# *FHA 203(k) Rehabilitation Program Summary*

*The FHA 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 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.*

| Topic | Guidelines |
|---|---|
| 203(k) Basics | There are two types of 203(k) rehabilitation Mortgages:<br>• **Standard 203(k)** - 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.<br>• **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. A Consultant may be used, but the fee may not be financed. The total rehabilitation cost must not exceed $75,000. There is no minimum rehabilitation cost.<br><br>**Financing is eligible to:**<br>• Purchase and rehabilitate an existing property completed >12 months.<br>• Refinance an existing loan and rehabilitate a property completed >12 months.<br>• Rehabilitate a property after it is moved from a site to a new foundation. |

# *FHA 203(k) Rehabilitation Program Summary*

| | |
|---|---|
| 203(k) Standard | **Minimum Amount of Rehabilitation:** $5,000<br>**Maximum Loan Amount**: There is no limit to the maximum loan amount, provided the total base loan amount does not exceed HUD's statutory maximums or the appraised value. The maximum loan limits are determined by geographic area, which may be found at https://entp.hud.gov/idapp/html/hicostlook.cfm. Up to 100% of the base loan amount may be allocated to rehabilitation. |

---

## Product Descripton

FHA 30 year 203(k)

FHA 15 year 203(k)

# *FHA 203(k) Rehabilitation Program Summary*

| Topic | Guidelines |
| --- | --- |

All health, safety and energy conservation items must be addressed prior to completing general home improvements. The work write-up must demonstrate that, when the rehabilitation is completed, the property will meet HUD's minimum property standards.

**Required Documentation**

**Consultant's Work Write-Up and Cost Estimate:** must be obtained and reviewed for specifics of each type of repair and the cost of each one. All health and safety issues must be addressed if they were identified before.

**Review of Contractor Qualifications:** General or specialized contractor is hired and has agreed to complete the work described in the Work Write-Up for the amount of the Cost Estimate and within the allotted time frame not to exceed 6 months. Must be assured that the contractor meets jurisdictional licensing/bonding requirements, has work experience and client references, and has the proper credentials.

**Architectural Exhibits:** obtain and review all applicable exhibits, including but not limited to:

- well certification;
- septic certification;
- termite report (including all outbuildings);
- proposed plot plans for new additions;
- foundation certification by a licensed structural engineer if: ○ the existing Structure will be moved to a new foundation; ○ the Structure is being reconstructed on the existing foundation; or ○ the existing Structure will be elevated.
- cabinetry plans and elevations;
- New Construction exhibits to obtain a building permit for an addition;
- grading and drainage plans; or
- engineering and soil/geotechnical reports.

**Sales Contract:** must be obtained with the required verbiage that the Borrower has applied for 203(k) financing using the Sales Contract Addendum located on the Renovation Lending Channel A page. The contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by the Renovation Dept.

**Allowable repairs/rehabilitation** (also see **"Required Repairs / Improvements"** section):

- **Structural alterations and reconstruction:** additions to the structure, structural damage, finished attics, repair of termite damage and the treatment against termite infestation, chimney repair, installation of an additional bath(s), skylights, finished attics and/or basements, etc.

