

On Behalf of HUD & FHA
*Welcome to our session on the
FHA 203(k) Rehabilitation Mortgage
Insurance Program*



FHA Subject Matter Expert



Welcome to our guest from the FHA – *Lisa Ellis*, who will be responding to participant questions and offering additional guidance during today's webinar

Your Instructors

Judy Nash-Ellis & Genny Kelly



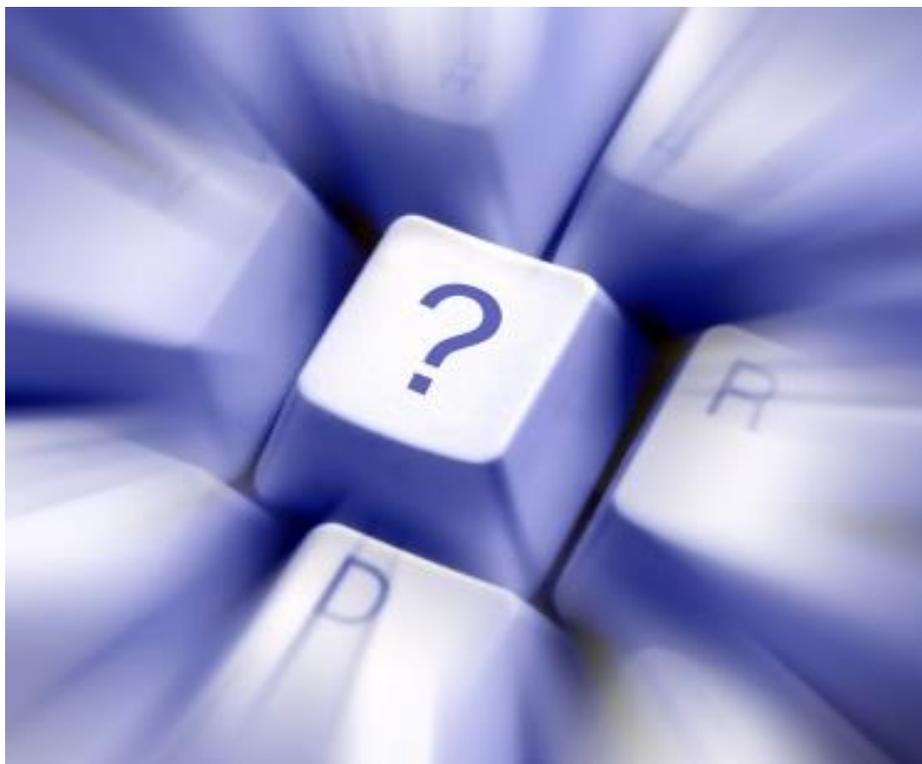
Polling Questions

- How long have you been in the mortgage industry?
- How long have you been working with FHA mortgage loans?



Polling Question

Are you currently doing any 203(k) loans?



FHA 203(k) Rehabilitation Mortgage Insurance Program



Course Objectives

- Outline 203(k) basic program features and requirements.
- Identify the characteristics of the Streamline 203(k) and Standard 203(k) loans.
- Recognize the steps to process and underwrite a 203(k) through close-out.

What is a 203(k)?

Source: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/faqs203k

A 203(k) is...

- FHA program for existing single family homes which allows for repair or renovation to existing homes in two formats.
 - Standard 203(k) for major renovation.
 - Streamline 203(k) for limited repairs.

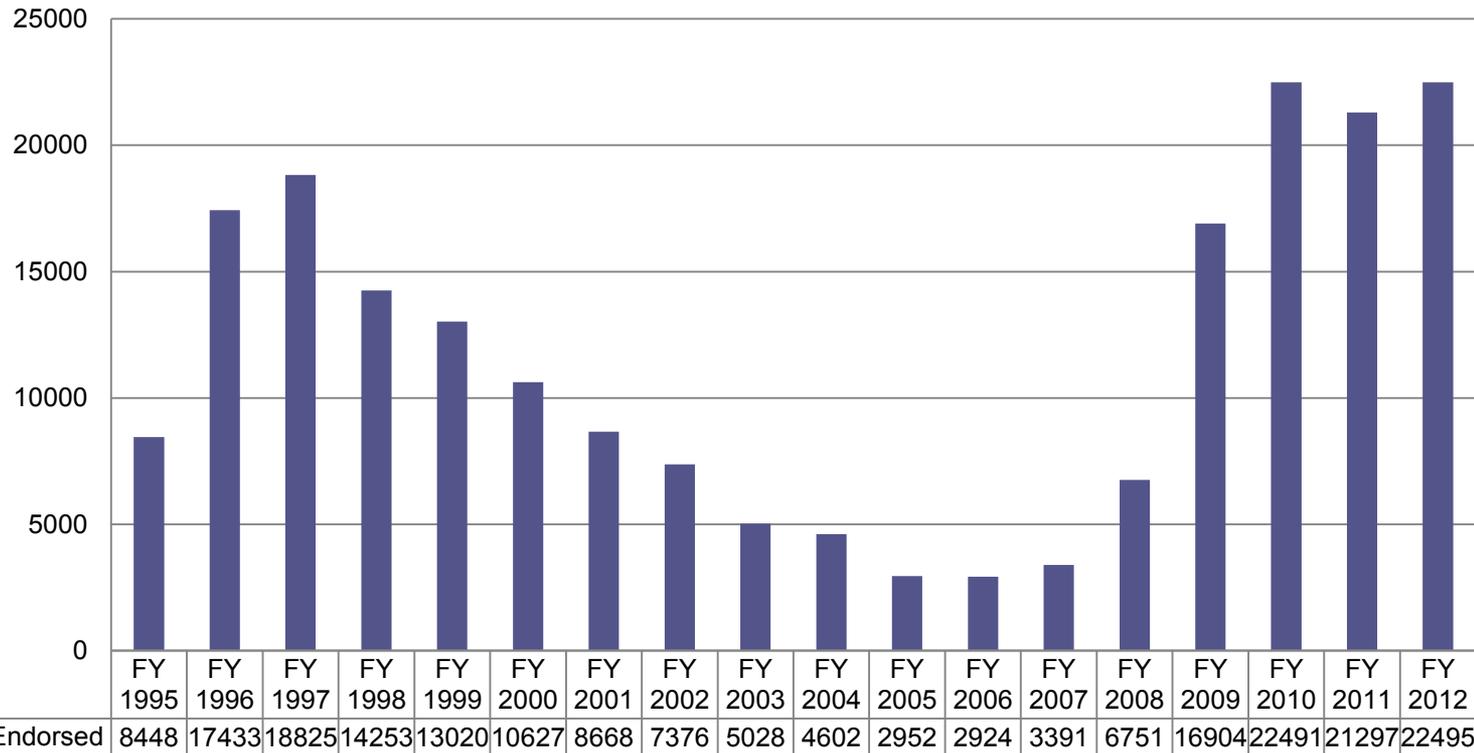


203(k): Further Defined

A 203(k) is:

- A fully disbursed loan which allows a borrower to purchase or refinance a property and establish an escrow account for the cost of rehabilitation.
- Because it is fully disbursed at closing, the loan can be insured by HUD as soon as the loan closes.
- The mortgage amount is based on the lesser of projected value of the property after renovation or the “as is” value plus the cost of rehabilitation.

203(k) Endorsement History 09/30/12



Source: <http://www.hud.gov/pub/chums/f17fvc/>

Purpose of 203(k)

- Improvement to single family housing.
- Expanded homeownership opportunities.
- Community and neighborhood revitalization.

