



# FHA 203(k) PRODUCT GUIDE



203(k) Standard Product Guide			Total Scorecard	Manual Underwrite
Transaction Type	Number of Units	Max LTV	Credit score requirement	Credit score requirement
Purchase	1-4 Units	96.5%	580	580 <sup>1</sup>
Rate and Term / Simple Refinance	1-4 Units	97.75%	580	580 <sup>1</sup>
HUD/REO	1-4 Units	96.5% or \$100 down if offered	580	580 <sup>1</sup>
Cash-out Refinance	N/A	N/A	N/A	N/A

1 – Manual Underwrite: No more than 2 of the following risk factors allowed: Fico < 620; Gift fund utilization; DTI > 45%; LTV within 5% of program maximum.

## 203(k) Standard Program Overview – Construct/Replace/Add

The Standard 203(k) program is designed for more extensive construction/rehab projects and allows a borrower to obtain a single loan to:

- Rehabilitate an existing 1-4 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.

### General Parameters

- Repairs must be a minimum of \$5,000, and the total mortgage amount on the property including the cost of repairs must fall within the FHA mortgage limit for the area where the property is located.
- All renovation work must start within 30 days of loan closing date. The work cannot stop for more than 30 consecutive days and must be completed within the established time frame.
- A Rehabilitation Reserve escrow account is established, and funds are released as work is completed. A maximum of 5 draws is allowed.

- The mortgage amount is based on the projected value of the property with all work completed("After-Improved" value).
- 1-year Homeowner Policy must be in place for the after-improved value of the property at the time of loan closing. If the property is not insurable, Borrower can obtain a Builders Risk Policy. Loan Escrow will need to be established using quote for standard HOI with sufficient funds to pay full premium at expiration of Builders Risk Insurance.
- Hazard insurance must be in place for the after improved value of the property at the time of loan closing.
- Requires a Consultant who works directly with borrower and contractor, provides initial work write-up, performs draw inspections to approve disbursement to the general contractor and establishes the Contingency Reserve amount.
- EPM does not allow "self-help" (borrower completes work); work must be completed by a contractor. One general contractor is allowed, and specialized subcontractors are allowed under the general contractor. Additionally, the borrower cannot pay for or supply materials.

## Adjusted As-Is Value

**Purchase transactions** require one value:

- An "After Improved" value (value after improvements have been complete) is always required.
- HUD assumes the purchase price is the "As-Is" value and does not require an "As-Is" value on the appraisal.

**Refinance transactions** require two values:

- An "As-Is" value is required, and it is typically provided in the Addendum to the appraisal report, and
- An "After-Improved" value that is provided in the Reconciliation section of the appraisal report

For properties acquired within 12 months of case assignment date:

- If the existing debt on the property plus allowable fees (see below) **exceeds** the "After Improved" value, an additional "As-Is" appraisal is required
- If the existing debt on the property plus allowable fees (see below) **does not exceed** the "After Improved" value EPM may:
  1. Use the existing debt plus the allowable fees, or
  2. Obtain an "As-Is" appraisal.
- If property is acquired by inheritance or through a gift from a family member, use the calculation of an Adjusted As-Is value for properties <12 months prior to the case assignment date.

## Allowable Fees

- Financeable Repairs and Improvement
- Costs Financeable Mortgage Fees
- Financeable Contingency Reserves; and
- Financeable Mortgage Payment Reserves (for Standard 203(k) only).

## After Improved Value

An appraisal of the property must be obtained subject to the repairs and improvements.

- Repairs and bid(s) in the appraisal report must match the Work Write-Up provided by the consultant.
- Additional photos are required for any improvements with a contributory value that are not captured in the front and rear photos.

## Utilities

- Utilities must be inspected to ensure they are in proper working order unless they are being completely updated. Appraiser or other licensed professional (consultant, contractor, inspector, plumber, electrician) must confirm in writing that the utilities have been visually inspected and appear to be in good working order.
- If the utilities were not on at the time of the appraisal/inspection or are determined to not be in good working order, a 15% Contingency Reserve must be established (including homes that have been "winterized").
- When obtaining bids, the contractor should provide a bid that allows for any repairs that may be required.
- If utilities were not on at the time of the appraisal and the Work Write-Up does not include repairs to the utilities, EPM will accept alternative documentation to validate the condition of utilities.
  1. If home was winterized, a winterization certification indicating all utilities were working properly when turned off.
  2. A certification by a licensed professional (consultant, contractor, inspector, plumber, electrician) that the utilities have been inspected and appear to be in good working order.
- If the utility inspection reveals utilities are not in good working order, the Work Write-Up must include detailed required repairs, and the contractor bid(s) must match the Work Write-Up.

## Contractor Validation

Contractor validation required for loans submitted to EPM for prior approval.