# *FHA 203(k) Rehabilitation Program Summary*

| Topic | Guidelines |
| --- | --- |

- **Rehabilitation or improvements to a detached garage:** a new detached garage or the addition of an attached unit(s) (if allowed by the local zoning ordinances) can also be included. Properties with separate detached units are acceptable; however, a newly constructed unit must be attached to an existing unit to be eligible.
- **Changes for improved functions and modernization:** remodeled bathrooms and kitchens including installation of appliances, or interior/exterior painting when basic improvements are involved, and allowed in addition to the minimum first $5,000 requirement. Used appliances are not eligible.
- **Elimination of health and safety hazards:** including the resolution of defective paint surfaces and/or lead-based paint problems on homes built prior to 1978.
- **Installations of well and/or septic system**
- **Changes for aesthetic appeal and elimination of obsolescence:** new exterior siding, adding a second story to the home, covered porch, stair railing, attached carport.
- **Reconditioning or replacement of plumbing:** connecting to public water and/or sewer system. It is required for the property to be connected to public water/sewer systems if available. Heating, air conditioning and electrical systems. Installation of new plumbing fixtures is acceptable, including interior whirlpool bathtubs.  **Roofing, gutters and downspouts**
- **Flooring, tiling and carpeting**
- **Energy conservative improvements:** new double pane windows, steel insulated exterior doors, insulation, caulking and weather-stripping, solar domestic hot water systems, etc.
- **Major landscape work and site improvement:** patios and terraces that improve the value of the property equal to the dollar amount spent on the improvements or required to preserve the property from erosion, as indicated on the "after improved" value of the appraisal. The correction of grading and drainage problems is also acceptable. Tree removal is acceptable if the tree is a safety hazard to the property. Repair of existing walks and driveways is acceptable if it may affect the safety of the property. (Fencing, new walks and driveways, and general landscape work (trees, shrubs, seeding or sod) cannot be in the first $5,000 requirement).
- **Interior or exterior painting:** when basic improvements are involved, and in addition to the minimum $5,000 requirement for an existing structure.
- **Improvements for accessibility to the Handicapped:** remodeling kitchens and baths for wheelchair access, lowering kitchen cabinets, or installing wider door and exterior ramps. When basic improvements are involved, installation of appliances, or interior/exterior painting are allowed in addition to the minimum $5,000 requirement;
- **The repair of a swimming pool:** The installation of a new swimming pool is not allowed. (See "Swimming Pools" for additional information.)
- **Connecting to public water and sewage systems (follow 203(b) guidelines in the 4000.1)**

# *FHA 203(k) Rehabilitation Program Summary*

| Topic | Guidelines |
|---|---|
| | **Ineligible Improvements / Repairs:**<br>The 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:<br>• 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<br>• additions or alterations to support commercial use or to equip or refurbish space for commercial use. |

# *FHA 203(k) Rehabilitation Program Summary*

| | |
|---|---|
| 203(k) Limited | **Minimum Amount of Rehabilitation:** None<br>**Maximum Amount of Rehabilitation Escrow:** Not to exceed $35,000<br><br>**Required Documentation**<br>• **Work Plan:** must be obtained from the Borrower detailing the proposed repairs or improvements. The borrower may develop the work plan or engage an outside party.<br>• **Written Proposal and Cost Estimates:** must be obtained from a contractor for each specialized repair/improvement. Selected contractor must meet 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.<br>• **Sales Contract:** must be obtained with the required verbiage that the Borrower has applied for 203(k) financing using the Sales Contract Addendum located in MM. The contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by the Renovation Dept.<br><br>**Eligible Improvements:**<br>• eliminating health and safety hazards that would violate HUD's MPR;<br>• repairing or replacing wells and/or septic systems;<br>• connecting to public water and sewage systems (follow 203(b) guidelines in the 4000.1);<br>• repairing/replacing plumbing, heating, AC and electrical systems (also see Contingency Requirements section);<br>• making changes for improved functions, modernization and eliminating obsolescence; |

| Topic | Guidelines |
|---|---|

- repairing or installing new roofing; No structural impact is allowed;
- siding; gutters; and downspouts;
- creating accessibility for persons with disabilities;
- repairing fences, walkways, and driveways;
- installing a new refrigerator, cook top, oven, dishwasher, washer/dryer, and built-in microwave oven;
- repairing or removing an in-ground swimming pool (See Swimming Pools section);
- installing smoke detectors and carbon monoxide detectors;
- replacing or repairing exterior decks, patios, and porches, but only if curing safety or health conditions; and  covering lead-based paint stabilization costs. See the Lead-Based Paint Stabilization requirements.

**Ineligible uses for the Limited 203(k) program:**

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;
- repairing, reconstructing or elevating an existing foundation;
- purchasing an existing Structure on another site and moving it onto a new foundation;
- making structural alterations, including room additions;
- landscaping and site improvements, unless they cure health or safety issues;  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; or ○ gazebos

**Properties Eligible for a Refinancing Mortgage:**

The refinance must be a credit-qualifying, no-cash-out transaction with an appraisal.
A property acquired under either of these circumstances is not considered an identity of interest.

