

FHA Single Family Housing Policy Handbook

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1 **II. TITLE II INSURED HOUSING PROGRAMS FORWARD**
2 **MORTGAGES**

3 **A. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT**

4 **8. Products**

5 **b. Section 203(K) Consultant**

6 **i. Overview**

7 A Federal Housing Administration (FHA)-approved 203(k) Consultant is required for all
8 Standard 203(k) mortgages and may be used for Limited 203(k) mortgages. Any
9 consultant performing work on a 203(k) must be listed on the [FHA 203\(k\) Consultant](#)
10 [Roster](#). The consultant inspects the property and prepares the architectural exhibits, the
11 work write-up and cost estimate.

12 For information on how to become an approved 203(k) Consultant, refer to the [Doing](#)
13 [Business with FHA](#) section.

14 **ii. Consultant Duties**

15 The consultant must perform the following duties in accordance with the requirements set
16 forth below.

17 **(A) Feasibility Study**

18 If requested by the Borrower or Mortgagee to determine if a project is financially
19 feasible, the consultant must prepare a [Feasibility Study](#).

20 **(B) Consultant Inspection**

21 The Consultant must inspect the property to ensure:

- 22 • there are no rodents, dry rot, termites and other infestation on the property;
- 23 • there are no defects that will affect the health and safety of the occupants;
- 24 • the adequacy of the existing structural, heating, plumbing, electrical and
25 roofing systems; and
- 26 • the upgrading of the Structure's thermal protection (where necessary).

27 The consultant must prepare a report on the current condition of the property that
28 categorically examines the Structure utilizing the [35 point checklist](#). The report must
29 address any deficiencies that exist and certify the condition of all major systems:
30 electrical, plumbing, heating, roofing and structural.

1 The consultant must determine the repairs/improvements that are required to meet the
2 U.S. Department of Housing and Urban Development (HUD)'s Minimum Property
3 Requirements (MPR) and local requirements.

4 **(C) Architectural Exhibits**

5 The consultant is responsible for identifying all required architectural exhibits. The
6 consultant must prepare the exhibits, or, if not qualified to prepare all of the necessary
7 exhibits, must obtain the exhibits from a qualified sub-contractor.

8 **(D) Work Write-Up and Cost Estimate**

9 The consultant must prepare the work write-up and cost estimate. The work write-up
10 and cost estimate must be detailed as to work being performed per the project
11 proposal, including the necessary reports described in the [Architectural Exhibit](#)
12 [Review](#) section.

13 **(E) Draw Request Inspection**

14 The consultant must inspect the work for completion and quality of workmanship at
15 each draw request.

16 **(F) Change Order**

17 At the Borrower's or mortgagee's request, the consultant must review the proposed
18 changes to the work write-up and prepare a change order.

19 **(G) Work Stoppages or Deviations from the Approved Write-Up**

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

- 22 • work stoppages of more than 30 consecutive Days or work not progressing
23 reasonably during the rehabilitation period;
- 24 • significant deviations from the work write-up without the consultant's
25 approval;
- 26 • any issues that could affect adherence to the program requirements or property
27 eligibility; or
- 28 • any issues that could affect the health and safety of the occupants or the
29 security of the Structure.

30 **iii. Consultant Fee Schedule**

31 Below are the maximum fees that may be charged by the consultant.

1 **(A) Feasibility Study**

2 If requested by the Borrower or mortgagee to determine if a 203(k) mortgage is
3 feasible, the consultant may charge an additional fee of \$100 for the preparation of a
4 Feasibility Study.

