



# FHA 203(k) Rehabilitation Mortgage Insurance Program

This document is a reflection of current policy related to this topic.  
Its content is approved for use in FHA-related lender training.





# FHA 203(k) Rehabilitation Mortgage Insurance Program

## Course Objectives:

- Outline basic program features and requirements.
- Identify the characteristics of the Standard 203(k) and the Streamlined 203(k).
- Learn the basics to process and underwrite a 203(k).
- Understand the procedures to close-out a repair escrow account.
- Resources for future use.



## **What is a 203(k) Rehabilitation?**

The Section 203(k) program is the Department's primary program for the rehabilitation and repair of single family properties.



## **Purpose of the Program**

The purpose of the program is to promote and facilitate the restoration and preservation of the Nation's existing housing stock.



## How is the 203(k) Program Different?

### Traditional Mortgage Program

- Property must meet minimum property standards prior to closing.
- Short term financing for repair costs.
- Value of the property does not support adequate loan security.
- Refinance – permanent transaction.

### 203(k) Rehabilitation Program

- Property ***does not*** meet minimum property standards at closing.
- Funds for the rehabilitation costs are financed into the mortgage amount.
- “After improved” value is used for the basis of collateral evaluation.
- 203(k) is a permanent transaction.





## How the Program Can Be Used?

- To purchase a dwelling and the land and rehabilitate.
- To purchase a stick built home on one site, move it onto a new foundation and rehabilitate.
- To refinance existing liens secured against the subject property and rehabilitate.
- Prepare a property to be placed on the market.



## Benefits of the 203(k)

- Buyers can purchase and make approved improvements after closing.
- Current owners can refinance, stay in their homes, and make approved changes after closing.
- Increases property value and builds equity.
- Combines the cost of the home and the renovation into one.



## **Two 203(k) Programs**

Two programs for two different home renovation project needs:

- Standard 203(k)
- Streamlined 203(k)





## How Do You Apply for a 203(k)?

- This program operates through FHA-approved mortgagees.
- All unconditionally approved Direct Endorsement (DE) lenders are eligible to process Section 203(k) loans without completing any pre-closing test cases.



## Products for Standard 203(k) or Streamlined 203(k)

### Fixed Rate

- 15/20/25/30/Year

### Adjustable Rate

- 1-Year, 3/1, 5/1, 7/1
- 30 Year Amortization

### 2/1 Buydown

- Available



## **Borrower Eligibility**

- Individuals
- Local government agencies
- HUD-approved non-profits



## Basic Eligibility

- Must meet standard FHA 203(b) credit qualifications.
- Must meet standard FHA 203(b) down payment requirements.
- Must pay up-front and annual Mortgage Insurance Premiums.



## Basic Eligibility Questions

1. Is a non-occupant co-borrower permitted on a 203(k)?
2. What is the borrower cash investment requirement for a 203(k) purchase transaction?
3. When is a 203(k) loan disbursed?
4. What about a borrower in a Chapter 13 Bankruptcy for the last 14 months?



## Answers

1. Is a non-occupant co-borrower permitted on a 203(k)? **Yes.**
2. What is the borrower cash investment requirement for a 203(k) purchase transaction? **3.5%**
3. When is a 203(k) loan disbursed? **At closing, or per regulations. This is the same as a 203(b) transaction.**
4. What about a borrower in a Chapter 13 Bankruptcy for the last 14 months? **A Chapter 13 bankruptcy does not disqualify a borrower. A 1-year of the payout period under the bankruptcy has elapsed, the borrower's payment performance has been satisfactory (i.e., all required payments made on time), and permission from the court to enter into the mortgage transaction are required.**



## Seven Unit Limitation

- A non-profit borrower may not have an interest in more than seven units (FHA, VA, FmHA, Conventional, or free and clear) in the same subdivision or contiguous area.
- HUD defines a contiguous area as "within a two block radius."
- A non-profit should not be allowed to accumulate FHA-insured properties that clearly and collectively constitute a multifamily project.
- The seven unit limitation described above does not apply if:
  - The neighborhood has been targeted by a state or local government for redevelopment or revitalization, and,
  - The state or local government has submitted a plan to HUD that defines the area, extent, and type of commitment to revitalize the area.



