FHA Single Family Housing Policy Handbook

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a. Section 203(k) Rehabilitation Mortgage Insurance Program

i. Overview

The Section 203(k) Rehabilitation Mortgage Insurance Program is used to:

- rehabilitate an existing one- to four-unit Structure, which will be used primarily for residential purposes;
- rehabilitate such a Structure and refinance any outstanding indebtedness on the Structure and the real property on which the Structure is located; or
- purchase and rehabilitate a Structure and purchase the real property on which the Structure is located.

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

Mortgages to be insured under Section 203(k) must be processed and underwritten in accordance with the requirements in Origination Through Post-Closing/Endorsement, except where noted otherwise in this appendix.

(A) Types of 203(k) Rehabilitation Mortgages

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

(1) Standard 203(k)

The Standard 203(k) mortgage may be used for remodeling and repairs. There is a minimum repair cost of $5,000 and the use of a 203(k) Consultant is required.

(2) Limited 203(k)

The Limited 203(k) may only be used for minor remodeling and non-structural repairs. The Limited 203(k) does not require the use of a 203(k) Consultant, but a consultant may be used. The total rehabilitation cost must not exceed $35,000. There is no minimum cost.

(B) Eligible Supplemental Programs and Products

A 203(k) mortgage may be used in conjunction with the following:

- Section 203(h) Mortgage Insurance for Disaster Victims
- Energy Efficient Mortgages
- Weatherization
- Solar and Wind Technologies

ii. Borrower Eligibility

The Borrower must meet the eligibility requirements found in the Borrower Eligibility section, and the additional guidance provided here related to nonprofit agency Borrowers.

The Mortgagee must verify and document the Nonprofit agency Borrower's caseload. The Mortgagee must review the Nonprofit List in FHA Connection (FHAC), and ensure the maximum 203(k) case load limitation is not exceeded for nonprofit Borrowers.

iii. Property Eligibility

The property must be an existing property that has been completed for at least one year prior to the case assignment date.

A property that is not eligible for a 203(b) mortgage due to health and safety or security issues may be eligible under 203(k) if the rehabilitation or repair work performed will correct such issues.

The following property types may be financed:

- a one- to four-unit single family Structure;
- an individual condominium unit, meeting the following requirements:
  - the unit must be located in an FHA-approved Condominium Project and must comply with all other requirements for condominiums;
  - rehabilitation or improvements are limited to the interior of the unit, except for the installation of firewalls in the attic for the unit;
  - no more than five units per condominium association, or 25 percent of the total number of units, whichever is less, can be undergoing rehabilitation at any time; and
  - after rehabilitation is complete, the unit is located in a Structure containing no more than four units;
- a site condominium unit;
- Manufactured Housing where the rehabilitation does not affect the structural components of the Structure that were designed and constructed in conformance with the Federal Manufactured Home Construction and Safety Standards and must comply with all other requirements for Manufactured Housing;

- Mixed Use one- to four-unit single family property, provided:
  - 51 percent of the entire building square footage is for residential use; and
  - the commercial use will not affect the health and safety of the occupants of the residential property;
- HUD Real Estate Owned (REO):
  - The property is identified as eligible for 203(k) financing as evidenced in the sales contract or addendum. Investor purchases of HUD REO properties are not eligible for 203(k) financing.

iv. Application Requirements

The Mortgagee must provide the Borrower with the form HUD-92700-A, *203(k) Borrower's Acknowledgment*.

v. Case Number Assignment Data Entry Requirements

In order to request a case number for a 203(k) Mortgagee, the Mortgagee must enter the following info:

(A) 203(k) Program Type Indicator

The Mortgagee must select either Standard 203(k) or Limited 203(k) as the program type.

(B) Consultant Identification Number

The Mortgagee must enter the consultant identification number into the "Consultant ID" field on the "Case Number Assignment" screen in FHAC. For a Limited 203(k) with no consultant, the Mortgagee must enter "203KS" in the "Consultant ID" field.

(C) Automated Data Processing Code

The Mortgagee must enter the appropriate 203(k) Automated Data Processing (ADP) code.

(D) Construction Code

The Mortgagee must enter "Substantial Rehabilitation" in the drop-down menu labeled "Construction Code."

(E) Refinance Type

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

(F) Converting From a Non-203(k) to a 203(k) Mortgage

If the Mortgagee had originally requested the case number assignment for a non-203(k) mortgage, the Mortgagee must update the existing case data in the "Case Number Assignment" screen, changing the ADP Code to a valid 203(k) ADP Code and the "Construction Code" to "Substantial Rehabilitation."

vi. Standard 203(k) Transactions

(A) Standard 203(k) Eligible Improvements

The Standard 203(k) requires a minimum of $5,000 in eligible improvements.

(1) Types of Improvements

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

- converting a one-family Structure to a two-, three- or four-family Structure;
- decreasing an existing multi-unit Structure to a one- to four-family Structure;
- reconstructing a Structure that has been or will be demolished, provided the complete existing foundation system is not affected and will still be used;
- elevating an existing Structure;
- purchasing an existing Structure on another site, moving it onto a new foundation and repairing/renovating it;
- making structural alterations such as the repair or replacement of structural damage, additions to the Structure, and finished attics and/or basements;
- rehabilitation or improvements to a detached garage;
- construction of a new garage that is attached to the Structure;
- eliminating health and safety hazards that would violate HUD's Minimum Property Requirements (MPR);
- installing or repairing wells and/or septic systems;
- repairing/replacing plumbing, heating, AC and electrical systems;
- making changes for improved functions and modernization;
- making changes for aesthetic appeal;
- repairing or adding roofing, gutters and downspouts;
- making energy conservation improvements;
- creating accessibility for persons with disabilities;
- installing or repairing fences, walkways, and driveways;
- installing a new refrigerator, cooktop/oven, dishwasher, built-in microwave oven, and washer/dryer;
- repairing a swimming pool;

- installing smoke detectors;
- making site improvements;
- landscaping;
- installing or repairing exterior decks, patios, and porches;
- covering lead-based paint stabilization costs; and
- constructing a windstorm shelter.

