Energy Efficient Mortgage (EEM)

Energy Efficient Mortgage (EEM) Program

- Allows the Mortgagee to offer financing for cost-effective, energy efficient improvements to an existing property at the time of purchase or refinancing, or for upgrades above the established residential building code for new construction.

EEM: Eligible Property Types

- EEM may be used with:
  - New Construction properties (one- to four-units);
  - Existing Construction properties (one- to four-units);
  - Condominiums (one unit); or
  - Manufactured Housing.

EEM: Eligible Programs and Transactions Types

- The EEM program can be used in conjunction with any mortgage insurance under Title II, including:
  - 203(b);
    - Purchase; **or**
    - No cash-out refinance.
  - 203(h) Mortgage Insurance for Disaster Victims;
  - 203(k) (Standard and Limited [former Streamline]); and
  - Weatherization Policy (Existing Construction only).

EEM: Energy Package

- The energy package is the set of improvements agreed to by the Borrower based on recommendations and analysis performed by the qualified home energy rater.
- The improvements can include:
  - Materials, labor, inspections, and the home energy assessment by a qualified energy rater;
  - If the Borrower desires, labor may include the cost of an EEM Facilitator (general contractor); and
  - Borrower labor (Sweat Equity) is **not permitted** to be included in the loan amount.

EEM: EEM Facilitator (General Contractor)

- Who is a EEM Facilitator?
  - They are project managers.

- What is an EEM Facilitator's responsibility? They:
  - Arrange the inspections, obtain the required documents for Mortgagee, and on behalf of the Mortgagee; and
  - Ensure that the improvements comply with recommendations Home Energy Report.

EEM: Cost-Effective Test

- Cost-Effective refers to the costs of the energy efficiency improvements including maintenance and repair, and is one where the cost of the improvements is less than the value of the energy saved over the estimated useful life of those improvements.

EEM: Cost-Effective Test Example

Annual Savings: $164
Useful Life: 7 Years
Total Savings Over Useful Life: $164 x 7 = $1,148
Water Heater Cost: $1,000
Maintenance and/or Repairs (within 7 Years): $100

- Is it okay to finance this item?
- YES – Savings over 7 years is greater than the cost of the item plus the cost of maintenance and/or repairs.
- $1,148 - $1,100 = $48

EEM: Cost Effective Test for New Construction

- For new construction any upgrades greater than existing code may not bare out any additional savings.
- A property classified as a energy efficient home must meet the requirements of the 2000 IECC standards.
- More information on this energy code can be obtained from the Department of Energy or the International Code Council.

EEM: Cost Effective Test for New Construction (cont.)

- The financed portion of an energy package includes only those cost-effective energy improvements over and above the greater of the following:
  - The requirements of the 2006 International Energy Conservation Code (IECC);
  - A successor energy code standard that has been adopted by HUD for its Minimum Property Standards (MPS), pursuant to 42 U.S.C. § 12709; **or**
  - The applicable IECC year used by the state or local building code for New Construction.

EEM: Home Energy Report/Assessment

- The Borrower must obtain a home energy assessment.
- The purpose of the energy assessment under the EEM program is to identify opportunities for improving the energy efficiency of the home and their cost-effectiveness.
- The assessment must be conducted by a qualified energy rater, assessor, or auditor using whole-home assessment standards, protocols, and procedure.

EEM: Qualifications of Energy Raters/Assessors

- Qualified home energy rater/assessors must be trained and certified as **<u>one</u>** of the following and meet local and state jurisdictional requirements:
  - Building Performance Institute Building Analyst Professional;
  - Building Performance Institute Home Energy Professional Energy Auditor; or
  - Residential Energy Services Network Home Energy Rater.

EEM: Home Energy Report

- The home energy report reflects recommendations of energy-saving improvements for the Borrower's consideration.
- The estimates consider energy costs in today's dollars—present value.
- The Mortgagee must use the energy-savings information from the home energy report to determine that the cost-effective test is met for the financed energy package.

EEM: Home Energy Report (cont.)

- The home energy report must reflect one of the professional credentials by the rater/assessor.
- The home energy report is submitted with the insuring file.
- Where applicable, qualified energy raters, assessors, or auditors must also meet local or state jurisdictional requirements for conducting residential energy audits or assessments, including training, certification, licensure, and insurance requirements.

EEM: Home Energy Report for New Construction

- On newly constructed housing, the home energy report must identify improvements that are over and above the greater of the following in order to apply the cost-effective test for new construction:
  - The requirements of the 2006 IECC, or a successor energy code standard, that has been adopted by HUD for its MPS, pursuant to 42 U.S.C. § 12709; **or**
  - The applicable IECC year used by the state or local building code for new construction.

EEM: Required Documentation

- The Mortgagee must obtain a copy of the home energy report:
  - Must not be more than 120 days old.

- The Mortgagee must submit two forms HUD 92900-LT:
  - FHA Loan Underwriting; and
  - Transmittal Summary.

EEM: Maximum Financeable Energy Package

- The maximum amount of the energy package that can be added to the Base Loan Amount is the lesser of:
  - The dollar amount of a cost-effective energy package as determined by the home energy audit; **or**
  - The lesser of 5 percent of:
    - The Adjusted Value;
    - 115 percent of the median area price of a Single Family dwelling; or
    - 150 percent of the national conforming mortgage limit.

EEM: Calculation of Cost-Effect Energy Package

- The Mortgagee must calculate the dollar amount of a cost-effective energy package as determined by the home energy audit, as shown in Energy Package.

- A tool was developed to provide assistance in the calculation of the Maximum Financeable Energy Package:
  - EEM calculator.

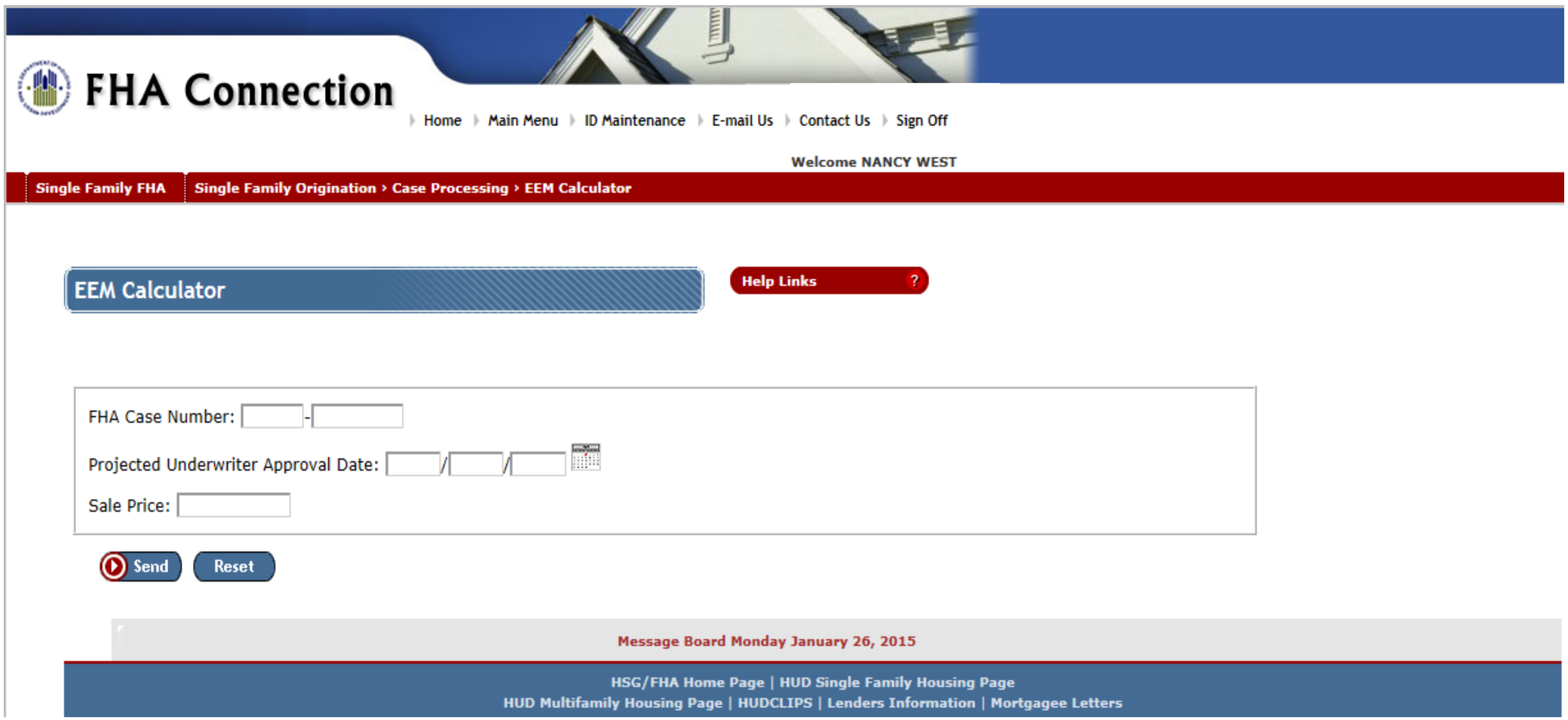
EEM: Energy Efficient Mortgage Calculator Tool

- The EEM Calculator is located in FHA Connection (FHAC) will perform the calculation of Maximum Financeable Energy Package:
  - Case processing screen.