- File must evidence contractor validation and bid acceptance.
- Required documents may be submitted prior to locking for underwriting of the loan.

## Fees Per TOTAL Scorecard Findings and Charges

The following fees and charges apply, as applicable, and are included in the rehabilitation costs:

- Appraisal fee.
- Architectural and engineering fees.
- Consultant fees based on the cost of the proposed renovation (refer to chart below).Contingency Reserve (10% to 20% of the total renovation cost).
- Cost of construction, repairs and rehabilitation.Discount points.
  - The Mortgagee may finance a portion of the borrower-paid discount points not to exceed an amount equal to the discount point percentage multiplied by the total of the repair cost and fees including Contingency Reserves and Mortgage Payment Reserves.
- Feasibility Study.
- Standard 203(k) Mortgage Fee (supplemental Origination Fee).

-A supplemental origination fee is required. The supplemental origination fee is the greater of:

1. \$350, or
2. 1.5% of the rehabilitation portion of the loan

- Maximum \$350 Inspection fees (applies to each draw).
- Mortgage payment (up to 6 months PITI may be financed when home is uninhabitable during the renovation if approved by the Consultant).
- Permits Fee(s).
- Title Update fee(s).

Consultant Fees*			
Renovation Cost	Fee	Renovation Cost	Fee
\$5,000 - \$7500	\$400.00	\$50,001 - \$75,000	\$800.00
\$7501 - \$15,000	\$500.00	\$75,001 - \$100,000	\$900.00
\$15,001 - \$30,000	\$600.00	\$100,001 and up	\$1,000.00
\$30,001 - \$50,000	\$700.00		

\*An additional \$25.00 per unit applies

## **Hazard Insurance**

Hazard insurance must be in place for the after improved value of the property at the time of loan closing.

## **Identity of Interest/Conflict of Interest**

Not allowed on transactions deemed Identity of Interest or Conflict of Interest except:

- Permitted on sales transactions between family members.

Both the borrower(s) and consultant must sign an Identity of Interest Certification stating there is no relationship between them and any party to the transaction.

## **Improvements - Eligible**

Minimum of \$5,000 in eligible improvements. The 203(k) program can be used to finance painting, room additions, decks, etc. even if the home does not require other improvements. All health, safety, and energy conservation items must be addressed prior to completing general home improvements. Items eligible for 203(k) funds include, but are not limited to:

- Changes to improve function/modernization (bath/kitchen remodel).
- Converting single family to 2,3 or 4 unit dwelling or from a multi-family to a 1-4 unit.
- Elimination of health/safety hazards (lead based paint, mold, etc.) Follow state and local government requirements where property is located for removal and testing.
- Enhancing accessibility for a disabled person.
- Installation of new well and/or septic system.
- Interior/exterior painting.
- Major landscaping that adds permanent value to the property and/or corrects any fire, health or safety issue.
- Major structural alterations/additions (room/garage additions, finish attics/basements, repair of termite damage).
- Repair/replace flooring, appliances.
- Repair/replace roofing, gutters and down spouts.
- Repair/replacement/upgrade of plumbing, heating, air conditioning and electrical systems.
- Repairs to existing swimming pool.
- Weatherization including storm windows/doors, insulation, weather stripping.

- Well/septic repair/replacement work.
- Must be completed prior to beginning other repairs.
- Window and door replacement.

## **Improvements - Ineligible**

Luxury items and improvements that do not become part of the real property are not eligible as a cost of rehabilitation. Examples of items not eligible as an improvement or for repair, include, but are not limited to:

- Additions or alterations to allow for commercial use.
- Barbeque pits, outdoor fireplaces or hearths.
- Exterior hot tubs, saunas, spas or whirlpool baths.
- Photo murals.
- Swimming pool installation.
- Television satellite dishes/antennas.
- Tennis courts.
- Tree trimming/removal.

## **Inspections**

The following inspections, if required by the appraiser and/or consultant, must be completed:

- Termite/pest
- Well or Septic certification
- Additional HVAC or system certifications
- Additional architectural exhibits as required

Construction related inspections are completed by the consultant (if applicable)

## **Inspections and Draw Disbursement**

Funds must be disbursed and documented as follows:

## Inspections

- An authorized Form HUD 9746-A must be signed by borrower and contractor which certifies completion of work and included in the case file.
- Evidence of compliance with federal, state and local ordinances (i.e., final permit(s) as applicable). For structures being moved special guidelines apply.
- Inspections by appraisers or consultants as applicable

## Draw Disbursements

- Funds must be released within five (5) business days after receipt of a properly executed inspection, title update, and draw request.
- Maximum of 5 draws/disbursement (four intermediate and one final draw). 10% is withheld from each draw.

**Exception:** No holdbacks required if a work item is 100% complete, and the necessary Lien Waivers or equivalent have been provided.