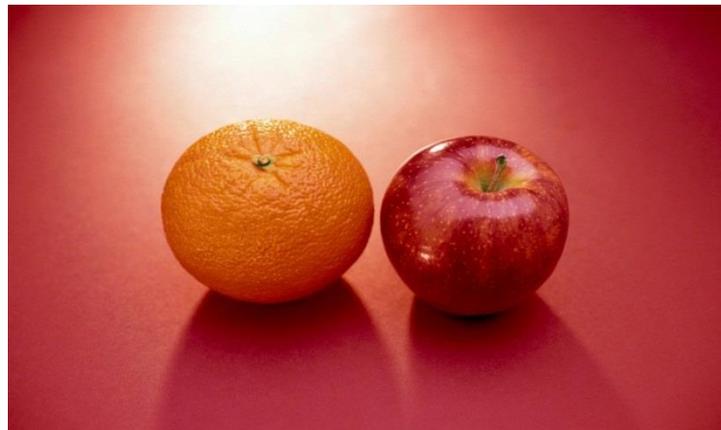


Benefits of 203(k)

- 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 lower interest first mortgage.

203(k) How is it Different?

- Renovation takes place after closing.
- Wide range of improvements are permitted from necessary and required to upgrades, decorating and appliances.
- Six months to complete the project.



203(k) Characteristics



- No test cases for either Standard 203(k) or Streamline 203(k).
- Loan is insured after closing and before renovation is completed.

Products for Standard 203(k) or Streamline 203(k)

Fixed Rate

• 15/20/25/30/Year

Adjustable Rate

• 1 Yr, 3/1, 5/1, 7/1
• 30 Year Only

2/1 Buydown

• Available

Eligible Borrowers



- Individuals: Owner Occupants.
- Local government agency:
 - ex. State Housing Finance Agency.
- HUD-Approved Non-Profits.



Eligible Borrower Requirements

- Must meet standard FHA credit qualifications.
- Must meet down payment requirements (3.5%).
- Must document the ability to make timely payments.
- Must pay mortgage insurance premium (MIP):
 - Up-front MIP always required.
 - Term of loan dictates collection of monthly MIP.

Let's Stop Here

How is a 203(k) loan disbursed? Select your response in the polling.



Answer

- Disbursed fully at closing.



What Questions Do You Have?



Let's Review

- 203(k) Defined
- Purpose for 203(k)
- Benefits of 203(k)
- How it's different from other programs



- 203(k) Characteristics
- Products
- Borrower Eligibility

Eligible Properties

- 1-4 family residential units completed for at least one year.
- Existing home must have been lived in, have a certificate of occupancy or some evidence of completion.
- A portion of the existing foundation must remain in place.
- Mixed use properties can also have the residential space improved.



Source: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/faqs203k

203(k)/203(h) – Presidentially-Declared Disaster Areas



- One year requirement waived for 203(k).
- 100% financing for 203(h).
- Advantages.

Source: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/ins/203h-dft



Eligible Properties: Condos

Condos are eligible!

- However, there are exceptions.
- Interior repairs only.
- No more than 25% of the units in a condo may be undergoing renovations at one time.
- Each building must have no more than 4 structures.
- Limited to number of FHA loans within condo project.



Moving and Converting Properties

- A home can be moved onto 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 to convert either from 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).

Other Eligible Properties



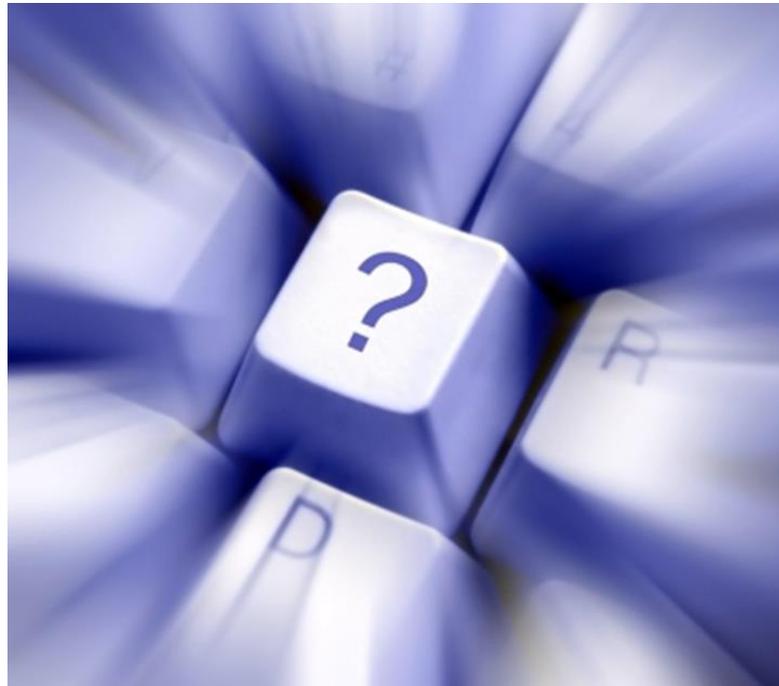
- Foreclosures other than HUD-owned properties.
- Homes sold at auction, short sales, and estate sales - eligible if they meet the basic 203(k) program requirements.
- Sales contract should indicate that the mortgage will be FHA 203(k).
- 203(k) can also be used in combination with the Energy Efficient Mortgage (EEM) program.

Source: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/eem/energy-r



Let's Stop Here

Is a purchase on an investment property eligible for the 203(k) program?



Answer

- No, it is not eligible.



What Questions Do You Have?



Let's Review

- Eligible Properties.
- 203(k) - Rehabilitation.
- (203(h) - Federally-Declared Disasters.
- (EEM) - Energy Efficient Mortgages.
- Moving and Converting Properties.



Standard 203(k)

- A 203(k) has the following general requirements:
 - Repairs are done following closing.
 - A minimum \$5,000 required to qualify for the product.
 - Fees and costs related to the renovation can be rolled into the loan amount.
 - Standard FHA credit and property guidelines apply.

\$5000
minimum

Standard 203(k)

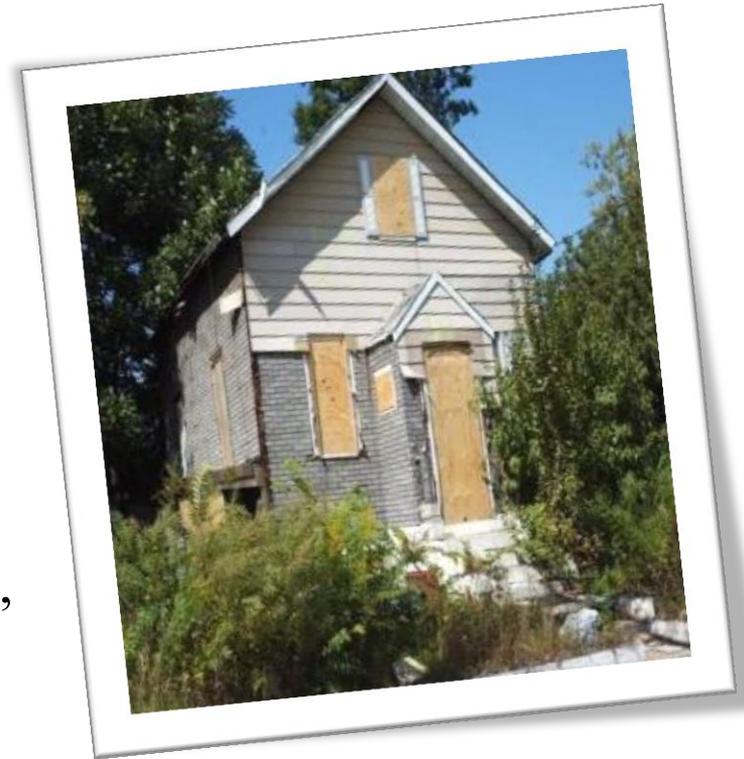
Improvements: What's Required

- Improvements and repairs must meet FHA Minimum Property Requirements and local code.
- Requirements for Energy Efficient Improvements (EEM)
- The Work Write-Up and Specifications of Repairs must list all repairs.