(2) Improvements Standards

(a) General Improvement Standards

All improvements to existing Structures must comply with HUD's MPR. For a newly constructed addition to the existing Structure, the energy improvements must meet or exceed local codes and the requirements of the 2006 International Energy Conservation Code (IECC) or a successor energy code standard that has been adopted by HUD for its Minimum Property Standards (MPS).

(b) Specific Improvement Standards

Any addition of a Structure unit must be attached to the existing Structure. Site improvements, landscaping, patios, decks and terraces must improve the Property Value equal to the dollar amount spent on the improvements or be necessary to preserve the property from erosion.

(B) Standard 203(k) Ineligible Improvements/Repairs

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

- recreational or luxury improvements, such as:
  - swimming pools (existing swimming pools can be repaired)
  - an exterior hot tub, spa, whirlpool bath, or sauna
  - barbecue pits, outdoor fireplaces or hearths
  - bath houses
  - tennis courts
  - satellite dishes
  - tree surgery (except when eliminating an endangerment to existing improvements)
  - photo murals
  - gazebos; or
- additions or alterations to support commercial use or to equip or refurbish space for commercial use.

(C) Standard 203(k) Establishing Repairs and Improvements

The Mortgagee must select an FHA-approved 203(k) Consultant from the FHA 203(k) Consultant Roster. The Consultant must inspect the property and prepare the Work Write-Up and Cost Estimate.

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

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

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

Exception for Borrowers Doing Own Work

For Borrowers performing their own work under a Rehabilitation Self-Help Agreement, the Consultant must identify on the Work Write-Up each Work Item to be performed by the Borrower.

(D) Standard 203(k) Financeable Repair and Improvement Costs and Fees

The following repair and improvement costs and fees may be financed:

- costs of construction, repairs and rehabilitation;
- architectural/engineering professional fees;
- the 203(k) Consultant fee subject to the limits in the 203(k) Consultant Fee Schedule section;
- inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- title update fees;
- permits; and
- a Feasibility Study, when necessary to determine if the rehabilitation is feasible.

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

(E) Standard 203(k) Financeable Contingency Reserve

Contingency Reserve refers to funds that are set aside to cover unforeseen project costs.

The Mortgagee must refer to the following chart to determine when a contingency reserve is required. The minimum and maximum Contingency Reserve is established as a percentage of the Financeable Repair and Improvement Costs.

For Structures with an actual age of less than 30 years:

	Minimum	**Maximum**
Required when evidence of termite damage	10%	20%
Discretionary	No Minimum	20%

For Structures with an actual age of 30 years or greater:

	Minimum	**Maximum**
Required	10%	20%
Required when utilities not turned on at the time of inspection	15%	20%

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

A Mortgage Payment Reserve refers to an amount set aside to make mortgage payments when the property cannot be occupied during rehabilitation.

A Mortgagee may establish a financeable Mortgage Payment Reserve, not to exceed six months of Mortgage Payments.

(G)Standard 203(k) Financeable Mortgage Fees

The Mortgagee may finance the following fees and charges.

(1) Origination Fee

The Mortgagee may finance a portion of the Borrower-paid origination fee not to exceed the greater of $350 or 1.5 percent of the total of the Financeable Repair and Improvement Costs, Financeable Contingency Reserves and Financeable Mortgage Payment Reserves.

(2) Discount Points

The Mortgagee may finance a portion of the Borrower-paid discount points not to exceed an amount equal to the discount point percentage multiplied by total of Financeable Repair and Improvement Costs, Financeable Contingency Reserves and Financeable Mortgage Payment Reserves.

(H) Standard 203(k) Documentation and Review

(1) Consultant's Work Write-Up and Cost Estimate

The Mortgagee must obtain the consultant's Work Write-Up and Cost Estimate for all Standard 203(k) mortgages. The Mortgagee must ensure the Work Write-Up/Cost Estimate specifies the type of repair and cost of each Work Item. The Mortgagee must review the work write-up and ensure that all health and safety issues identified were addressed before including additional Work Items.

(2) Architectural Exhibits

The Mortgagee must obtain and review all applicable architectural exhibits.

(3) Sales Contract

The Mortgagee must ensure that the sales contract includes a provision that the Borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by the Mortgagee.

When the Borrower is financing a HUD REO, the Mortgagee must ensure that the first block on Line 4 of the sales contract is checked, as well as the applicable block for 203(k).

vii. Limited 203(k) Transactions

(A) Limited 203(k) Eligible Improvements

The Limited 203(k) may only be used for minor remodeling and non-structural repairs. The total rehabilitation cost may not exceed $35,000. There is no minimum repair cost.

(1) Types of Improvements

Eligible improvement types include, but are not limited to:

- eliminating health and safety hazards that would violate HUD's MPR;
- repairing or replacing wells and/or septic systems;
- repairing/replacing plumbing, heating, AC and electrical systems;
- making changes for improved functions and modernization;
- eliminating obsolescence;
- repairing or installing new roofing, siding, gutters and downspouts;
- making energy conservation improvements;
- creating accessibility for persons with disabilities;
- installing or repairing fences, walkways, and driveways;

- installing a new refrigerator, cooktop/oven, dishwasher, built-in microwave oven and washer/dryer;
- repairing a swimming pool;
- installing smoke detectors;
- installing, replacing or repairing exterior decks, patios, and porches; and
- covering lead-based paint stabilization costs (above and beyond what is paid for by HUD when it sells REO properties).

(2) Improvements Standards

(a) General Improvement Standards

All improvements to existing Structures must comply with HUD's MPR.

(b) Specific Improvement Standards

Site improvements must improve the Property Value equal to the dollar amount spent on the improvements or be necessary to preserve the property from erosion.