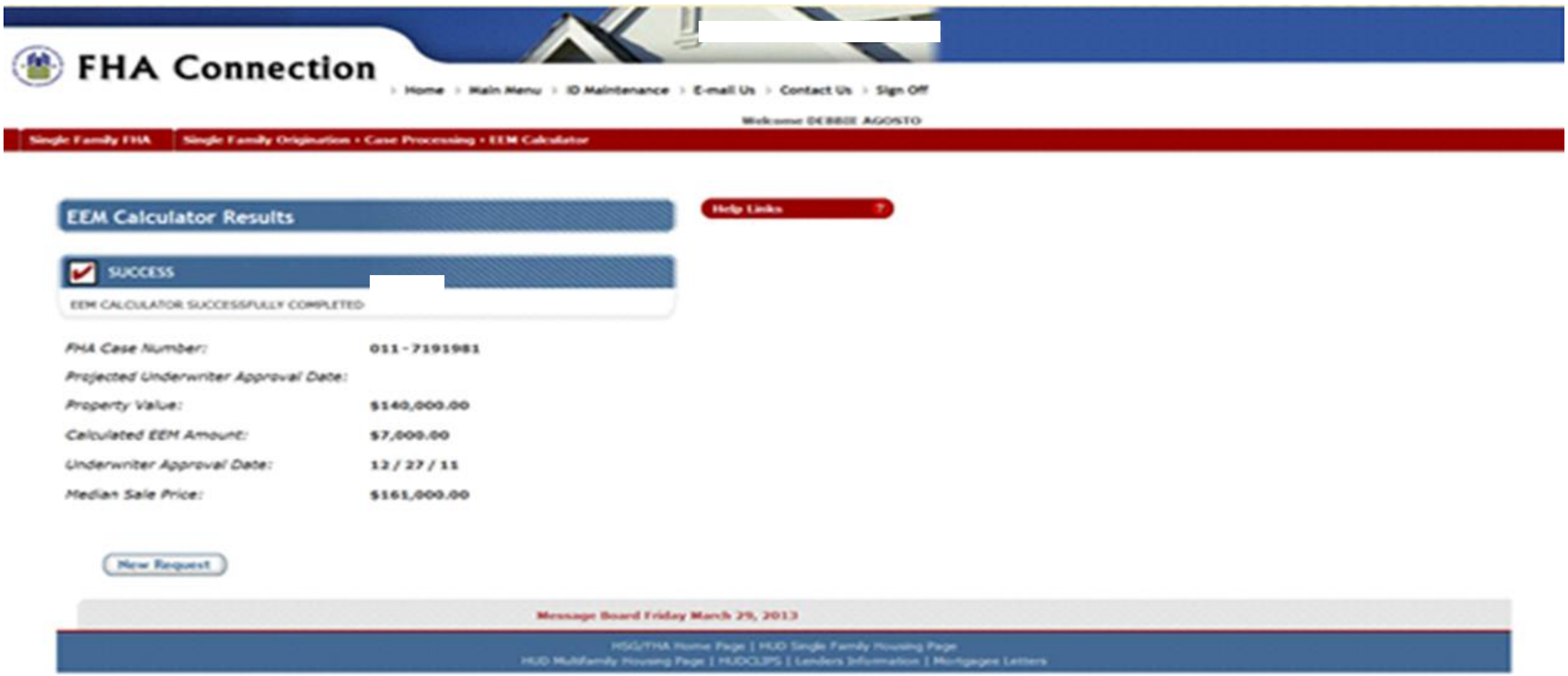
EEM: Energy Efficient Mortgage Calculator Tool (cont.)

- For standard transactions:
  - The EEM Calculator uses data entered for the mortgage to calculate the maximum energy package.
- For streamlined refinance:
  - The EEM Calculator uses the appraised value from the initial transaction, contained within FHA Connection records, as the Adjusted Value.

EEM: Energy Efficient Mortgage Calculator Tool (cont.)



EEM: Energy Efficient Mortgage Calculator Tool (cont.)



EEM: Maximum Mortgage Amount for Existing Construction

- The maximum **final** Base Loan Amount is determined by adding:
  - The maximum financeable energy package amount to the initial maximum Base Loan Amount.

EEM: Maximum Mortgage Amount for Existing Construction (cont.)

Base Loan Amount
+ Energy Efficient Package
= Subtotal
+ UFMIP
= Total FHA Loan Amount

- May exceed the statutory mortgage limits for the area by the financed amount of Energy Package

EEM: Maximum Mortgage Amount For New Construction

- Determine Adjusted Value to calculate the Base Loan Amount:
  - The cost of the financeable energy package included in the purchase contract must be subtracted from the sales price when computing the Adjusted Value.

EEM: Maximum Mortgage Amount for New Construction (cont.)

- The steps for calculating the maximum mortgage amount for new construction are:
  - Determine the Adjusted value;
  - Determine maximum financeable energy package using the EEM calculator in FHAC; and
  - Determine the maximum FHA mortgage.

EEM: Maximum Mortgage Amount for New Construction (cont.)

Step 1:

Sales Price

- Energy Package

= Adjusted value for calculating the base loan amount

EEM: Maximum Mortgage Amount for New Construction (cont.)

Step 2:

Base Loan Amount

\+ Maximum **Financeable** Energy Package Calculation

Subtotal

\+ UFMIP

= Total FHA Loan Amount

May exceed the statutory mortgage limits for the area by the financed amount of Energy Package

EEM: Maximum Mortgage Amount with 203(k) or Weatherization

- When utilizing an EEM in conjunction with a 203(k) or Weatherization:
  - The items included in the maximum financeable energy package must be excluded from the items included when calculating the initial maximum Base Loan Amount under these programs.

EEM with 203(k) or Weatherization Calculation

Step 1:

+ Maximum mortgage based on 203(k) or Weatherization Calculation

- Energy Package

= Base loan amount

EEM with 203(k) or Weatherization Calculation (cont.)

Step 2:

Base loan amount

\+ Maximum **Financeable** Energy Package

\+ UFMIP

= Total FHA loan amount

EEM: Underwriting

- The Mortgagee must calculate the Borrower's debt ratios using the initial Base Loan Amount plus the portion of the Upfront Mortgage Insurance Premium (UFMIP) attributable to the initial Base Loan Amount.

EEM: TOTAL Mortgage Scorecard

- For purposes of submission to the Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard:
  - The Mortgagee must utilize the initial Base Loan Amount prior to the addition of the financeable energy package.

EEM: TOTAL Mortgage Scorecard (cont.)

- If the Mortgagee obtains an Accept or Approve on a mortgage application that does not include the financeable energy package:
  - FHA will recognize the risk rating from TOTAL Mortgage Scorecard; **and**
  - Permit the increase to the Mortgage Payment without re-underwriting or rescoring.

EEM: Underwriting Documentation

- For all EEM transactions, the Mortgagee must provide **two** HUD 92900 – LT's regardless of how the mortgage was underwritten:
  - Two for Total Mortgage Scorecard; or
  - Two for Manual underwrite.

- Both must be provided in the case binder

EEM: TOTAL Mortgage Scorecard

HUD-92900-LT #1

- Without the financeable Energy Package
- Reflecting the Borrower’s qualifying ratio’s

EEM: TOTAL Mortgage Scorecard (cont.)

HUD-92900-LT #2

- Mortgage Amount with the financeable energy package as reflected in FHAC
- Certification from underwriter attesting that they have reviewed the calculations with the energy efficient improvements and the mortgage and property to be in compliance with FHA's underwriting instructions

EEM: Manual Underwriting

HUD-92900-LT #1

- Without the financeable Energy Package
- Reflecting the Borrower’s qualifying ratios

EEM: Manual Underwriting (cont.)

HUD-92900-LT #2

- Mortgage Amount with the financeable energy package as reflected in FHAC
- Certification from underwriter attesting that they have reviewed the calculations with the energy efficient improvements and the mortgage and property to be in compliance with FHA's underwriting instructions

EEM: Appraisals

- For Existing and New Construction, the appraisal does not need to reflect the value of the energy package that will be added to the property.
- If the appraisal does include the value of the energy package, the value must be subtracted from the Property Value when computing the Adjusted Value.
- On the 203(k) program, the after-improved value is to be used for the EEM process.

EEM: Cash-Out

- The Borrower may not receive cash back from the mortgage transaction.

- If an excess exists, funds must be applied to the principal mortgage balance.

Energy Efficient Mortgage Escrows

- The Mortgagee must establish an escrow account for all energy package items not complete by the time of closing:
  - For the remaining cost of the energy improvements in accordance with the Repair Completion Escrow Requirements; and
  - If energy package is part of 203(k) escrowed funds must be included in the Rehabilitation Escrow Account.

- Repair Completion Escrow Requirements are located in HUD Handbook 4000.1, Section 6.

Form HUD-92300
Mortgagee's Assurance of Completion

- When funds to complete the energy package are escrowed:
  - The Mortgagee must execute Form HUD-92300, Mortgagee's Assurance of Completion; and
  - Indicate that the escrow for the energy package improvements has been established.

Completion Requirements for Energy Efficient Mortgages (EEMs)

- With the exception of 203(k), the energy package is to be installed within 90 Days of the mortgage closing.

- If the work is not completed within 90 Days, the Mortgagee must apply the EEM funds to a prepayment of the mortgage principal.

Energy Efficient Homes (EEH): Stretch Ratios

- An energy efficient mortgage (EEM) is not the same as an energy efficient home (EEH).
- EEH is allowable for all loan products.
- All properties meeting the 2000 International Energy Conservation Code (IECC) are Energy Efficient Homes (EEH) and eligible for the two percentage point increase in the **EEH** qualifying ratios (stretch ratios).
- Stretch ratios are a stand alone policy for compensating factors.

Completion Inspection

- The Mortgagee, the rater, or an FHA fee inspector may inspect the installation of the improvements.
- An FHA fee inspector must be currently approved and currently on the roster.
- The Borrower may be charged an inspection fee

203(k) and Limited 203(k) Rehabilitation Loan Programs

Introduction

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

Overview

The Section 203(k) Rehabilitation Mortgage Insurance Program is used to:

- Rehabilitate an existing one- to four-unit Structure that 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.

Structure

- Structure refers to a building that has a roof and walls, stands permanently in one place, and contains single or multiple housing units that are used for human habitation.

How is the 203(k) Program Different?

Traditional Mortgage Program

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

203(k) Rehabilitation Program

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

How the Program Can Be Used?

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

Benefits of the 203(k)

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

Basic Eligibility

- Must meet standard FHA 203(b) credit qualifications.
- Must meet standard FHA 203(b) down payment requirements.
- Must pay Up-front and annual mortgage insurance premiums.

203(k) Programs for Two Different Renovation Project Needs

- There are two types of 203(k) rehabilitation mortgages as described below:
  - Standard 203(k); and
  - Limited 203(k).

- The guidance per the Program and Product section is applicable to both the Standard 203(k) and Limited 203(k) mortgages, unless noted otherwise.

203(k) Programs: Standard

- The Standard 203(k) mortgage is used for major renovation and repairs.

- There is a minimum repair cost of $5,000 and the use of a 203(k) Consultant is required.

203(k) Programs: Limited

- The Limited 203(k) (formally known as the Streamlined (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, but a Consultant may be used.
- The total rehabilitation cost must not exceed $35,000. There is no minimum rehabilitation cost.

Borrower Eligibility

Borrower Eligibility

- The Borrower must meet the eligibility requirements found in the Borrower Eligibility section of HUD Handbook 4000.1.
- Non-occupant, co-Borrowers are permitted.

Nonprofit Borrower Eligibility

- For Nonprofit Borrowers, the Mortgagee must obtain a copy of the FHA approval letter from the Nonprofit.