5 **(B) Work Write-up**

6 The consultant may charge the fees listed below for the preparation of the work write-
7 up and review of architectural exhibits:

- 8 • \$400 for repairs less than \$7,500
- 9 • \$500 for repairs between \$7,501 and \$15,000
- 10 • \$600 for repairs between \$15,001 and \$30,000
- 11 • \$700 for repairs between \$30,001 and \$50,000
- 12 • \$800 for repairs between \$50,001 and \$75,000
- 13 • \$900 for repairs between \$75,001 and \$100,000
- 14 • \$1,000 for repairs over \$100,000

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

16 **(C) Draw Inspection Fee**

17 The consultant may charge \$100 per draw request.

18 **(D) Change Order Fee**

19 The consultant may charge \$100 per change order request.

20 **(E) Re-inspection Fee**

21 The consultant may charge a \$50 fee when re-inspection of a Work Item is requested
22 by the Borrower or mortgagee.

23 **(F) Mileage Fee**

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

27 **iv. Improvements Standards**

28 **(A) General Improvement Standards**

29 The consultant must ensure that the property will comply with HUD's MPR or
30 HUD's Minimum Property Standards (MPS) after the improvements are completed.

1 **(B) Improvement Standards for Storm Shelters**

2 When a storm shelter is part of the rehabilitation, the consultant must ensure that its
3 construction is consistent with guidelines issued by the Federal Emergency
4 Management Agency ([FEMA](#)).

5 **(C) Foundation Standards**

6 **(1) Existing Structure Moved to a New Foundation**

7 Prior to placement of the existing Structure on the new foundation, the Consultant
8 must obtain from the Borrower a report from a licensed structural engineer stating
9 that the foundation is structurally sound and capable of supporting the Structure.

10 After placement of the existing Structure on the new foundation, the Consultant
11 must obtain from the Borrower a report from a licensed structural engineer
12 stating that the Structure has been properly placed and secured to the new
13 foundation.

14 **(2) Structure is Reconstructed on the Existing Foundation**

15 Prior to reconstruction of the Structure, the Consultant must obtain from the
16 Borrower a report from a licensed structural engineer stating that the foundation is
17 structurally sound and capable of supporting the Proposed Construction of the
18 Structure.

19 **(3) Existing Structure will be Elevated**

20 Prior to elevation of the existing Structure, the Consultant must obtain from the
21 Borrower a report from a licensed structural engineer stating that the foundation is
22 structurally sound and capable of supporting the Structure.

23 After elevation of the existing Structure, the Consultant must obtain from the
24 Borrower a report from a licensed structural engineer stating that the Structure has
25 been properly placed and secured to the new foundation.

26 **v. Consultant 35 Point Checklist**

27 The consultant must inspect the property and address the following 35 points, if
28 applicable, in the work write-up and cost estimate:

- 29 1. **Masonry.** Describe masonry work to be performed, such as: point brick work;
30 stucco; construction of brick walls; construction/repair of brick, masonry or stone
31 chimney; etc. Most estimates must be based on square footage projections.

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- 1 2. **Siding.** Describe siding work to be performed, such as: replacement of defective
2 siding, fascia and soffits; installation of new vinyl siding with aluminum window
3 trim; etc. Most estimates must be based on square footage, lineal footage and
4 length projections.
- 5 3. **Gutters and Downspouts.** Describe gutter and downspout work to be performed,
6 such as: replacement of bad or missing gutters and downspouts; cleaning and
7 opening downspouts; installation of splash block; etc. Most estimates must be
8 based on lineal footage projections.
- 9 4. **Roof.** Describe roof work to be performed, such as: installation of a new built-up
10 roof, with new metal gravel stops; installation of 240 Sealtab asphalt shingles on
11 all roofs with a 3:12 pitch or greater; etc. Roofs that already have two layers of
12 shingles should not be roofed again. Remove the existing shingles, then roof with
13 new shingles. Most estimates must be based on square footage projections.
- 14 5. **Shutters.** Describe shutter work to be performed, such as: installation of shutters
15 at windows; etc. Most estimates must be based on pair pricing.
- 16 6. **Exteriors.** Describe exterior work to be performed, such as: removal of defective,
17 buckled wood members; providing a structurally sound porch floor, properly
18 finished; replacement of existing porch with masonry steps and stoops; providing
19 ornamental iron or wood railing or parts; etc. Most estimates must be based on
20 lineal or square footage projections.
- 21 7. **Walks.** Describe walk work to be performed, such as: installation of new concrete
22 walks; installation of concrete steps at (____), etc. Most estimates must be based
23 on square and lineal footage projections.
- 24 8. **Driveways.** Describe driveway work to be performed, such as: remove old
25 driveway and apron; install blacktop asphalt drive (minimum two feet) over
26 existing drive and apron; install new concrete driveway (minimum four feet) and
27 apron with wire mesh; etc. Most estimates must be based on square and lineal
28 footage projections.
- 29 9. **Painting (Exterior).** Describe exterior painting work to be performed, such as:
30 scrape, sand smooth and paint a minimum of two coats of good quality paint on
31 all exterior woodwork and metal; etc. Most estimates must be based on square and
32 lineal footage projections.