Standard 203(k) Improvements: What's Allowed

- Minimum \$5,000 of improvements.
- Mortgagee Letter 00-25:
 - Room additions and garages.
 - Improvement in functionality or modernization:
 - Remodeled kitchens or bathrooms.
 - New exterior siding, windows and doors.
 - Repair or replacement of plumbing, heating, air conditioning, or electrical systems.



Standard 203(k)

Improvements: What's Allowed

- Installation of well and/or septic system.
- Replacement flooring (carpet, vinyl, tile, etc.).
- Major landscaping or site improvement.
- Patios and/or terraces that improve the value of the property equal to the cost OR needed to preserve property from erosion.
- Handicapped retrofitting can be included in the cost of rehab.
- Appliances including freestanding refrigerators and stoves.
- Smoke and carbon monoxide detectors.

Standard 203(k) Ineligible Improvements

- 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.



Questions

What is minimum amount of repairs for the Standard 203(k)?

Does the Standard 203(k) program require a consultant?

Does a property have to be existing for one year to be eligible for the 203(k) in a Presidentially-declared disaster area?

Answers

What is minimum amount of repairs for the Standard 203(k)?

\$5,000

Does the Standard 203(k) program require a consultant?

Yes

Does a property have to be existing for one year to be eligible for the 203(k) in a Presidentially-declared disaster area?

No, the requirement is waived for properties in a Presidentially-declared disaster area.



What Questions Do You Have?



Let's Review

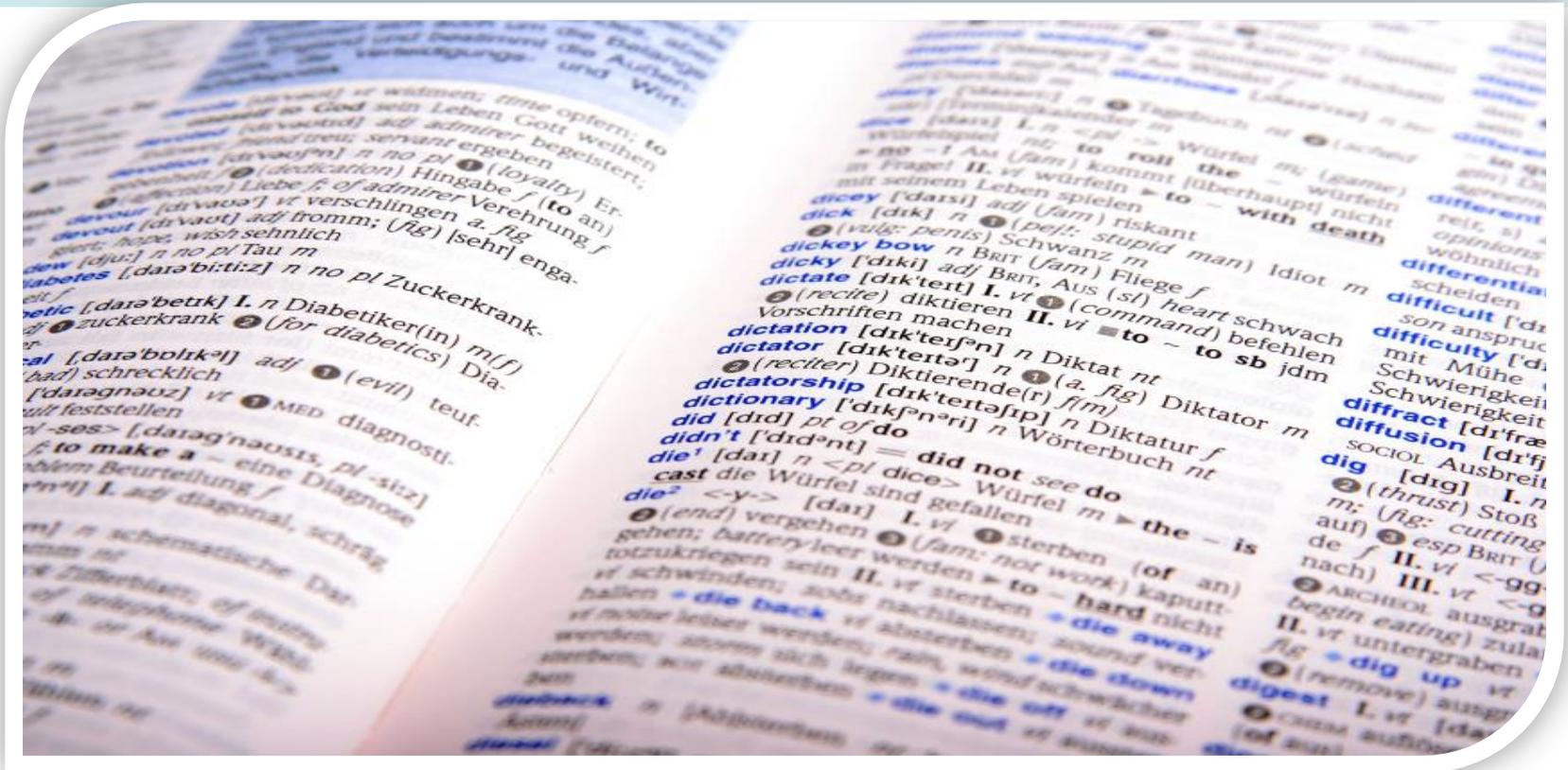
Standard 203(k)

- Minimum \$5,000 in cost
- Improvement Allowed:
 - Structural
 - Room Additions
 - Remodeling
- Limitations:
 - Pool
 - Hot tub
 - Alterations for commercial use



- Eligible Improvements
- Ineligible Work

Standard 203(k) Key Terms



Source: FHA 203(k) Handbook 4240.4 Rev 2 (1991)

Standard 203(k)

Key Terms

- Contingency Reserve
 - Account set aside to cover any unanticipated expenses.
- Inspections
 - Performed to determine if work has been completed.
- Rehabilitation Escrow Account
 - Funds placed into an escrow account which earns interest for the borrower.

Standard 203(k)

Key Terms

- Architectural Fees
- Holdback
 - 10% is withheld from each release from the Rehabilitation Escrow Account.
- Mortgage Payment Reserve
 - Up to six months of mortgage payments can be included in the cost of rehabilitation.

The Consultant



Sources: Mortgage Letters 95-40 and Mortgage Letter 00-25 &
<https://entp.hud.gov/idapp/html/f17cnsldata.cfm>



The Consultant

Who is a 203(k) consultant?

- A 203(k) consultant must be approved by FHA.
- The 203(k) consultant performs a detailed inspection of the property to determine what needs to be done and the costs and materials associated with it.
- Standard 203(k): **REQUIRES** a 203(k) consultant be utilized.
- Streamlined 203(k): A consultant **MAY BE USED**.

The Consultant

Who does the 203(k) consultant work for?

- The consultant works for the lender.
- Select a consultant and screen the consultant as you would an appraiser:
 - Review examples of Work Write-Ups that have been done recently.
 - Determine what services will be provided and the area to be covered.
- A list of 203(k) consultants can be found in FHA Connection.
- The consultant's ID is needed to order the case number.

Source: <https://entp.hud.gov/idapp/html/f17cnsldata.cfm>



The 203(k) Consultant: Where to Find Them

Homes & Communities | [hud home page](#) | [search](#) | [privacy statement](#)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

203k Consultants

The 203k Consultant window allows users to search for 203k Consultants by name and/or city and state. Detailed [help](#) is :

Consultant ID:

Name: **Last Name** **First Name**

City:

State:

Source: <https://entp.hud.gov/idapp/html/f17cnsldata.cfm>



Consultant Duties

What does a 203(k) consultant do?