| Topic | Guidelines |
|---|---|
| | ☐ The property was a gift, or ☐<br>The property was inherited.<br>For properties acquired by the Borrower within 12 months of the case number assignment date, an as-is appraisal must be obtained.<br><br>**Contractor's Bids:**<br>The Underwriter is required to examine the contractor's bid(s) and determine that they fall within the usual and customary range for similar work. The Underwriter must also ensure that the selected contractor(s) meet all jurisdictional licensing and bonding requirements.<br><br>**Payments in Advance of Construction:**<br>The Underwriter, at its discretion, may provide the contractor with up to 50% of the estimated materials 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. A statement from the contractor using the Contractor draw request form is sufficient to document. Such payments should only be made when the Renovation Dept. is satisfied with the reputation of the contractor(s) and the contractor is not willing or able to defer receipt of payment until completion of the work or the payment represents the costs of materials incurred prior to construction.<br><br>**Requirements for Selecting/Paying a Contractor:**<br>If the borrower uses more than one contractor to complete the repairs, a maximum of three contractors is allowed. Regardless of the number of contractors, there will only be two payouts: one at loan closing and one when the project is complete and the final inspection has been performed. Escrowed funds are released upon completion of the draw request (Form HUD-9746-A) signed by both the borrower and contractor. |

| | |
|---|---|
| Appraisal Requirements | Appraisals are valid for 120 days.<br><br>**<u>Appraisal Reports</u>**<br>An appraisal by an FHA Roster Appraiser is always required to establish the After Improved Value of the Property. Except as described below in cases of Property Flipping and refinance transactions, an as-is appraisal is not required to be obtained and alternate methods may be used as mentioned below to establish the Adjusted As-Is Value. If an as-is appraisal is obtained, it must be used in establishing the Adjusted As-Is Value.<br><br>**Refinance Transactions:**<br>***Properties acquired greater than or equal to 12 months prior to the Case Assignment Date***<br>Requires an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the Property plus the following items exceeds the After Improved Value: |

# *FHA 203(k) Rehabilitation Program Summary*

| Topic | Guidelines |
| --- | --- |

- Financeable Repairs and Improvement Costs;
- Financeable Mortgage Fees;
- Financeable Contingency Reserves; and
- Financeable Mortgage Payment Reserves (for Standard 203(k) only
- may use the existing debt* or an as-is appraisal as an option to determine the Adjusted As-Is Value when the existing debt on the Property plus the above items does not exceed the After Improved Value.

***Properties Acquired Less Than 12 Months Prior to the Case Assignment Date Require an As-Is Appraisal.***
The Adjusted As-Is Value is the lesser of:

- Existing debt* plus fees associated with the new Mortgage; or  The As-Is Property Value.

*Existing debt includes:

- The unpaid principal balance of the first Mortgage as of the month prior to mortgage Disbursement;
- The unpaid principal balance of any purchase money junior Mortgage as of the month prior to mortgage Disbursement;
- If the balance or any portion of an equity line of credit in excess of $1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the Property, that portion above and beyond $1,000 is not eligible for inclusion in the new Mortgage;
- Interest due on the existing Mortgage(s);
- Mortgage Insurance Premium (MIP) due on existing Mortgage;
- Any prepayment penalties assessed;  Late charges; and  Escrow shortages.

***Properties Acquired by the Borrower Within 12 Months of the Case Assignment Date by Inheritance or Through a Gift from a Family Member***

- The calculation of Adjusted As-Is Value for properties acquired greater than or equal to 12 months prior to the case assignment date may be utilized.

**After Improved Value:** To establish the After Improved Value, an appraisal of the Property subject to the repairs and improvements must be obtained.

**Documents to be Provided to the Appraiser at Assignment:** The Appraiser must be provided with a copy of the Consultant's Work Write-Up and Cost Estimate for a Standard 203(k), or the work plan, contractor's proposal and Cost Estimates for a Limited 203(k).

# *FHA 203(k) Rehabilitation Program Summary*

| Topic | Guidelines |
|---|---|
| 203(k) Calculator | The 203(k) Calculator must be completed within the case number in FHA Connection.<br><br>You may use the 203(k) Calculator (HUD.gov public version), which allows you to view 203(k) case information upon entering case data without having an FHA case number. No case information is saved when using this calculator version and it may be printed for reference. The 203(k) Calculator within the FHA Connection must be used for the actual case processing. |
| Cash-Out | Not Allowed |
| Closing / Settlement Costs | FHA does not have any restrictions for closing costs to be paid by the borrower. Any of the following fees paid by the borrower must be included with the down payment requirements in calculating the borrower's cash to close (this list may not be all inclusive):<br>• **Supplemental Origination Fee:** This fee is calculated as 1.5 percent of the portion of the mortgage allocated to total rehabilitation, or $350, whichever is greater.<br>• Closing costs, such as those customary and reasonable costs necessary to close the loan;<br>□ Prepaid items<br>May use interested third party contributions (maximum 6% seller contribution limitation) or lender subsidy (AKA over-par or premium pricing) to pay closing costs. |
| Condominiums | • Project must be on the FHA Approved Condominium list and must comply with all other requirements for condominiums.<br>• HUD REO properties do not require FHA Condominium Project Approval.<br>• Rehabilitation is limited only to the interior of the unit. Mortgage proceeds are not to be used for the rehabilitation of exteriors or other areas which are responsibility of the condominium association, except for the installation of firewalls in the attic for the unit;<br>• Only the lesser of five units per condominium association, or 25 percent of the total number of units, can be undergoing rehabilitation at any one time;<br>• **The maximum mortgage amount cannot exceed 100 percent of the after-improved value.**<br>• After rehabilitation is complete, the individual buildings within the condominium ***must not contain more than four units*****.** By law, Section 203(k) can only be used to rehabilitate units in 1-4 unit structures. However, this does not mean that the condominium project, as a whole, can only have 4 units or that all individual structures must be detached. Also see **HOA** section. |