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

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

- The repair or improvements are expected to require more than six months to complete.
- The rehabilitation activities require more than two payments per specialized contractor.
- The required repairs arising from the appraisal:
  - necessitate a consultant to develop a specification of repairs/work write-up; or
  - require plans or architectural exhibits.
- The repair prevents the Borrower from occupying the property for more than 15 Days during the period of rehabilitation.

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

- converting a one-family Structure to a two-, three- or four-family Structure;
- decreasing an existing multi-unit Structure to a one- to four-family Structure;
- reconstructing a Structure that has been or will be demolished;
- elevating an existing Structure;
- purchasing an existing Structure on another site and moving it onto a new foundation;

- making structural alterations such as the repair of structural damage, new construction including room additions, and finished attics and/or basements;
- landscaping and site improvements;
- constructing a windstorm shelter;
- making additions or alterations to support commercial use or to equip or refurbish space for commercial use; and/or
- making recreational or luxury improvements, such as:
  - new swimming pools
  - an exterior hot tub, spa, whirlpool bath, or sauna
  - barbecue pits, outdoor fireplaces or hearths
  - bath houses
  - tennis courts
  - satellite dishes
  - tree surgery (except when eliminating an endangerment to existing improvements)
  - photo murals
  - gazebos

(C) Limited 203(k) Establishing Repair and Improvement Costs

The Borrower must submit a work plan and use one or more licensed contractors to provide the cost estimate and complete the required improvements and repairs. The Borrower must provide the contractors' credentials and contractors' bids.

The Mortgagee must review the contractors' credentials to determine acceptability. The Mortgagee must examine the work plan and the contractors' bids and determine that they fall within the usual and customary range for similar work.

Exception for Borrowers Doing Own Work

For Borrowers performing their own work under a Rehabilitation Self-Help Agreement, the Borrower must submit a work plan detailing the Work Items to be performed by the Borrower and a Cost Estimate from a licensed contractor other than the Borrower that provides a breakdown of the cost for labor and materials for each Work Item.

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

The following costs and fees may be financed:
- costs of construction, repairs and rehabilitation;
- inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- title update fees; and
- permits.

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

(E) Limited 203(k) Financeable Contingency Reserves

A contingency reserve is not mandated; however, at the Mortgagee's discretion, a contingency reserve account may be established and may be financed. The contingency reserve account may not exceed 20 percent of the Financeable Repair and Improvement Costs.

The Borrower may provide their own funds to establish the Contingency Reserves. Where the Borrower has provided their own funds for Contingency Reserves, they must be held in a separate account from the Repair Escrow Account.

(F) Limited 203(k) Financeable Mortgage Fees

The Mortgagee may include the following fees and charges in the rehabilitation cost estimates.

(1) Origination Fee

The Mortgagee may include a portion of the Borrower-paid origination fee not to exceed the greater of $350 or 1.5 percent of the total of the Financeable Repair and Improvement Costs and Financeable Contingency Reserves.

(2) Discount Points

The Mortgagee may include a portion of the Borrower-paid discount points not to exceed an amount equal to the discount point percentage multiplied by total of Financeable Repair and Improvement Costs and Financeable Contingency Reserves.

(G) Limited 203(k) Ineligible Fees and Costs

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

- mortgage payment reserves
- architectural/engineering professional fees
- 203(k) Consultant fee
- a Feasibility Study

(H) Limited 203(k) Required Documentation

The following documentation is required for the Limited 203(k):

(1) Work Plan

The Mortgagee must obtain a work plan from the Borrower or a 203(k) Consultant detailing the proposed repairs or improvements.

(2) Written Proposal and Cost Estimates

The Mortgagee must obtain a written proposal and cost estimate from a licensed and bonded contractor for each specialized repair or improvement. The Mortgagee must ensure that the selected contractor meets all jurisdictional licensing and bonding requirements. The cost estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials.

The Mortgagee must obtain written cost estimates for each Work Item, broken down by labor and materials, to be performed by the Borrower under a self-help agreement.

(3) Sales Contract

The Mortgagee must obtain a copy of the sales contract and ensure that the sales contract includes a provision that the Borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by the Mortgagee.

When the Borrower is financing a HUD REO, the Mortgagee must ensure that the first block on Line 4 of the sales contract is checked, as well as the applicable block for 203(k).

viii. Appraisals for Standard 203(k) and Limited 203(k)

(A) Establishing Value

The Mortgagee must establish both an Adjusted As-Is Value and an after-improved value of the property after ordering both an as-is and after-improved appraisal.

(1) Separate Appraisal Reports

The Mortgagee must order two separate appraisal reports, one for the as-is appraisal and one for the after-improved appraisal. The Mortgagee may order both reports from the same appraiser.

(2) Adjusted As-Is Value

The Mortgagee must establish the Adjusted As-Is Value as described below.

(a) Purchase Transactions

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

- the purchase price less any inducements to purchase; or
- the As-Is Property Value.

The As-Is Property Value refers to the Value as determined by the FHA Roster appraiser, except in the case of Property Flipping.

(b) Refinance Transactions

The Mortgagee must obtain an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the property plus the Financeable Repairs and Improvement Costs, for Standard 203(k) or Limited 203(k); Financeable Mortgage Fees for Standard 203(k) or Limited 203(k); Financeable Contingency Reserves for Standard 203(k) or Limited 203(k); and Financeable Mortgage Payment Reserves for Standard 203(k) only exceeds the after-improved value, or the property was acquired within 12 months of the case assignment date.

i. Properties Acquired Greater Than or Equal to 12 Months Prior to the Case Assignment Date

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

When the existing debt on the property plus the Financeable Repairs and Improvement Costs, for Standard 203(k) or Limited 203(k); Financeable Mortgage Fees for Standard 203(k) or Limited 203(k); Financeable Contingency Reserves for Standard 203(k) or Limited 203(k); and Financeable Mortgage Payment Reserves for Standard 203(k) only does not exceed the after-improved value, the Mortgagee has the option of using the existing debt or an as-is appraisal to determine the Adjusted As-Is Value.

ii. Properties Acquired Less Than 12 Months Prior to the Case Assignment Date

For properties acquired by the Borrower within 12 months of the case assignment date, the Adjusted As-Is Value is the lesser of:

- the lowest Acquisition Cost of the property in the past 12 months, plus any documented improvements made subsequent to the purchase; or
- the As-Is Property Value.