## Seven Unit Limitation (cont.)

- Jurisdictional HOC may determine that the seven unit limitation is applicable in such redevelopment areas if:
  - The borrower will own more than 10 percent of the housing units (regardless of financing type) in the designated area or sub-area, and,
  - The borrower has more than eight units on adjacent lots.





## Property Eligibility

- 1- to 4-family dwellings
- Condominiums
- Manufactured homes built after 1978
- Mixed use

*Note: All eligible properties must have been completed for at least a period of one year.*



## Property Eligibility

- Completed for at least one year.
- Existing home must have been lived in, and have a Certificate of Occupancy or other acceptable evidence of completion.
- A portion of the existing foundation must remain in place.



## Eligible Properties: Condominiums

- 1- to 4-unit Structures:
  - Section 203(k) can only be used to rehabilitate units in one-to-four unit structures. However, this does not mean that the condominium project, as a whole, can only have four units or that all individual structures must be detached.
- Improvements are limited to the interior of the unit.
- Only the lesser of five units per condominium association, or 25 percent of the total number of units, can be undergoing rehabilitation at any time.
- Projects consisting of three or fewer units can have no more than one unit encumbered with FHA insurance..
- The maximum mortgage amount cannot exceed 100 percent of the after Improved Value.



## What is a Structure?

**“Structure”** is defined as, “a building that has a roof, walls, and stands permanently in one place which contains single or multifamily housing units that are used for human habitation.”



## Eligible Properties: Condominiums

Question: Would this condo unit be eligible for 203(k) financing? It has three stories with two units on each floor.





## Eligible Properties: Condominiums

**Answer:** No. Section 203(k) can only be used to rehabilitate units in one-to-four unit structures. Subject structure consists of six units.



## Eligible Properties: Manufactured Homes

- Manufactured homes
  - Meet FHA's Title II requirements
  - Built after 1976
- Note that manufactured homes are not eligible to be moved from one site to another.
- Modular homes are not manufactured homes.



## Eligible Properties: Mixed Use Properties

- Eligible mixed use properties' commercial use space may not exceed:
  - One story: 25% of the square footage.
  - Two story: 49% of the square footage.
  - Three story: 33% of the square footage.
- Improvements being made can only be made to the residential space.
- Commercial use cannot pose a health or safety risk to the occupants.





## Moving and Converting Properties

- A home can be moved on to a foundation on the mortgaged property, provided the proceeds from the sale of the previous location are not released until the foundation is properly inspected and the home is satisfactorily attached to the new foundation.
- Any property the buyer wishes can be converted either from a single family into a two-to-four family, or from a two-to four family dwelling into a single family unit.



## HUD REOs

- HUD REOs are eligible for 203(k) loans if they are listed as uninsurable or insurable with repairs.
- HUD REOs that are listed as uninsurable can only be an FHA loan as a 203(k).
- “Good Neighbor Next Door” and \$100 down programs can be used with 203(k).
- Sales Contract must reflect 203(k) financing.



# HUD REO Sales Contract

**EXAMPLE: FHA INSURED 203(k) FINANCING**

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

Property Disposition Program

1. I (We), JOHN SMITH AND LAURA SMITH  
 (Purchaser(s)) agree to purchase on the terms set forth herein, the following property, as more particularly described in the deed conveying the property to the Secretary of Housing and Urban Development:  
723 PRESTON ROAD, DALLAS, DALLAS COUNTY, TEXAS, 75001  
(street number, street name, unit number, if applicable, city, county, State)

2. The Secretary of Housing and Urban Development (Seller) agrees to sell the property at the price and terms set forth herein, and to prepare a deed containing a covenant which warrants against the acts of the Seller and all claiming by, through or under the Seller. Title will be taken in the following name(s) and style [See the required wording for your region in the Guidebook for Real Estate Professionals]

3. The agreed purchase price of the property is \$ 125,000  
 Purchaser has paid \$ 1,000 as earnest money to be applied on the purchase price. The balance of the earnest money deposit shall be held by [See the required wording for your region in the Guidebook for Real Estate Professionals]

4.  Purchaser is applying for FHA insured financing  203(b),  203(b) repair escrow,  203(k)] with a cash down payment of \$ \_\_\_\_\_ due at closing and the balance secured by a mortgage in the amount of \$ \_\_\_\_\_ (prepaid expenses or closing costs Seller has agreed to fund into mortgage.).  
 Said mortgage involves a repair escrow amounting to \$ \_\_\_\_\_  
 Purchaser is paying cash or applying for conventional or other financing not involving FHA.