- The Mortgagee must also verify that the Nonprofit is eligible to be a Borrower, as indicated on the U.S. Department of Housing and Urban Development (HUD) Nonprofit Agency Roster.

Nonprofit Borrower Eligibility: Incomplete Projects

A Nonprofit Borrower is prohibited from further borrowing under its FHA Mortgagor approval, if the **Nonprofit Borrower has 10 or more incomplete 203(k)** projects at any given time.

Seven Unit Limitation

- A Nonprofit Borrower may not have an interest in more than seven dwelling units (FHA, VA, FmHA, conventional, or free and clear) in the same subdivision or contiguous area.

- HUD defines a contiguous area as "within a two block radius."

- A Nonprofit should not be allowed to accumulate FHA-insured properties that clearly and collectively constitute a multifamily project.

Seven Unit Limitation (cont.)

A Mortgagee may determine that units in a neighborhood are not subject to the dwelling unit limitation:

- The neighborhood has been targeted by a State or local government for redevelopment or revitalization;
- The State or local government has approved and submitted a plan to HUD describing the program of neighborhood redevelopment and revitalization; including the geographic area targeted for redevelopment, and the nature and proportion of public or private commitments that have been made in support of the redevelopment;

Seven Unit Limitation (cont.)

A Mortgagee may determine that units in a neighborhood are not subject to the dwelling unit limitation because:

- The Nonprofit agency Borrower will own no more than percent of the dwelling units (regardless of financing type) in the designated redevelopment area; and
- The Nonprofit agency Borrower will have no more than eight dwelling units on adjacent lots.

Property Eligibility

Property Eligibility

- The property must be an existing property that has been completed for at least one year prior to the case number assignment date.

Acceptable Property Types

- One- to four-unit Single Family Structures
- Condominiums
  - Individual Condominium Unit
  - Site Condominium Unit
- Manufactured Housing
- Mixed Use
- HUD Real Estate Owned (REO)

Acceptable Property Types: One- to Four-Unit Single Family Structures

- **One- to Four-Unit Single Family Dwelling Unit**
  - There are no differences between the 203(b) and 203(k).

Acceptable Property Types: Condominium

- **A Condominium Unit** is a property contained in a multi-unit project that has individually-owned dwelling units that may be either attached to one or more Structures or detached from each other, and is primarily residential in use.

Condominium Project Policy: Status

- As stated in the Origination/Underwriting Section:
  - A Condominium Project must be FHA approved before a mortgage on an individual condominium unit can be insured.

- Currently, FHA's Condominium Project Approval requirements are in the formal rulemaking phase. This process must be completed before the guidance is published.

- Our existing Condominium Project Approval requirements, located in Mortgagee Letter 2012-18, and the Condominium Project Approval and Processing Guide attached to Mortgagee Letter 2011-22 continue to be applicable.

Condominium 203(k) Specific Policies

An individual condominium Dwelling Unit, must meet the following requirements specific for the 203(k):

- The Dwelling Unit must be located in an FHA-approved Condominium Project and must comply with all other requirements for condominiums;
- Rehabilitation or improvements are limited to the interior of the Dwelling Unit, except for the installation of firewalls in the attic of the Dwelling Unit;

Condominium 203(k) Specific Policies (cont.)

An individual condominium Dwelling Unit, meeting the following requirements specific for the 203(k):

- No more than five Dwelling Units per condominium association, or 25 percent of the total number of units, whichever is less, can undergo rehabilitation at any time;

- After rehabilitation is complete, the **Dwelling Unit is located in a Structure containing no more than four Dwelling Units**; and

- LTV is limited to 100%.

Acceptable Property Types: Townhouse Condominiums

- **Townhouse Condominium Dwelling Unit**:
  - For townhouse-style condominiums, each townhouse is considered as one Structure, provided each unit is separated by a one and one-half hour firewall from foundation to roof.

Acceptable Property Types: Site Condominiums

- **Site Condominium Dwelling Unit**:
  - Refer to a project of Single Family, totally detached, dwellings encumbered by a declaration of condominium covenants or a condominium form of ownership.
  - They have no shared garages or any other attached buildings.

Acceptable Property Types: Manufactured Housing

- **Manufactured Housing** is a Structure that is transportable in one or more sections.

Manufactured Housing 203(k) Specific Policies

- **Manufactured Housing:**
  - The rehabilitation does not affect the structural components of the Structure that were designed and constructed in conformance with the Federal Manufactured Home Construction and Safety Standards and must comply with all other requirements for Manufactured Housing;

FYI: Modular Homes are not "manufactured homes".

Acceptable Property Types: Mixed Use

- **Mixed Use** refers to a property suitable for a combination of uses including any of the following: commercial, residential, retail, office or parking space.

Mixed Use 203(k) Specific Policies:

Mixed Use property with one- to four-residential dwelling units, is acceptable provided:

- Fifty-one percent of gross building area is for residential use; and
- The commercial use will not affect the health and safety of the occupants of the residential property.

Gross Building Area: Clarified

- Fifty-one percent of gross building area is for residential use.
- Gross Building Area (GBA) is the entire floor space of the building, as opposed to Gross Living Area. This includes unfinished and finished non-living areas, such as unfinished mechanical areas, laundry areas, entryways, stairs, unfinished storage, etc.
- This also includes any commercial space within the building.

Acceptable Property Types: HUD Real Estate Owned (REO)

- The property is identified as eligible for 203(k) financing as evidenced in the sales contract or addendum.
- HUD REOs that are listed as uninsurable can only be an FHA loan as a 203(k).
- Good Neighbor Next Door and $100 Down Programs can be used with 203(k).
- Investor purchases of HUD REO properties are not eligible for 203(k) financing.

Sample HUD REO Sales Contract

EXAMPLE: FHA INSURED 203(k) FINANCING

Sales Contract
Property Disposition Program

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

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

2. The Secretary of Housing and Urban Development (Seller) agrees to sell the property at the p nd terms set forth herein, and to prepare a deed containing a covenant which warrants against the acts of the Seller and all claiming by, throu under him. Title will be taken in the following name(s) and style [redacted]

3. The agreed purchase price of the property is ► 3. $ 125,000
Purchaser has paid $ 1,000 as earnest money to be applied on the purch e, and agrees to pay the balance of the purchase price, plus or minus prorations, at the time of closing, in ca Seller. The earnest money deposit shall be held b[redacted]

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

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

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

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

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

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

Application Requirements

Purchase Contract and 203(k): Amendatory Clause

- FHA does *not* require the amendatory clause for any 203(k) transactions, regardless of the type of seller or purchaser.

- The Mortgagee must ensure that the sales contract includes a provision that the Borrower has applied for Section 203(k) financing, the contract is contingent upon mortgage approval, and the Borrower's acceptance of additional required improvements as determined by the Mortgagee.

Form HUD-92700-A, 203(k) Borrower's Acknowledgement

- The Mortgagee must provide the Borrower with the Form HUD-92700-A, *203(k) Borrower's Acknowledgment* at time of application.

Identity of Interest Transactions: Family Members

Sales transactions between Family Members are permitted. The Mortgagee must ensure there are not other instances of Identity of Interest or conflict of interest between parties in the 203(k) transaction.

Identity of Interest Transactions: Family Members (cont.)

II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

2. Allowable Mortgage Parameters

(3) Exceptions to the Maximum LTV

- The 85 percent maximum LTV restriction does not apply for Identity-of-Interest transactions under the following circumstances.

(a) Family Member Transactions

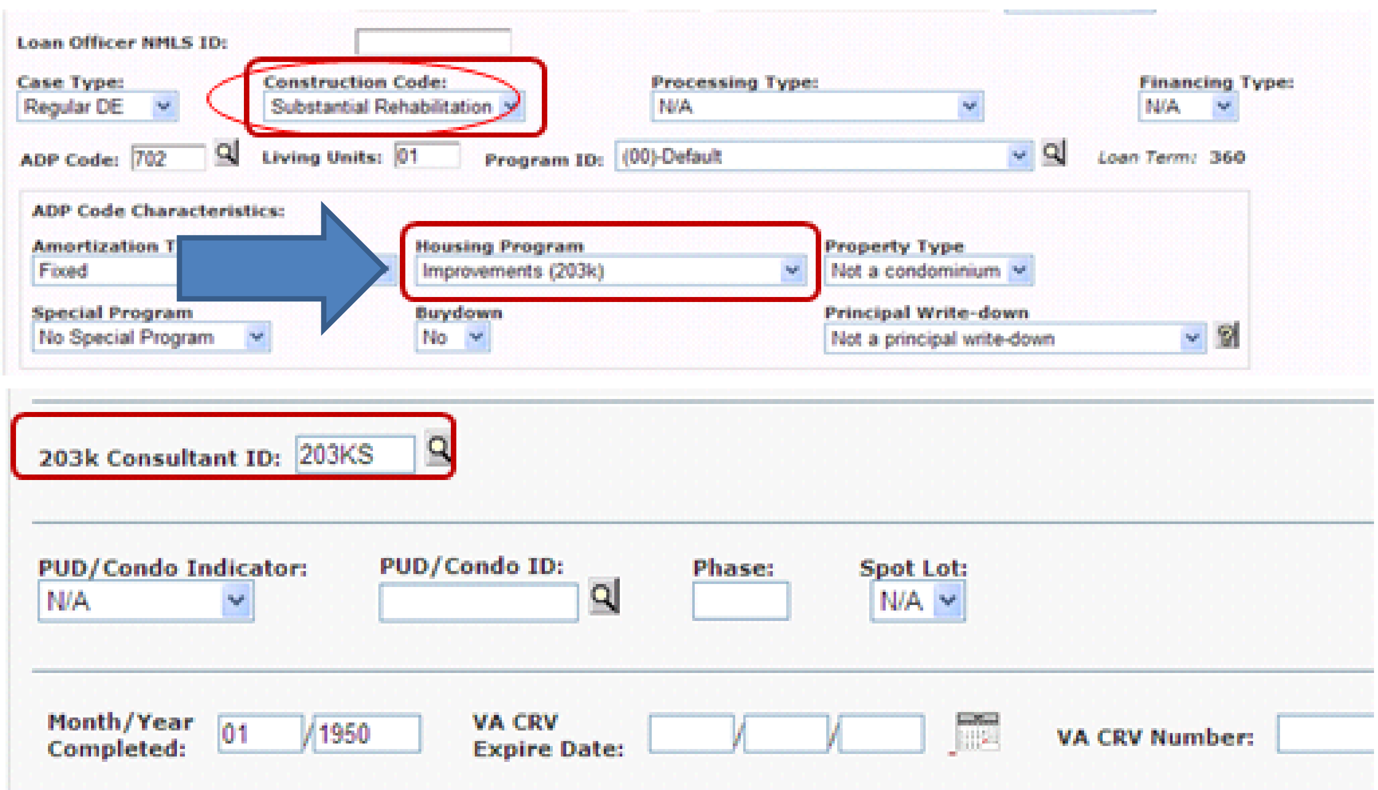
- The 85 percent LTV restriction may be exceeded if a Borrower purchases as their Principal Residence:
- the Principal Residence of another Family Member; or
- a property owned by another Family Member in which the Borrower has been a tenant for at least six months immediately predating the sales contract. A lease or other written evidence to verify occupancy is required.

