-9, 5-2
Inspection Fees: 1-9.D, 1-10.B, 1-13.D

iii

4240.4 REV-2

Inspection Report: 3-2.C
Inspection Service: 3-2.C
Inspection of Utilities: 6-4
Inspectors: 1-19.C, 2-4
Insulation: 1-8.A
Insurance of Advances: 1-9.A, 5-1.B
Insurance Benefits: 1-18
Interest on Rehabilitation Escrow Account: 1-9.B
Interest Rate: 1-11
Intermediate Draw Requests: 5-2.C
Investment Property: 1-10.A
Investor: 1-10.A, 4-5, 6-1

Kitchen/Bath Cabinetry: 5-2.C

Lead Base Paint: 1-7.C
Lease Agreements: 4-5
Lenders Agent: 1-9.C
Length of Rehabilitation Construction Period: 5-2.A
Liens: 1-18
Lien Protection: 1-9.E, 1-13.B & E, 5-2.D

Listing of Handbook and CFR References: Page i
Local Government Participation: Chapter 7
Local Urban Homesteading Agency: 7-3

Manufactured (Mobile) Home: 1-4
Market Value Limitation: 1-10.C, 2-6
Market Value of the Property: 1-10.A & C, 2-2.B, 2-3, 2-4
Marketability Analysis (Preliminary): 3-2.A
Maximum Charges and Fees: 1-13
Maximum Mortgage Amount: 1-9.A, 1-10, 2-3, 2-4
Maximum Mortgage Calculation: 1-10.A
Maximum Mortgage Limit: 1-9.F
Maximum Mortgage Worksheet: 2-3, 4-7, 4-8, Appendix 11
Maximum Owner-Occupant Financing: 1-10.A
Major Remodeling: 1-9.F
Mechanics Liens: 1-18, 5-2.D
Minimum \$5,000 Requirement for Improvements: 1-7
Minor or Cosmetic Repairs: 1-7
Monthly Mortgage Payments: 1-9.G
Mortgage Credit Procedures: Chapter 4
Mortgage Credit Analysis Worksheet: 4-8
Mortgage Documents: 1-15, 1-15.A
Mortgage Insurance Certificate (Issuance): 5-1.C
Mortgage Insurance Premium (MIP): 1-17, 4-1
Mortgage Loan Closing: 4-9

iv

4240.4 REV-2

Mortgage Payment Reserve: 1-9.G, 1-10, 1-10.B, 4-10
Mortgage Position: 1-6, 1-20, 3-1
Moveon: 1-4, 1-5.B, 1-6
Multi-unit Properties: 1-4, 1-9.G

Neighborhood Improvements: 1-10.C, 2-2.B, 2-6
Newspaper Notice: 6-7
No Insured Advances: 5-1.A
Non-Occupant Mortgagor: 1-10.A
Non-profit Organization: 7-1, 7-2
Non-residential Use: 1-4

Occupancy Permit: 5-2.E
Offer to Purchase: 6-2
Origination Fee: 1-13.A, 4-8
Owner-Occupant: 1-10.A

Painting: 1-7
Permit to Occupy: 5-2.E
Plan Reviewer: 1-13.B, 3-2.C & F
Plan Reviewer's Responsibilities: 3-2.F, 5-2.G
Plan Reviewer Scheduling: 3-2.E
Plan Review Fee: 1-13.B, 3-2.G
Plot Plan: 3-2.C
Plumbing Inspection: 3-2.C, 6-4
Plumbing System Report: 3-2.C, 6-4

Post-Endorsement Review: 1-19.A
Pre-closings: 1-19.A
Preliminary Feasibility Analysis: 3-2.A
Prepayment of Mortgage Principal: 5-2.E
Prequalification of Homebuyer: 3-2.D
Principal, Interest, Taxes and Insurance (PITI): 1-9.G, 4-10
Principal Residence: 1-10.A
Property Disposition: Chapter 6
Proposed Plan: 3-2.C
Public Advertisement of HUD-owned Property: 6-7
Public Water and Sewer: 1-7.D
Purchase a Dwelling on Another Site: 1-5.B

Qualified Engineering or Inspection Service: 3-2.C, 1-10.B
Quality Control Plan: 1-20
Questions and Answers: Appendix 12

v

4240.4 REV-2

R.S. Means "Repair and Remodeling Cost Data": 3-2.F
Receiving Clerk (HUD) Responsibilities: 3-2.H
Reserve (Debt Service): 4-10
Redevelopment (Neighborhood): 1-10.C, 2-2.B, 4-6
Reduction of Mortgage Balance (Principal): 1-9.F & G, 1-10.A
Refinance: 1-5, 4-7
Regulations: 1-2
Rehabilitation Checklist: 3-2.C, Appendix 1
Rehabilitation Cost: 1-10.A & B, 2-4, 4-3.C
Rehabilitation Escrow Account: 1-9.B, 1-20, 4-9, 5-1.B, 5-2.D
Rehabilitation Loan Agreement: 1-9.C, 1-15.A & B, 2-4.B, 4-9, 5-2.A,
Appendix 2
Rehabilitation Period (Construction): 5-2
Rehabilitation Rider: 1-15.B, Appendix 3
Release of Escrow Funds: 1-9.B & C, 4-9, 5-2.C & D
Request for Insurance Endorsement: 1-14.B
Request for Payment: 1-9.C
Required Appraisals: 2-2
Required Improvements: 1-8
Requirements for Existing Housing (HUD Handbook 4905.1): 1-4
Review Appraiser: 2-3
Roofing Report: 3-2.C

Table of Contents: Page iii of Foreword
Tax-exempt Bonds: 7-2
Termite Damage: 1-9.F
Termite Report: 3-2.C
Thermal Efficiency: 1-8
Thermal Protection Report: 3-2.C
Title Company: 1-13.E, 1-20
Title Update Fee: 1-13.E
Training: 1-19.A

Sales Contract: 3-2.B, 6-5
Sale to Local Government: 6-8, 7-2

Second Lien: 1-6, 1-14.B, 1-15.B, 1-18, 3-1
Section of the Act Codes: 1-16
Section 220: 2-6
Section 223(e): 1-19.B, 2-5
Security Instrument: 1-13.E, 1-15, 1-20, 5-2.D
Seismic Zones: 3-2.C
Seven (7) Unit Limitation: 4-6
Sewer: 1-7.D
Smoke Detectors: 1-8.B

vi

4240.4 REV-2

Solar Energy Increase in Loan Amount: 1-10.D
Statement of Appraised Value (DE): 2-3, 2-4, 3-1, 4-2
Step-by-Step Procedures: 3-2
Structural Report: 3-2.C
Supplemental Origination Fee: 1-10.B, 1-13.A, 1-14
Sweat Equity: 3-2.D
Swimming Pool: 1-7

Utilities: 1-9.F, 1-13.B, 3-2.C, 6-4

Valuation Processing Procedures: 2-1
Value of the Property: 2-4.A, 4-2
Ventilation of Attic and Crawl Space: 1-8.A

Waiver of Market Value Limitation: 1-10.C
Water: 1-7.D
Weatherstripping of Doors and Windows: 1-8.A
Work Write-up: 1-9.B, 3-2.C

vii