

203K From Rehab To Remarkable

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Agenda



- What is a 203K?
- Why do we offer the 203K?
- Benefits of the 203K
- 203K Guidelines and Timelines
- Limited 203K VS Standard 203K

What Is A 203K?



The FHA 203K program is HUD's primary program for the rehabilitation and repair of residential properties

**Purchase and
rate/term only**

**Cash out to borrowers
not allowed**

**MLB offers the Limited
and the Standard 203K**

Why Use The 203K?



Aged housing

Aging population
(deferred maintenance)

Build equity

Influx of foreclosures

Family has outgrown starter home

Energy-efficient improvements

Accessibility for the disabled

Make a home your own

Benefits Of The 203K



- Affordable and cost effective loan
- Financing for homes that require repairs
- Means for borrowers to finance desired repairs
- Expand Homeownership opportunities
- Tool for community and neighborhood revitalization
- Allows use of FHA financing for properties that would otherwise be uninsurable
- Provides ability to market properties that need updating
- Increases a property's value (avg. 6% YTD)

Eligible Borrowers



- Standard FHA credit guidelines
- Fico scores of 620
- All loans must be submitted through DU. Manual Underwrites are permitted (must meet all Manual Underwriting requirements per 4000.1 HUD Handbook)
- Seller contributions allowed per FHA guidelines up to 6%

Eligible Properties And Loan Limit Guidelines



Stick-built



Modular Homes



Condo FHA Approved
(Walls in)



Log Homes

Loan Guidelines

- 1-4 Units
- Minimum 620 FICO
- Minimum \$5000 repairs

Maximum Loans

- Maximum loan amount per FHA County Limits
- Maximum loan limits are determined by HUD geographic areas
- Maximum loan to value is 96.5% for purchases and 97.75% for rate/term refinance

Loan To Value

- The loan to value is based on the lesser of:
 - Sales price or “as is” appraised value + total rehab cost
 - Purchase: Use sales price or appraised value, whichever is lower
 - Refinances: Require “as is” value
- 110% of after improved value for 1-4 units, 100% for Condo

Limited 203K



The Limited 203K is intended to help facilitate, uncomplicated improvements or repairs to a home that does not require plans, consultants, engineers, architects, etc.

- Non-structural repairs with total cost at or below \$35K
- Minimum \$5000 in repairs
- No HUD Consultant required but always recommended
- Max of 3 individual contractors
 - 2 draws disbursed per contractor (3 contractors = 6 draw checks: 3 inspections and 3 title updates)
- First Disbursement is released after closing

Limited 203K Eligible Repairs

Minor Remodeling/Improvements



Roofs



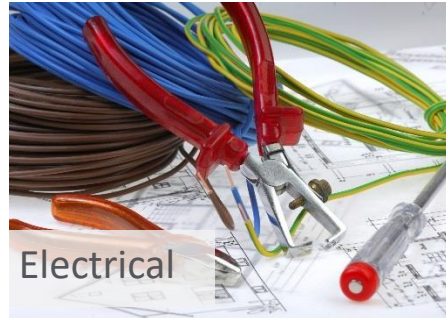
Gutters/Downspouts



HVAC



Plumbing



Electrical



Flooring



Painting
(interior, exterior, lead-based)



Windows



Doors



Septic/Well



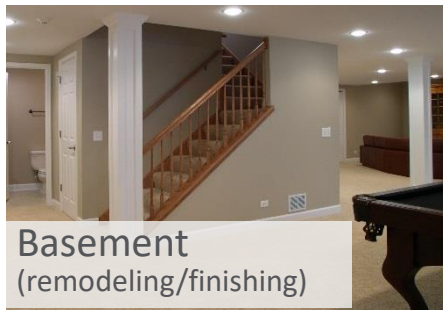
Fencing



Modifications
for disabled



Appliances



Basement
(remodeling/finishing)



Exterior Decks,
Patios, Porches

Limited 203K Ineligible Repairs



Major rehab:

- Structural repairs
- Room additions
- Repairs requiring drawing architectural exhibits
- Landscaping, site amenity improvements
- Any repair that will displace the homeowner for more than 15 days