Refinancing an Existing 203(k)

- A property with an existing 203(k) mortgage is not eligible to be refinanced until all repairs are completed and the case has been electronically closed out.

Case Number Assignment Data Entry Requirements

Case Number Assignment



ADP Codes for 203(k)

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

Case Number Assignment Refinance Type for 203(k)

- For a refinance transaction, the Mortgagee must select “Not Streamlined” in the drop-down menu labeled “All Refinances.”

Standard 203(k) Transactions

Standard 203(k)

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

The Origination Process of a Standard 203(K)

- Borrower selects a property;
- Borrower selects a FHA approved lender;
- Mortgagee takes loan application;
- Mortgagee selects 203(K) Consultant;
- Consultant visits property with Borrower;
- Consultant prepares "Work Write-up";
- Borrower hires Contractor;
- Work write-up and bids are provided to the Mortgagee;
- Mortgagee processes, underwrites, closes, and funds the transaction;
- FHA insures the loan; and
- Improvement process to the property begins.

Repair/Improvements Begin

- Contractor completes first phase of the project.
- Borrower contacts the 203(k) Consultant who inspects work completed at this point by the contractor for a draw request to be completed for release of funds.
- The Consultant and Borrower sign the draw request.
- Draw Request is submitted to the Mortgagee.
- Mortgagee disburses a check made payable to Borrower and Contractor.
- This process continues until the work is completed.

Project Completion

- Final draw is requested.
- Borrower provides release letter indicating work is completed.
- Consultant verifies completion.
- Remaining Rehabilitation Escrow Account funds are released.

Note: The project should be completed within 6 months

Eligible Improvements

- Types of eligible improvements include, but are not limited to:
  - Reconstructing a Structure that has been, or will be demolished, provided the complete existing foundation system is not affected and will still be used;

Eligible Improvements (cont.)

- Types of eligible improvements include, but are not limited to:
  - Repairing, reconstructing, or elevating an existing foundation where the Structure will not be demolished;

Eligible Improvements (cont.)

- Types of eligible improvements include, but are not limited to:
  - Installing or repairing wells and/or septic systems;

Eligible Improvements (cont.)

- Types of eligible improvements include, but are not limited to:
  - Repairing or removing an in-ground swimming pool;

Eligible Improvements (cont.)

- Types of eligible improvements include, but are not limited to:
  - Constructing a windstorm shelter.

Improvement Standards

- All improvements to existing Structures must comply with HUD's MPR.
- All new construction must comply with HUD's MPS.
- For a newly constructed addition to the existing Structure, the energy improvements must meet or exceed local codes and the requirements of the 2006 International Energy Conservation Code (IECC) or a successor energy code standard that has been adopted by HUD for its MPS.

Specific Improvement Standards

- Any addition of a Structure unit must be attached to the existing Structure.
- Site improvements, landscaping, patios, decks, and terraces must increase the Property Value equal to the dollar amount spent on the improvements or be necessary to preserve the property from erosion.

Ineligible Improvements/Repairs

- The 203(k) 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.

Ineligible Improvements/Repairs Examples

- Examples of **ineligible improvements** are:
  - Recreational or luxury improvements such as:
    - Installing a swimming pool, hot tub, sauna
    - Satellite dishes
  - Additions or alterations to support commercial use or to equip or refurbish space for commercial use.

Standard 203(k)
Establishing Repairs and Improvements

Mortgagee Responsibility in Consultant Selection

- The **Mortgagee must select** an FHA-approved 203(k) Consultant from the FHA 203(k) Consultant Roster in FHAC.

- The Mortgagee must not use the services of a Consultant that has demonstrated previous poor performance based on reviews performed by the Mortgagee.

Locations of 203(k) Consultant Information

- **Origination through Post-Closing Endorsement**
  - 8. Programs and Products – Section 203(k) Rehabilitation Mortgage Insurance Program
  - 9. Section 203(k) Consultant
- **Doing Business With FHA**
  - Other Participants in FHA Transactions (TBD)

Consultant/Borrower Agreement

- The Consultant and Borrower must sign a written agreement that fully explains the services to be performed and the fees to be charged for each service.

- The written agreement must disclose to the Borrower that any inspection performed by the Consultant is not a "Home Inspection" as detailed in the disclosure Form HUD-92564-CN, *For Your Protection: Get a Home Inspection*.

203(k) Consultant Fee Schedule: Work Write-Up

- Consultant may charge the fees listed for the preparation of the Work Write-Up and review of architectural exhibits.
- Mileage Fee at the current IRS mileage rate when the Consultant's place of business is more than 15 miles from the property.

Cost of Improvements	Fees
< $7,500	$400
$7,501 - $15,000	$500
$15,001 - $30,000	$600
$30,001 - $50,000	$700
$50,001 - $75,000	$800
$75,001 - $100,000	$900
> $100,000	$1,000

$25 per additional Dwelling Unit

203(k) Consultant Qualifications

- Must have a minimum of three years experience as a:
  - Remodeling contractor;
  - General contractor; or
  - Home inspector.
- A state license as a state certified engineer or architect may be submitted in lieu of three years experience.

203(k) Consultant Qualifications (cont.)

- In states where a Home Inspector is required to be licensed, the Department requires the Consultant to be licensed and provide proof of that licensing.
- Must have the proven ability to perform home inspections, prepare architectural drawings, use proper methods of cost estimating, and complete draw inspections.
- Must have a thorough knowledge on the 203(k) program, FHA's minimum property standards, and the state and local requirements for home improvements, additions, etc.

Feasibility Study

- A 203(k) Consultant may be requested by the Borrower or the Mortgagee to determine if a project is financially feasible.

- The Consultant must perform a Feasibility Study that consists of a preliminary inspection of the property and an estimate of the materials and cost for the work that will be necessary to comply with HUD requirements.

The Consultant Inspection

- The Consultant must inspect the property to ensure:
  - There are no rodents, dry rot, termites, or other infestation on the property;
  - There are no defects that will affect the health and safety of the occupants;
  - There are adequate structural, heating, plumbing, electrical, and roofing systems; and
  - There are upgrades to the Structure's thermal protection (as required).

Note: A Consultant's Inspection is not a "Home Inspection" as detailed in the disclosure "For Your Protection Get a Home Inspection".

Consultant 35 Points Checklist

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

Architectural Exhibits

- The Consultant is responsible for identifying all required architectural exhibits.
- The Consultant must prepare the exhibits, or, if not qualified to prepare all of the necessary exhibits, must obtain the exhibits from a qualified subcontractor.
- The Mortgagee must review all applicable architectural exhibits provided by the Consultant.

Architectural Exhibits: Prepare, Obtain, and Review

Architectural exhibits may include, but are not limited to, the following:

- Well certification and septic certifications;
- 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; and
- New Construction exhibits to obtain a building permit for an addition.

The Work Write-Up and Cost Estimate

- The Consultant must prepare an unbiased Work Write-Up and Cost Estimate without the use of the contractor's estimate.
- The **Work Write-Up** refers to the report prepared by a 203(k) Consultant that identifies each Work Item to be performed and the specifications for completion of the repair or improvement.
- **Work Item** refers to a specific repair or improvement that will be performed.

The Work Write-Up

The Work Write-Up must:

- Be prepared in a categorical manner that addresses each of the 35 point checklist items;
- Detail the work being performed per the project proposal, including architectural exhibits and certifications;
- Identify each Work Item;
- Identify each Work item to be performed by the Borrower;
- Indicate which Work Items require permits;
- Indicate if the Work Item is required to meet a MPS or MPR or is a Borrower elective Work Item; and
- Address all health and safety concerns and any appraiser requirements first before the addition of any Borrower elective Work Items.

The Cost Estimate

- Cost Estimate refers to a breakdown of the cost for each proposed Work Item, prepared by a 203(k) Consultant.
- The Cost Estimate must separately identify labor costs and itemize the cost of materials per Work Item.
- Lump sum costs are permitted only in line items where a lump sum estimate is reasonable and customary.
- The Consultant must use Cost Estimates that are reasonable for the area in which the property is located.

Borrowers Doing Own Work (Self-Help)

- The Mortgagee must approve any Borrower who wishes to act as the general contractor or to complete their own work.

- The Mortgagee must verify and document that the Borrower is a licensed general contractor or has experience in completing rehabilitation projects.

Borrowers Doing Own Work (Self-Help) (cont.)

- The Mortgagee must:
  - Ensure the Borrower demonstrates the necessary expertise and experience to perform the specific repair competently and timely;
  - Instruct the Borrower of the requirement to maintain complete records showing the actual cost of rehabilitation, including paid receipts for materials, and obtain Lien Waivers from any subcontractors;
  - Ensure all permits are obtained prior to commencement of work;

Borrowers Doing Own Work (Self-Help) (cont.)

The Mortgagee must:

- Obtain Cost Estimates from the Consultant that clearly state the cost for completion of each Work Item, including the cost of labor and materials; however, only materials cost will be reimbursed; and
- Obtain a signed Rehabilitation (Self-Help) Loan Agreement from the Borrower.

- The Borrower must not be reimbursed for labor costs.

SELF-HELP AGREEMENT

Borrower's Name(s):

Property Address:

Telephone Number: Work: FHA Case No:

Home:

I hereby certify that I have the time, the skills, the tools, and the resolve to complete all items identified on the work write-up to be completed by me in a professional and timely manner. The quality of the workmanship and materials will be at or above those specified in the work write-up. Should the quality of the work and/or the materials be unacceptable to the HUD approved fee inspector (or the inspector for the City/State/County), I agree that the work will be redone and/or the materials replaced at my own cost.