33 Required Work Items: All loose/flaking paint must be scraped, primed and double
34 coated. Because of the concern for lead paint ingestion, all peeling paint
35 conditions must include scraping, priming and double coating of surface areas. If
36 the property was built before 1978, paint mitigation must be in compliance with

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1 U.S. Environmental Protection Agency ([EPA](#)) regulations. Some states may
2 require more specific treatment.

3 **10. Caulking.** Describe caulking to be performed, such as: caulk all windows and
4 door frames; etc. Most estimates must be based on lineal footage or lump sum
5 projections.

6 Required Work Item: Caulk all openings, cracks or joints in the building envelope
7 to reduce air infiltration.

8 **11. Fencing.** Describe fencing work to be performed, such as: installation of new
9 fencing; resetting existing fencing; etc. Most estimates must be based on lineal
10 footage projections.

11 **12. Grading.** Describe grading work to be performed, such as: removal of debris
12 from yards; application of finish earth; grade and seed; etc. Most estimates must
13 be based on square yard and lump sum projections.

14 **13. Windows.** Describe window work to be performed, such as: installation of new
15 metal replacement windows; replacement of rotted or defective sash; replacement
16 of rotted sills at exterior; replacement of basement windows; replacement of
17 cracked/broken glass; replacement of missing glazing putty; repair or replacement
18 of screens; etc. If a particular manufactured window is used, then the work write-
19 up should specify to justify the cost of the windows. Most estimates must be
20 based on per window projections.

21 **14. Weather-stripping.** Describe weather-stripping to be performed, such as:
22 installation of new weather-stripping at all exterior doors; weather-strip all
23 windows; install metal interlocking thresholds at exterior doors; etc. Most
24 estimates must be based on per unit and linear footage projections.

25 Required Work Item: Weather-strip all doors and windows to reduce infiltration
26 of air when existing weather-stripping is inadequate or nonexistent.

27 **15. Doors (Exterior).** Describe door work to be performed, such as: install new 1
28 3/4" exterior solid core wood door(s); install 1 3/4" metal insulated door; install
29 three new door butts; install new exterior door trim; install new lockset with
30 deadbolt; etc. Most estimates must be based on per unit and linear footage
31 projections. Address weather-stripping and caulking of all replacement doors and
32 trim.

33 **16. Doors (Interior).** Describe interior door work to be performed, such as:
34 replacement of defective doors; installation of new doors with locksets;
35 installation of locksets where missing or malfunctioning; readjusting all doors for
36 proper closing; installation of bedroom closet doors; installation of bi-fold doors

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1 at (____); installation of door trim at (____); etc. Most estimates must be based on
2 per unit projections.

3 17. **Partitions** (Do not include drywall costs). Describe partitioning work to be
4 performed, such as: framing of new walls and partitions; framing for new closet;
5 etc. Most estimates must be based on lineal or square footage projections.

6 18. **Plaster/Drywall**. Describe plaster and drywall work to be performed, such as:
7 patch all defective plaster/drywall; finish smooth with existing wall/ceiling finish;
8 install drywall at (____); etc. Most estimates must be based on lump sum and
9 square footage projections.