- Up to 50% of the material costs can be disbursed directly to the manufacturer for custom ordered materials (i.e., cabinets, flooring, windows, etc.)
- Architectural/engineering fees and inspection permits are considered "soft costs" funds may be released at loan closing. Invoices are required.
- Any excess funds at project completion will be applied to the principal balance of the loan. If the borrower funded the Contingency Reserve from their own funds, any residual funds may be released to the borrower.

## Disbursements Made by Seller Prior to Purchase by EPM

Initial disbursements made through the loan closing must be reflected on the CD.

Prior to any additional draws, Seller must ensure the repairs and improvements have been completed. A completed Purchase Validation form is required and all supporting documents submitted prior to purchase by EPM

## Properties - Eligibility

Must be an existing property that has been completed for a minimum of 1 year prior to the case number assignment date. If unsure, follow FHA guidelines. File must include a Certificate of Occupancy or equivalent. All health and safety issues must be addressed.

- 1-4 unit primary residences
- Conversion of single family structure to a 2,3 or 4 unit structure and vice versa is acceptable
- Condos (Specific requirements apply. See "Property Eligibility - Condos" below for details)
- Converting from a non-203(k) to a 203(k) mortgage
- Manufactured/mobile homes (must be titled as real property and meet FHA requirements)
- Modular Homes
- PUDs (attached/detached). PUDs do not require a questionnaire/warranty form. Real Estate Owned (REO) property
- Property Condition Report is required Site Condominium unit



- Site Condo Unit

## Property Eligibility - Condos

Condos subject to the following:

- Permitted in FHA approved Condominium Projects (HRAP approval only and must be valid when casenumber is issued) or on units approved in accordance with the FHA Single Unit approval process.
- Single Unit approvals must have an AUS "Accept" recommendation or LTV is limited to 90%. See HUD Handbook 4000.1 for underwriting details and Case Number assignment process.
- Condo must be located in an FHA approved condominium project at the time of case number assignment.
- Rehabilitation limited to the interior of the unit. Rehabilitation of the exterior of the condo or any area that is the responsibility of the condominium association is not allowed with the exception of installation of firewalls in the attic for the unit.
- Maximum mortgage cannot exceed 100 percent of the "After-Improved" value. Rehab at any one time is limited to the lesser of:
  - 5 units, or
  - 25% of the total number of units in the project.
- The individual condo **building** cannot have more than 4 units in the subject property building. HUD allows greater than 4 units in a building only when the renovation reduces the number of units to 4 or less. The project **as a whole** can have more than 4 units (i.e., the project consists of 5 buildings, each with 4 units, for a total of 20 units in the project).
- Projects made up of attached townhomes are not subject to the 4 unit per building restriction. HUD considers each townhome an individual building as long as each unit is separated by a firewall that reaches from the foundation to the roof and is rated 1 ½ hours.

## Property Flipping

In addition to the standard FHA program guidelines, the 203(k) mortgage must be based on the lowest sales price in the previous year. "As-is" appraisal is required.

## Rehabilitation Escrow Account

Required on all loans, no exceptions.

The Custodian of the repair escrow funds is responsible for ensuring all funds from the escrow account are properly distributed.

- After closing all proceeds designated for the rehabilitation, including Contingency Reserves, Inspection fees, and any mortgage payments must be placed in an interest bearing account.
- Any net income earned by the rehabilitation escrow account must be disbursed to the Borrower through an agreed upon method of payment.

Effective for case numbers assigned on or after October 31, 2016, after the repair escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed.

### Contingency Reserves

Contingency Reserves are required to cover any health, safety and/or unplanned expenses arising from the renovation. Unused financed Contingency Reserve funds may be used for any additional improvements that will add value to the property.

- The minimum and maximum Contingency Reserve is established as a % of the financeable repair and improvement cost.
- A Contingency Reserve is subject to the following:

Structures < 30 years	Minimum	Maximum
Required when evidence of termite damage	10%	20%
Discretionary	No Minimum	
Required	10%	
Required when utilities are inoperable as referenced in the Work Write-Up	15%	

- The Contingency Reserve may be financed or funded by the borrower from their own funds, but the reserves must be noted under a separate category on the Repair Escrow Account.
  - Standard 203(k) financed funds must be made available for further improvements or applied to the principal balance.
  - When the Contingency Reserve funds are provided by the borrower, any funds remaining at the end of the renovation process are returned to the borrower, or at borrower's request funds may be applied towards the principal balance.

### Financeable Mortgage Payment Reserves

- Must not exceed 6 months of mortgage payments, and
- Must include mortgage payments only for the period during which the property cannot be occupied
- The number of payments cannot exceed the completion time frame required in the rehab agreement.

For 2-4 unit properties, if one or more units are occupied, the Mortgage Payment Reserve may only include the portion of the mortgage attributable to the units that cannot be occupied.