5. Seller will pay reasonable and customary costs, but not more than actual costs, nor more than paid by a typical Seller in the area, of obtaining financing and/or closing (excluding broker's commission) in an amount not to exceed: **5. \$ 3,750**

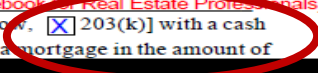
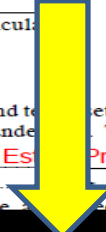
6a. Upon sales closing, Seller agrees to pay to the broker identified below a commission (including selling bonus, if offered by seller) of: **6a. \$ 6,250**

6b. If broker identified below is not the broad listing broker, broad listing broker will receive a commission of: **6b. \$ 0**

7. The net amount due Seller is (Purchase price [Item 3] less Items 5 and 6) **7. \$ 115,000**

8. Purchaser is:  owner-occupant (will occupy this property as primary residence)  investor  
 nonprofit organization  public housing agency  other government agency. Discount at closing: \_\_\_\_\_ %  
*Discount will reduced by amounts, if any, listed on Line Items 5 and 6.*

HUD Case No. 492-123456





## Purchase Contract and the 203(k)

- Purchase contract needs to disclose that buyer will be utilizing the FHA 203(k) to acquire the property.
- FHA does *not* require the amendatory clause for any 203(k) transactions, regardless of the type of seller or purchaser.



## The Origination Process of a Standard 203(k)

1. Borrower selects a property.
2. Borrower selects an FHA approved lender.
3. Lender takes loan application.
4. Lender selects 203(k) Consultant.
5. Consultant visits property with borrower.
6. Consultant prepares “Work Write-up.”
7. Borrower hires contractor.
8. “Work Write-up” and bids are provided to the lender.
9. Lender processes, underwrites, closes and funds the transaction.
10. FHA insures the loan.
11. Improvement process to the property begins.



## Repair/Improvements Begin

1. Work begins.
2. Contractor completes first phase of the project.
3. Homeowner prepares Draw Request form and contacts 203(k) Consultant.
4. Consultant inspects work completed at this point by contractor.
5. Consultant and home owner sign the Draw Request.
6. Draw Request is submitted to the lender.
7. Lender disburses a check made payable to borrower and contractor.
8. This process continues until the work is complete.
9. Final Draw is requested.
10. Borrower provides Release letter:
  - Letter indicates work is completed.
  - Consultant/Inspector verifies completion.
11. Remaining funds released.

*Note: The project **should** be completed within 6 months .*



## Standard 203(k) Program

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

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



## Contractor Responsibilities

- Execute Homeowner/ Contractor Agreement.
- Provide detailed written estimate of work to be completed.
- Complete work in accordance with agreed contract.
- Contractor must meet all locale licensing and bonding requirements.
- Provide licensing, bonding, reference information to lender.
- Obtain permits, if not obtained by homeowner.





## Homeowner/Contractor Agreement

**The work will begin within 30 days of loan closing** with the Lender and will be **completed by \_\_\_\_\_**, unless delayed beyond the Contractor's control.

The General Provisions listed below are made a part of this Agreement. The **contract documents consist of the architectural exhibits** listed in the **Rehabilitation Loan Agreement between the Owner(s) and the Lender**, or as described below (or on an attached sheet):

By executing this Agreement, **the contractor** represents that he/she has visited the site and **understands local conditions, including state and local building regulations and conditions under which the work is to be performed.**

If the **contractor fails to correct defective work or persistently fails to carry out the work** in accordance with the agreement or general provisions, **the owner** may order the contractor **in writing to stop such work, or a part of the work, until the cause for the order has been eliminated.**



## Homeowner/Contractor Agreement

The work will begin within 30 days of loan closing with the Lender and will be completed by \_\_\_\_\_, unless delayed beyond the Contractor's control.