10 19. **Decorating**. Describe painting work to be performed, such as: paint interior
11 walls; remove all existing wallpaper at (____); wallpaper walls at (____); remove
12 lead paint contamination and refinish surfaces at (____); etc. Most estimates must
13 be based on square and lineal footage projections.

14 Required Work Items: All loose/flaking paint must be scraped, primed and double
15 coated. Because of the concern for lead paint ingestion, all peeling paint
16 conditions must include scraping, priming and double coating of surface areas. If
17 the property was built before 1978, paint mitigation must be in compliance with
18 [EPA](#) regulations. Some states may require more specific treatment.

19 20. **Wood Trim**. Describe wood trim work to be performed, such as: replace all
20 cracked, broken, mismatched trim, jambs, etc.; remove all unused hinges, curtain
21 rod hangers, nails, screws, etc.; replace all wood trim at interior door units, base,
22 shoe & other trim; replace defective wall paneling at (____); etc. Most estimates
23 must be based on square and lineal footage, per unit, and lump sum projections.

24 21. **Stairs**. Describe stair work to be performed, such as: replace bad basement treads
25 and risers; replace main stairs, treads and risers; replace broken and/or missing
26 baluster; provide handrails; install new stairs at (____); etc. Most estimates must
27 be based on lump sum and lineal footage projections.

28 Required Work Items: Stairways must have hand rails; broken and/or missing
29 baluster must be replaced.

30 22. **Closets**. Describe closet work to be performed, such as: install new shelves,
31 clothing rods; etc. Most estimates must be based on lineal footage projections.

32 23. **Wood Floors**. Describe wood floor work to be performed, such as: replace all
33 defective flooring, holes in floors, etc., with wood flooring to match existing
34 floors; sand, fill and refinish wood floors; install new hardwood floors at (____);
35 etc. Most estimates must be based on square footage projections.

- 1 24. **Finish Floors.** Describe finish floor work to be performed, such as: install vinyl
2 asbestos tile or sheet goods with 1/4" underlayment at (____); install carpet and
3 pad at (____); etc. Specify nonstandard type flooring to justify the cost estimate.
4 Most estimates must be based on square yard projections.
- 5 25. **Ceramic Tile.** Describe ceramic tile work to be performed, such as: install
6 ceramic tile wainscot in bathtub area for shower height; install ceramic tile floor
7 at (____); install Marlite wainscot in bathtub area for shower height; replace
8 defective tile in bath; replace defective tile in kitchen; etc. Most estimates must be
9 based on square footage or lump sum projections.
- 10 26. **Bath Accessories.** Describe bath accessory work to be performed, such as:
11 replace medicine cabinet in bath; install towel bar(s); install soap dish; install grab
12 bar in tub/shower; etc. Most estimates must be based on per unit projections.
- 13 27. **Plumbing.** Describe plumbing work to be performed, such as: install new hot and
14 cold water piping; install 30 gallon (minimum) glass-lined gas hot water heater
15 (52 gallon if electric); install new kitchen stainless steel sink; install three-piece
16 bathroom with shower over tub; install laundry tray with faucet; replace washers
17 at faucets; replace defective sewer lines; connect to public sewer line; replace
18 defective faucet at (____); etc. Most estimates must be based on per unit, lump
19 sum and lineal footage projections.
- 20 Required Work Item: When feasible, connect to public sewer systems where
21 available.
- 22 28. **Electrical.** Describe electrical work to be performed, such as: install 100 amp
23 service; replace frayed exterior wire from service to main and into exterior panel
24 box; install new ceiling light wall switches; install new lighting fixtures at (____);
25 install new exterior lighting; replace wall receptacles; install three-way switch;
26 install smoke detectors; install exterior wall exhaust fan(s); etc. Most estimates
27 must be based on per unit and lump sum projections.
- 28 Required Work Items: The amp service must be upgraded to the greater of 100
29 amp or local code. Each sleeping area must be provided with a minimum of one
30 approved, listed and labeled smoke detector installed adjacent to the sleeping
31 area. Smoke detectors may be battery powered when installed in existing or
32 rehabilitated Structures. However, where new construction is being added to an
33 existing building, the smoke detector must receive its primary power from the
34 building wiring, in conformance to local codes and ordinances.
- 35 29. **Heating.** Describe heating and air conditioning work to be performed, such as:
36 install new forced warm air heater; install new hot water boiler; install automatic
37 flow control valve; install temp control valve at boiler; install heat supply outlet in
38 each room; install high performance items such as geothermal heating and

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1 cooling, wind energy systems or photovoltaic systems; etc. Most estimates must
2 be based on per unit and lump sum projections.