# *FHA 203(k) Rehabilitation Program Summary*

| | |
|---|---|
| | |
| Consultants | • A HUD Consultant must be used on a Standard 203(k).<br>• A HUD Consultant may be used on a Limited 203(k) to do a feasibility report to identify the FHA deficiencies with the property. Fees for these services may not be financed.<br>• A fully executed 203k Consultant agreement is required.<br>• Acceptable consultants prepare the cost estimates in the form of an original Work Write-Up that includes a detailed description of the costs for labor, materials, profit and a narrative format. A plan review of a contractors bid is not acceptable. |

| Topic | Guidelines |
|---|---|
| | A W-9 is required for all Consultants. |

# *FHA 203(k) Rehabilitation Program Summary*

| | |
|---|---|
| Contingency Reserve | A contingency reserve is typically required to cover unexpected expenses.<br>• The reserve must be a minimum of 10% of the cost of rehabilitation;<br>• The contingency reserve may not exceed 20% where major remodeling is contemplated.<br>• If the utilities were not turned on for inspection, a minimum 15%, maximum 20% is required.<br>• Important notice regarding contingency funds m ust be provided to the borrower prior to close or at the closing of the loan and may be found in MM.<br><br>The borrower (or any other person, organization or agency on the borrower's behalf) may place their own funds into the contingency reserve account. In this case, if monies are remaining in the account after the Final Release Notice is issued, the monies may be released back to the borrower (or other person, organization or agency who placed the money in the contingency reserve). |
| Contractor(s) Requirements | • All Borrower-selected contractors must sign the Homeowner Contractor Agreement before closing.<br>• All contractors must meet all state and municipality requirements.<br>• The Underwriter must review the following items pursuant to the acceptance of the proposed contractor:<br>○ Credentials ○ Work Experience ○ Client References<br>• The contract between the borrower(s) and contractor(s) must contain the terms and conditions for completion and be for an amount that does not exceed the work write-up.<br>• A copy of the contractor information sheet, profile or the equivalent review document must be included in the loan file and maintained to provide current information.<br>• Bid letters are not an acceptable substitute for the contract between the borrower(s) and contractor(s).<br>• A W-9 is required for all contractors. A maximum of three contractors are allowed.<br>• Click n' Close must be added as additional insured. |
| Credit Score | 640 |
| Document Expiration | Credit documents must not be more than 120 days old when the loan closes. Preliminary Title Policies must be no more than 180 days old on the date the Note is signed. |
| Down Payment Assistance and Secondary Financing | • Down Payment Assistance programs from government entities are permitted in accordance with FHA's guidelines. ○ Non Profits, Trade Unions, etc. are not permitted ○ No maximum CLTV when the second is provided by a government entity. |

| | |
|---|---|
| | • No maximum CLTV when the second is provided by a family member. |

| Topic | Guidelines |
|---|---|
| | ▯ The maximum CLTV when the second provided by private individuals and other organizations is 110% of the After Improved Value. Secondary financing provided by private individuals and other organizations may not be used to meet the Borrower's minimum down payment requirement. |
| Draw Process | The draw process is handled by the Construction Department in conjunction with Trinity Admin Services. Contact constructions@clicknclose.com or 214-261-3341<br>Disbursements are made as each phase of the project is completed based on the draw paperwork provided by the cost consultant (see "Consultant Fees" section). Inspections are required prior to each disbursement.<br>**Standard 203(k)**<br>A maximum of five draws are allowed on the Standard 203(k) program that are disbursed on the cost of the work performed. A 10% reserve is held back on EACH draw. The holdback funds are disbursed upon completion of ALL work along with the final disbursement. Any funds not eligible for disbursement at closing will be held and disbursed by the investor to be applied to the principal balance of the loan.<br>**Limited 203(k)**<br>**One draw at closing and one draw at final.** |