The General Provisions listed below are made a part of this Agreement. The contract documents consist of the architectural exhibits listed in the Rehabilitation Loan Agreement between the Owner(s) and the Lender, or as described below (or on an attached sheet):

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If the contractor fails to correct defective work or persistently fails to carry out the work in accordance with the agreement or general provisions, the owner may order the contractor in writing to stop such work, or a part of the work, until the cause for the order has been eliminated.



## Homeowner/Contractor Agreement

- Describes the work to be completed by the Contractor in detail.
- Describes in detail the materials to be supplied by the Contractor.



## Homeowner/Contractor Agreement

Question:

Description of materials to be supplied.

- 10 Cherry Wood Kitchen Cabinets: \$2,500

Is this a sufficient description of materials for a Homeowner/Contractor Agreement?



## Homeowner/Contractor Agreement

Answer:

- 10 Cherry Wood Kitchen Cabinets: \$2,500

Discussion



## Homeowner/Contractor Agreement

Answer:

- Original Description:
  - 10 Cherry Wood Kitchen Cabinets: \$2,500
- Revised Description:
  - 10 Solid Medium Color Cherry Wood Kitchen Cabinets (door and entire cabinet); Manufactured by: Kitchen Maid
  - Style: Country French
  - Model Number: 1234567
  - Top Cabinet, 5 Cabinets, Dimensions:
  - Lower Cabinets, 5 Cabinets, Dimensions:
  - All cabinets include one shelf with four adjustment levels.



## Mortgagee Responsibility: Contractor Qualifications

It is the mortgagee's responsibility to verify that the contractor:

- Is qualified and able to complete the project.
- Meets the state and locale licensing, bonding and insuring requirements for the type of work to be performed.
- Review client references.

**Note:** Contractors involved in 203(k) transactions need to have the financial well being to be able to support the labor and material costs upfront for the project.





# Mortgagee Responsibility: Borrower – Contractor Disputes

Mortgagees are encouraged to intercede early in disagreements between borrowers and contractors.

Complaints to the Department suggest:

- Absence of written or non-specific agreements between contractor and homeowner.
- Undocumented to changes to the project.
- “Back door arrangements” between the borrower and contractor.
- Absence of general contractor during project; quality of work completed by sub-contractors.
- Proper due diligence of mortgagee’s underwriting in the areas of project review requirements and contractor qualifications.





## Borrower as Contractor (Self Help)

- Borrowers that can demonstrate necessary expertise and experience may be approved to act as their own General Contractor and complete some of the work (self help).
- Borrower must provide one or more contractor cost estimates for specialized work which they cannot complete themselves.
- The loan amount and contingency reserve is based off of a contractor completing the improvements, not the borrower.
- Borrower must execute a Self-Help Agreement.

**Note:** The borrower will only be refunded for the cost of materials.



## Borrower as Contractor (Self Help)

Mortgagees need to instruct borrowers as general contractors:

- Complete records showing the actual cost of rehabilitation:
  - Paid receipts.
  - Lien waivers from subcontractors.
- Mortgagee should request the borrower's records through periodic requests for documentation on the money spent on materials.



## 203(k) Consultant

Who is a 203(k) Consultant?

203(k) Consultant: Is a FHA-approved single family “construction manager” who oversees and inspects the rehabilitation project from start to finish.



## 203(k) Consultant: Certification and Sources

For a 203(k) Consultant to be considered, they must review all policies, requirements, Mortgagee Letters, and forms which support the 203(k), and certify that they have done so upon submitting their application.

Sources include, but not limited to:

- HB 4910.1 [Minimum Property Standards](#)
- HB 4145.1 [Architectural Processing and Inspection for Home Mortgage Insurance](#)
- HB 4905.1 [Requirements for 1-4 Family Existing Housing](#)
- HB 4240.4 [203\(k\) Rehabilitation Mortgage Insurance](#)
- [203\(k\) Main Web Page](#)
- [ML 05-48 Repair & Inspection Requirements for Existing Properties; Rev. to FHA Appraisal Protocol](#)

Brochures:

- [For Your Protection, Get a Home Inspection \(HUD-92564-CN\)](#)
- [Compliance Inspection Report 92051](#)
- [10 Important Questions to Ask Your Home Inspector](#)





## 203(k) Consultant

- Only FHA-approved Consultants, which appear on FHA's Consultant Roster, can be used.
- Each FHA-approved Consultant is assigned an identification number.
- Only mortgagees are permitted to select the Consultant.
  - It is not permitted to provide the borrower a selection of Consultants for them to choose.
- Standard 203(k): **REQUIRES** a 203(k) Consultant.
- Streamlined 203(k): A Consultant **MAY BE USED**, but is not a requirement of the program. The Consultant fee cannot be financed into the loan.