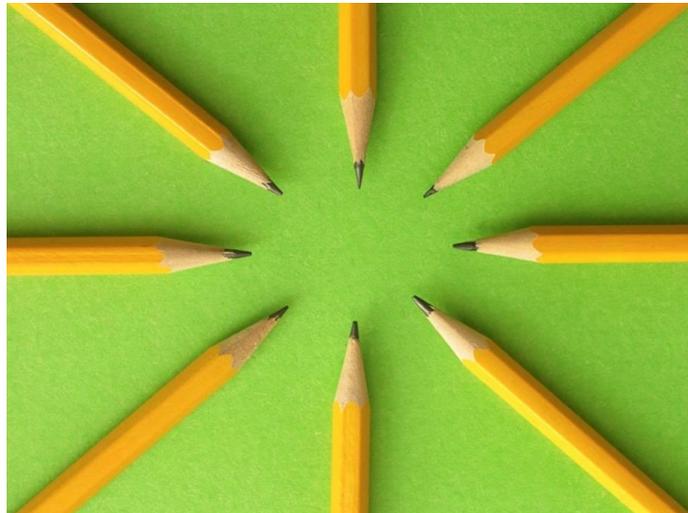
- Good Question! The consultant...
 - Provides a detailed Work Write-Up done in a 35-category format which match the sections of the Draw Request (HUD 9746A).
 - Gives a Work Write-Up copy to the Borrower so their Contractor can put his prices on the plan.
- If contractor's bid is higher than the cost estimate, the difference must be reconciled.
- The consultant's pricing should be based upon current market costs of materials and labor.
- The consultant's Work Write-Up is supplied to the Appraiser for the After-Improved appraisal.

203(k) Consultant Fees

<u>Repair/Rehab</u>	<u>Fees</u>
< \$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

Work Write-Up

- Original plan and specifications for the project done by consultant prior to contractor.
- Describes quantity and quality of materials to be installed.
- Breaks out the materials, labor and incorporates overhead and profit.



Polling Scenario

Consider this scenario. An FHA consultant meets with the borrowers and completes the Work Write-Up for the lender. The Work Write-Up outlines some projects the consultant identified that must be completed for the project to meet FHA's standards. Additionally, the borrowers have identified some projects they would like included in the renovation including painting the interior of the home and replacing the appliances and cabinets in the kitchen. The consultant removes the prices from the Work Write-Up and provides it to the general contractor the borrower wishes to use for the project. A week later, the contractor provides his bid to the borrowers. Several items he bids out are much higher than the pricing provided by the FHA consultant. What should the lender do? Select your response in the polling.

Question: Based on the scenario, what should the Lender do?

- Have the consultant adjust the costs on the Work Write-up?
- Tell the contractor he will not be working on the project?
- Work with the borrower and lender to reconcile the differences and prepare an adjusted work write-up with supporting documentation?

Answer



Work with the borrower and lender to reconcile the differences and prepare an adjusted work write-up with supporting documentation?

What Questions Do You Have?



Let's Review

- Key Terms – Standard 203(k)
- The Consultant:
 - Defined
 - Where to find them
 - Fees
- Work Write-Up:
 - Quantity and Quality of Materials
 - Labor, Including Overhead and Profit



Streamline 203(k)

- A program designed as a Limited Repair program.
- No structural repairs are allowed.
- Allows contractor to bid the project provided the work is uncomplicated and does not exceed \$35,000 in costs.
- If work totals over \$15,000 a follow-up inspection is required once the work is completed.

\$35,000
maximum

Streamline 203(k): Scope of Work

- Repair, replace or improve existing items or conditions.
- Not a “cure-all” and will not ever replace a full 203(k) consultation.
- Like the full 203(k), the Streamline 203(k) has its place in your product offering.

Streamline 203(k): Cost Estimate

- Must be a fixed price contract that describes nature and type of repairs.
- Cost for completion of work items.
- Lender responsible for ensuring cost of repairs is reasonable and customary for the area.
- Home must meet FHA minimum property requirements and state and local codes after completion of repairs.



Streamline 203(k): Eligible Improvements

- No minimum cost of repairs.
- Replacing or Upgrading
 - Carpet
 - Roofs
 - Heating
 - Plumbing & Electrical
 - Windows
- Appliances may be included.



Streamline 203(k): Ineligible Work

- Major rehabilitation or major remodeling.
- Any new construction including room additions.
- Repair of structural damage.
- Landscaping or similar site amenity improvements.
- Any repair or improvement requiring a work schedule longer than six months.
- Rehabilitation activities that require more than two payments per specialized contractor.



Streamline 203(k): Ineligible Work

- Required repairs arising from the appraisal that:
 - Necessitate a “consultant” to develop a “Specification of Repairs/Work Write-Up.”
 - Require plans or architectural exhibits.
- Results in work not starting within 30 days after loan closing.
- Borrower is unable to occupy at closing or within 30 days.

Streamline 203(k) Key Terms

- Contingency Reserve:
 - Account set aside to cover any unanticipated expenses.
 - Can't be financed.
- Inspections:
 - Not required if repairs are less than \$15,000
 - Performed to determine if work has been completed.
- Rehabilitation Escrow Account:
 - Funds placed into an escrow account which earns interest for the borrower.

Let's Review

Streamline 203(k)

- No Minimum Can't exceed \$35,000:
 - Over \$15,000 requires inspection
- Cost Estimate Requirements



- Eligible Improvements
- Ineligible Work
- Key Terms

203(k) vs. Streamline 203(k) Comparison

PROGRAM GUIDELINE	203(K) STREAMLINED LIMITED REPAIR	203(K) STANDARD
DOWN PAYMENT AND CREDIT UNDERWRITING	THE SAME AS FOR ANY LOAN	Same
WHO CAN GET A 203(K)	OWNER-OCCUPANT BORROWERS, HUD APPROVED NON-PROFITS, GOVERNMENTAL AGENCIES	Same
ELIGIBLE IMPROVEMENTS	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.
203(K) CONSULTANT	203(K) CONSULTANT IS NOT REQUIRED	A 203(K) CONSULTANT IS USED
WHAT MAY BE INCLUDED IN REHAB COSTS	Total cost of rehab (incl. energy package and lead-based paint abatement costs), contingency reserves, inspections (if required), supplemental origination fee and discount points, not to exceed \$35,000.	The total cost of rehab (incl. 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 rehab cannot exceed the FHA maximum loan limit for jurisdiction.
CONTINGENCY RESERVES	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 rehab cost, depending on the complexity of the project.
CONTRACTORS	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 lender.
ALLOWABLE FEES	Supplemental origination fee – 1 ½% of the rehab costs or \$300, whichever is greater, inspection fees, and title update fees.	Same as Streamlined (k) plus financed mortgage payments, architectural and engineering fees.



Next Step: Underwriting

Sources: Mortgage Letters 94-11, 95-40, 05-50 &

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/faqs203k

Appraisal Requirements



- Appraiser must be provided with information regarding borrower's planned repairs.
- A copy of the home inspection report must be part of the Work Write-Up which is required to be forwarded to the appraiser.
- Check with your Appraisal Management Company (AMC) for 203(k) specialists within their organization.

After-Improved Appraisal

- Happens **before** underwriting begins.
- A single appraisal is needed.
- The “as-is” value is required to be determined by the lender’s DE Underwriter.
- Cost is comparable to other FHA appraisals.
- Copies of all reports concerning the property should be sent to the appraiser.
- A complete and accurate Work Write-Up will make clear what the property will be after it is completed.
- The appraiser is responsible for noting safety and soundness issues on the appraisal and commenting on any property requirement that the consultant missed.