Limited 203K Process



1. Borrower locates a property in need of repair or in need of a cosmetic makeover
2. Borrower and seller sign a standard sales contract to purchase the property
 - Sales price does not include purchaser's desired repair cost
 - Buyer and seller need to sign an addendum to contract acknowledging the 203K financing
3. In addition to standard disclosures, the application should also include all 203K required documents
4. Borrower researches contractors and obtains bids for the rehabilitation cost
 - All bids must be specific to desired repair/improvement and break out the cost of materials and labor
 - Appraiser uses the final bids to complete the appraisal
5. Appraisal ordered with all 203K information provided from Mortgage Management Consulting only
6. Loan is submitted with appraisal, 203K documents/disclosures and contractor information
7. Underwriter determines acceptable repairs and maximum loan amount
8. Repair work must begin within 30 days of closing and must be completed within 6 months of closing
9. Upon work completion, the borrower notifies MLB, who will order a final inspection and title update
10. Borrower must sign the letter of completion and the final 50% of repair costs are disbursed

Any unused/unspent funds must be used to pay down the original principle balance

*****No Cash Back*****

Standard 203K

Designed For More Complicated Projects



- Structural repairs and/or repair cost exceeding 35K
- Minimum \$5,000 in repairs
- HUD Consultant required
- If house is uninhabitable, may finance up to 6 months PITI during that period
- Bid prepared by 1 general contractor
- Max draws 5 during rehab phase, draw schedule determined by contractor and HUD Consultant



Standard 203K Eligible Repairs

Major Rehab All Repairs Allowed On Limited 203K, in addition as:



Repairs Requiring Drawings, Specs, Architectural Exhibits



Energy Improvements



Structural Repairs



Conversion Of SFR To 2-4 Unit Or Vice Versa



Room Additions



Attached Or Detached Garage



Landscaping, Site Amenity Improvements



Health/Safety Issues

Standard 203K Ineligible Repairs



- Luxury items
 - Gazebos
 - Tennis courts
 - Spas
- Outdoor kitchens
- For a list of all ineligible repairs click the link

Below and go to page 394

<https://www.hud.gov/sites/dfiles/OCHCO/documents>



Standard 203K Process



1. Borrower locates a property in need of repair or a needs a cosmetic makeover
2. Borrower and seller sign a standard sales contract to purchase the property
 - Sales price does not include purchasers desired repair cost
 - Buyer and seller need to sign an addendum to contract acknowledging the 203K financing
3. The HUD approved consultant meets the borrower at the property for the initial inspection
4. HUD consultant completes Feasibility Study and Specification Of Repairs (SOR*)
5. Borrower researches contractors and obtains bids for the rehabilitation cost
 - All bids must be specific to desired repair/improvement and break out the cost of materials and labor
6. Borrower selects contractors and final bids
 - Appraiser uses the final HUD consultant SOR*
7. Appraisal is ordered with all 203K information provided by the consultant
8. Loan is submitted with appraisal, 203K documents/disclosures and contractor(s) information
9. Max mortgage worksheet is completed by Underwriter
10. Prior to closing the 203K escrow department conducts a closing call with borrower
11. At closing, typically only “soft” cost for Architectural, Engineering Fees, Inspection Permits, are released at closing
12. Repair work must begin within 30 days of closing and must be completed within 6 months of closing
13. HUD Consultant completes all draw/final inspections and MLB funds the draws (5 + Final)
 - Each draw request will require a 10% hold back
 - 203K escrow dept. orders title update with each draw
14. Borrower must sign the letter of completion prior to final disbursement

No Cash Back

Calculating Loan Amount

Maximum Mortgage Worksheet



To determine your base loan amount, a Maximum Mortgage Worksheet must be completed. The following slides breaks down the basic steps that will assist in calculating your base loan amount. Below is a link to each worksheet for the different 203k renovation products:



Microsoft Excel
Worksheet

Limited 203k Purchase

Limited 203k Refinance

Standard 203k Purchase

Standard 203k Refinance

Calculating Loan Amount – LIMITED PURCHASE/REFI

STEP 1 - Establishing Total Rehab Costs



For Limited 203k (purchase or refinance) the maximum Rehab costs of \$35,000 includes all fees and reserves

| Step 1: | Establishing Financeable Repairs and Improvement Costs , Fees and Reserves | | | |
|-----------|---|--|--------|--------|
| A. | Financeable Repair and Improvement Costs and Fees Total <i>(Sum of A1 thru A4)</i> | | | \$0.00 |
| | 1. Costs of construction, repairs and rehabilitation | | | |
| | 2. Inspection Fees <i>(For work performed during rehabilitation)</i> | | x | |
| | 3. Title Update Fees | | \$0.00 | |
| | 4. Permit Fees | | \$0.00 | |
| B. | Financeable Contingency Reserves | | | \$0.00 |
| C. | Financeable Mortgage Fees <i>(Sum of C1 and C2)</i> | | | \$0.00 |
| | 1. Origination Fee (Greater of \$350 or 1.5% of <i>(Sum of 1A+1B)</i>) | | \$0.00 | |
| | 2. Discount Points on 1A (Applied to the sum of 1A+1B) | | \$0.00 | |
| D. | Total Rehabilitation Costs, Fees and Reserves <i>(Sum of 1A , 1B & 1C)</i> (Not to exceed \$35,000) | | | \$0.00 |

Calculating Loan Amount - **STANDARD PURCHASE/REFI**



STEP 1 - Establishing Total Rehab Costs

For Standard 203k (purchase or refinance) all fees, inspections and other costs are included in the Total Rehab Costs. There is no limit on the amount of repairs for a Standard 203k however there is a minimum of \$5000

| Step 1: | Establishing Financeable Repairs and Improvement Costs , Fees and Reserves | | | |
|-----------|---|--|---|-------------|
| A. | Financeable Repair and Improvement Costs and Fees Total <i>(Sum of A1 thru A7)</i> | | | \$0.00 |
| | 1. Costs of construction, repairs and rehabilitation (min repair \$5,000) | | | |
| | 2. Inspection Fees <i>(For work performed during rehabilitation)</i> | | x | \$0.00 |
| | 3. Title Update Fees | | | \$0.00 |
| | 4. Permit Fees | | | \$0.00 |
| | 5. Architectural or Engineering Professional Fees | | | |
| | 6. 203(k) Consultant Fees | | | |
| | 7. Feasibility Study when necessary | | | \$0.00 |
| B. | Financeable Contingency Reserves | | | \$0.00 |
| C. | Financeable Mortgage Payments Reserves | | x | \$0.00 Piti |
| D. | Financeable Mortgage Fees <i>(Sum of D1 and D2)</i> | | | \$0.00 |
| | 1. Origination Fee <i>(Greater of \$350 or 1.5% of (Sum of 1A thru 1C))</i> | | | \$0.00 |
| | 2. Discount Points <i>(Applied to Sum of 1A thru 1C)</i> | | | \$0.00 |
| E. | Total Rehabilitation Costs, Fees and Reserves <i>(Sum of 1A thru 1D)</i> | | | \$0.00 |

Calculating Loan Amount – PURCHASE (Standard and Limited)

STEP 2 – Establishing Value



For both Standard and Limited 203k you enter the Purchase price and value based on the Sales Contract and Appraisal. (To determine your initial base loan amount, you can use Purchase Price only until appraisal is obtained)

| Step 2: | Establishing Value | | |
|---------|--|--------|--------|
| A. | Purchase Price | \$0.00 | |
| B. | Inducement to Purchase | \$0.00 | |
| C. | Purchase Price Less Inducement to Purchase | | \$0.00 |
| D. | As-Is Property Value <i>(As-Is Appraisal may be required to comply with Property Flipping guidelines)</i> | \$0.00 | |
| E. | Adjusted As-Is Value <i>(If As-is appraisal is obtained, then the As-is property value (Step 2D) = Adjusted As-Is Value, OR if As-is appraisal <u>is not</u> obtained, then Step 2C = Adjusted As-is Value)</i> | | |
| F. | After Improved Value <i>(Appraisal Subject to Repairs and Improvement)</i> | | \$0.00 |

Calculating Loan Amount – REFINANCE (Standard and Limited)