## 203(k) Consultant Responsibilities

Prepares Work Write-Up and Cost Estimate:

- Addresses health and safety issues first,
- Then addresses borrower's wish list.



## **203(k) Consultant Responsibilities**

Obtain and review necessary exhibits:

- Plot plans for additions.
- Floor plans for wall changes.
- Cabinetry and elevation plans.
- Grading and drainage plans.



## 203(k) Consultant Responsibilities

- Must enter into a written agreement with the borrower that fully explains:
  - What services the Consultant will perform, and
  - Fees charged.
- Must complete an inspection of the home.
- Inspects completed work for draw releases.





## 203(k) Consultant Fees

	Fees
≤ \$7,500	\$400
\$7,501 - \$15,000	\$500
\$15,001 - \$30,000	\$600
\$30,001 - \$50,000	\$700
\$50,001 - \$75,000	\$800
\$75,001 - \$100,000	\$900
> \$100,000	\$1,000



## 203(k) Inspection Fees

Repair/Rehab	Fees
$\leq$ \$15,000	\$100
\$15,001 - \$30,000	\$150
$>$ \$30,000	\$200



## Standard 203(k) Improvements: What's Allowed

- Minimum \$5,000 of improvements.
- All Minimum Property Standards (MPS), Health & Safety, locale requirements, and repairs cited by the FHA appraiser are required to be completed as part of the transaction.



## Standard 203(k): Examples of Eligible Improvements

- Plumbing
- Electric
- Wells
- Septic
- Roofing
- Additions
- Floor Treatments
- Energy Efficiency Items
- Storm Shelters
- Heating/Cooling Units
- Structural Work
- Free-standing Appliances



## Standard 203(k): Ineligible Improvements

No luxury items:

- Exterior hot tubs, saunas, and spas.
- Outdoor barbeque pits and fireplace.
- Installation of a new swimming pool.
- Television antenna and satellite dishes.
- Additions or alterations for commercial use.



## Contingency Reserve Requirements

- A contingency reserve is required and can be:
  - Up to 20% of the cost of the rehabilitation.
  - 15% if the utilities were off at the time of inspection.
  - Minimum of 10% for properties older than 30 years.
- After the improvements are made, the contingency reserve account can be used by the borrower to make additional improvements to the dwelling.
  - A Request for Change letter must be submitted with the applicable cost estimates, and the lender will determine the acceptability.
- Contingency reserve is not required for a Streamlined 203(k).



## Maximum Loan Amount

What can be included?

- Total cost of rehabilitation.
- Supplemental origination fee.
- Discount points.
- Contingency reserves.
- Mortgage payments for up to 6 months (only permissible for Standard 203(k).)
- Inspection fees.
- Building and other permits.
- Title update costs.
- Consultant fees.



## Maximum Loan Amount

Maximum loan amount is the lesser of:

- Purchase price rehabilitation costs, **or**
- “As-is” value plus rehabilitation costs, **or**
- 110% of the “after improved” value x the LTV factor or less the allowable down payment for a HUD REO property.
  - Not to exceed the maximum loan limit for the area.





## Maximum Loan Amount

- Per ML 05-50, “If the borrower has owned the property for less than a year, the acquisition cost must be used to determine the maximum mortgage amount.”
- The requirement to use the *lowest sales price* within the last year does not apply to the Streamlined 203(k) program.
- Maximum LTV for Condominiums is 100%.
- Per ML 13-44, disregard the “as is” value to determine the maximum loan amount for HUD REO transactions.