3 Required Work Items: Heating systems, burners and air conditioning systems
4 must be carefully sized to be no greater than 15 percent oversized, except to
5 satisfy the manufacturer's next closest nominal size. If a new heating/cooling
6 system is proposed, the Borrower should ensure that the contractor properly sizes
7 the system.

8 **30. Insulation.** Describe insulation work to be performed, such as: install insulation
9 in crawl space, (R-____); install insulation batts in attic, (R- ____); install
10 insulation batts in exterior walls, (R-____); etc. Most estimates must be based on
11 square footage projections.

12 Required improvements:

- 13 • Insulate all openings in exterior walls where the cavity has been exposed
- 14 as a result of the rehabilitation.
- 15 • Insulate ceiling areas where necessary.
- 16 • Replacement heating, ventilating, and air conditioning systems supply and
- 17 return pipes and ducts must be insulated whenever they run through
- 18 unconditioned spaces.

19
20 **31. Cabinetry.** Describe cabinetry work to be performed, such as: install new base
21 cabinets at (____); install new kitchen countertop; install new vanity at (____);
22 replace vanity countertop at (____); etc. It may be necessary to provide cabinet
23 elevations to show proper placement of cabinets. Most estimates must be based on
24 lump sum and linear footage projections.

25 **32. Appliances.** Describe new appliances to be installed, such as: install new range at
26 (____); install new refrigerator at (____); install new dishwasher at (____); etc.
27 Most estimates will involve per unit projections.

28 Required Work Item: Appliances must be new to be included in the mortgage.
29 The Borrower may provide used appliances; however, the cost cannot be included
30 in the mortgage.

31 **33. Basements.** Describe basement work to be performed, such as: install minimum
32 three feet thick concrete floor; cement parge basement walls; provide dry
33 basement; install new sump pump; replace termite (or other wood-boring insect)
34 damaged joists; etc. Most estimates must be based on lump sum, per unit, and
35 square footage projections.

36 **34. Cleanup.** Describe cleanup work to be performed, such as: remove debris from
37 property exterior; remove debris from property interior; broom clean all floors,

1 clean all windows; clean all plumbing fixtures and appliances; rental for
2 dumpster; etc. Most estimates must be based on lump sum projections.

3 35. **Miscellaneous.** Describe any other work to be performed, such as: demolition of
4 existing house or garage; repair of detached outbuildings; move existing house
5 onto mortgaged lot; installation of new foundation; landscaping; repair of
6 swimming pools; etc.

7 **vi. Architectural Exhibit Review**

8 The consultant must prepare or obtain and review all applicable architectural exhibits.
9 Architectural exhibits may include, but are not limited to, the following:

- 10 • well certification;
- 11 • septic certification;
- 12 • termite report (including all outbuildings);
- 13 • proposed plot plans for new additions;
- 14 • foundation certification by a licensed structural engineer if:
 - 15 ○ the existing Structure will be moved to a new foundation;
 - 16 ○ the Structure is being reconstructed on the existing foundation; or
 - 17 ○ the existing Structure will be elevated.
- 18 • cabinetry plans and elevations;
- 19 • new construction exhibits to obtain a building permit for an addition;
- 20 • a grading and drainage plan; or
- 21 • engineering and soil/geotechnical reports.

22 **vii. Preparing the Work Write-Up**

23 The consultant must prepare a work write-up that identifies each Work Item. The work
24 write-up must be prepared in a categorical manner that addresses each of the 35 point
25 checklist items. The consultant must separately identify labor costs and itemize the cost
26 of each material per Work Item. Work Item refers to a specific repair or improvement
27 that will be performed.