# *FHA 203(k) Rehabilitation Program Summary*

| | |
|---|---|
| Escrow Account for Repairs | The full loan amount must be funded at closing. The funds are used to purchase the property or refinance an existing loan, and the amount designated for repair and improvement, including the contingency reserve, holdback, and PITI, if applicable, are deposited into an interest-bearing repair escrow account, insured by the Federal Deposit Insurance Corporation (FDIC). Disbursements are made as each phase of the project is completed based on the draw paperwork provided by the cost consultant. Inspections are required prior to each disbursement. The only exception is for the cost of flooring and cabinets, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date. 50% of the cost of these items can be disbursed upfront as part of a normal draw.<br><br>A maximum of five draws are allowed on the Standard 203(k) program that are disbursed on the cost of the work performed. A 10% reserve is held back on EACH draw. The holdback funds are disbursed upon completion of ALL work along with the final disbursement.<br><br>**Rehabilitation/Repair Disbursement Process:**<br>Rehabilitation funds disbursed will be considered a draw. The draw process is different for Limited versus the Standard 203(k).<br>1. Escrowed funds are released upon completion of the proposed rehabilitation in accordance with the work write-up and the draw request (Form HUD-9746-A). Release of funds for completed work cannot occur until 1 day following loan closing.<br>2. The net income earned by the rehabilitation Escrow Account must be paid to the borrower. The method of such payment is subject to agreement between CNC and the Borrower. However, payment of the interest income on the rehabilitation Escrow Account can accumulate and be paid in one lump sum after completion of rehabilitation and |

<table>
<tr><th>Topic</th><th>Guidelines</th></tr>
<tr><td></td><td>
issuance of the Final Release Notice. When the Escrow Commitment Procedure is used, interest on the escrow account can be paid when the loan is assumed. Provide an Applicant's Acknowledgement.<br>
3. During rehabilitation, funds may not be released from the Rehabilitation Escrow Account until the receipt of a Compliance Inspection report (Form HUD-92051) and the Draw Request (Form HUD 9746-A), certifying that the work has been completed in compliance with the accepted architectural exhibits.<br>
4. The final release of the escrowed rehabilitation funds is to take place only after the local jurisdiction has provided its final acceptance of the work and the HUD or the Direct Endorsement (DE) Underwriter has reviewed the final Compliance Inspection Report and the Draw Request form.<br><br>
The Final Release Notice can be issued, authorizing the final payment, which may include the interest earned on the escrow account and the total of all holdbacks. This Notice also directs the prepayment of the mortgage by the amount remaining in the contingency reserve and any unused inspection fees or mortgage payments, when applicable.
</td></tr>
<tr><td>Fees</td><td>
Work Write-up<br>
The Consultant may charge the fees listed below for the preparation of the work write-up and review of architectural exhibits:<br><br>
<table>
<tr><th>Fees</th><th>Cost of Repairs</th></tr>
<tr><td>$ 400</td><td><$7,500</td></tr>
<tr><td>$ 500</td><td>$7,501-$15,000</td></tr>
<tr><td>$ 600</td><td>$15,001-$30,000</td></tr>
<tr><td>$ 700</td><td>$30,001-$50,000</td></tr>
<tr><td>$ 800</td><td>$50,001-$75,000</td></tr>
<tr><td>$ 900</td><td>$75,001-$100,000</td></tr>
<tr><td>$ 1,000</td><td>>$100,000</td></tr>
</table>
Note: An additional $25 fee may be charged by the 203(k) Consultant for each additional unit that is part of the property under the same FHA case number (e.g., 4-unit property)<br><br>
Draw Inspection Fee<br>
For each draw request, the Consultant may charge an inspection fee that is reasonable and customary for work performed in the area where the property is located, provided the fee does not exceed a maximum of $350
</td></tr>
</table>

# *FHA 203(k) Rehabilitation Program Summary*

| | |
|---|---|
| HOA / Historic Area or Any Property with Legal Oversight | Written permission from the HOA or from the government entity overseeing Historic areas or any other legal/government oversight is required for any repairs or improvements.<br>Repairs/improvements on registered historic properties require a Credit Policy exception. |