ADP Codes for 203(k)

203(k) Improvements/First Lien.....	702
203(k) 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



Source: http://www.hud.gov/offices/hsg/sfh/f17c/f17adpcurrent_xmlhlp.cfm

Maximum Mortgage Worksheet

203(k) and Streamlined (k) Maximum Mortgage Worksheet

See Public Reporting Statement on the back before completing this form (See Notes 1 thru 8 on back)

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

OMB Approval
No. 2502-0527
(exp. 04/30/2011)

Borrower's Name & Property Address (include street, city, State, and zip code) JIM FOLEY 123 JONES STREET CONCORD, CA		FHA Case Number 355-5558845	No. of Units 1	HUD REO <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input checked="" type="checkbox"/> Purchase <input type="checkbox"/> Refinance <input type="checkbox"/> Streamlined (k) (Note 6) Purchase Date (owned less than 12 months) <input type="text"/>	
		Type: <input checked="" type="checkbox"/> Owner-Occupant <input type="checkbox"/> Nonprofit <input type="checkbox"/> Government Agency				
A. Property Information	1. Contract Sales Price Or <input type="checkbox"/> Existing Debt \$ 59,000.00	2. "As-Is" Value (Note 1) \$ 59,000.00	3. After-improved Value \$ 199,000.00	4. 110% of A3 (Note 8) \$ 218,900.00	5. Borrower Paid Closing Costs + Prepays (Refinance) \$ 2,500.00	6. Allowable energy improvements (Note 2) \$
B. Rehabilitation and Other Allowable Costs	1. Total Cost of Repairs (Line 36, HUD-9746-A) includes the improvements in A6 and REO Lead Based Paint Stabilization					\$ 58,000.00
	2. Contingency Reserve on Repair Costs (10.000 %) (10 to 20% of B1)					\$ 5,800.00
	3. Inspection Fees (5 x \$ 150.00 per inspection) + Title Update Fee (5 x \$ 75.00 per draw)					\$ 1,125.00
	4. Mortgage Payments Escrowed (3 months x \$ 1,500.00) if uninhabitable (Note 7)					\$ 4,500.00
	5. Sub-Total for Rehabilitation Escrow Account (Total of B1 thru B4)					\$ 69,425.00
	6. Architectural and Engineering Fees (Exhibits) (Note 7)					\$ 2,000.00
	7. Consultant Fees (including mileage, if applicable) (\$ 800.00 + 40.00 miles @ 0.58 /mile) (Note 7)					\$ 823.20
	8. Permits					\$ 1,250.00

Source: Maximum Mortgage Worksheet HUD form 92700:
<http://portal.hud.gov/hudportal/documents/huddoc?id=92700.pdf>



Standard 203(k) Maximum Mortgage Worksheet

- Materials and labor including contractor's overhead and profit.
- Contingency reserve.
- Inspection fees.
- Up to six months of mortgage payments.
- Permits, architectural and engineering fees, consultant fees and energy rater fees.
- Supplemental origination fee.
- Discount on repairs.

Standard 203(k)

Repairs and Contingency Reserve

- Repairs financed in line B1 are the costs for the actual materials, labor and overhead from the consultant's Work Write-Up (Standard) or the contractor's plan (Streamlined 203(k)).
- Contingency reserve for health, safety and unforeseen circumstances:
 - 10% of the cost of rehabilitation not to exceed 20% when major remodeling is undertaken.
 - 15% if utilities not on at time of inspection.

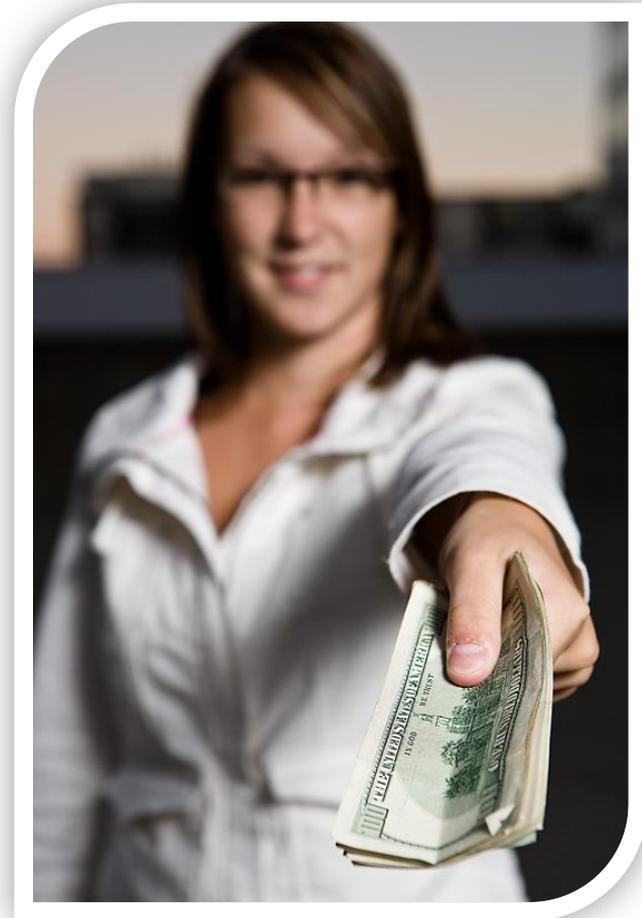


Standard 203(k) Financeable Items

- Inspection Fees:
 - for each draw on Standard.
 - as required on Streamline 203(k).
- Title Updates – for each draw or at the final.
- Mortgage Payments for up to six months:
 - Includes PITI (Principal, Interest, Taxes, and Insurance).

Standard 203(k) Consultant Fees

- Borrower can finance although it is usually paid at the time the Work Write-Up is done.
- The fee schedule as published in ML 95-40 still prevails.
- The Consultant can charge mileage OVER 30 miles round trip from his or her place of business at the Federal Rate, which is 5.5 cents/mile starting 1/1/2013.



Standard 203(k)

Architectural and Engineering Fees

- Borrower may finance costs incurred for these items when the consultant cannot supply them.
- A plot plan of the site is required only when a new addition is planned.
- Proposed interior plan when structural and planning changes are part of the project.
- Structural evaluations, examinations and reports.



Standard 203(k) Permits

- Costs for any and all permits can be included in the rehabilitation costs.
- If the contractor has included fees as part of his overhead they should not be financed.
- Most consultants will provide information on permits, however, permits are not a line item or included in Miscellaneous on the Work Write-Up.
- Lender needs to know what the requirements are for area where the property is located.
- Very few projects do not have permits!

Standard 203(k) Other Fees



- Specifically licensed/certified inspections and reports for mold determination and lead-based paint testing.

Standard 203(k) Supplemental Origination Fee

- Used to cover costs related to the repair escrow and its management.
- Fee can be equal to the greater of:
 - \$350.
 - Or 1.5% of the cost of improvements on line B10 of the Maximum Mortgage Worksheet.



Calculating the Maximum Mortgage for a Purchase

- LTV (96.5%) Times the Lesser of:
 - The purchase price (A1) or As-is-Value (A2) plus total rehab cost (B14).

Or
 - 110% of after-improved value.

Or
 - Subtract the allowable down payment for a HUD REO.



Calculating the Maximum Mortgage for a Refinance

- LTV (97.75%) Times the Lesser Of
 - Existing Debt before Rehab plus Total Rehab Costs and Allowable Closing Costs

Or

- The Lesser of As-Is Value Plus Rehab Costs or 110% of the After-Improve Value.



Case Study



- Genny Kelly has found a house in the same neighborhood as her Mother. She is very excited because this would mean her children could spend more time with their Mimi. However, the house needs repairs before she could get a loan. Genny is a single Mom and has been employed as a nurse at General Hospital for 9 years. She has saved enough to meet FHA's 3.5% investment but does not have funds for the repairs. Then she heard about 203(k) and realized that she may be able to make this dream come true. Genny met with a loan officer and a contractor and came up with the following needed repairs:
 - Roof – Materials \$3,800, Labor \$2,800
 - Replace rotten fascia – Materials \$160, Labor \$150
 - Replace rotten soffit – Materials \$152, Labor \$100
 - Replace kitchen cabinets, counter top, and sink – Materials \$6,126, Labor \$1,580
 - Install carpet in bedrooms – Materials \$1,462, Labor \$375
 - Install gutter in back of house – Materials \$175, Labor \$90
- Sales Price \$81,000; As-is Value \$81,000; After-improved Value \$112,000; Borrower Paid Closing Costs \$3,062.38; 15% Contingency; 2 Inspections - \$25 each; 2 Title Updates - \$100 each. Closing date - September 27, 2012.