28 **(A) Conformance with Minimum Property Requirements or Minimum Property** 29 **Standards**

30 The work write-up must specifically identify whether the Work Item is required to
31 meet MPS or MPR or is a Borrower elective.

32 **(B) Health and Safety**

33 The consultant must ensure that all health and safety concerns and any appraiser
34 requirements are addressed in the work write-up before the addition of any other
35 Work Items.

1 **viii. Feasibility Study**

2 If requested by the Borrower or mortgagee, the consultant must perform a Feasibility
3 Study that consists of a preliminary inspection of the property and an estimate of the
4 materials and cost for the work that will be necessary to comply with HUD requirements.

5 **ix. Draw Request Inspection**

6 The consultant must perform draw request inspections when requested by the mortgagee.
7 The consultant must ensure that all building permits are onsite for the work that was
8 performed. The consultant must ensure that the work:

- 9 • has been completed satisfactorily; and
- 10 • conforms to all local codes and ordinances.

11 **x. Change Order**

12 When requested by the mortgagee or the Borrower, the consultant must review the
13 proposed changes or additions to the work write-up. The consultant must evaluate any
14 costs and adjust other Work Items, if necessary, to complete the change order. The
15 consultant must provide all costs for labor and materials as a result of the change order on
16 form [HUD-92577](#), *Request for Acceptance of Changes in Approved Drawings and*
17 *Specifications*. The proposed work per the change order is not permissible to proceed
18 until approved by the mortgagee.

19 **xi. Additional Required Documentation**

20 The consultant must provide the mortgagee with the following documentation.

21 **(A) 203(k) Consultant's Certification**

22 All consultants are required to sign the following certification after
23 preparing/reviewing the work write-up and cost estimate, stating:

24 *"I hereby certify that I have carefully inspected this property for compliance with*
25 *the general acceptability requirements (including health and safety) in HUD's*
26 *Minimum Property Requirements or Minimum Property Standards. I have*
27 *required as necessary and reviewed the architectural exhibits, including any*
28 *applicable engineering and termite reports, and the estimated rehabilitation cost*
29 *and they are acceptable for the rehabilitation of this property. I have no personal*
30 *interest, present or prospective, in the property, applicant, or proceeds of the*
31 *mortgage. I also certify that I have no identity-of-interest or conflict-of-interest*
32 *with the borrower, seller, mortgagee, real estate agent appraiser, plan reviewer,*
33 *contractor, or subcontractor or any party with a financial interest in the*
34 *transaction. To the best of my knowledge, I have reported all items requiring*

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1 contingency items and other changes that may increase or decrease the cost of
2 rehabilitation or the value of the property.

3 Work must be 100 percent complete on each change order item before the consultant
4 may authorize release of funds for the work noted on the change order.

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GLOSSARY

1

2 **Borrower**

3 Borrower refers to each and every Borrower on the loan application. It is used to cover all (one
4 or many) Borrowers applying for the mortgage.

5

6 **Days**

7 Days refer to calendar days.

8

9 **Dwelling Unit**

10 Dwelling Unit refers to a single unit of residence for a household of one or more persons.

11

12 **Proposed Construction**

13 Proposed Construction refers to a property where no concrete or permanent materials have been
14 placed. Digging of footing and placement of rebar is not considered permanent.

15

16 **Structure**

17 Structure refers to a building that has a roof, walls, and stands permanently in one place which
18 contains single or multiple housing units that are used for human habitation.

19

20 **Work Item**

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

22

1

ACRONYMS

- 2 **EPA** - U.S. Environmental Protection Agency
3 **FEMA** - Federal Emergency Management Agency
4 **FHA** - Federal Housing Administration
5 **HUD** - U.S. Department of Housing and Urban Development
6 **IRS** - Internal Revenue Service
7 **MPR** - Minimum Property Requirements
8 **MPS** - Minimum Property Standards

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