# *FHA 203(k) Rehabilitation Program Summary*

| Topic | Guidelines |
|---|---|
| HUD REO Properties | Allowed |
| Identity of Interest | • The maximum LTV percentage for Identity-of-Interest transactions on Principal Residences is restricted to 85%. See 4000.1 for exceptions.<br>• The maximum LTV percentage for a transaction where a tenant-landlord relationship exists at the time of contract execution is restricted to 85%.<br>• An Identity-of-Interest Transaction is a sale between parties with an existing Business Relationship or between Family Members.<br>• Business Relationship refers to an association between individuals or companies entered into for commercial purposes.<br>• Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:<br>○ child, parent, or grandparent;<br>▪ a child is defined as a son, stepson, daughter, or stepdaughter;<br>▪ a parent or grandparent includes a step-parent/grandparent or foster parent/grandparent; ○ spouse or domestic partner;<br>○ legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption;<br>○ foster child;<br>○ brother, stepbrother; sister, stepsister; ○ uncle; aunt; or ○ son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower. |

| | |
|---|---|
| Inspections | All inspections are performed by HUD-approved fee inspectors assigned by the HUD Field Office (but paid by CNC) or on the HUD-accepted staff of the DE lender. The fee inspector is to use the architectural exhibits in order to make a determination of compliance or noncompliance. The HUD accepted Plan reviewer can be allowed to do the fee inspections on the property, because he/she is already familiar with the proposed improvements and can inspect the rehabilitation knowing what was accepted in the work write-up.<br><br>When the inspection is scheduled due to a request for payment, the inspector is to indicate on the Compliance Inspection Report (Form HUD-92051) whether or not work has been completed. Also, the inspector **must** use the Draw Request form (Form HUD-9746-A, Appendix 9). The first draw must not be scheduled until the Construction Dept. has determined that the applicable building permits have been issued.<br><br>The inspection fees are paid by the borrower or through the repair escrow account. If the inspection fee is part of the escrow, then it can be released along with the release of the escrow funds as a result of an acceptable Draw Request. |

# *FHA 203(k) Rehabilitation Program Summary*

<table>
<tr><th>Topic</th><th>Guidelines</th></tr>
<tr><td></td><td>On a Standard 203(k), a feasibility report is required to be completed by a HUD Consultant.</td></tr>
<tr><td>Inspection Fees</td><td>
<table>
<tr><th>Repairs/Rehab Costs</th><th>Fee</th></tr>
<tr><td>Standard 203(k)</td><td>As Determined by the HUD Consultant</td></tr>
<tr><td>Limited 203(k)</td><td>$150 - $350</td></tr>
<tr><td>Change Order</td><td>$100</td></tr>
<tr><td>Re-inspection</td><td>$50</td></tr>
<tr><td>Mileage when round trip exceeds 15 miles from reviewer’s place of business</td><td>Current IRS rate</td></tr>
</table>
</td></tr>
<tr><td>Lead Based Paint Stabilization and Contractor(s) Requirements</td><td>If the property was built prior to 1978, a contractor who is lead-based paint certified is required to be on site, but testing/certification is not required unless the paint is disturbed. If the property has been determined to contain lead-based paint, a stabilization plan and cost estimate to stabilize (mitigate) the deteriorated paint must be provided. A state-or Environmental Protection Agency (EPA) certified lead-based paint inspector, certified risk assessor or sampling technician, independent of the firm that performed the stabilization, must perform the clearance examination and clearance is obtained. Below is a link which will allow you to search for Lead Based Paint Certified companies in your area http://www.epa.gov</td></tr>
</table>

# *FHA 203(k) Rehabilitation Program Summary*

| | |
|---|---|
| Maximum LTV and Mortgage Amount (see Maximum Mortgage Worksheet section) | • LTV Ratio Purchase: **96.50%** (See Maximum Mortgage Worksheet)<br>• LTV Ratio Rate/Term Refinance: **97.75%**<br>• LTV Ratio Rate/Term Refinance of HUD-Approved Secondary Residence: **85%**<br><br>The maximum mortgage amount that FHA will insure on a 203(k) **purchase** is the lesser of:<br>• the appropriate Loan-to-Value (LTV) ratio from the Purchase Loan-to-Value Limits, multiplied by the lesser of: ○ the Adjusted As-Is Value, plus:<br>▪ Financeable Repair and Improvement Costs<br>▪ Financeable Mortgage Fees<br>▪ Financeable Contingency Reserves; and<br>▪ 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. |