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

(c) HUD REO Transactions

The Mortgagee must establish the Adjusted As-Is Value for HUD REO transactions in accordance with HUD REO Purchase Guidance.

(3) After-Improved Value

To establish the after-improved value, the Mortgagee must obtain an appraisal of the property subject to the repairs and improvements.

(B) Documents to be Provided to the Appraiser at Assignment

The Mortgagee must provide the appraiser with a copy of the consultant's work write-up and cost estimate for a Standard 203(k), or the contractor's proposal and cost estimates for a Limited 203(k).

ix. Maximum Mortgage Amount for Purchase

The maximum mortgage amount that FHA will insure on a 203(k) purchase is the lesser of:

- the appropriate Loan-to-Value (LTV) factor from the Purchase Loan-to-Value Limits, multiplied by the lesser of:
  - the Adjusted As-Is Value, plus:
    - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
    - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
    - Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
    - Financeable Mortgage Payment Reserves, for Standard 203(k) only; or
  - 110 percent of the after-improved value (100 percent for condominiums); or
- the Nationwide Mortgage Limits.

(A) HUD REO

The Mortgagee must establish the maximum mortgage amount that FHA will insure on a HUD REO 203(k) purchase in accordance with HUD REO Purchase Guidance.

(B) Property Flipping

If the property sold within the previous 12 months, the Mortgagee must determine the As-Is Property Value in accordance with Restrictions on Property Flipping.

x. Maximum Mortgage Amount for Refinance

The maximum mortgage amount that FHA will insure on a 203(k) refinance is the lesser of:

- the appropriate LTV factor below, multiplied by the lesser of:
  - the existing debt, plus:
    - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
    - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
    - Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
    - Financeable Mortgage Payment Reserves, for Standard 203(k) only; or
  - the Adjusted As-Is Value, plus:
    - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
    - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);

  - Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
  - Financeable Mortgage Payment Reserves, for Standard 203(k) only); or
- 110 percent of the after-improved value (100 percent for condominiums); or
- the Nationwide Mortgage Limits.

(A) LTV Factors for Refinance

The table below describes the relationship between the Borrower's Minimum Decision Credit Score and the LTV ratio for which they are eligible.

If the Borrower's minimum Decision Credit Score is:	Then the Borrower is:
at or above 580	eligible for maximum financing of 97.75%.
between 500 and 579	limited to a maximum LTV of 90%.

For Secondary Residences, the maximum LTV is 85 percent.

(B) Required Documentation

The Mortgagee must obtain the mortgage payoff statement for existing debt.

For properties acquired less than 12 months prior to the case assignment date, the Mortgagee must document the lowest Acquisition Cost in the past 12 months by obtaining a copy of the Settlement Statement or other legal documentation evidencing Acquisition Cost.

If improvements were made to the property subsequent to the acquisition, the Mortgagee must document the associated cost of the improvements by obtaining independent documentation, including but not limited to:

- a contract for completion of work
- materials cost and paid receipts
- permit costs

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

The Mortgagee must calculate the maximum mortgage amount without factoring in the cost of Energy Efficient Mortgage (EEM) items, weatherization items, and solar energy systems. The Mortgagee may then add the cost of these improvements to determine the Base Loan Amount. The Base Loan Amount may not exceed 110 percent of the after-improved value of the property.

For Limited 203(k) transactions, the costs for energy improvements can be in addition to the $35,000 limit on total rehabilitation cost.

xii. Combined Loan-to-Value

(A) Secondary Financing Provided by Governmental Entities, Homeownership and Opportunity for People Everywhere Grantees, and HUD-Approved Nonprofits

There is no Combined Loan-to-Value (CLTV) for secondary financing meeting the requirements found in Governmental Entities, Homeownership and Opportunity for People Everywhere (HOPE) Grantees, and HUD-Approved Nonprofits.

(B) Secondary Financing Provided by Family Members

There is no CLTV for secondary financing meeting the requirements found in Family Members.

(C) Secondary Financing Provided by Private Individuals and Other Organizations

The maximum CLTV for secondary financing provided by private individuals and other organizations is 110 percent of the after-improved value. Secondary financing provided by private individuals and other organizations may not be used to meet the Borrower's minimum downpayment requirement.

xiii. Mortgage Insurance Premium

The Mortgagee must comply with the Mortgage Insurance Premium (MIP) requirements found in the Mortgage Insurance Premiums Chart.

For the purpose of calculating the LTV for application of the MIP, the Mortgagee must divide the Base Loan Amount by the after-improved value.

xiv. Underwriting

The Mortgagee must comply with the underwriting requirements found in Origination Through Post-Closing/Endorsement and the additional guidance provided below.

(A) Required Documentation Standard 203(k) and Limited 203(k)

(1) Identity-of-Interest Certification

The Mortgagee must ensure there is no identity-of-interest between parties in the 203(k) transaction. The Borrower and the 203(k) Consultant must each sign an identity-of-interest certification that is placed in the case binder.

If the Borrower selected a 203(k) Consultant to perform a Feasibility Study, the Mortgagee may select the same 203(k) Consultant for the project without creating an identity-of-interest.

(a) Borrower's Certification

The Borrower must sign a certification stating the following:

"I hereby certify to the Department of Housing and Urban Development (HUD) and (lender), that I/We do not have an identity-of-interest with the seller or 203(k) Consultant of the property. I also certify that I/We do not have a conflict-of-interest with any other party to the transaction, including the real estate agent, mortgagee, contractor, 203(k) Consultant and/or the appraiser. In addition, I certify that I am not obtaining any source of funds or acting as a "strawbuyer" for another individual, partnership, company or investment club and I/We _______will/will not_______ occupy the residence I/We are purchasing or refinancing."