STEP 2 - Establishing Value



For both Standard and Limited 203k refinance, enter the payoff of all liens on property plus total rehab costs and fees per 1D in step 1 PLUS all other non renovation related costs. (if steps A-C below exceeds the After-Improved Value, a 2nd appraisal is required reflecting As-Is value)

| Step 2: | Establishing Value | | |
|---------|---|--------|--------|
| A. | Existing Debt on property being refinanced | \$0.00 | |
| B. | Total Rehabilitation Costs, Fees and Reserves (Step 1D) | \$0.00 | |
| C. | Fees Associated with the new loan (closing costs & pre-pays) | \$0.00 | |
| D. | Sum of 2A + 2B + 2C | | \$0.00 |
| E. | As-Is Property Value <i>(As-is Appraisal required for properties acquired <12 mos. before case # assignment date (except gift/inheritance), OR if Step 2A + 2B > Step 2G)</i> | \$0.00 | |
| F. | Adjusted As-Is Value <i>(If As-is appraisal is obtained, then the As-is property value (Step 2E) = Adjusted As-Is Value, OR if As-is appraisal is <u>not</u> obtained, then Step 2A + 2C = Adjusted As-is Value)</i> | | \$0.00 |
| G. | After Improved Value (Appraisal Subject to Repairs and Improvement) | | \$0.00 |

Calculating Loan Amount – REFINANCE (Standard and Limited)



STEP 3 - Calculating Maximum Mortgage Amount

Once Steps 1 and 2 are completed, you will fill in Step 3 which will determine your maximum mortgage amount

| Step 3: | Calculating Maximum Mortgage Amount | | | | | | | | | | | | | | | | | | |
|----------------------|---|---------------------------------|---|--------|-------|----------|---------|------|-----------------|---------------------------------|------|---------------------|------------------------------|----------------------|-------------------|------------------------------|-----------------|------------------------------|---------------------------------|
| A. | Step 2D total | | | \$0.00 | | | | | | | | | | | | | | | |
| B. | Sum of Step 2F + Step 2B (<i>Adjusted As-is Value + Total Rehab costs</i>) | | | \$0.00 | | | | | | | | | | | | | | | |
| C. | Step 2G (<i>After improved value</i>) x 110% (100% if Condo) | \$0.00 | x | \$0.00 | | | | | | | | | | | | | | | |
| D. | Lesser of (Step 3B or 3C) x LTV Factor from Step 3G | \$0.00 | x | \$0.00 | | | | | | | | | | | | | | | |
| E. | Nationwide Mortgage Limit | | | | | | | | | | | | | | | | | | |
| F. | Lesser of (3A, 3D, or 3E) = Initial Base Mortgage Amount | | | \$0.00 | | | | | | | | | | | | | | | |
| G. | Determining Loan-to-Value Factor for Maximum Mortgage Eligibility _% <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Basis</th> <th style="text-align: left;">Criteria</th> <th style="text-align: left;">Maximum</th> </tr> </thead> <tbody> <tr> <td>MDCS</td> <td>At or above 580</td> <td><input type="checkbox"/> 97.75%</td> </tr> <tr> <td>MDCS</td> <td>Between 500 and 579</td> <td><input type="checkbox"/> 90%</td> </tr> <tr> <td>Secondary Residences</td> <td>With HOC Approval</td> <td><input type="checkbox"/> 85%</td> </tr> <tr> <td>No Credit Score</td> <td>Manual Underwriting required</td> <td><input type="checkbox"/> 97.75%</td> </tr> </tbody> </table> <p>Note: MDCS = Minimum Decision Credit Score</p> | | | | Basis | Criteria | Maximum | MDCS | At or above 580 | <input type="checkbox"/> 97.75% | MDCS | Between 500 and 579 | <input type="checkbox"/> 90% | Secondary Residences | With HOC Approval | <input type="checkbox"/> 85% | No Credit Score | Manual Underwriting required | <input type="checkbox"/> 97.75% |
| Basis | Criteria | Maximum | | | | | | | | | | | | | | | | | |
| MDCS | At or above 580 | <input type="checkbox"/> 97.75% | | | | | | | | | | | | | | | | | |
| MDCS | Between 500 and 579 | <input type="checkbox"/> 90% | | | | | | | | | | | | | | | | | |
| Secondary Residences | With HOC Approval | <input type="checkbox"/> 85% | | | | | | | | | | | | | | | | | |
| No Credit Score | Manual Underwriting required | <input type="checkbox"/> 97.75% | | | | | | | | | | | | | | | | | |