| Topic | Guidelines |
|---|---|
| | For a HUD REO 203(k) purchase utilizing the Good Neighbor Next Door (GNND) or $100 Down sales incentive, calculate the maximum mortgage amount in accordance to FHA requirements.<br><br>The maximum mortgage amount that FHA will insure on a 203(k) **refinance** is the lesser of:<br>1. the existing debt and fees associated with the new Mortgage, plus:<br>• Financeable Repair and Improvement Costs<br>• Financeable Mortgage Fees<br>• Financeable Contingency Reserves; and<br>• Financeable Mortgage Payment Reserves, for Standard 203(k) only; or 2. the appropriate LTV ratio, multiplied by the lesser of:<br>• the Adjusted As-Is Value, plus:<br>o Financeable Repair and Improvement Costs<br>o Financeable Mortgage Fees<br>o Financeable Contingency Reserves; and<br>o Financeable Mortgage Payment Reserves, for Standard 203(k) only (requires a CP exception); or □ 110 percent of the After Improved Value (100 percent for condominiums); or<br>3. the Nationwide Mortgage Limits.<br><br>The mortgage payoff statement for existing debt must be obtained.<br>For properties acquired less than 12 months prior to case number assignment date, 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.<br><br>If improvements were made to the Property subsequent to the acquisition, document the associated cost of the improvements by obtaining the following:<br>• a contract for completion of work;<br>• materials cost and paid receipts; and<br>• permit costs. |

# *FHA 203(k) Rehabilitation Program Summary*

| | |
|---|---|
| Maximum Mortgage Worksheet | Based on the FHA 203(k) calculation found in FHA Connection. |
| Mortgage Insurance and Certificate (MIC) | The MI must comply with requirements of the current MIP Chart.<br>For the purpose of calculating the LTV for application of the MIP, divide the Base Loan Amount by the After Improved Value.<br>All loans must be submitted to HUD for insuring and be insured within 30 days of closing. Case binders can be submitted and insurance is issued for 203(k) loans before the work is completed. |

| Topic | Guidelines |
|---|---|
| Mortgage Payment Reserve | A Mortgage Payment Reserve refers to an amount set aside to make Mortgage Payments when the property cannot be occupied during rehabilitation. This is only allowed on a 203(k) Standard, FHA consultant must indicate property is uninhabitable. .<br>Funds not to exceed the amount of 6 mortgage payments (including PITI and the mortgage insurance premium) can be included in the cost of rehabilitation and deposited in the rehabilitation escrow account to assist a mortgagor when the HUD Consultant has deemed the property uninhabitable.<br>On multi unit properties, if one or more units are occupied, the mortgage payment must be reduced accordingly. If the owner occupies one of the units, or if the rents received are not sufficient to cover that portion of the mortgage, then the mortgage payment will be reduced by dividing the PITI by the number of units in the property (i.e., the monthly mortgage payment for a triplex is $1,248; if one unit is occupied, the mortgage payment is reduced to $832).<br><br>The number of mortgage payments cannot exceed the completion time frame required in the Rehabilitation Loan Agreement. MAM must make the monthly mortgage payments directly from the interest bearing reserve account. Money remaining in the reserve account after the Final Release Notice is issued, or occupancy of the property, must be used to reduce the mortgage principal. |
| Non-Occupant Co-Borrowers | Allowed only on a single family primary residence. |
| Occupancy | Primary residence only |

| | |
|---|---|
| Property Types | **Homes that have never been completed** cannot be accepted into the 203(k) program. Construction of the property must have been completed for at least one year. Evidence of completion would be a Certificate of Occupancy or other similar documentation from the local jurisdiction.<br><br>**Eligible Properties:**<br>• One to four-family dwelling that has been completed greater than one year.<br>• REO properties<br>• Condominiums in projects that have been approved by FHA (Interiors only)<br>• Non-residential conversions to single family (1-4 units)<br>In addition to typical home rehabilitation projects, this program can be used to convert a one family dwelling to a two-, three-, or four-family dwelling. An existing multi-unit dwelling could be decreased to a one-to-four family unit<br><br>**Ineligible Property:**<br>• Co-ops<br>• Land Trusts<br>• Leaseholds |

| Topic | Guidelines |
|---|---|
| | • Geodesic Homes<br>• Mixed use<br>• Condotels<br>• Manufactured Homes<br>• Homes located on another site that will be moved onto a new foundation.<br>• Homes that have been demolished, or will be razed as part of the rehabilitation work. |
| Rehabilitation Loan Agreement | A Rehabilitation Loan Agreement must be executed by MAM and the borrower at closing. The Rehabilitation Loan Agreement establishes the conditions under which MAM (or its agent) will release funds from the rehabilitation Escrow Account. |
| Rehabilitation Period | Rehabilitation construction must begin within 30 days of closing, and all work must be completed within 6 months of closing. |