To calculate the amount that can be included in the monthly payment reserve:

1. Divide the monthly mortgage payment by the number of units in the property.
2. Multiply that figure by the number of units that cannot be occupied.  
**Example:**  $\$2500/4 \text{ units} = \$625 \times 3 \text{ units} = \$1875$  (amount that must be paid through the mortgage payment reserve)

**Note:** The borrower is responsible for paying the servicing fee not covered by the MPR

## Sales Contract

File must evidence a copy of the sales contract with a provision indicating 203(k) financing was obtained, and contingent on loan approval and the borrower's acceptance of additional required improvements as determined by the Seller.

## Ineligible Transaction types

- Identity of interest(exception allowed for family member transactions)
- Transactions where the work will require > 6 months to complete

## 203(k) Forms and Documents

- 203(k) Borrower's Acknowledgement. (HUD Form 92700-A) Borrower must complete the "Loan Requirements" section of the Acknowledgment form indicating how the interest earned on the Rehabilitation Escrow Account is to be applied after the Final Release Notice is issued.
- 203(k) Maximum Mortgage Worksheet (HUD Form 92700) on case numbers issued before 9/2015. FHA also provides an online [203\(k\) Mortgage Calculator](#) to assist in the completion of the worksheet.
- Borrower/Contractor Identity of Interest Certification (from the general contractor).
- Most recently completed Federal W-9 by Contractor (Rev. October 2018) (from the general contractor) Consultant Borrower Agreement.
- Consultant Identity of Interest Certification.
- Consultant Work Write-Up and Cost Estimate.
  - Must specify the type of repair and cost of each work item, and
  - Ensure that all health and safety issues identified were addressed before, including additional work items.
- Contractor Acknowledgement - Standard 203(k) Program.

- Contractor bid(s).
- Contractor Profile (Fannie Mae Form 1202). Profile must include:
  - Evidence of current liability insurance which meets, local/state insurance requirements.
  - Evidence of current workman's Comp insurance (if applicable).
  - Copy of current license and bond as required by local/state jurisdiction. Draw Request (9746-A).
- Feasibility Site Report, aka Feasibility Study (not required).
- Homeowner/Contractor Certification (from the general contractor).
- Homeowner/Contractor Agreement-HUD Form 2420 (from the general contractor).
- Mortgage Payment Disclosure Sample (recommended but not required).
- Rehabilitation Loan Agreement.
- Rehabilitation Loan Rider.

## **Hazard Insurance**

Hazard insurance must be in place for the after improved value of the property at the time of loan closing.

## **Identity of Interest/Conflict of Interest**

Not allowed on transactions deemed Identity of Interest or Conflict of Interest except:

- Permitted on sales transactions between family members.

Both the borrower(s) and consultant must sign an Identity of Interest Certification stating there is no relationship between them and any party to the transaction.

## **Improvements - Eligible**

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

All health, safety and energy conservation items must be addressed prior to completing general home improvements.

All improvement to existing structures must comply with HUD's MPR and meet or exceed local building codes. Items eligible for 203(k) funds include, but are not limited to:

- Changes to improve function/modernization (bath/kitchen remodel). Cannot include structural changes
- Elimination of health/safety hazards (lead-based paint, mold, etc.) that violate HUD's MPR
- Connecting to water public water and sewage systems
- Repair/replacement/upgrade of plumbing, heating, air conditioning and electrical systems
- Repair/replace/installing roofs, sidings, gutter, down sprouts, flooring, appliances, windows and doors improvements
- Elimination of obsolescence Repairs to existing swimming pool
- Well/septic repair/replacement work. Must be completed prior to beginning other repairs

**NOTE:** Patios and decks must increase the “as-Is” value equal to the dollar amount spent on the improvements

## **Improvements - Ineligible**

EPM follows FHA guidelines. See Limited 203(k) Ineligible Improvements section of the HUD Handbook 4000.1 for complete details.

203(k) Limited Product Guide			Total Scorecard	Manual Underwrite
Transaction Type	Number of Units	Max LTV	Credit score requirement	Credit score requirement
Purchase	1-4 Units	96.5%	580	580 <sup>1</sup>
Rate and Term / Simple Refinance	1-4 Units	97.75%	580	580 <sup>1</sup>
HUD/REO	1-4 Units	96.5% or \$100 down if offered	580	580 <sup>1</sup>
Cash-out Refinance	N/A	N/A	N/A	N/A

1 – Manual Underwrite: No more than 2 of the following risk factors allowed: Fico<620; Gift fund utilization; DTI >45%; LTV within 5% of program maximum.

## 203(k) Limited Program Overview - Repair/Modify/Upgrade

The Limited 203(k) program is designed for minor rehabilitation/renovation projects and allows a borrower to obtain a single loan to purchase a property or refinance an existing loan and complete repairs and improvements after loan closing using the "After-Improved" value of the property.