# Streamlined 203(k)



## Streamlined 203(k)

- Used for the purchase or refinance of properties needing minor repair or upgrading.
- No minimum repair costs.
- Total repair escrow amount including all eligible fees cannot exceed \$35,000 (line B14 from the 92700.)



## Streamlined 203(k): Examples of Eligible Improvements

- Repair/Replace/Upgrade:
  - Roofs, gutters and downspouts.
  - Existing HVAC systems, heating, plumbing, and electrical systems.
  - Existing flooring.
- Minor remodeling (non-structural) repairs.
- Exterior and interior painting.
- Weatherization.
- Appliances, including free-standing ranges, refrigerators, washers/dryers, dishwashers and built-in microwaves.



## Streamlined 203(k): Examples of Eligible Improvements

- Improvements for persons with disabilities.
- Lead-based paint abatement.
- Repair/replace/add exterior decks, patios, porches, etc.



## Streamlined 203(k): Examples of Eligible Improvements

- Basement finishing and remodeling (not involving structural repairs).
- Basement water proofing.
- Window and door replacement, and exterior wall re-siding.
- Septic system and/or well repair or replacement.



## Streamlined 203(k): Examples of Ineligible Improvements

- Major rehabilitation or remodeling
  - Relocation of a load-bearing wall.
- New construction
  - Including room additions.
- Repair of structural damage
  - Stabilizing eroding foundation.



## Streamlined 203(k): Examples of Ineligible Improvements

- Improvements/repairs that cause the property to be unacceptable for habitability.
- Landscaping or similar site amenity improvements.
- Any project requiring more than six months to complete.
- Improvements/repairs that require two or more payments per specialized contractor.
- Required repairs arising from the appraisal that:
  - Are structural.
  - Require plans or architectural exhibits.







## Streamlined 203(k): Contractors & Rehabilitation Criteria

- Borrower must use licensed and bonded contractors.
  - “Self-help” is discouraged but acceptable *if* the borrower can sufficiently demonstrate to the lender that he/she has the necessary expertise and experience to competently perform the work.
- Must obtain all required permits prior to the commencement of the work and draw repair funds.



## **Streamlined 203(k): Inspection Requirements:**

Inspection requirements are at the lender's discretion:

- No inspection is required if improvements/repairs are less than \$15,000 and are not required by the state or local authorities.



# Standard 203(k) vs. Streamlined 203(k)

<b>PROGRAM GUIDELINE</b>	<b>203(K) STREAMLINED-LIMITED REPAIR</b>	<b>203(K) STANDARD</b>
<b>DOWN PAYMENT AND CREDIT UNDERWRITING</b>	The same as for any loan.	The same as for any loan.
<b>WHO CAN GET A 203(K)?</b>	Owner-occupant borrowers, HUD-approved non-profits, government agencies.	The same as for any loan.
<b>ELIGIBLE IMPROVEMENTS</b>	No minimum repair requirement. Up to \$35,000 of minor repair. Cannot be used for structural repairs.	A minimum \$5,000 requirement for improvements. Any repair is acceptable, however – health and safety items and building code or ordinance violations must be addressed first. Then, minor repairs and discretionary items may be included.
<b>203(K) CONSULTANT</b>	203(k) consultant is not required.	203(k) consultant is used.
<b>WHAT MAY BE INCLUDED IN REHABILITATION COSTS?</b>	Total cost of rehabilitation (including energy package and lead-based paint abatement costs,) contingency reserves, inspections (if required), supplemental origination fee and discount points, all not to exceed \$35,000.	The total cost of rehabilitation (including energy package and lead based paint abatement costs, consultant fees, and architectural and engineering fees), contingency reserves, inspections, up to 6 months PITI, and supplemental origination fee. The loan amount including the cost of rehabilitation cannot exceed the FHA maximum loan limit for jurisdiction.
<b>CONTINGENCY RESERVES</b>	A contingency reserve is not required. Lenders have the option to establish a reserve.	The lender must establish a contingency reserve when the property is 30 years or older. The reserve should be between 10 and 20 percent of the rehabilitation cost, depending on the complexity of the project.
<b>CONTRACTORS</b>	Contractors provide written work plan and cost estimates. Contractor must be licensed and bonded, as required by locality.	203(k) consultant provides a work write-up including a cost estimate and work plan. Borrower selects contractors with assistance of the consultant and review by the lender.
<b>ALLOWABLE FEES</b>	Supplemental origination fee of 1.50% of the rehabilitation costs or \$300, whichever is greater, plus inspection fees, and title update fees.	Same as Streamlined 203(k) plus financed mortgage payments, and architectural and engineering fees.