203(k) Maximum Mortgage Worksheet

203(k) and Streamlined (k) Maximum Mortgage Worksheet

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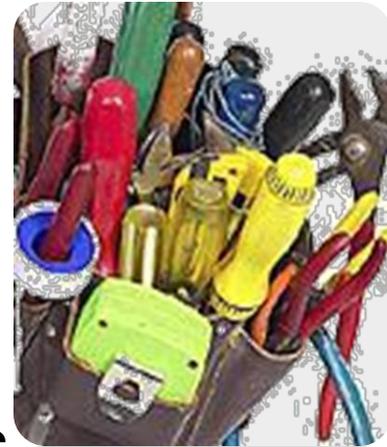
OMB Approval
No. 2502-0527
(exp. 06/30/2014)

Borrower's Name & Property Address (include street, city, State, and zip code)		FHA Case Number	No. of Units	HUD REO?	<input checked="" type="checkbox"/> Purchase <input type="checkbox"/> Refinance <input type="checkbox"/> Streamlined (k) (Note 6) Purchase Date (owned less than 12 months) <input type="text"/>	
Genny Kelly 25 Bailey Drive SW Lilburn GA 30047		123 45678-702	1	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> NO		
		Type:				
		<input checked="" type="checkbox"/> Owner-Occupant <input type="checkbox"/> Nonprofit <input type="checkbox"/> Government Agency				
A. Property Information	1. Contract Sales Price Or <input type="checkbox"/> Existing Debt	2. 'As-is' Value (Note 1)	3. After-improved Value	4. 110% of A3 (Note 5)	5. Borrower Paid Closing Costs + Prepays (Refinance)	6. Allowable energy Improvements (Note 2)
	\$81,000.00	\$81,000.00	\$112,000	\$123,200	\$3,062.38	
B. Rehabilitation and Other Allowable Costs	1. Total Cost of Repairs (Line 36, HUD-9746-A) includes the improvements in A6 and REO Lead Based Paint Stabilization					\$ 16,970.00
	2. Contingency Reserve on Repair Costs (15 %) (10 to 20% of B1)					\$ 450.00
	3. Inspection Fees (2 x \$ 125 per inspection)+ Title Update Fee (2 x \$ 100 per draw)					\$
	4. Mortgage Payments Escrowed (months x \$) if uninhabited (Note 7)					\$
	5. Sub-Total for Rehabilitation Escrow Account (Total of B1 thru B4)					\$ 19,965.50
	6. Architectural and Engineering Fees (Exhibits) (Note 7)					\$
	7. Consultant Fees (including mileage, if applicable) (\$ + miles@ /mile) (Note 7)					\$
	8. Permits					\$
	9. Other Fees (explain in Remarks)					
	10. Sub-Total (Total of B5 thru B9)					\$ 19,965.50
	11. Supplemental Origination Fee for both 203k and Streamlined (k) (greater of \$350 or 1.5% of B10)					\$ 350.00
	12. Discount Points on Repair Costs and Fees (B10x %)					
	13. Sub-Total for Release at Closing (Total of B6 thru B9 + B11 and B12 (Note 3)					\$ 350.00
	14. Total Rehabilitation Cost (Total of B5 and B13 minus A6) (Streamlined (k) can not exceed \$35,000)					\$ 20,315.50
C. Mortgage Calculation for Purchase Transactions	1. Lesser of Sales Price (A1) or As-Is-Value (A2)					\$ 81,000.00
	2. Total Rehabilitation Cost (B14)					\$ 20,315.50
	3. Lesser of Sum of C1 + C2 (\$ 101,315.50) or 110% of After-Improved Value (A4)					\$ 101,315.50
	4. Base Mortgage Amount: Sum of C3 +(-) Required Adjustment (Note 4) (\$ 101,315.50) x LTV Factor (96.5%) (Owner-Occupant) or Less Allowable Down payment/ HUD-Owned Property (\$) (Note 5)					\$ 97,769.00
D. Mortgage Calculation for Refinance Transactions	1. Sum of Existing Debt (A1) + Rehabilitation Cost (B14) + Borrower Paid Closing Costs + Prepays (A5)+ Discount on Total Loan Amt minus Discount on Repair Costs (B12) minus FHA MIP Refund (\$)					
	2. Lesser of Sum of As-Is Value (A2) (Note 1) + Rehabilitation Cost (B14) (\$) or 110% of After-Improved Value (A4)					\$
	3. D2 (\$) x LTV Factor (97.75%) (Owner-Occupant)					\$
	4. Base Mortgage Amount Lesser of D1 or D3 (Note 5)					\$
E. Calculation for EEM	1. Energy Efficient Mortgage (EEM) Amount (C4 or D4) + A6 (Note 2)					\$
F. Summary	UFMIP Factor	UFMIP	Total Escrowed Funds	Interest Rate	Discount Pts	
	2%	1,790.96	\$20,315.50	3.875%	0	
1. Total Mortgage Amount with UFMIP (C4, or D4 or E1 + UFMIP)					\$ 99,479.96	
DE Underwriter's Signature, Title & Date					CHUMS No.	
Borrower's Signature & Date (Optional)			Co-Borrower's Signature & Date (Optional)			



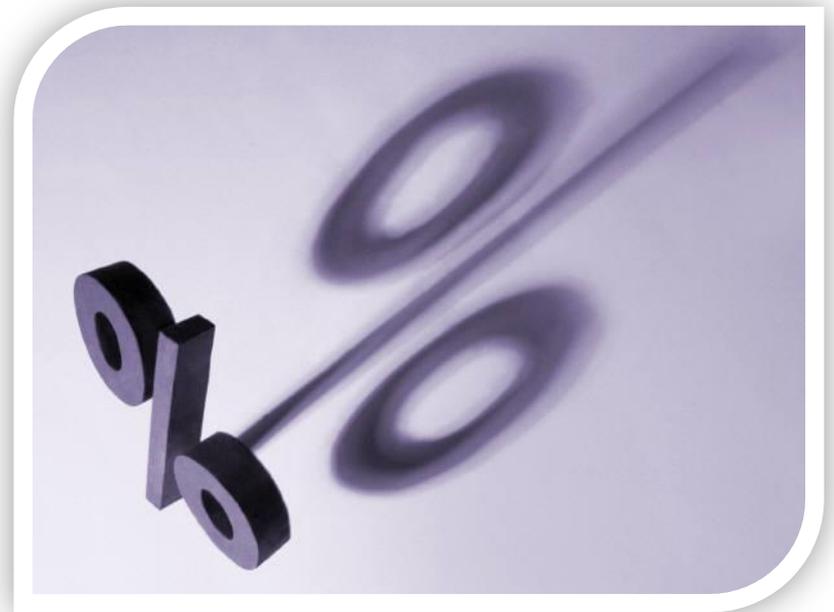
Acceptance of Contractor

- Borrowers must use the services of one or more contractors to complete the work.
- Borrowers that can demonstrate necessary expertise and experience may be approved to complete the work.
- General contractors are used for the standard 203(k).
- Specialized contractors can be used for a Streamline 203(k).
- Borrower selects contractor to provide work estimates.