### General Parameters

- Repairs/renovation limited to a maximum of \$35,000 (including all renovation costs, fees, Contingency Reserve, etc.). The total mortgage amount on the property including the cost of repairs, must fall within the FHA mortgage limit for the area where the property is located. There is no minimum renovation amount.
- All renovation work must start within 30 days of loan closing date. The work cannot stop for more than 30 consecutive days and must be completed within the established timeframe.
- A Rehabilitation Reserve escrow account is established, and funds are released as work is completed. A maximum of 2 draws is allowed.
- The mortgage amount is based on the projected value of the property with all work completed ("After-Improved" value).
- Hazard insurance must be in place for the after improved value of the property at the time of loan closing.
- 1-year Homeowner Policy must be in place for the after-improved value of the property at the time of loan closing. If the property is not insurable, Borrower can obtain a Builders Risk Policy. Loan Escrow will need to be established using quote for standard HOI with sufficient funds to pay full premium at expiration of Builders Risk Insurance.

- 1-year Homeowner Policy must be in place for the after-improved value of the property at the time of loan closing. If the property is not insurable, Borrower can obtain a Builders Risk Policy. Loan Escrows will need to be established using quote for standard HOI with sufficient funds to pay full premium at expiration of Builders Risk Insurance.
- Licensed contractors provide written work plans and cost estimates. State/county/municipality licensing requirements must be followed. EPM does not allow "self-help" (borrower completes work); work must be completed by a licensed.

## Adjusted As-Is Value

**Purchase transactions** require one value:

- An "After Improved" value (value after improvements have been complete) is always required.
- HUD assumes the purchase price is the "As-Is" value and does not require an "As-Is" value on the appraisal.

**Refinance transactions** require two values:

- An "As-Is" value is required, and it is typically provided in the Addendum to the appraisal report, and
- An "After-Improved" value that is provided in the Reconciliation section of the appraisal report

For properties acquired within 12 months of case assignment date:

- If the existing debt on the property plus allowable fees (see below) **exceeds** the "After Improved" value, an additional "As-Is" appraisal is required
- If the existing debt on the property plus allowable fees (see below) **does not exceed** the "After Improved" value EPM may:
  3. Use the existing debt plus the allowable fees, or
  4. Obtain an "As-Is" appraisal.
- If property is acquired by inheritance or through a gift from a family member, use the calculation of an Adjusted As-Is value for properties <12 months prior to the case assignment date.

## Allowable Fees

- Financeable Repairs and Improvement
- Costs Financeable Mortgage Fees
- Financeable Contingency Reserves

## After Improved Value

An appraisal of the property must be obtained subject to the repairs and improvements.

- Repairs and bid(s) in the appraisal report must match the Work Write-Up provided by the consultant.
- Additional photos are required for any improvements with a contributory value that are not captured in the front and rear photos.

## Utilities

- Utilities must be inspected to ensure they are in proper working order unless they are being completely updated. Appraiser or other licensed professional (consultant, contractor, inspector, plumber, electrician) must confirm in writing that the utilities have been visually inspected and appear to be in good working order.
- If the utilities were not on at the time of the appraisal/inspection or are determined to not be in good working order, a 15% Contingency Reserve must be established (including homes that have been "winterized").
- When obtaining bids, the contractor should provide a bid that allows for any repairs that may be required.
- If utilities were not on at the time of the appraisal and the Work Write-Up does not include repairs to the utilities, EPM will accept alternative documentation to validate the condition of utilities.
  3. If home was winterized, a winterization certification indicating all utilities were working properly when turned off.
  4. A certification by a licensed professional (consultant, contractor, inspector, plumber, electrician) that the utilities have been inspected and appear to be in good working order.
- If the utility inspection reveals utilities are not in good working order, the Work Write-Up must include detailed required repairs, and the contractor bid(s) must match the Work Write-Up.

## Fees and Charges

The following fees and charges apply, as applicable, and are included in the rehabilitation costs:

- Appraisal fee
- Contingency Reserve
- Cost of construction, repairs and rehabilitation
- Discount points
  - The Mortgagee may finance a portion of the borrower-paid discount points not to exceed an amount equal to the discount point percentage multiplied by the total of the repair cost and fees including Contingency Reserves and Mortgage Payment Reserves.