# Programs Available With the 203(k)



## 203(k) With Energy Efficient Mortgages

- Ratios may be stretched up to 2% *without* compensating factors.
- 100% of eligible energy efficient improvement may be financed into the mortgage over and above 203(k) repairs.
- Subject to EEM calculations and documentation.
- Source:  
[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/eem/energy-r](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/eem/energy-r)



## 203(k) With 203(h) Federally-Declared Disaster Areas

- One year occupancy requirement waived for 203(k) for refinance, but 203(k) LTV limits apply.
- 203(k)/203(h) Purchases: LTV limits of 203(k) apply
- 203(h):
  - Borrowers need to evidence their primary residence was located in a Federally Declared Disaster Area.
  - 100% LTV.
- Purchase: Property does not have to be located in Federally Declared Disaster Area.
- HUD-approved Housing Counselor.





# Case Number Assignment for 203(k) Loans



# 203(k) Case Number Assignment

## \* ADP Code Selector \*

Type of Construction:

Housing Program:

Amortization Type:

Interest Buydown?

Condominium?

Special Program:

Search criteria matched 2 ADP Codes

	ADP Code	SOA	Description
<input checked="" type="radio"/>	702	203K	203K/IMPROVEMENTS/FIRST LIEN
<input type="radio"/>	807	203K	203K/ENERGY EFFICIENT MORTGAGE (EEM)

## \* ADP Code Selector \*

Type of Construction:

Housing Program:

Amortization Type:

Interest Buydown?

Condominium?

Special Program:

Search criteria matched 1 ADP Codes

	ADP Code	SOA	Description
<input checked="" type="radio"/>	804	203K	203K CONDOMINIUM







# Case Number Assignment

Loan Officer NMLS ID:

Case Type:  Construction Code:  Processing Type:  Financing Type:

ADP Code:  Living Units:  Program ID:  Loan Term: 360

**ADP Code Characteristics:**

Amortization Type:  Housing Program:  Property Type:

Special Program:  Buydown:  Principal Write-down:

203k Consultant ID:

PUD/Condo Indicator:  PUD/Condo ID:  Phase:  Spot Lot:

Month/Year Completed:   VA CRV Expire Date:    VA CRV Number:





## ADP Codes for 203(k)

Product/Program	Code
203(k) Improvements/First Lien	702
203(k) with 223(e)/Direct Endorsement	802
203(k) Adjustable-Rate Mortgage (ARM)	730
203(k) Energy Efficiency Mortgage (EEM)	807
203(k) Hawaiian Homelands (HHL)	808
203(k) Hawaiian Homelands/Interest Buy-down (HHL/IBD)	805
203(k) Indian Lands (IL)	801
203(k) Condominium	804
203(k) Condominium/Adjustable-Rate Mortgage (ARM)	815
203(k) Condominium/Interest Buy-down (IBD)	812
203(k) Interest Buy-down (IBD)	813





# Responsibilities



## Lender Responsibilities

- Ensures execution of the Homeowner-Contractor Agreement.
- Ensures contractor is qualified: reviews licensing, experience, references.
- Examines bid(s) and work plan, and reviews with borrower and contractor.
- Determines if contingency reserve is needed.
- Determines if borrower meets requirements for “self help.”
- Selects consultant.
- Completes escrow close out in FHAC.



## Lender Responsibilities

- Ensures work meets program requirements and that cost of repairs are reasonable/customary for area.
- Assures all required permits are obtained.
- Completes HUD-92700, Maximum Mortgage Worksheet.
- Prepares Rehabilitation Loan Agreement.
- Establishes Rehabilitation Escrow Account.
- Authorizes inspections, and approves draw payments.



## **Lender Responsibilities**

### **Question:**

Why would the loan amount and contingency reserve be based off of a contractor completing the work on a “Self-Help” transaction?



## **Lender Responsibilities**

**Answer:**

To guarantee that the improvements are made.