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

________________________________	________________________
Borrower's Signature	*Date*
________________________________	________________________
Co-borrower's Signature	*Date*

(b) 203(k) Consultant's Certification

All 203(k) Consultants are required to sign the following certification after preparing/reviewing the work write-up and cost estimate, stating:

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

requiring correction and that the rehabilitation proposal now meets all HUD requirements for 203(k) Rehabilitation Mortgage Insurance."

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C 1001, 1010, 1012; 31 U.S.C 3729, 3802).

________________________________ _______________________
Consultant's Signature *Date*

(2) Borrower Acting as General Contractor or Doing Own Work (Self-Help)

The Mortgagee must document approval for the Borrower to act as the general contractor or to complete their own work.

- The Mortgagee must verify and document that the Borrower is either a licensed general contractor or can document experience in completing rehabilitation projects.
- The Mortgagee must ensure the Borrower demonstrates the necessary expertise and experience to perform the specific repair competently and timely.
- The Mortgagee must instruct the Borrower of the requirement to maintain complete records showing the actual cost of rehabilitation, including paid receipts for materials and Lien Waivers from any subcontractors.
- The Mortgagee must ensure all permits are obtained prior to commencement of work.
- The Mortgagee must obtain cost estimates that clearly state the cost for completion of each Work Item, including the cost of labor and materials; however, only materials cost will be reimbursed.
- The Mortgagee must obtain a signed Rehabilitation (Self-Help) Loan Agreement from the Borrower.

(3) Repairs Noted by the Appraiser

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

(4) 203(k) Borrower's Acknowledgment (Form HUD-92700-A)

The Mortgagee must obtain an executed form HUD-92700-A, *203(k) Borrower's Acknowledgment*.

(5) Feasibility Study

If a Feasibility Study was performed to determine if the project is financially feasible, the Mortgagee must obtain a copy of the study.

(6) Borrower Contractor Agreement

The Mortgagee must obtain a written Borrower Contractor Agreement from each contractor. The contractor must agree in writing to complete the work for the amount of the cost estimate and within the allotted time frame.

(B) Required Documentation for Standard 203(k) Only

(1) Consultant Final Work Write-Up and Cost Estimate

The Mortgagee must obtain the Final Work Write-Up and cost estimate from the consultant. The Final Work Write-Up must include all required repairs and improvements to meet HUD's MPS and MPR (as applicable) and the Borrower's electives.

The cost estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and material.

(2) Architectural Exhibits

The Mortgagee must obtain and review all required architectural exhibits included in the Consultant's Final Work Write-Up.

(3) Consultant/Borrower Agreement

The Mortgagee must obtain a written agreement between the consultant and the Borrower that fully explains the services to be performed and the fees to be charged for each service. The written agreement must disclose to the Borrower that any inspection performed by the consultant is not a "Home Inspection" as detailed in the disclosure form HUD-92564-CN, *For Your Protection Get a Home Inspection*.

(C) Required Documentation for Limited 203(k) Only

(1) Contractor's Cost Estimate

The Mortgagee must obtain the final contractor's itemized estimate of the repairs and improvements to be completed for all Work Items.

xv. Closing

(A) Standard

The Mortgagee must comply with requirements found in the Closing section and the additional guidance provided below.

There is only one closing that includes the rehabilitation funds. The rehabilitation funds are escrowed and disbursed as the work is satisfactorily completed.

(1) Initial Draw at Closing

The Mortgagee must document the amount and purpose of an initial draw at closing on the form HUD-92800-5b, *Conditional Commitment Direct Endorsement Statement of Appraised Value*, and the form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

(a) Standard 203(k)

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

- permit fees (the permit must be obtained before work commences);
- prepaid architectural or engineering fees;
- prepaid consultant fees; and
- materials costs for kitchen or bath cabinets and flooring, prepaid by the Borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

For any disbursements paid to the contractor, the Mortgagee must hold back 10 percent of the draw request in the contingency reserve.

(b) Limited 203(k)

For Limited 203(k) transactions, Mortgagees may disburse permit fees (the permit must be obtained before work commences).

The Mortgagee may disburse up to 50 percent of the estimated materials and labor costs before beginning construction only when the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction.

For any disbursements paid to the contractor, the Mortgagee must hold back 10 percent of the draw request in the contingency reserve.

(2) Establishing the Rehabilitation Escrow Account

(a) Standard 203(k)

The Mortgagee must establish an interest bearing rehabilitation escrow account to include:

- Standard 203(k) Financeable Repair and Improvement Costs;
- Standard 203(k) Financeable Contingency Reserves; and
- Standard 203(k) Financeable Mortgage Payment Reserves.

(b) Limited 203(k)

The Mortgagee must establish an interest bearing rehabilitation escrow account to include:

- Limited 203(k) Financeable Repair and Improvement Costs; and
- Limited 203(k) Financeable Contingency Reserves, if applicable.

(B) Required Documentation

(1) Rehabilitation Loan Agreement

The Mortgagee and Borrower must execute the Rehabilitation Loan Agreement, which establishes the conditions under which the Mortgagee will disburse the 203(k) mortgage proceeds.

The Rehabilitation Loan Agreement is incorporated by reference and made a part of the security instrument.

(a) Standard 203(k) Rehabilitation Period

The Mortgagee must review the 203(k) Consultant's work write-up to determine the time frame for completion of repairs not to exceed 6 months.

(b) Limited 203(k) Rehabilitation Period

The Mortgagee must consult the Borrower Contractor Agreement to determine the time frame for completion of repairs not to exceed 6 months.