- Inspection fees; provided they are reasonable and customary for the area
- Limited 203(k) Mortgage Fees (Supplemental Origination Fee)

A supplemental origination fee is required. The supplemental origination fee is the greater of:

- \$350, or
- 1.5% of the rehabilitation portion of the loan

*Example: If the total loan amount is \$300,000 and the rehab costs are \$30,000 calculate as \$30,000 multiplied by 1.5% equals \$450.00, so the supplemental origination fee in this example is \$450.00*

- Permits Fee(s)
- Title Update Fee(s)

## **Costs and Fees that may not be financed**

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

- Mortgage Payment Reserves
- Architectural/Engineering Professional Fees
- 203(k) Consultant Fee
- Feasibility Study

## **Inspections**

The following inspections, if required by the appraiser and/or consultant, must be completed:

- Termite/pest
- Well or Septic certification
- Additional HVAC or system certifications
- Additional architectural exhibits as required

Construction related inspections are completed by the consultant (if applicable)

## **Inspections and Draw Disbursement**

The following funds can be disbursed at closing:

- Permit fees (the permit must be obtained before work commences)

- Origination fees
- Discount points; and
- Up to 50% of the estimated materials and labor costs before beginning construction:
  - Only when the contractor is not willing or able to defer receipt of payment until completion of the work, or
  - Payment represents the cost of materials incurred prior to construction. A statement from the contractor is sufficient to document.
- Maximum of 2 disbursements (draws)

### **Disbursements Made by Seller Prior to Purchase by EPM**

The Seller has the option to disburse the initial draw. Initial draws disbursed by the Seller must be reflected on the CD.

- If the Seller disburses the final draw, they must ensure that the repairs and improvements have been completed.
- A completed Purchase Validation and all supporting documentation must be submitted prior to purchase by EPM.

### **Properties - Eligible**

Must be an existing property that has been completed for a minimum of 1 year prior to the case number assignment date. If unsure, follow FHA guidelines. File must include a Certificate of Occupancy or equivalent. All health and safety issues must be addressed.

- 1-4 unit primary residences
- Condos (Specific requirements apply. See "Property Eligibility - Condos" below for details)
- Converting from a non-203(k) to a 203(k) mortgage
- Manufactured/mobile homes (Must be titled as real property and meet FHA Requirements)
- Modular Homes
- PUDs (attached/detached). PUDs do not require a questionnaire/warranty form.
- Real Estate Owned (REO) property
  - Property Condition Report is required Site Condominium unit
- Site Condominium unit

### **Property Eligibility - Condos**

Condos subject to the following:

- Permitted in FHA approved Condominium Projects (HRAP approval only and must be valid when casenumber is issued) or on units approved in accordance with the FHA Single Unit approval process.
- Single Unit approvals must have an AUS "Accept" recommendation or LTV is limited to 90%. See [HUDHandbook 4000.1](#) for underwriting details and Case Number assignment process.
- Condo must be located in an FHA approved condominium project at the time of case numberassignment.
- Rehabilitation limited to the interior of the unit. Rehabilitation of the exterior of the condo or any areathat is the responsibility of the condominium association is not allowed with the exception of installation of firewalls in the attic for the unit.
- Maximum mortgage cannot exceed 100 percent of the "After-Improved" value.Rehab at any one time is limited to the lesser of:
  - 5 units, or
  - 25% of the total number of units in the project.
- The individual condo **building** cannot have more than 4 units in the subject property building. HUD allows greater than 4 units in a building only when the renovation reduces the number of units to 4 orless. The project **as a whole** can have more than 4 units (i.e., the project consists of 5 buildings, each with 4 units, for a total of 20 units in the project).
- Projects made up of attached townhomes are not subject to the 4 unit per building restriction. HUDconsiders each townhome an individual building as long as each unit is separated by a firewall that reaches from the foundation to the roof and is rated 1 ½ hours.

## Rehabilitation Escrow Account

Required on all loans, no exceptions.

The Custodian of the repair escrow funds is responsible for ensuring all funds from the escrow account are properly distributed.

- After closing all proceeds designated for the rehabilitation, including Contingency Reserves, Inspection fees, and any mortgage payments must be placed in an interest bearing account.
- Any net income earned by the rehabilitation escrow account must be disbursed to the Borrowerthrough an agreed upon method of payment.

Effective for case numbers assigned on or after October 31, 2016, after the repair escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed.

## Contingency Reserves

A Contingency Reserve is not mandated but may be required at Sellers discretion. If required:

- The reserves may be financed

- Cannot exceed 20% of the Financeable Repair and Improvement Costs.

Additionally, the borrower may provide their own funds to establish the Contingency Reserves. Where the Borrower has provided their own funds for Contingency Reserves, they must be noted under a separate category in the Repair Escrow Account.

### **Contingency Release**

Financed Funds must be applied towards the principal balance.

### **Financeable Mortgage Payment Reserves**

Not applicable on 203(k) Limited

### **Sales Contract**

File must evidence a copy of the sales contract with a provision indicating 203(k) financing was obtained, and contingent on loan approval and the borrower's acceptance of additional required improvements as determined by the Seller.