## Homeowner Responsibilities

- Obtains necessary permits, if not obtained by the contractor.
- Signs Homeowner-Contractor and “Self-Help” Agreements.
- Selects contractor:
  - Obtains cost estimates.
  - Submits to lender.





## Appraiser Responsibilities

- Completes appraisal “subject to completion per plans and specs.”
- Must receive all cost estimates and the list of work items (work write-up) for a Standard 203(k) or contractor’s bid for Streamlined 203(k).
- Provides lender with an after-improved value.
- Notifies lender of repair conditions not listed in the work write-up.
- May perform final inspection at lender’s request to assure work is completed as submitted, if applicable.



# Documentation Requirements



## 203(k) Documentation

- 203(k) Consultant and Borrower’s Identity of Interest Certification.
- Homeowner-Contractor Agreement.
- Rehabilitation “Self-Help” Loan Agreement.
- Rehabilitation Loan Agreement.
- Rehabilitation Rider.
- 203(k) Work Write-Up Checklist (completed by consultant)
  - Appendix 1 of 4240.4. REV 2

**Note:** Review homeowner’s insurance policy coverage for rehabilitation coverage.





## 203(k) Documentation

- HUD 92800.5B: Conditional Commitment.
- HUD 92900A: Direct Endorsement Approval.
- HUD 92900 –LT: FHA Loan Underwriting and Transmittal Summary.
- HUD 92700: Maximum Mortgage Worksheet.
- HUD 92700A: 203(k) Borrower’s Acknowledgement.
- HUD 9746-A: Draw Request.



## 203(k) Documentation

- Contractor and/or Borrower Cost Estimates.
- HUD 92577: Change Order Request.
- Mortgagor's Letter of Completion.
- Contingency Release Letter.
- Final Release Notice.



## Rehabilitation Period Extension Request

### Rehabilitation Loan Agreement:

“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.”

**Note:** Streamlined 203(k) projects must be completed within 6 months.





# Close-out Requirements



## Close-out Requirements

Proper close-out means the mortgagee has certified, reviewed, and verified the accuracy of the following:

- Mortgagor's Acknowledgement of Satisfactory Completion.
- Evidence of Release of Lien(s).
- Inspection Report(s).
- Change Orders.





## Close-out Requirements

- Mortgagee accounting of escrow funds and disbursements.
- Final title update showing the loan has clear title and is in first lien position.
- Loan history showing any pay-downs on principal.
- Mortgagee electronic certification of the closeout via FHA Connection.
- Closeout documents are not required to be forwarded to FHA.
- Documents must be retained by the mortgagee for two years following endorsement.



# FHA Connection Close-out Certification

**Escrow Closeout Certification** Help Links ?

FHA Case Number: [Redacted]

Address: [Redacted]

Closeout Types:  203k  EEM  Repairs

Escrow Amount: 34,930.00 Expected Completion Date: 12 / 08

Amount Applied to Principal: [Redacted].00

By selecting Yes for the Streamline 203k Closeout, the mortgagee certifies that they have reviewed and verified the accuracy of the following without limitations:

- Mortgagor's acknowledgement of satisfactory completion
- Evidence of release of lien(s)
- Mortgagee's inspection report(s)
- Change orders
- Mortgagee accounting of the escrow funds
- Record of disbursements

**REMINDER:**  
Following electronic certification of closeout, lenders must retain all required 203k exhibits and documents, as noted above, in the case binder.

All escrow items have been satisfactorily completed:  Yes  No

[Send](#) [Reset](#) [New Request](#)





## Resources

- HUD Handbook 4240.4:
  - [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/administration/hudclips/handbooks/hsg/4240.4](http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsg/4240.4)
- Mortgagee Letters:
  - [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/203k/203kltrs](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/203kltrs)
- 203(k) Web Page:
  - [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/203k/203kmenu](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/203kmenu)
- FHA Resource Center:
  - 1-800-CALL-FHA (225-5342)
  - E-mail: [info@fhaoutreach.com](mailto:info@fhaoutreach.com)
  - Online Knowledge Base: [www.fhaoutreach.gov/FHAFAQ/](http://www.fhaoutreach.gov/FHAFAQ/)