(2) Security Instrument and Rehabilitation Loan Rider

If the mortgage involves releases from the rehabilitation escrow account, the following language must be placed in the security instrument:

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

The Rehabilitation Loan Rider is a required modification to a security instrument.

xvi. Data Delivery

The Mortgagee must submit data to FHAC for:

- 203(k) Program Type
- As-Is Property Value;
- Adjusted As-Is Value;
- after-improved value;
- existing debt on the property for a refinance;
- the lowest Acquisition Cost of the property in the past 12 months, plus any documented improvements made subsequent to the purchase (for refinance);
- Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
- Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k);
- Financeable Mortgage Payment Reserves, for Standard 203(k) only;
- Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
- cost of EEM, Weatherization or Solar Energy Systems improvements; and
- principal balance of secondary financing provided by private individuals and other organizations.

xvii. Post-Closing and Endorsement

The Mortgagee must comply with requirements in Post-Closing and Endorsement.

203 (k) mortgages are eligible for endorsement after the mortgage proceeds are disbursed and a rehabilitation escrow account is established.

(A) Rehabilitation Period

The rehabilitation period starts when the mortgage is funded.

The rehabilitation period is specified in the Rehabilitation Loan Agreement.

(B) Extension Requests

(1) Standard

If the work is not completed within the established time frame, the Borrower may request an extension of time and must submit adequate documentation to justify the extension. The Mortgagee may grant an extension at its discretion only if the Mortgage Payments are current.

(2) Required Documentation

The Mortgagee must obtain:

- evidence that the mortgage is current;
- an explanation for the delay from the Borrower, contractor, or consultant; and
- a new estimated completion date.

(C) Failure to Start or Complete Work

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

- is not started within 30 Days of the mortgage Disbursement Date;
- ceases for more than 30 consecutive Days; or
- is not completed within the established time frame, or such extended time approved by the Mortgagee.

xviii. Rehabilitation Escrow Account

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

- The Mortgagee must pay the net income earned by the rehabilitation escrow account to the Borrower through an agreed upon method of payment.
- The Mortgagee may allow net income to accumulate and be paid in one lump sum after completion of the rehabilitation.
- The Mortgagee, that is the custodian of the repair escrow funds, is responsible for ensuring all funds from the escrow account are properly distributed.

The Mortgagee is responsible for resolving disagreements between Borrowers, contractors, or consultants.

(A) Accounting of 203(k) Rehabilitation Funds

The Mortgagee must utilize an accounting system that records all transactions from the rehabilitation escrow account and which documents the amount escrowed for each of these categories:

- repairs
- contingency reserve
- inspection fees
- title update fees

- Mortgage Payments
- other fees (i.e., architectural and engineering fees, consultant fees, permits, supplemental origination fee and discount points on repair costs)

The accounting system must provide:

- the Borrower's name and property address
- the FHA case number
- the closing date
- the scheduled completion date
- the amount of funds in the rehabilitation escrow account
- the interest rate provided on the escrow account

For each draw on the escrow account, the accounting system must record:

- a list of disbursements
- the number of Days in escrow
- the amount of money in the account
- the interest earned for the applicable time period
- the balance of interest remaining in the account

(B) Project Management

Mortgagees must monitor construction work progress to ensure work is completed on schedule and workmanship is acceptable.

When notified of an issue, Mortgagees must intercede to resolve disagreements between Borrowers, contractors and consultants.

(1) Health and Safety

The Mortgagee must ensure that all health and safety items not in the original work write-up or work plan that are discovered during the rehabilitation period are addressed by completion of a change order.

(2) Change Order Request

The Mortgagee must obtain form HUD-92577, *Request for Acceptance of Changes in Approved Drawings and Specifications*, from the consultant or inspector if there are any deviations from the work write-up. The Mortgagee must approve the change order before any work can be done.

(C) Escrow Administration

The Mortgagee is fully responsible for authorizing draw inspections, managing the rehabilitation escrow account, and approving the associated draws from the account.

It is the Mortgagee's responsibility to ensure that any inspections are completed in a quality and timely manner, regardless of who performs the inspections.

(1) Release of Funds

The Mortgagee may release funds only when repairs and improvements per the draw request, whether made by the contractor or Borrower, meet all local codes and ordinances, including any required permits and inspections.

For an existing Structure moved to a new foundation or a Structure that will be elevated, the Mortgagee must not release loan proceeds for the existing structure on the non-mortgaged property until the new foundation has been properly inspected and the Structure has been properly placed and secured to the new foundation.

The Mortgagee must obtain Lien Waivers at the time of any disbursement of funds to ensure the validity of the first lien on the property. If all Work Items performed by a contractor have not been completed at the time of draw request, the Mortgagee must obtain a partial conditional Lien Waiver for the Work Items that have been completed for each draw request.

For repairs made by the Borrower under a self-help agreement, the Mortgagee is permitted to release funds for materials only.

(a) Draw Request

The Mortgagee must obtain form HUD-9746-A, *Draw Request Section 203(k)*, from the 203(k) Consultant, or from the Borrower when there is no 203(k) Consultant, requesting the release of escrow funds for completed Work Items.

The Mortgagee must review and approve each draw request to ensure that the work for which funds are being requested has been completed satisfactorily and that the form has been properly executed by the Borrower, contractor and consultant, if any.

The Mortgagee may not approve a draw request for work that is not yet complete, including materials that have been paid for but not yet installed.

(b) Change Orders

Work must be 100 percent complete on each change order item before the release of funds for the Work Items from the rehabilitation escrow account.

(c) Holdbacks

The Mortgagee must hold back 10 percent of each draw request prior to release of funds from the rehabilitation escrow account.

Exception

When a subcontractor is 100 percent complete with a Work Item, the work completed is acceptable to the inspector, and the contractor and subcontractor provide the necessary Lien Waivers, the Mortgagee is not required to hold back funds; the Mortgagee has discretion to hold back funds if not required.

(d) Timeliness of Release

The Mortgagee must release funds within two business days after receipt of a properly executed draw request and title update when necessary.

i. Standard 203(k) Release of Funds

Maximum Draw Requests

The Mortgagee may approve a maximum of five draw requests (four intermediate and a final).

Contingency Reserve

When the rehabilitation is complete, the Borrower may use the contingency reserve account to fund additional improvements not in the original work write-up.