### **Ineligible Transaction types**

- Identity of interest (exception allowed for family member transactions)
- Transactions where the work will require > 6 months to complete

### **203(k) Forms and Documents**

- 203(k) Borrower's Acknowledgement (HUD Form 92700-A) - Borrower must complete the "Loan Requirements" section of the Acknowledgment form indicating how the interest earned on the Rehabilitation Escrow Account is to be applied after the Final Release Notice is issued.
  - 203(k) Maximum Mortgage Worksheet (HUD Form 92700) - On case numbers issued before 9/2015. FHA also provides an online [203\(k\) Mortgage Calculator](#) to assist in the completion of the worksheet.
  - Borrower/Contractor Identity of Interest Certification (1 from each contractor)
  - Most recently completed Federal W-9 by Contractor (Rev. October 2018) (1 from each contractor) Contractor Written Proposal and Cost Estimate
    - Must list each work item that requires permits and indicate that repairs are non-structural, and
    - Cost Estimate must indicate the nature and type of repair and cost for each work item, broken down by labor and materials
- Evidence that the contractor is licensed and bonded Contractor Acknowledgement – Limited

- 203(k) Program Contractor bid(s)
- Contractor Profile (Fannie Mae Form 1202). Profile must include:
  - Evidence of current liability insurance which meets, local/state insurance requirements
  - Evidence of current workman's Comp insurance (if applicable)
  - Copy of current license and bond as required by local/state jurisdiction Draw Request (9746-A)
- Homeowner/Contractor Certification (1 from each contractor)
- Rehabilitation Loan Agreement
- Rehabilitation Loan Rider
- Work Plan (when not using a consultant)

### **Optional Consultant Documentation**

The borrower has the option to use a Consultant to manage his/her rehabilitation process. With this option the following documents must be included in the case file:

- Consultant Borrower Agreement
- Consultant Identity of Interest Certification
- Consultant Work Write-Up and Cost Estimate

**General Applicable FHA Guidelines**

<p><b>Appraisals</b></p>	<ul style="list-style-type: none"> <li>• Appraisals must be provided by an FHA approved appraiser.</li> <li>• All 203(k) appraisals are completed "subject to" completion.</li> <li>• Except as described above in cases of property flipping and refinance transactions, an "As-Is" appraisal is <b>not</b> required, and alternative methods to establish the "As-Is" value may be used</li> </ul>	
<p><b>Maximum Loan Amount</b> *All loans amounts may be subject to additional limitations encumbered with a Property Assessed based on Identity of interest and Non-occupying borrower status</p>	<p>All loans</p>	<p>All loans are subject to national loan limits, and nationwide area mortgage limit. <a href="https://entp.hud.gov/idapp/html/hicostlook.cfm">https://entp.hud.gov/idapp/html/hicostlook.cfm</a></p>
	<p>Purchases</p>	<p>Program LTV multiplied by the adjusted value of the property plus: Repair and improvement cost, Mortgage fees, Contingency reserves, and Mortgage payment reserves(standard 203(k) only) Adjusted value is the lesser of purchase price less any inducements to purchase, or the property value.</p>
	<p>Refinances</p>	<p>The Lesser of:</p> <ol style="list-style-type: none"> <li>1. Existing debt associated with the new mortgage, plus: Repair and improvement cost, Mortgage Fees, Contingency Reserves, and Mortgage payments Reserves (Standard 203(k) only)</li> <li>2. Program LTV multiplied by the adjusted value of the property plus: Repair and improvement cost, Mortgage fees, Contingency reserves, and Mortgage payment reserves(standard 203(k) only)</li> </ol>
<p><b>AUS</b></p>	<p>All loans (except streamlines) require AUS to be run on them. DU Approve/Eligible.</p>	
<p><b>AUS Max Ratios</b></p>	<p>Loans scored through total scorecard have a maximum backend ratio of 56.99%.</p>	
<p><b>Manual Underwriting</b></p>	<p>Any loan that does not receive AUS approval will be considered for a manual underwrite and may be acceptable if the loan is approved by the underwriter, subject to all applicable requirements detailed in this guide.</p>	
<p><b>Borrower Residency</b></p>	<p>Citizens, non-permanent residents, and non-resident aliens are eligible. Non-permanent residents must provide valid resident card "green card" and non-permanent residents must provide valid EAD as well as have legal residency status.</p>	
<p><b>Credit Scores</b></p>	<p>A minimum of one credit score is required for all borrowers. Credit history is evaluated by AUS and there is no minimum requirement of length. Borrowers without credit scores will be evaluated as manual underwrites and require non-traditional credit.</p>	