I further certify that I have, on my own, reviewed the work write-up document and the cost estimate and that I have made contact with various contractors and/or subcontractors for those portions of the rehabilitation job that are necessary to let out for contract. I have personally made an investigation of my selected contractor's workmanship, capacity to complete my job in a timely manner, and have on my own, selected this contractor who will complete the rehabilitation of this project. I understand that if my contractor's price is increased over and above this initially approved amount, and such increases will not be covered by

I further certify that NO ESCROWED FUNDS WILL BE USED TO PAY FOR MATERIALS STORED ON SITE OR IN ANY OTHER LOCATION, except for purchase orders for kitchen/bath cabinetry and finish flooring. I agree that disbursement of any monies may be made only AFTER the work has been installed, completed, inspected, and approved by the HUD approved fee inspector.

I agree that if I make any changes to the work write-up document as approved and made a part of the Rehabilitation Loan Agreement, I will secure a written and approved change order **PRIOR** TO THE CHANGE, using form HUD 92577. I understand that any work completed prior to the acceptance of the change order will be at my own risk and that I may have to pay for the work out of my own funds.

I will secure all required (City/State/County) permits prior to starting construction and to hold HUD and the Lender harmless for all actions of myself and my contractor, subcontractors and/or suppliers on this job. I also understand that all payment(s) are subject to inspection and approval by the HUD approved fee inspector.

Borrowers Doing Own Work (Self-Help) Cost Estimates

- The Mortgagee must:
  - Include the costs for labor and materials for each Work Item to be completed by the Borrower under a Rehabilitation (Self-Help) Loan Agreement.

Standard 203(k) Financeable Repair and Improvement Costs and Fees

The following repair and improvement costs and fees may be financed:

- Costs of construction, repairs, and rehabilitation;
- Architectural/engineering professional fees;
- The 203(k) Consultant fee (limited to the 203(k) Consultant Fee Schedule - 9. Section 203(k) Consultant);
- Inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- Title update fees; and
- Permits.

Standard 203(k) Financeable Repair and Improvement Costs and Fees (cont.)

The following repair and improvement costs and fees may not be in the Financeable Repair and Improvement Costs and Fees:

- Any costs for Energy Efficient Mortgages (EEMs) and Solar Energy Systems .

Standard 203(k) Financeable Contingency Reserve

- **Contingency Reserve** refers to funds that are set aside to cover unforeseen project costs.

- The minimum and maximum Contingency Reserve is **established as a percentage of the Financeable Repair and Improvement Costs.**

Contingency Reserve Requirements

Structures with actual age of less than 30 years:

	Minimum	Maximum
Evidence of termite damage	10%	20%
Discretionary	No Minimum	20%

Structures with actual age of 30 years or more:

	Minimum	Maximum
Required	10%	20%
Utilities are not operable as referenced in the Work Write-Up	15%	20%

Contingency Reserve with Borrower Funds

- 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 Rehabilitation Escrow Account.

Standard 203(k) Financeable Mortgage Payment Reserves

- A **Mortgage Payment Reserve** refers to an amount set aside to make Mortgage Payments when the property cannot be occupied during rehabilitation.

Standard 203(k) Financeable Mortgage Payment Reserves (cont.)

- A Mortgagee may establish a financeable Mortgage Payment Reserve, not to exceed six months of Mortgage Payments.
- The Mortgage Payment Reserve may include Mortgage Payments only for the period during which the property cannot be occupied.
- The number of Mortgage Payments cannot exceed the completion time frame required in the Rehabilitation Loan Agreement.

Rehabilitation Period per the Rehabilitation Loan Agreement

Rehabilitation Loan Agreement:

Borrower shall cause work to begin within 30 days following the date of this Agreement.

Borrower shall have the work completed within ______ months following the date of this Agreement.

Standard 203(k) Financeable Mortgage Payment Reserves for Multi-Unit Properties

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

- To calculate the amount that can be included in the Mortgage Payment Reserve:
  - Divide the monthly Mortgage Payment by the number of units in the property; and
  - Multiply that figure by the number of units that cannot be occupied.

- The resulting figure is the amount of the Mortgage Payment that will be paid through the Mortgage Payment Reserve.

- The Borrower is responsible for paying the servicing Mortgagee the portion of the mortgage not covered by the Mortgage Payment Reserve.

Standard 203(k) Financeable Mortgage Fees: Origination Fee

- The Mortgagee may finance a portion of the Borrower-paid origination fee not to exceed the greater of $350; **or**
- 1.5 % of the total of the:
  - Financeable Repair and Improvement Costs and Fees;
  - Financeable Contingency Reserves; and
  - Financeable Mortgage Payment Reserves.

Standard 203(k) Financeable Mortgage Fees: 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:
  - Financeable Repair and Improvement Costs and Fees;
  - Financeable Contingency Reserves; and
  - Financeable Mortgage Payment Reserves.

Standard 203(k)
Additional Mortgagee Responsibilities
During Processing

Review of Contractor Qualifications

- Prior to closing, the Mortgagee must ensure that a qualified general or specialized contractor has been hired and by contract 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.

Review of Contractor Qualifications and Contract (cont.)

To determine that the contractor is qualified, the Mortgagee must :

- Review the contractor's:
  - Credentials;
  - Work experience;
  - Client references; and
- Ensure that the contractor meets all **jurisdictional licensing and bonding requirements**.

Receipt and Review of Consultant’s Work Write-Up Package

The Mortgagee must obtain from the 203(k) Consultant an acceptable:

- Work Write-Up;
- Cost Estimate;
- 203(k) Consultant’s Certification; and
- Consultant/Borrower Agreement.

203(k) Consultant's Certification

- 203(k) Consultant's Certification previously known as the Consultant's Identity-of-Interest .
- Located in:
  - Section 9. 203(k) Consultant

203(k) Consultant's Certification

All Consultants are required to sign the following certification after preparing/reviewing the Work Write-Up and Cost Estimate, stating:

"I hereby certify that I have carefully inspected this property for compliance with the general acceptability requirements (including health and safety) in HUD's Minimum Property Requirements or Minimum Property Standards. I have required as necessary and reviewed the architectural exhibits, including any applicable engineering and termite reports, and the estimated rehabilitation cost and they are acceptable for the rehabilitation of this property. I have no personal interest, present or prospective, in the property, applicant, or proceeds of the

Appraisals
Standard 203(k) and Limited 203(k)

Establishing Value

- The Mortgagee must establish both an Adjusted As-Is Value and an after-improved value of the property.

Documents to be Provided to the Appraiser at Assignment

The Mortgagee must provide the appraiser:

- **Standard 203(k):**
  - A copy of the Consultant's Work Write-Up and Cost Estimate
- **Limited 203(k):**
  - The work plan,
  - Contractor's proposal and Cost Estimate

Appraisal Reports

- An appraisal by an FHA-approved roster appraiser is always required to establish the after-improved value of the property.
- Except in cases of **Property Flipping and refinance transactions**, the Mortgagee is not required to obtain an as-is appraisal and may use alternate methods per the 203(k) policies to establish the Adjusted As-Is Value.
- If an as-is appraisal is obtained, the Mortgagee must use it in establishing the Adjusted As-Is Value.

Adjusted Value: Purchase

For purchase transactions, the Adjusted Value is the *lesser* of:

- Purchase price, less any inducements to purchase; **or**
- the Property Value.

Refinance Transactions: Acquired Greater Than or Equal to 12 Months Prior to Case Assignment

203(k) Refinance Resource
Properties Acquired Greater than or Equal to
12 Months Prior to Case Assignment Date

Step One: After Improved Value

$ ____________________ After Improved Value

Step Two: Sum of Existing Debt and Costs Associated with Transaction

Unpaid Principal Balance of the First Mortgage as of the month prior to mortgage disbursement	$
Unpaid principal balance of any purchase money junior mortgage as of the month prior to mortgage disbursement	
Junior liens over 12 months old as of date of mortgage disbursement. If HELOC and excess over $1000 w/in last 12 months for purposes other than repairs-Not eligible.	
Interest due on existing mortgages	
Mortgage Insurance Premium due on existing mortgage	

Refinance Transactions: Acquired Less Than 12 Months Prior to Case Assignment

203(k) Refinance Resource
Properties Acquired Less than
12 Months Prior to Case Assignment Date
Adjusted Value Resource

Step One: PropertyValue

$ ____________________ Property Value per the As-Is Appraisal Report

Step Two: Sum of Existing Debt and Costs Associated with Transaction

Unpaid Principal Balance of the First Mortgage as of the month prior to mortgage disbursement	$
Unpaid principal balance of any purchase money junior mortgage as of the month prior to mortgage disbursement	
Junior liens over 12 months old as of date of mortgage disbursement. If HELOC and excess over $1000 w/in last 12 months for purposes other than repairs-Not eligible.	
Interest due on existing mortgages	
Mortgage Insurance Premium due on existing	

Refinance Transactions: Acquired Less Than 12 Months Prior to Case Assignment Exception

- For properties acquired by the Borrower within 12 months of the case assignment date;
  - By inheritance; or
  - Through a gift from a Family Member.

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

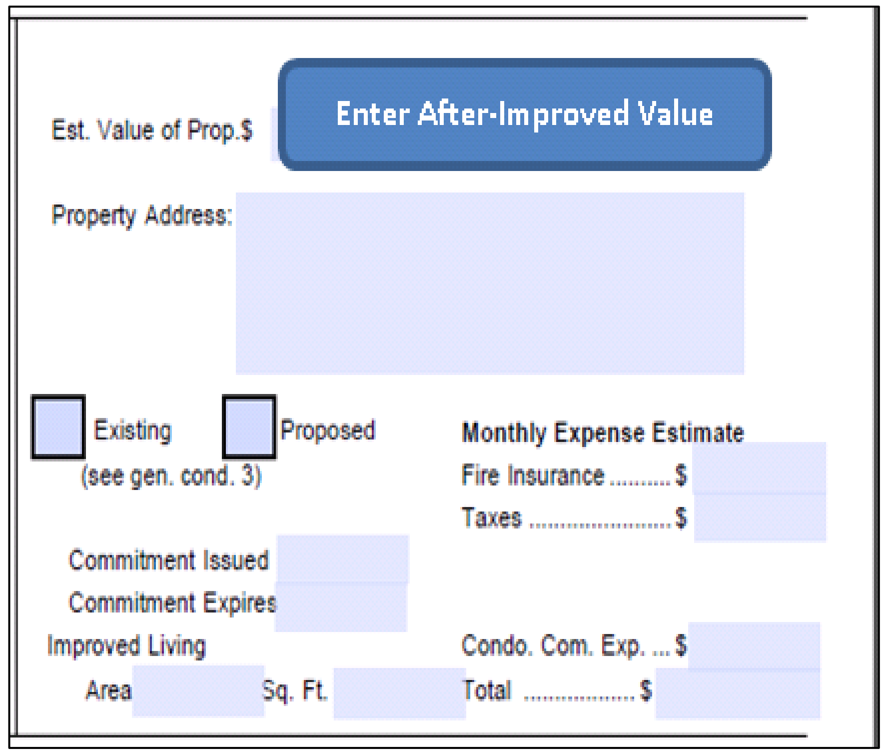
After-Improved Value

- To establish the after-improved value, the Mortgagee must obtain an appraisal of the property subject to the repairs and improvements.