Calculating Loan Amount – PURCHASE (Standard and Limited)

STEP 3 - Calculating Maximum Mortgage Amount



Once Steps 1 and 2 are completed, you will fill in Step 3 which will determine your maximum mortgage amount

| Step 3: | Calculating Maximum Mortgage Amount | | | |
|---------|---|------------------------------|--------------------------|---------|
| A. | Step 2E + Step 1E (Adjusted As-Is Value + Step 1 Total) | | | \$0.00 |
| B. | Step 2F (After-Improved Value) X 110% (100% if Condo) | \$0.00 | x | \$0.00 |
| C. | Less Lead Based Paint Credit | | | \$0.00 |
| D. | Lesser of 3A or 3B x Maximum LTV Factor from 3F | \$0.00 | x | \$0.00 |
| E. | Nationwide Mortgage Limit | | | \$0.00 |
| F. | Initial Base Mortgage Amount = Lesser of 3B or 3D | | | \$0.00 |
| G. | Determining Loan-to-Value Factor for Maximum Mortgage Eligibility | | | |
| | Basis | Criteria | | Maximum |
| | MDCS | At or above 580 | <input type="checkbox"/> | 96.5% |
| | MDCS | Between 500 and 579 | <input type="checkbox"/> | 90% |
| | Secondary Residences | With HOC Approval | <input type="checkbox"/> | 85% |
| | No Credit Score | Manual Underwriting required | <input type="checkbox"/> | 96.5% |
| | Note: MDCS = Minimum Decision Credit Score | | | |



Standard 203(k) Mortgage Payment Reserves

To calculate the amount that can be included in the Mortgage Payment Reserve:

- 1 Divide the monthly Mortgage Payment by the number of units in the Property; and
- 2 Multiply that figure by the number of units that cannot be occupied.

Example

Monthly Mortgage Payment = \$800
Number of units = 4
Units that cannot be occupied = 2

Calculation

- 1 $\$800 \div 4 \text{ units} = \$200/\text{unit}$
- 2 $\$200 \times 2 = \400

Mortgage Payment Reserve = \$400



Contractors DO need to be approved by MLB

Underwriter will review to make sure that individual contractor's information and documentation is acceptable

All contractors must provide the following for approval:

1. Proof of business license and contractors drivers license
2. Contractor profile to include:
 1. Three business references completing similar jobs
 2. Insurance, phone # and policy #
3. General liability Insurance and workman's comp
 1. Signed/dated detailed bid itemizing the specific cost (material and labor) of each individual repair
 2. Completed Federal W-9

HUD Consultants



- Paid at the time of service by the borrower
- Inspects property
- Determine fair market price for project cost
- Supervises rehab
- Performs draw inspections
- May request draw of Contingency Reserve funds at ANY TIME
- Certifies project completion
- Works with borrower to keep project moving and on schedule



Recommended for both Limited and Standard 203K products

HUD Consultant Cost



- The consultant's fees are determined by the estimate cost of the repairs and can be included in the maximum mortgage calculations
- Cost ranges from approximately \$400-\$1200:
 - On Multi-Unit (2-4 unit) Properties the consultant can charge an additional \$50 per unit



Limited 203K

- Does not allow borrowers to be displaced from the property for more than 30 days during repair period
- Once work is complete borrower will notify MLB and sign letter of completion
- Final inspection is conducted and remaining funds are disbursed

Standard 203K

- Typically, the consultant will authorize up to a maximum of 5 draws plus the final disbursement
- Each authorized draw will include a (10%) holdback (Total of holdbacks released with final disbursement)
- Final inspections are completed by consultants
- Any changes must be authorized by MLB and consultant

203K Disclosures



- 203K borrowers acknowledgement
- Mortgage payment disclosures (Standard only)
- Borrowers identity of interest certification
- Homeowner/Contractor agreement (Standard or Limited)
- Homeowner /Contractor Certification
- Contractor acknowledgement (Standard or Limited)
- Contractor Identity of Interest
- Consultant Identity of interest (Standard Only)
- Consultant/Borrower Fee Agreement (Standard Only)
- Consultant Certification (Standard Only)