# *FHA 203(k) Rehabilitation Program Summary*

| | |
|---|---|
| Required Repairs or Improvements | All rehabilitation construction and/or additions financed with 203(k) mortgage proceeds must comply with the following:<br>**A. Cost Effective Energy Conservation Standards**<br>**1. Addition to Existing Structure -** New construction, must conform with local codes and HUD Minimum Property Standards<br>**2. Rehabilitation of Existing Structure-**To improve the thermal efficiency of the dwelling, the following are required:<br>**a.** Weather-strip all doors and windows to reduce infiltration of air when existing weather-stripping is inadequate or nonexistent.<br>**b.** Caulk or seal all openings, cracks or joints in the building envelope to reduce air infiltration<br>**c.** Insulate all openings in exterior walls where the cavity has been exposed as a result of the rehabilitation. Insulate ceiling areas where necessary<br>**d.** Adequately ventilate attic and crawl space areas.<br>**3. Replacement Systems**<br>**a.** Heating, ventilating, and air conditioning system supply and return pipes and ducts must be insulated whenever they run through unconditioned spaces.<br>**b.** Heating systems, burners, and air conditioning systems must be carefully sized to be **no greater than 15% oversized**, except to satisfy the manufacturer's next closest nominal size.<br>If new heating/cooling system is proposed, provide heat loss/heat gain calculations for the entire house to ensure proper sizing of heating system. Use the design criteria developed by the American Society of Heating, refrigerating and Air Conditioning Engineers (ASHRAE) or Manual J developed by the National Environmental Systems Contractors Association.<br>**B. Smoke Detectors / Carbon Monoxide Detectors -** Each sleeping area must be provided with a minimum of 1 approved, listed and labeled smoke detector installed adjacent to the sleeping area. The detector must sense visible or invisible particles of combustion. When activated, the detector must provide an alarm suitable to warn occupants within the sleeping area. Smoke detectors may be battery powered when installed in existing or rehabilitated dwellings. However, |

| Topic | Guidelines |
|---|---|
| | where new construction is being added to an existing building, the smoke detector must receive its primary power from building wiring, in conformance to local codes and ordinances. |
| Sweat Equity or Self Help | Not Allowed |
| Swimming Pools | If a swimming pool is going to be "filled in", it must be documented that the pool has been legally destroyed, with holes punched in, etc. per the local county, city, or state code. The installation of a new pool is not allowed. |

# *FHA 203(k) Rehabilitation Program Summary*

| | |
|---|---|
| Texas 203(k) Restrictions | In Texas, the following restrictions apply to Section 203(k) programs:<br>• The applicable Rehabilitation Document Checklist must be completed and submitted with the loan file. All improvements must be performed by a third-party builder. No "self-help" is allowed.<br>• Disclosure must be delivered to borrower not later than one business day before closing.<br>• All closing documents must be delivered to the borrower not later than one business day before closing.<br>• The Builder's Contract: ○ Must be signed by all owners and their spouses. ○ Must occur at the lender's office, a title company, or an attorney's office. ○ Must not be signed before the fifth day after making written application. ○ May be rescinded within three days after all parties have signed (purchase and refinance).<br>○ No materials may be furnished or labor performed before the three-day rescission period expires.<br>• A 10% statutory retainage should be withheld from each advance to cover any claim notices from subcontractors or suppliers. The entire retainage, representing 10% of construction costs, will be retained for 30 days after final completion. (Subcontractors and suppliers have only 30 days after completion to notify the borrower of nonpayment claims).<br>• Additional monies requested for cost overruns and upgrades are secured under the builder's contract only if they are evidenced by change orders signed by both parties. Any modification agreement to increase the loan amount must have original change orders attached.<br>• Subject property must be a Texas Homestead.<br>• Texas Disbursement Statement (Draw Request)<br>• Affidavit of Commencement<br>• Affidavit of Completion<br>• Lien Waiver<br>• Final Bills-Paid Affidavit<br>Please contact constructions@clicknclose.com with any questions.<br>• |

| Topic | Guidelines |
|---|---|