Completion of the form HUD-92800

To properly complete the Conditional Commitment, Form HUD-92800 for all 203(k) transactions:

- Enter the After-Improved Value in the Est. Value of Prop field.


Enter After-Improved Value

Est. Value of Prop.$

Property Address:

Existing (see gen. cond. 3)

Proposed

Commitment Issued

Commitment Expires

Improved Living Area Sq. Ft.

Monthly Expense Estimate

Fire Insurance .... $

Taxes .... $

Condo. Com. Exp. ... $

Total .... $

Maximum Mortgage Amount for 203(k)

Retirement of Form HUD-92700 203(k) Maximum Mortgage Worksheet

- Upon the effective date of the HUD Handbook 4000.1 (June 15, 2015), the Form HUD-92700 Maximum Mortgage Worksheet will be retired.

Standard Maximum Mortgage Amount for Purchase

MAXIMUM MORTGAGE CALCULATION STANDARD 203(k) PROGRAM-PURCHASE TRANSACTION		
Step 1:	**Establishing Value**	
Adjusted As-Is Value		
	Adjusted As-Is Value	$
Appraised Value		
	After-Improved Value	$
Step 2:	**Establishing Financeable Repairs and Improvement Costs**	
	Cost of Construction, Repairs and Rehabilitation (Consultants Work Write-Up)	$
+	Contingency Reserve (_____ % of Cost of Repairs)	$
+	Inspection Fees (# ______ of Inspections x $ 100 per Inspection)	$
+	Title Update Fee	$
+	Mortgage Payments Escrowed (#______ of Months) Standard K only	$
=	***Rehabilitation Escrow Account Total***	**$**
+	Architectural and Engineering Fees*	$
+	Consultant Fees + Mileage*	$
+	Cost of Permit(s)*	$
+	Cost of Feasibility Study, if applicable ($100)	$
+	Other Fees* (Explain)	$

Standard Maximum Mortgage Amount for Refinance

MAXIMUM MORTGAGE CALCULATION STANDARD 203(k) PROGRAM-REFINANCE TRANSACTION		
Step 1	**Establishing Value**	
Adjusted As-Is Value		$
After Improved Value		$
Step 2	**Establishing Financeable Repairs and Improvement Costs**	
	Cost of Construction, Repairs and Rehabilitation (Work Write-Up/Cost Estimate)	$
+	Contingency Reserve (_____ % of Cost of Repairs)	$
+	Inspection Fees (#___ of Inspections x $100 per Inspection)	$
+	Title Update Fee	$
+	Mortgage Payments Escrowed (#_____ of Months)	$
=	***Rehabilitation Escrow Account Total***	**$**
+	Architectural and Engineering Fees*	$
+	Consultant Fees + Mileage*	$
+	Cost of Permit(s)*	$
+	Other Fees* (Explain)	$

Loan-to-Value Ratios for Refinance

If the Borrower's Minimum Decision Credit Score is:	Then the Borrower is:
at or above 580	eligible for maximum financing of 97.75%.
between 500 and 579	limited to a maximum LTV of 90%.

For Secondary Residences, the maximum LTV is 85 percent.

Required Documentation for acquired less than 12 Months prior to Case Assignment Date

For properties acquired less than 12 months prior to the case assignment date, the Mortgagee must:

- 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.

Required Documentation for acquired less than 12 Months prior to Case Assignment Date (cont.)

If improvements were made to the property subsequent to the acquisition, the Mortgagee must document the associated cost of the improvements by obtaining the following:

- A contract for completion of work;
- Cost of materials and paid receipts; and
- Permit costs.

Combined Loan-to-Value

Secondary Financing Provided by Governmental Entities, Homeownership (A), and Opportunity for People Everywhere Grantees, and HUD-Approved Nonprofits

- There is **no maximum Combined Loan-to-Value (CLTV)** for secondary financing meeting the requirements found in Governmental Entities, Homeownership, and Opportunity for People Everywhere (HOPE) Grantees, and HUD-Approved Nonprofits.

Secondary Financing Provided by Family Members

- There is **no maximum CLTV for secondary financing** provided by family members.

Secondary Financing Provided by Private Individuals and Other Organizations

- The maximum CLTV for secondary financing provided by private individuals and other organizations is 110 percent of the after-improved value.

Mortgage Insurance Premium

Mortgage Insurance Premium Requirements

- The Mortgagee must comply with the Mortgage Insurance Premium (MIP) requirements found in the Mortgage Insurance Premiums Chart.

Calculation of the Mortgage Insurance Premium

For the purpose of calculating the LTV for application of the MIP, the Mortgagee must:

- Divide the Base Loan Amount by the after-improved value.

Underwriting the 203(k) Transaction

Repairs Noted by The Appraiser

- When an appraisal report identifies the need for health and safety repairs that were not included in the Consultant's Work Write-Up, Borrower's work plan, or contractor's proposal, the Mortgagee must ensure the repairs are included in the Consultant's Final Work Write-Up or the Borrower's final work plan.

Final Work Write-Up and Cost Estimate for Standard 203(k)

- The Mortgagee must obtain the Final Work Write-Up and Cost Estimate from the Consultant.

- The Final Work Write-Up must include all required repairs and improvements to meet HUD's MPS and MPR (as applicable) and the Borrower's electives.

Final Work Write-Up for Standard 203(k) to Determine Rehabilitation Period

- The Mortgagee must review the 203(k) Consultant's Work Write-Up to determine the time frame to complete the improvements/repairs.

- The Mortgagee must confirm that the project completion will not exceed a six month period.

Initial Draw at Closing

The Mortgagee must:

- Document the amount and purpose of an initial draw at closing on the Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

Limited 203(k)

Limited 203(k)

- The Limited 203(k), as stated earlier, 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. However, the Borrower can elect to hire a Consultant but the fee cannot be financed.

- The total rehabilitation cost must not exceed $35,000.

Limited 203(k): Types of Improvements

Eligible improvement types include, but are not limited to:

- Eliminating health and safety hazards that would violate HUD's MPR;
- Repairing or replacing wells and/or septic systems;
- Connecting to public water and sewage systems;
- Repairing/replacing plumbing, heating, AC, and electrical systems;
- Making changes for improved functions and modernization;
- Eliminating obsolescence; and
- Repairing or installing new roofing, siding, gutters, and downspouts.

Limited 203(k): Ineligible Improvements/Repairs

The Limited 203(k) mortgage proceeds **may not** be used to finance major rehabilitation or major remodeling. FHA considers a repair to be "major" when any of the following are applicable:

- The repair or improvements are expected to require more than six months to complete.
- The rehabilitation activities require more than two payments per specialized contractor.
- The required repairs arising from the appraisal necessitate a Consultant to develop a Work Write-Up; or require plans or architectural exhibits.
- The repair prevents the Borrower from occupying the property for more than 15 days during the rehabilitation period.

Limited 203(k): Ineligible Improvements/ Repairs (cont.)

Additionally, the Limited 203(k) mortgage proceeds **may not** be used to finance the following specific repairs (this just a partial list):

- Converting a one-family Structure to a two-, three-, or 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; and
- Making structural alterations.

Limited 203(k): Lead-Based Paint Stabilization Costs

- The Limited 203(k) may be used to pay for lead-based paint stabilization costs (above and beyond what is paid for by HUD when it sells REO properties).

Limited 203(k):
General & Specific Improvement Standards

- All improvements to existing Structures must comply with HUD's MPR.

- Patios and decks must increase the Property Value equal to the dollar amount spent on the improvements.

Limited 203(k):
Establishing Repair and Improvement Costs

- The Borrower must submit a **work plan** to the Mortgagee and use one or more contractors to provide the Cost Estimate and complete the required improvements and repairs.

- The contractors must be licensed and bonded, if required by the local jurisdiction. The Borrower must provide the contractors' credentials and contractors' bids to the Mortgagee.

Limited 203(k): Establishing Repair and Improvement Costs (cont.)

- The Mortgagee must review the contractors' credentials, work experience, and client references and ensure that the contractors meet all jurisdictional licensing and bonding requirements.

- The Mortgagee must examine the work plan and the contractors' bids and determine if they fall within the usual and customary range for similar work.

Limited 203(k): Exception for Borrowers Doing Own Work (Self-Help)

- Borrower must submit a work plan detailing the Work Items to be performed by the Borrower.

- Borrower must submit a Cost Estimate from a contractor, other than the Borrower, that provides a breakdown of the cost for labor and materials for each Work Item. The contractor must be licensed and bonded, if required by the local jurisdiction.
- The Borrower must not be reimbursed for labor costs.

Limited 203(k): Rehabilitation Period

- The Mortgagee must consult the Borrower Contractor Agreement to determine the time frame for completion of repairs.
- The Mortgagee must confirm that the completion of repairs will not exceed a six month period.

Limited 203(k): Contingency Reserves

- Contingency Reserves are not mandated; however, at the Mortgagee's discretion, a Contingency Reserve account may be established and may be financed.

- The Contingency Reserve account may not exceed 20% of the Financeable Repair and Improvement Costs.

