FHA 203(k) Program Guidelines

Revised 3/4/2020 rev. 106

(Click the link to go straight to the section)

Section 1 Program Summary

The FHA Section 203(k) Rehabilitation Mortgage Insurance Program enables borrowers to finance the purchase or refinance of a home and the cost of its rehabilitation through a single mortgage. Plaza offers the Limited 203(k) and the Standard 203(k) program.

The **FHA Single Family Housing Handbook 4000.1** outlines FHA requirements. In cases where Plaza's Guidelines and FHA requirements differ, the more restrictive of the two will apply.

AllRegs Version of FHA Single Family Housing Policy Handbook 4000.1
PDF Version of FHA Single Family Housing Policy Handbook 4000.1

Section 2 Product Codes

Product Name	Product Code	Available Term in Months
FHA 203(k) Standard 30 Yr Fixed	FHA30K	360
FHA 203(k) Standard 30 Yr High Balance	FHA30HK	360
FHA 203(k) Limited 30 Yr Fixed	FHA30KS	360
FHA 203(k) Limited 30 Yr High Balance	FHA30HKS	360

Section 3 Program Matrix

Conforming Balance – Primary Residence Excluding Manufactured Housing					
Purpose	LTV	CLTV	Min Credit Score	Max DTI Underwriting Method	
				AUS	Manual
Purchase	96.5%	96.5%	640	55%	Per 4000.1[2]
			620	See Footnote 1	Per 4000.1[2]
Rate/Term Refinance	97.75%	97.75%[3]	640	55%	Per 4000.1[2]
			620	See Footnote 1	Per 4000.1[2]

High Balance[4] – Primary Residence					
Purpose	LTV	CLTV	Min Credit Score	Max DTI Underwriting Method	
				AUS	Manual
Purchase	96.5%	96.5%	640	50%	Per 4000.1[2]
			620	See Footnote [1]	Per 4000.1[2]
Rate/Term Refinance	97.75%	97.75%[3]	640	50%	Per 4000.1[2]
			620	See Footnote [1]	Per 4000.1[2]

Conforming Balance – Primary Residence Manufactured Housing					
Purpose	LTV	CLTV	Min Credit Score	Max DTI Underwriting Method	
				AUS	Manual
Purchase	96.5%	96.5%	640	Per AUS	N/A
Rate/Term Refinance	97.75%[3]	97.75%[3]	640	Per AUS	N/A

1. Compensating Factor Requirements for AUS approved loans with Credit Score < 640 and DTI > 43%:

DTI	Compensating Factors

> 43% < 50%	Two of the following:
	• verified and documented cash reserves
	  ○ 3 months (1-2 unit properties)
	  ○ 6 months (3-4 unit properties)
	• minimal increase in housing expense
	• residual income
	• significant additional income not reflected in effective income; and/or
	• pre-purchase housing counseling

≥ 50%	Ineligible for financing unless both of the following are met: • No increase in housing expense • Minimum 3 months reserves after closing

2. Manually underwritten loans with debt ratios exceeding 31/43 require compensating factors. Refer to **4000.1.II.A.5-Approvable Ratio Requirements (Manual)** for requirements.
3. Maximum LTV is 85% if the borrower has not owned and occupied the property for the last 12 months. If the property has been owned less than 12 months and has been owner occupied since acquisition then the LTV is not restricted to 85%. Seasoning is based on case number assignment date.
4. Manufactured Housing not eligible for High Balance loan amounts.

See EEM, GNND and HUD REO section for LTV/CLTV combinations that may exceed 100%.

Section 4 Loan Limits

For most single-family mortgage insurance programs, the maximum insurable amount is the lesser of:

- The **Nationwide Mortgage Limit** for the area, usually a county or metropolitan statistical area (MSA), **OR**
- The applicable LTV limit, determined by a fixed percentage of the lesser of the sales price or the as is appraised value plus cost improvements.
- Manufactured Housing not eligible for High Balance loan amounts.

Maximum Base Loan Amount				
Unit	**Contiguous States**		**Hawaii[1]**	
	Standard	**High Balance**	**Standard**	**High Balance**
1	$510,400	$765,600	$765,600	N/A
2	$653,550	$980,325	$980,325	N/A
3	$789,950	$1,184,925	$1,184,925	N/A
4	$981,700	$1,472,550	$1,472,550	N/A

1. There are no properties in Hawaii with loan limits higher than the applicable base conforming limits for 2020. As a result, there are no High Balance limits specific for this state.

- Any loan where the base loan amount exceeds the standard conforming limits will be considered under the High Balance program and may have additional requirements which are identified where applicable.
- Maximum loan limits are determined by geographic areas. A complete schedule of FHA mortgage limits for all areas is available on **HUD's website**.

Section 5 Transactions

Eligible Transaction Types:

Purchase: To acquire and rehabilitate an existing structure that has been completed (certificate of occupancy has been issued over 12 months) for at least 1 year.