To allow use of contingency funds for improvements other than for health and safety, the Mortgagee must determine that it is unlikely that any health or safety deficiency will be discovered and that the mortgage will not exceed 95 percent of the appraised value. The Mortgagee must obtain a change order detailing the additional improvements, including the costs of labor and materials.

The Mortgagee must inform the Borrower in writing of the approval or rejection of the request to use funds from the contingency reserve account for additional improvements within two business days.

Method of Payment

The Mortgagee will release escrow funds upon completion of the rehabilitation in compliance with the work write-up.

The Mortgagee must issue checks to both the Borrower and contractors as co-payees, or if the release is for work performed under a self-help agreement, to the Borrower alone.

ii. Limited 203(k) Release of Funds

Maximum Number of Draw Requests

The Mortgagee may approve a maximum of two draw requests per contractor or the Borrower (if acting as the contractor).

When necessary, the Mortgagee may arrange a payment schedule, not to exceed two releases, per specialized contractor (an initial release plus a final release).

Repair Costs Less Than or Equal to $15,000

The Mortgagee must ensure that the repairs and/or improvements have been completed by obtaining contractor's receipts or a signed Mortgagor's Letter of Completion. The Mortgagee is not required to perform or have others perform inspections of the completed work.

The Mortgagee may choose to obtain or perform inspections if they believe such actions are necessary for program compliance or risk mitigation. If the Mortgagee determines that an inspection by a third party is necessary to ensure proper completion of the proposed repair or improvement item, the Mortgagee may charge the Borrower for the costs of no more than two inspections per contractor.

Repair Costs Exceeding $15,000

The Mortgagee must ensure that the repairs and/or improvements have been completed by performing an inspection or by obtaining an inspection by a third party to determine that the repairs have been completed. The Mortgagee must obtain a signed Mortgagor's Letter of Completion.

Contingency Reserve

The Mortgagee must ensure funds escrowed in the contingency reserve are used solely to pay for the proposed repairs or improvements and any unforeseen items related to these repair items.

Method of Payment

The Mortgagee will release rehabilitation escrow funds upon completion of the rehabilitation in compliance with the work plan.

The Mortgagee may issues checks solely to the contractor, or jointly to the Borrower and the contractor as co-payees. If the release is for work performed under a self-help agreement, the check may be issued to the Borrower alone.

(2) Final Escrow Closeout

The Mortgagee must include the interest earned in the final payment on the rehabilitation escrow account and may include the total of all holdbacks. However, if it is required to protect the priority of the security instrument, the Mortgagee 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) Standard

iii. Standard 203(k)

At final release of rehabilitation escrow funds, the Mortgagee must approve the final inspection and draw request signed by the consultant, contractor, and Borrower.

iv. Limited 203(k)

Before a final release is made to any contractor, the Mortgagee must determine that all work by the contractor has been completed, is acceptable by the Borrower, and all necessary inspections have been made with acceptable documentation.

(b) Required Documentation for both Standard 203(k) and Limited (k)

The Mortgagee must:

- obtain the Mortgagor's Letter of Completion signed by the Borrower indicating satisfaction with the completed work and requesting a final inspection and final release of funds;
- obtain a Certificate of Occupancy (CO) if required by the local jurisdiction;
- obtain all inspections required by the local jurisdiction;
- complete the Final Release Notice authorizing the final payment;

- provide the Mortgagee's extension approval if applicable; and
- obtain a release of any and all liens arising out of the contract or submission of receipts, or other evidence of payment covering all subcontractors or suppliers who could file a legal claim.

(3) The Mortgagee must apply any undisbursed funds remaining in the contingency reserve to the mortgage principal.Contingency Release

The Mortgagee must inform the Borrower of its approval or rejection of the Borrower's request for funds to be made available from the contingency reserve account for the purpose of improvements. The Mortgagee must either make funds available for additional improvements or apply the funds towards the principal balance if the contingency reserve was financed.

A Borrower, who established the Contingency Funds with their own funds, may receive a refund of their funds, or may request the remaining funds be applied towards the principal balance.

(4) Electronic Closeout

(a) Standard

After the rehabilitation escrow account is closed, the Mortgagee must complete the "Escrow Closeout Certification" screen in FHAC.

(b) Required Documenation

The Mortgagee must certify that the following documents were reviewed and verified for accuracy:

- Final Release Notice
- Borrower's Letter of Completion
- title update/Lien Waivers
- draw request forms and inspection reports
- change orders
- Mortgagee accounting of the rehabilitation escrow account and payment ledgers
- contingency release letters

xix. Servicing

(A) Delinquencies

If the loan is delinquent, the Mortgagee may refuse to make further releases from the rehabilitation escrow account.

(B) Default

The project must stop if the loan is in default. The Mortgagee must refuse to make further releases from the rehabilitation escrow account, except for health and safety Work Items. The Mortgagee has the option to call the mortgage due and payable.

(C) Bankruptcy

The Mortgagee may not approve further advances if the Borrower declares Bankruptcy unless otherwise required by law or as needed to protect FHA's first lien position. The Mortgagee must obtain an inspection of all repairs that have been completed up until this point by the 203(k) Consultant for a Standard 203(k), or for a Limited 203(k) by a party who is acceptable by FHA to make the evaluation.

This inspection must also note any items that are required to be completed to protect the interest of the collateral from deteriorating, such as a roof and health and safety items for a property that is occupied.

(D) Foreclosure of Mortgage during Rehabilitation Period

In the event of a foreclosure during rehabilitation, the Mortgagee must obtain a final inspection to determine the amount of work that has been completed since the start of construction and the cost for the work.

Using a format similar to the Final Release Notice, the Mortgagee will authorize release of rehabilitation escrow funds for the completed work and holdbacks on any previous disbursements.

If funds remain in the rehabilitation escrow account, the Mortgagee will reduce the amount of claim (unpaid mortgage principal balance) by the unexpended funds in the rehabilitation escrow account.

The Mortgagee must submit a copy of the Final Release Notice with any insurance claim.