Maximum Mortgage Calculation: Limited 203(k) Purchase

MAXIMUM MORTGAGE CALCULATION LIMITED 203(k) PROGRAM-PURCHASE TRANSACTION		
Step 1:	**Establishing Value**	
Adjusted As-Is Value		
	Adjusted As-Is Value	$
Appraised Value		
	After-Improved Value	$
Step 2:	**Establishing Financeable Repairs and Improvement Costs**	
	Cost of Construction, Repairs and Rehabilitation (Work Plan /Cost Estimates)	$
+	Contingency Reserve (_____ % of Cost of Repairs) up to 20%	$
+	Inspection Fees # ______ of Inspections x $ per Inspection	$
+	Title Update Fee	$
=	***Rehabilitation Escrow Account Total***	$
+	Cost of Permit(s)*	$
+	Other Fees* (Explain)	$
=	***Sub-Total of Repair Costs & Fees***	$
+	Origination Fee (Greater of $350 or 1.5% of Sub-total of Repair Costs & Fees)*	$
+	Discount Points (_____ % of Subtotal Repair Costs and Fees)*	$

Maximum Mortgage Calculation: Limited 203(k) Refinance

	MAXIMUM MORTGAGE CALCULATION **LIMITED 203(k) PROGRAM-REFINANCE TRANSACTION RESOURCE**	
Step 1	**Establishing Value**	
Adjusted As-Is Value		$
After Improved Value		$
Step 2	**Establishing Financeable Repairs and Improvement Costs**	
	Cost of Construction, Repairs and Rehabilitation (Work Plan /Cost Estimate)	$
+	Contingency Reserve (_____% of Cost of Repairs) up to 20% not mandated	$
+	Inspection Fees #____ of Inspections	$
+	Title Update Fee	$
=	***Rehabilitation Escrow Account Total***	**$**
+	Cost of Permit(s)*	$
+	Other Fees* (Explain)	$
=	***Sub-Total of Repair Costs & Fees***	**$**
+	Origination Fee (Greater of $350 or 1.5% of Sub-total of Repair Costs & Fees)*	$
+	Discount Points (% of Subtotal Repair Costs and Fees)*	$

Limited 203(k) Compared to Standard 203(k) Resource

Limited 203(k) Compared to Standard 203(k)		
PROGRAM GUIDELINE	203(K) LIMITED REPAIR	203(K) STANDARD
DOWN PAYMENT AND CREDIT UNDERWRITING	SAME AS 203(B)	SAME AS 203(B)
BORROWER	OWNER-OCCUPANT BORROWERS, HUD APPROVED NON-PROFITS, GOVERNMENTAL AGENCIES	SAME AS LIMITED
ELIGIBLE IMPROVEMENTS	NO MINIMUM REPAIR REQUIREMENT Up to $35,000 Rehabilitation costs. Cannot be used for structural repairs or major remodeling or repairs. No Luxury items.	A minimum $5,000 requirement for improvements. Any repair is acceptable. No luxury items.
203(K) CONSULTANT	203(K) CONSULTANT IS NOT REQUIRED	A 203(K) CONSULTANT IS USED
CONTINGENCY RESERVES	A contingency reserve is not required. Mortgagees may have the option to establish a reserve up to 20% of the Financeable Repair and Improvement Costs.	A contingency reserve is required when; the property is 30 years or older; and/or the utilities are not operable; and/or evidence of termite damage; and/or at the discretion of the Mortgagee.

Closing

Closing

- There is only one closing for the 203(k) transaction. This includes the rehabilitation funds.

- The rehabilitation funds are escrowed and disbursed as the work is satisfactorily completed.

Initial Draw at Closing: Standard 203(k)

For Standard 203(k) transactions, Mortgagees **may** disburse the following at closing:

- Permit fees (the permit must be obtained before work commences);
- Prepaid architectural or engineering fees;
- Prepaid Consultant fees; and
- Materials costs for items, prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date; and

Initial Draw at Closing: Standard 203(k) (cont.)

For Standard 203(k) transactions, Mortgagees **may** disburse the following at closing:

- Up to 50 percent of materials costs for items, not yet paid for by the Borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

Initial Draw at Closing: Limited 203(k)

For Limited 203(k) transactions, Mortgagees **may** disburse the following at closing:

- Permit fees (the permit must be obtained before work commences); and
- Up to 50 percent 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 the payment represents the cost of materials incurred prior to construction.
  - A statement from the contractor is sufficient to document.

Hold Back Requirements on Disbursements

- For any Disbursements paid to the contractor, the Mortgagee must hold back 10 percent of the draw request in the Contingency Reserve.

Rehabilitation Escrow Account

- When the mortgage closes, the Mortgagee must place all proceeds designated for the rehabilitation, including the Contingency Reserve, inspection fees, and any Mortgage Payments in an interest bearing escrow account.

Rehabilitation Loan Agreement

- The Mortgagee and Borrower must execute the Rehabilitation Loan Agreement, which **establishes the conditions under which the Mortgagee will disburse the Rehabilitation Escrow Account funds**.

- The Rehabilitation Loan Agreement is incorporated by reference and made a part of the security instrument.

Security Instrument and Rehabilitation Loan Rider

The following language must be placed in the security instrument:

- "Provisions pertaining to releases are contained in the Rehabilitation Loan Rider, which is attached to this mortgage and made a part hereof."

- The Rehabilitation Loan Rider is a **required modification to a security instrument**.

Endorsement

203(k) Endorsement Eligibility

- 203(k) mortgages are eligible for **endorsement after the initial mortgage proceeds** are disbursed and a Rehabilitation Escrow Account is established.

Completion of Insurance Application Screen

INSURANCE APPLICATION SCREEN

*** Worksheet Information ***

ENTER "AFTER-IMPROVED VALUE"

Appraised Value:	148688.00	*Sales Price:*	115000.00
Current Housing Expense:	[illegible]	*Unpaid Principal Balance:*	
		Principal Write-off Amount:	
Total Requirements:	+7223.00	*Total Income:*	5734.00
Total Mortgage Payment:	1385.00	*Total Fixed Payment:*	2067.00
UFMIP Paid in Cash:			
Borrower Funds to Close			

Appraised Value: Enter the "After-Improved Value" for all 203(k) transactions.

Rehabilitation Period

Rehabilitation Period

- The rehabilitation period starts when the mortgage is disbursed.
- The rehabilitation period is specified in the Rehabilitation Loan Agreement.

Work Commencement Requirement

- As stated in the Rehabilitation Loan Agreement, the Mortgagee may consider the mortgage to be in default if work:
  - Is not started within 30 Days of the Disbursement Date;
  - Ceases for more than 30 consecutive Days; or
  - Is not completed within the established time frame or an extended time frame approved by the Mortgagee.

- If the Mortgagee considers the mortgage to be in default for failure to start or complete work, and the mortgage is not in payment default, the Mortgagee must apply any unused rehabilitation funds towards the principal amount.

Standard: Consultant Responsibility —Stoppages or Deviations from the Work Write-Up

The Consultant must inform the Mortgagee of the progress of the rehabilitation and of any problems that arise, including:

- Work stoppages of more than 30 consecutive Days or work not progressing reasonably during the rehabilitation period;
- Significant deviations from the Work Write-Up without the Consultant's approval;
- Any issues that could affect adherence to the program requirements or property eligibility; or
- Any issues that could affect the health and safety of the occupants or the security of the Structure.

Project Management

- Mortgagees must ensure work is completed on schedule and workmanship is acceptable.

- When notified of an issue, Mortgagees must intercede in disagreements among Borrowers, contractors, or Consultants.

Extension Requests

- If the work is not completed within the rehabilitation period specified in the Rehabilitation Loan Agreement, the Borrower may request an extension of time and must submit adequate documentation to justify the extension.

- The Mortgagee may grant an extension at its discretion only if the Mortgage Payments are current.

Extension Requests: Required Documentation

To consider an extension request, the Mortgagee must obtain:

- Evidence that the mortgage is current;
- An explanation for the delay from the Borrower, contractor, or Consultant; and
- A new estimated completion date.

Administration of the 203(k) Rehabilitation Escrow Funds

203(k) Rehabilitation Escrow Administration

- The Mortgagee is fully responsible for authorizing draw inspections, managing the Rehabilitation Escrow Account, and approving the associated draws from the account.

- It is the Mortgagee's responsibility to ensure that all inspections are completed in a quality and timely manner, regardless of who performs the inspections.

Accounting of 203(k) Rehabilitation Escrow Account

The Mortgagee must utilize an accounting system that records all transactions from the Rehabilitation Escrow Account and which documents the amount escrowed for each of these categories:

- Repairs;
- Contingency Reserve;
- Inspection fees;
- Title update fees;
- Mortgage payments; and
- Other fees (Consultant fees, permits, etc.).

Accounting of 203(k) Rehabilitation Escrow Account: Draws

The Mortgagee must utilize an accounting system that records all draws from the Rehabilitation Escrow Account and records the:

- List of Disbursements;
- Number of Days in escrow;
- Amount of money in the account;
- Interest earned for the applicable time period; and
- Balance of interest remaining in the account.

Rehabilitation Escrow Account with Mortgage Payment Reserves: Standard 203(k)

- When the Rehabilitation Escrow Account includes Mortgage Payment Reserves, the Mortgagee must make monthly Mortgage Payments directly from the Account.

- Once the property is able to be occupied, application of the Mortgage Payment Reserves will cease. Mortgage Payment Reserves remaining in the Account after occupancy of the property must be used to reduce the mortgage principal.

Draw Request

- The Mortgagee must obtain an executed Form HUD-9746-A, *Draw Request Section 203(k)*, from the 203(k) Consultant, or from the Borrower, when there is no 203(k) Consultant requesting the release of escrow funds for completed Work Items.

Draw Request Mortgagee Review

- The Mortgagee must review and approve each draw request to ensure that the work for which funds are being requested has been completed satisfactorily and that the form has been properly executed by the Borrower, contractor, and Consultant, if any.

- The Mortgagee may not approve a draw request for work that is not yet complete.

Draw Request for Materials

The Mortgagee may not approve draw requests for materials for work that is not completed, **except for**:

- Materials costs for items prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date; and
- Up to 50 percent of materials costs for items, not yet paid for by the Borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

Release of Funds from 203(k) Escrow Account

- The Mortgagee may release funds only when repairs and improvements, per the draw request, **meet all local codes and ordinances, including any required permits and inspections.**

- For Standard 203(k) transactions the Consultant must inspect the work for completion and quality of workmanship for each draw request.

Consultant Draw Request Inspection for Standard 203(k)

- The Consultant must perform draw request inspections when requested by the Mortgagee. The Consultant must ensure that:
  - The work has been completed satisfactorily;
  - All building permits are onsite for the work that was performed; and
  - The work conforms to all local codes and ordinances.
- Consultant may charge $100 per draw request.

Draw Requests for Total Repair Costs Less Than or Equal to $15,000: Limited 203(k)

- The Mortgagee must ensure that the repairs and/or improvements have been completed by obtaining contractor's receipts or a signed Mortgagor's Letter of Completion.

- The Mortgagee is not required to perform or have others perform inspections of the completed work.

Draw Requests for Total Repair Costs Less than or Equal to $15,000: Limited 203(k) (cont.)

- The Mortgagee may choose to obtain or perform inspections if they believe such actions are necessary for program compliance or risk mitigation.

- If the Mortgagee determines that an inspection by a third party is necessary to ensure proper completion of the proposed repair or improvement item, the Mortgagee may charge the Borrower for the costs of no more than two inspections per contractor.