<b>Minimum Decision Credit Score (MDCS)</b>	Where the Mortgage involves multiple Borrowers and one or more of the Borrowers do not have a credit score (non-traditional or insufficient credit), the Mortgagee must select the lowest MDCS of the Borrower(s) with credit score(s). Example: Borrower 1 has a 620 score, Borrower 2 has no credit score. For underwriting purposes (such as ratio allowances for manual underwriting) the credit score is 620.
<b>Extenuating Circumstances</b>	Extenuating circumstances are events that were beyond the control of the Borrower, such as a serious illness or death of a wage earner. Re-establishing good credit is typically required based on the event in question. Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time of the Borrower's divorce, the ex-spouse received the Property, and the Mortgage was later foreclosed. The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.
<b>Seasoning requirements – Bankruptcies</b>	Bankruptcies require a two-year seasoning for AUS approval to be valid.
	Chapter 7 bankruptcies may be manually underwritten with at least one year seasoning complete and verified extenuating circumstances.
	Chapter 13 bankruptcies may be manually underwritten with at least one year of payments completed according to plan and on time. Subject to manual underwriting requirements, and bankruptcy court approval.
<b>Seasoning requirements – Foreclosures/Deed-in-Lieu</b>	Foreclosures require 3-year seasoning from recorded title transfer date, or if sufficiently documented the date of actual foreclosure execution.
	Foreclosures not meeting seasoning may be considered for approval as a manual underwrite with documented extenuating circumstances.
<b>Seasoning requirements – Short Sales / Charged off Mortgages</b>	Short sales or charged off mortgages require a three-year seasoning for AUS approval to be valid.
	Short sales not meeting seasoning may be considered for approval as a manual underwrite with documented and verified extenuating circumstances. Short sales that occurred with no mortgage or installment lates in the preceding 12 months of the short sale are eligible for manual underwrites.
<b>Delinquent Federal Debt</b>	Any indicators of the borrower having delinquent federal debt (which include owed taxes that have not yet become judgements) require additional verification. Any federal debt found to be delinquent disqualifies the borrower from obtaining any government financing. Sources to be evaluated include bank statements, credit reports, CAIVRS, title searches, repayment plans, and any other information provided. Borrowers who have delinquent debts but can be verified to have made arrangements that bring them into compliance with the <a href="#">Debt Collection Improvement Act</a> (DCIA) may be approved.
<b>Judgements</b>	Borrowers with open judgements, including tax judgements, on credit or title searches are not eligible for financing. An exception may be made for judgements which have had repayment plans initiated which have a minimum of three months history of payments completed.

<b>Paying off debt to qualify</b>	Debt may be paid off (but not down to under 10 months) to qualify. Accounts are not required to be closed to discount the debts, however a justification should be documented. Payoffs for installment accounts or current statement for revolving must be used for amount to be paid off, credit report balance may not be used for amount
<b>Homeowner's insurance</b>	All borrowers on the mortgage are required to be on the insurance policy. Other parties taking title, but not on mortgage need not be on insurance.
<b>Ineligible Property Types</b>	Properties that will be completely torn down during the rehab process, Properties not completed, New construction, Properties currently boarded up, condemned and inhabitable, Manufactured/Mobile homes that are HUD REO, Community Land Trusts or Blind Trusts, Vacant land or development properties, Bed and Breakfast properties, Boarding Houses, Agricultural properties(farm/livestock ranches), Leasehold Condos, Lava Zones 1, Lava Zone 2, Co-Ops, Land Contracts, Properties that are not accessible by roads that meet local standards, properties located on Tribal Lands including section 184, properties sourced by a river, properties with more than one unit where one or more of the units is a manufactured home, single wide manufactured homes, properties not suitable for year round occupancy regardless of location, properties located in the DHHL (Department of Hawaiian Home Lands Leasehold, On frame modular construction, properties serviced by hauled water, PACE or HERO properties (Property Assessed Clean Energy or Home Energy Renovation Opportunity), state-approved medical marijuana producing properties, Mixed Use Properties
<b>Ineligible Product Types</b>	Down Payment Assistance, Mortgage Credit Certificates (MCC)
<b>Maximum number of FHA loans</b>	Borrowers are generally limited to having one FHA loan for principal residence at a time. Exceptions for Relocation, increase in family size, vacating a jointly owned property and being a Non-occupant co-borrower on a previous loan may be found in the 4000.1 in detail.
<b>Recurring debt (including payment made to individuals) on bank statements not on credit or 1003</b>	Asset statements must be reviewed for recurring debt (including payments made to individuals) which are not disclosed on the application/1003. If excluding debt an LOE and documentation is required to identify the responsible party. Example: Chase credit card payment on the bank statements, not on credit and belongs to the spouse not on the loan; an LOE, and copy of the statement showing the debt in the spouses name would be required.

For Complete FHA Guidelines please refer to the 4000.1 found at [https://www.hud.gov/program\\_offices/housing/sfh/handbook\\_4000-1](https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1)

HUD Mortgagee letters can be located at [https://www.hud.gov/program\\_offices/administration/hudclips/letters/mortgagee](https://www.hud.gov/program_offices/administration/hudclips/letters/mortgagee)