GLOSSARY

Acquisition Cost
The Acquisition Cost is the purchase price paid for the property, including closing costs, prepaid costs, and commissions, but not including the cost of any repairs made subsequent to acquisition.

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

- the purchase price less any inducements to purchase, or
- the As-Is Property Value.

For refinance transactions, the Mortgagee must obtain an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the property plus the cost of repairs exceeds the after-improved value, or the property was acquired within 12 months of the case assignment date.

For properties acquired greater than or equal to 12 months prior to the case assignment date:

- When an appraisal is required, the Adjusted As-Is Value is the As-Is Property Value.
- When the existing debt on the property plus the cost of repairs does not exceed the after-improved value, the Mortgagee has the option of using the existing debt or an as-is appraisal to determine the Adjusted As-Is Value.
  For properties acquired less than 12 months prior to the case assignment date:
- For properties acquired by the Borrower within 12 months of the case assignment date, the Adjusted As-Is Value is the lesser of:
  - the lowest Acquisition Cost of the property in the past 12 months, plus any documented improvements made subsequent to the purchase; or
  - the As-Is Property Value.
- For properties acquired by the Borrower within 12 months of the case assignment date by inheritance or through a gift from a Family Member, the Mortgagee may utilize the calculation of Adjusted As-Is Value for properties acquired greater than or equal to 12 months prior to the case assignment date.

As-Is Property Value
As-Is Property Value refers to the As-Is Value as determined by the FHA Roster appraiser except in the case of property flipping and HUD REO purchases.

Base Loan Amount
The Base Loan Amount is the mortgage amount prior to the addition of any financed up-front mortgage insurance premium. Unless otherwise stated in this guide, all references to maximum mortgage amount or mortgage amount shall refer to the Base Loan Amount.

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

Combined Loan-to-Value (CLTV)
The CLTV is computed as the Base Loan Amount plus the outstanding principal balance of all subordinate mortgage(s) divided by the after-improved Value.

Condominium Project
A Condominium Project refers to a multi-unit property in which persons hold title to individual units and an undivided interest in common elements. Examples of common elements (areas) include underlying land and building Structures, driveways, parking areas, elevators, outside hallways, and recreation and landscaped areas. Common areas are typically managed by a Homeowners' Association (HOA).

Contingency Reserve
Contingency Reserve refers to funds that are set aside to cover unforeseen project costs.

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

Days
Days refer to calendar days.

Decision Credit Score
Decision Credit Score refers to the credit score selected from the credit repositories (i.e., Equifax, Trans Union, and Experian) for use when underwriting the loan. A Decision Credit Score is determined for each applicant according to the following rule: when three scores are available (one from each repository), the median (middle) value is used; when only two are available, the lesser of the two is chosen; when only one is available that score is used.

Disbursement Date
Disbursement Date refers to the date the proceeds of the mortgage are made available to the Borrower.

Family Member
For the purpose of determining whether there is an identity-of-interest, the definition of Family Member includes, but is not limited to, the following, regardless of actual or perceived sexual orientation, gender identity, or marital status:

- child, parent, or grandparent
    - A child is defined as a son, stepson, daughter, or stepdaughter.

    - A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent.
- spouse
- legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption
- foster child
- brother, stepbrother
- sister, stepsister
- uncle
- aunt, or
- a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, sister-in-law of the Borrower.

Final Work Write-Up
The Final Work Write-Up refers to the contractor's final proposal and cost estimates.

Homeownership and Opportunity for People Everywhere (HOPE) Grantee
Homeownership and Opportunity for People Everywhere (HOPE) Grantee refers to an entity designated in the homeownership plan submitted by an applicant for an implementation grant under the HOPE program.

Housing Obligation/Mortgage Payment
A Housing Obligation/Mortgage Payment refers to the monthly payment due for rental or properties owned.

HUD-Approved Nonprofit
A HUD-Approved Nonprofit is a nonprofit agency approved by HUD to act as a mortgagor using FHA mortgage insurance, purchase the Department's Real Estate Owned (REO) properties (HUD Homes) at a discount, and provide secondary financing.

Investor
Investor refers to a Borrower that will not occupy the Structure as a Principal or Secondary Residence (non-owner occupant).

Lien Waiver
A Lien Waiver is a document that releases a consumer (homeowner) from any further obligation for payment of a debt once it has been paid in full. Lien Waivers typically are used by homeowners who hire a contractor to provide work and materials to prevent any subcontractors or suppliers of materials from filing a lien against the homeowner for nonpayment.

Loan-to-Value (LTV)
The LTV is computed as the Base Loan Amount divided by the Adjusted As-Is Value.

Minimum Decision Credit Score (MDCS)
The Minimum Decision Credit Score (MDCS) refers to the credit score reported on the Borrower's credit report when all reported scores are the same. Where two differing scores are reported, the MDCS is the lowest score. Where three differing scores are reported, the middle score is the MDCS.

Mixed Use
Mixed Use refers to a property suitable for a combination of uses including any of the following: commercial, residential, retail, office or parking space.

Mortgage Payment Reserve
Mortgage Payment Reserve refers to an amount set aside to make mortgage payments when the property cannot be occupied during rehabilitation.

Property Flipping
Property Flipping refers to a practice whereby recently acquired property is resold for a considerable profit with an artificially inflated value, often abetted by a Mortgagee's collusion with an appraiser.

Secondary Residence
Secondary Residence refers to a Structure that a Borrower occupies in addition to his/her Principal Residence; it does not include a Vacation Home.

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

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

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

ACRONYMS

ADP - Automated Data Processing
CLTV - Combined Loan-to-Value
CO - Certificate of Occupancy
EEM - Energy Efficient Mortgage
FHA - Federal Housing Administration
FHAC - FHA Connection
HOPE - Homeownership and Opportunity for People Everywhere
HUD - U.S. Department of Housing and Urban Development
IECC - International Energy Conservation Code
LTV - Loan-to-Value
MIP - Mortgage Insurance Premium
MPR - Minimum Property Requirements
MPS - Minimum Property Standards
REO - Real Estate Owned