Draw Requests for Total Repair Costs Greater than $15,000: Limited 203(k)

The Mortgagee must ensure that the repairs and/or improvements have been completed by:

- Performing an inspection; or
- Obtaining an inspection by a third party to determine that the repairs have been completed; and
- Obtaining a signed Mortgagor's Letter of Completion.

Release of Funds for Storm Shelters: Standard 203(k)

- When a storm shelter is part of the rehabilitation, the consultant must ensure that its construction is consistent with guidelines issued by the Federal Emergency Management Agency (FEMA).

Release of Funds for Lead-Based Paint Stabilization

The Mortgagee may release funds for lead-based paint stabilization only when a clearance examination is performed by:

- State or Environmental Protection Agency (EPA) certified lead-based paint inspector;
- Certified risk assessor; or
- Sampling technician.

Release of Funds for Structure being Elevated or Moved: Standard 203(k)

For an existing Structure moved to a new foundation or a Structure that will be elevated, the Mortgagee must not release loan proceeds for the existing Structure on the non-mortgaged property until:

- The new foundation has been properly inspected and the Structure has been properly placed and secured to the new foundation.

Borrowers Doing Own Work(Self-Help)

- For repairs made by the Borrower under a Self-Help Agreement, the Mortgagee is permitted to **release funds for materials only**.

Validity of First Lien Position

- The **Mortgagee must obtain Lien Waivers**, or equivalent, at the time of any Disbursement of funds to ensure the validity of the first lien on the property.

- If all Work Items performed by a contractor have not been completed at the time of draw request, the **Mortgagee must obtain a partial conditional Lien Waiver for the Work Items that have been completed for each draw request**.

Holdbacks

- The Mortgagee must hold back 10 percent of each draw request prior to release of funds from the Rehabilitation Escrow Account.

Holdbacks Exception

- When a subcontractor is 100 percent complete with a Work Item, the work completed is acceptable to the inspector, and the contractor and subcontractor provide the necessary Lien Waivers, or equivalent, the Mortgagee is not required to hold back funds; the Mortgagee has discretion to hold back funds if not required.

Timeliness of Release of Funds

- The Mortgagee must release funds within five business days after receipt of a properly executed draw request and title update when necessary.

Maximum Number of Draws

Program	Maximum Number of Draws Permitted
Standard 203(k)	5 draw requests (4 intermediate and a final)
Limited 203(k)	2 draw requests per contractor or the Borrower (if acting as the contractor). The Mortgagee may arrange a payment schedule, not to exceed 2 draws, per specialized contractor (an initial release plus a final release).

Method of Payment of the Escrow Funds

- The Mortgagee must issue checks to both the Borrower and contractors as co-payees.
- The Mortgagee may issue the check directly to the Borrower alone if the release is for:
  - Materials for work performed under a Self-Help Agreement; or
  - Materials for items prepaid by the Borrower under contract with the supplier.

Method of Payment of the Escrow Funds: Standard 203(k)

- The Borrower may provide the Mortgagee written authorization at each draw to issue the check directly to the contractor under the Standard 203(k) program.

Discoveries During Rehabilitation

Health and Safety Items

The Mortgagee must ensure that all health and safety items not in the original Work Write-Up or work plan that are discovered during the rehabilitation period are addressed by completion of a change order.

Change Order Request: Standard 203(k)

- When requested by the Mortgagee or the Borrower, the Consultant must:
  - Review the proposed changes or additions to the Work Write-Up; and
  - Evaluate any costs and adjust other Work Items.

- The Consultant must provide all costs for labor and materials as a result of the change order on Form HUD-92577, *Request for Acceptance of Changes in Approved Drawings and Specifications*.

- The proposed work per the change order is not permissible to proceed until approved by the Mortgagee.

Change Order Request: Standard 203(k) (cont.)

- The Consultant must complete a change order request on Form HUD-92577, *Request for Acceptance of Changes in Approved Drawings and Specifications,* for contingency items and other changes that may increase or decrease the cost of rehabilitation or the value of the property.

- Work must be 100 percent complete on each change order item before the Consultant may authorize release of funds for the work noted on the change order.

- The Consultant must ensure that all repairs meet all local codes and ordinances, including any required permits and inspections.

Change Order Request: Limited 203(k)

- The Mortgagee must obtain HUD form 92577, *Request for Acceptance of Changes in Approved Drawings and Specifications*, from the Borrower if there are any deviations from the Work Plan on the Limited 203(k) program.

- The Borrower is required to supply the Mortgagee the required documentation to evidence the costs of the repairs.

- The Mortgagee must approve the change order before any work can be done.

Contingency Reserve Funds When Rehabilitation is Not Complete

When rehabilitation is not complete, to allow use of contingency funds for improvements other than for health and safety, the Mortgagee must determine that:

- It is unlikely that any health or safety deficiency will be discovered, and
- The mortgage will not exceed 95 percent of the after-improved value.

Rehabilitation Completion
Final Escrow Closeout

Final Escrow Closeout

- The Mortgagee must include the interest earned in the final payment on the Rehabilitation Escrow Account and **may** include the total of all holdbacks.

- However, if it is required to protect the priority of the security instrument, the Mortgagee may retain the holdback for a period **not to exceed 35 Days (or the time period required by law to file a lien, whichever is longer),** to ensure compliance with state Lien Waiver laws or other state requirements.

Final Release of Escrow Funds: Standard

- Before final release of funds from the Rehabilitation Escrow Account, the Mortgagee must approve the final inspection and draw request signed by the Consultant, contractor, and Borrower.

Final Release of Escrow Funds: Limited 203(k)

Before a final release is made to any contractor, the Mortgagee must determine that:

- All work by the contractor has been completed and is acceptable to the Borrower; and
- All necessary inspections have been made with acceptable documentation.

Required Documentation: Final Release of Escrow Funds

The Mortgagee must:

- Obtain the Mortgagor’s Letter of Completion signed by the Borrower indicating satisfaction with the completed work, requesting a final inspection and final release of funds;
- Obtain all inspections and a Certificate of Occupancy (if applicable) required by the local jurisdiction;
- Complete the Final Release Notice authorizing the final payment;

Required Documentation: Final Release of Escrow Funds (cont.)

The Mortgagee must:

- Provide the Mortgagee’s extension approval if applicable; and
- Obtain a release of any and all liens arising out of the contract; **or**
- Obtain receipts, or other evidence of payment covering all subcontractors or suppliers who could file a legal claim.

Contingency Release: Standard 203(k)

- The Mortgagee must either make funds available for additional improvements or apply the funds towards the principal balance if the Contingency Reserve was financed.

Contingency Release: Limited 203(k)

- The Mortgagee must apply the funds towards the principal balance if the Contingency Reserve was financed.

Contingency Release: Borrower Established with Own Funds

- A Borrower, who established the Contingency Funds with their own funds, may receive a refund of their funds, or may request the remaining funds be applied towards the principal balance.

Mortgage Payment Reserve

Mortgage Payment Reserves remaining in the Rehabilitation Escrow Account after the Final Release Notice is issued must be applied to reduce the mortgage principal.

Escrow Closeout Certification: FHAC

- After the Rehabilitation Escrow Account is closed, the Mortgagee must complete the "Escrow Closeout Certification" screen in FHAC within 30 days after the escrow account is closed.

Escrow Closeout Certification: FHAC—Documentation Review

The Mortgagee must certify that the following documents were verified for accuracy:

- Final Release Notice;
- Borrower’s Letter of Completion;
- Title update/Lien Waivers;
- Draw request forms and inspection reports;
- Change orders;
- Mortgagee accounting of the Rehabilitation Escrow Account with payment ledgers; and
- Contingency release letters.

Accountability of Mortgagees and 203(k) Consultants

- HUD will hold Mortgagees and 203(k) Consultants fully accountable for the loan proceeds.

Mortgagees’ Quality Control Plan

- Mortgagees must exercise due diligence with regard to the full scope of the 203(k) Consultant's services.

- Standards for the 203(k) Consultant's performance must be clearly defined in the Mortgagee's Quality Control Plan and should be provided to each Consultant that the Mortgagee relies on in the 203(k) program. Mortgagees must evaluate and document the performance of these Consultants on at **least an annual basis**, to include a review of the Consultant's actual work product.

Servicing

Mortgage Payment Delinquencies During the Rehabilitation Period

- If the loan is delinquent, the Mortgagee may refuse to make further releases from the Rehabilitation Escrow Account.

Mortgage Payment Default During the Rehabilitation Period

The project must stop if the loan is in payment default. The Mortgagee must obtain an inspection of all repairs that have been completed up until this point by the 203(k) Consultant for a Standard 203(k), or for a Limited 203(k) by a third party. The Mortgagee may approve a release of funds for Work Items that have already been completed as of the date the work was stopped.

- The Mortgagee has the option to call the mortgage due and payable.
- If the default is cured, the project may resume.

Mortgage Payment Default During the Rehabilitation Period: Inspection

- The inspection obtained by the Mortgagee must also note:
  - Any items that are required to be completed to protect the interest of the collateral from deteriorating, such as a roof; and
  - Health and safety items for a property that is occupied.

- The Mortgagee must ensure the completion of any Work Item that the inspection determines is necessary to protect the occupants and/or the collateral.

- The Mortgagee may use the services of the mortgagor's contractor, or may engage the services of another qualified contractor to complete the Work Item. The Mortgagee may approve a subsequent release of funds for that Work Item.

Borrower Bankruptcy During the Rehabilitation Period

- The Mortgagee may not approve further advances if the Borrower declares Bankruptcy unless otherwise required by law or as needed to protect FHA's first lien position.

- The Mortgagee must obtain an inspection of all repairs that have been completed up until this point by the 203(k) Consultant for a Standard 203(k), or for a Limited 203(k) by a third party. The Mortgagee may approve a release of funds for Work Items that have already been completed as of the date the work was stopped.

Foreclosure During the Rehabilitation Period

- In the event of a foreclosure during rehabilitation, the Mortgagee must obtain a final inspection to determine the amount of work that has been completed since the start of construction and the cost for the work.

- Using a format similar to the Final Release Notice, the Mortgagee will:
  - Authorize release of rehabilitation escrow funds for the completed work and holdbacks on any previous Disbursements.

- If funds remain in the Rehabilitation Escrow Account, the Mortgagee will reduce the amount of claim (unpaid mortgage principal balance) by the unexpended funds in the Rehabilitation Escrow Account. The Mortgagee must submit a copy of the Final Release Notice with any insurance claim.