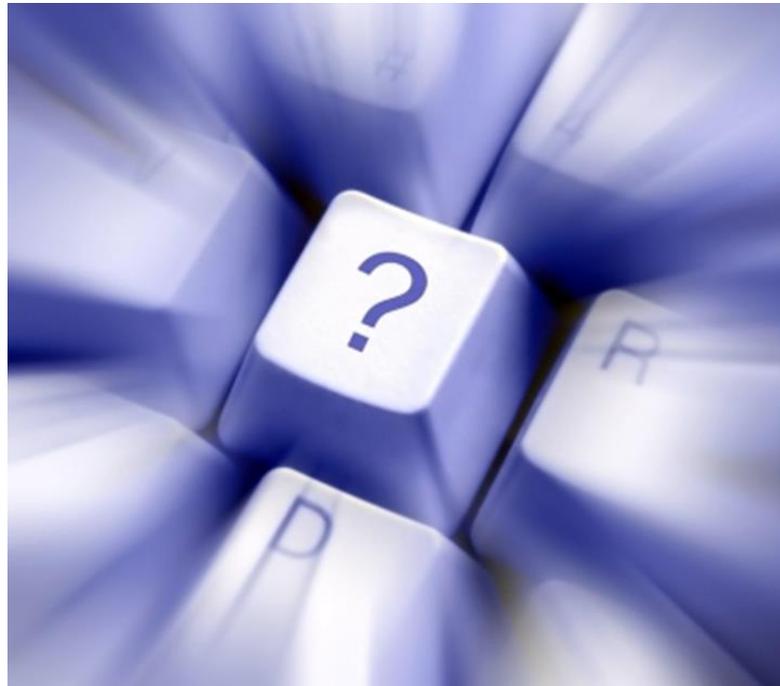
Loan-to-Value Calculation

- LTV for 203(k) loans as follows:
 - The Mortgage Amount is divided by the lesser of the (Sale Price + repairs) or after-improved value.



Let's Stop Here

What is the typical amount set aside in the Contingency Reserve?



Answer

- 10%.



What Questions Do You Have?



Let's Review

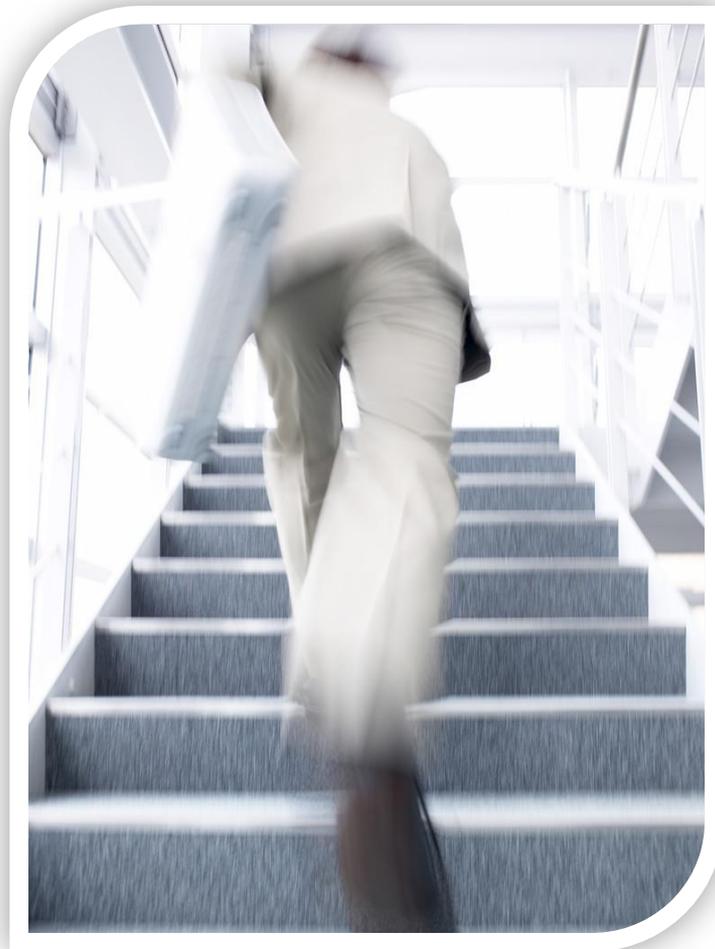
- Appraisal Requirement
- Maximum Mortgage Calculations
- Cost Estimates
- Repairs and Contingency Reserves
- Consultant Fees



- Architectural and Engineering Fees
- Permits
- Other Fees
- Supplemental Origination Fees
- Acceptance of Contractor
- Loan-to-Value Calculations

Step by Step – Roles in the 203(k) Process

- Lenders
- Consultants
- Appraisers
- Contractors
- Borrowers



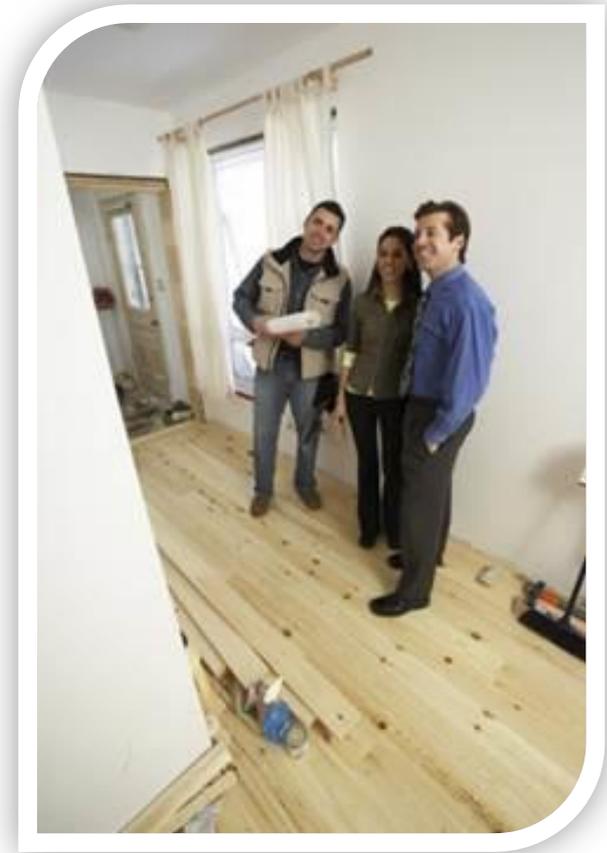
Lenders

- Selects consultant, appraiser and orders case number.
- Reviews contractor's qualifications.
- Underwrites the borrower and property.
- Completes the settlement/closing of the transaction.
- Manages the rehabilitation escrow.
 - Making sure borrower understands they are not in charge
- Closes out the case binder when project is complete.



Consultant

- Can do a feasibility study to determine if the project will meet the borrower's expectations.
- Conducts a complete inspection of the property and prepares a Work Write-Up and cost estimate in the 35 categories.
- Communicates with the borrower, contractor and lender to coordinate a smooth project.
- Inspects completed work for draw releases.



Consultant: What is reviewed

Rehabilitation Checklist – 4240.4 REV-2 Appendix 1

35 Categories:		
Masonry	Doors	Bath Accessories
Gutters & Downspouts	Insulation	Weather Stripping
Roof	Partition	Cabinetry
Shutters	Plaster	Appliances
Exteriors	Decorating	Basements
Walks	Wood Trim	Cleanup
Driveways	Stairs	Miscellaneous
Painting	Closets	Electrical
Caulking	Wood Floors	Heating
Fencing	Finish Floors	Windows
Grading	Ceramic Tile	Plumbing
Siding		

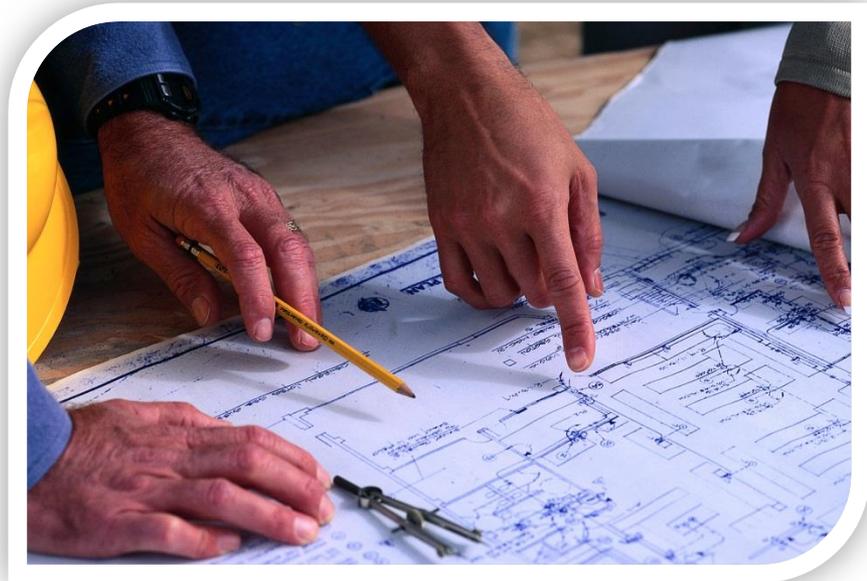
Appraiser

- Completes appraisal “subject to completion per plans and specs.”
- Must receive all cost estimates and list of work items (Work Write-Up).
- Provides lender with an after-improved value.
- Notifies lender of repair conditions not listed in the Work Write-Up.
- May perform final inspection to assure work completed as submitted at lender’s request, if applicable.



Contractors

- Contractors should be screened by the lender.
- Contractor must execute an Agreement.
- Need signed Homeowner/Contractor Agreement before loan closing.



Borrowers

- Decide what improvements they would like to do after the required repairs are completed.
- Wish list items may be limited by the appraised value or loan limits
- Select the contractor(s) for the renovation.
- Work with the contractor to ensure all permits are obtained and that work progresses.
- Communicates with the lender about the renovation, inspections and draws.



Borrower as the Contractor

- Lender must be convinced that the Borrower has the time, tools and skills to perform the work.
- Must document materials and labor required.
- All materials purchased must have paid receipts.
- Borrowers will not be paid for their labor.
- Borrower must execute a self-help agreement.



“Self-Help” Arrangements



- Must be able to demonstrate borrower has expertise and experience.
- Not recommended.

Application Forms and Required Documentation

- Borrower's Acknowledgement.
- Borrower's Identity of Interest.
- Consultant's Identity of Interest.
- Draw Request (HUD 9746A).
- Homeowner/Contractor Agreement.
- Rehabilitation Loan Rider.

Sources: Borrower's Acknowledgement:

http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_20721.pdf

Draw Request Form HUD for 9746A:

<http://portal.hud.gov/hudportal/documents/huddoc?id=9746a.pdf>



Closing

- Rehabilitation Loan Agreement.
- Rehabilitation Rider.
- Allowable Costs can be released at closing.



Let's Stop Here

When can allowable costs with invoices that are due be paid?



Answer

- At closing.



Endorsement Process

- Rehabilitation Construction Period:
 - Change Order Request.
 - Release of Funds from the Rehabilitation Escrow Account.
 - Draw Request.
 - Mechanic's and Materialmen's Lien Waivers.
 - Final Release Notice.

Draw Management: Accounting for the Money

- Inspections
- Title Updates
- Contingency Releases
- Accounting Form
- Interest on Escrow
- Record Keeping



Draw Management

- Process of paying for repairs and inspections.
- Inspection completed before funds are released.



Hold Backs on Draws

A hold back of 10% of the approved disbursement amount is held until the last draw request.



Draws are done on an ‘as-completed basis.’



Title Updates



When are title updates required?

- Depends on local area.
- May be required at every draw.

Work Timeframes

- Have all permits before work begins.
- Work must begin within 30 days of closing and not cease for more than 30 days.
- Work should be completed within six months.



Basics: Work Timeframes

Are there timeframes associated with the work on the home? **Yes/No**



Answer

Are there timeframes associated with the work on the home?

Yes

The Rehabilitation Loan Agreement contains three provisions concerning the timeliness of the work.

Close-Out Requirements



203(k) Home Page on HUD website

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/203kmenu

Mortgagee Letters with description:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/203kltrs

Handbook 4240.4 Rev 2:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsg/4240.4

Close-Out Requirements

- Final Accounting for all funds in the escrow account.
- Loan history showing any pay down on principal.
- Mortgagor's Letter of Completion.
- Final Release Notice.
- Final title update showing the loan has clear title and is in first lien position.

Case Close-Out Screen

Escrow Closeout Certification

Help Links



FHA Case Number: 052-4522108

Address: 654 TAMARRON DR
COLORADO SPRINGS CO 809190000

444 West Street

052-9874561

Closeout : EEM Repairs

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

Amount Applied to Principal: .00 10/31

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



Close-Out Certification

- Completion of Close-out screen certification.
- Accounting of Escrow Funds.
- Retain all draw request records, change orders, interim title updates and accounting records in the case binder.
- Select Yes and submit. Keep a copy for the file.

What Questions Do You Have?



Session Summary

As we conclude today's session you should now be able to:

- Outline 203(k) basic program features and requirements.
- Identify the characteristics of the Streamline 203(k) and Standard 203(k) loans.
- Recognize the steps to process and underwrite a 203(k) through close-out.

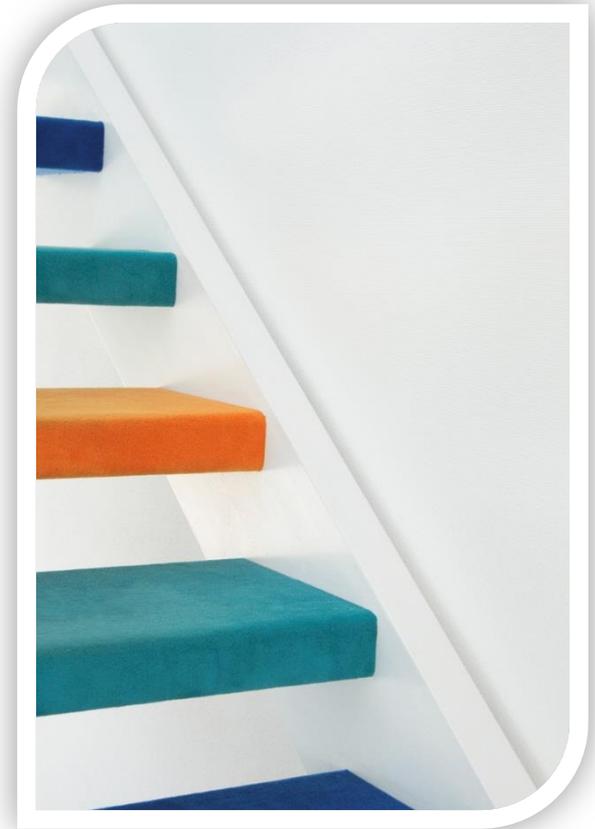
Next Steps & Resources

- **Reminders**

- Recorded version of FHA Rehabilitation Loan Program 203(k) and FHA 203(k) Streamline Rehabilitation Program webinar will be available on the HUD website.
- FHA Rehabilitation Loan Program 203(k) and FHA 203(k) Streamline Rehabilitation Program Webinar FAQs will be available on HUD website.

- **Resources**

- Key terms provided here:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/buying
- Call FHA at (800) CALL FHA or email at answers@hud.gov



Additional Resources

Sources:

203(k) Home Page on HUD website

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/203kmenu

Mortgage Letters with description:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/203kltrs

Handbook 4240.4 Rev 2:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsg/4240.4

Thanks for attending this course!

We look forward to your participation in our upcoming training events, which include the following:

- Overview of HUD Programs
- FHA Energy Efficient Mortgage (EEM)
- How to Manually Underwrite an FHA Mortgage
- Credit Underwriting – Loan Calculations
- Credit Underwriting – Borrower Analysis
- Fundamentals of DE Credit Review & TOTAL Scorecard
- FHA Home Equity Conversion Mortgage (HECM)
- Fundamentals of Condominium Approval Process
- Home Mortgage Insurance for Disaster Victims 203(h)
- Fundamentals of Insurance Endorsement
- Appraisal Policies & Procedures



FHA 203(k) Rehabilitation Mortgage Insurance Program Thank you!