Refinance:

- To rehabilitate an existing structure that has been completed for at least 1 year and to refinance the outstanding indebtedness.
- The loan amount may not exceed the sales price, or existing lien balance on a refinance, plus the actual cost of the rehabilitation repairs and reasonable customary closing costs including the fees associated with the 203(k).
- Cash back to the borrower is not allowed, including zero incidental cash back. Principal curtailments are not allowed.

Ineligible Transaction Types:

- Cash out Refinances
- TX(a)(6) Refinances
- Properties listed for sale at time of application are not eligible.
- Investment or Second Home Properties
- FHA Back to Work Program (RFHA30BTW)
- No builder spec foreclosures

Eligible Properties:

The improvements must comply with HUD's Minimum Property Standards and all local codes and ordinances.

To be eligible for the 203(k) program, the property must be a structure that has been completed for at least 1 year.

- Attached/Detached SFRs
- Attached/Detached PUDs
- FHA-approved Condos – with interior unit upgrades only
  - See **Condominiums** below for more information
- 2-4 Units
- HUD REO Properties
- Manufactured Housing

Manufactured Housing:

- Must be classified as Real Property
- The manufactured home must have been built on or after June 15, 1976
- Double-wide minimum width
- Leasehold properties are ineligible
- Condo projects comprised of manufactured homes are ineligible
- The manufactured home may not have been previously installed or occupied at another location
- All manufactured housing must meet FHA guidelines, restrictions in these Program Guidelines, and **Plaza's Manufactured Housing Guidelines**.
- Manufactured housing not eligible in states of Hawaii and Rhode Island.
- Manufactured homes located within a Special Flood Hazard Area are not eligible unless a FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form 086-0-33) prepared by a licensed engineer or surveyor stating that the finished grade beneath the manufactured home is at or above the 100-year return frequency flood elevation is provided, and flood insurance under the NFIP is obtained.

Eligible 203(k) Improvements to Manufactured Housing:

- FHA 203(k) improvements cannot involve structural changes
- Renovation funds are limited to the lesser of 50% of the "as completed" appraised value or $50,000
- Eligible improvements include but are not limited to:
  - Improvements to kitchens and baths, or
  - Installation of energy efficient heating and cooling, or
  - Changes to address mobility and aging in place are allowed, or
  - Installation of new windows, doors, siding, or roofing provided these changes do not alter the structure of the unit.

Ineligible Properties:

- Commercial properties
- Cooperatives
- Condotels
- Properties listed on the National Historical Register
- Geothermal homes
- Geodesic dome homes
- Mobile homes

- Mixed Use Properties in commercial zoning
- Non-FHA approved or warrantable condos
- Timeshares
- Working farms, ranches, orchards
- Homes that have never been completed
- Homes that have been completely demolished, including the foundation
- Homes being moved from one location to another
- Refinance transactions for properties listed for sale on or after the date of the application.

Condominiums:

- The 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 unit, except for the installation of firewalls in the attic for the unit.
- No more than five units per condominium association, or 25% of the total number of units, whichever is less, can undergo rehabilitation at any time. **AND**
- After rehabilitation is complete, the unit is located in a structure containing no more than four units. For townhouse style condominiums, each townhouse is considered as one structure, provided each unit is separated by a 1½ hour firewall from foundation to roof.

Section 7 Borrower Eligibility

Eligible Borrowers:

- U.S. citizens
- Permanent resident aliens
- Non-permanent resident aliens
- Non-occupant co-borrowers
- Inter Vivos (Living) Trusts
    - **Note:** A Power of Attorney is not allowed on properties held in a trust.

Ineligible Borrowers:

- Charitable organizations
- Non-profit agencies
- State or local government agencies
- Foreign Nationals
- Land Trusts

Section 8 Occupancy

Primary Residence only

Section 9 Subordinate Financing

New or existing subordinate financing is allowed per FHA guidelines and subject to CLTV limits per the program matrix.

Properties with Property Assessed Clean Energy (PACE) obligations are ineligible.

- Any PACE obligations or liens must be paid and satisfied at or prior to closing.
- PACE liens may not be subordinated.

Section 10 Underwriting Method

All loans must be decisioned through FHA TOTAL Scorecard. Provide a copy of the TOTAL Scorecard recommendation from DU or LPA. With the exception of manufactured housing, which requires an AUS approval, loans not receiving an acceptable AUS result may be manually underwritten subject to eligibility.

Transaction Type	Underwriting Method	Acceptable AUS Results
Purchase or Rate/Term	DU, LPA, Manual	Approve/Eligible or Accept/Pass

Regardless of the risk assessment made by DU or LPA, the DE underwriter remains accountable for compliance with FHA guidelines and eligibility requirements, as well as for any credit, capacity and documentation requirements covered herein.

The DE underwriter must underwrite the appraisal according to standard FHA guidelines. FHA has not approved the use of automated underwriting systems to review appraisals.

Manual Underwriting: For loans that receive an AUS Refer or that otherwise require a downgrade to manual underwriting, refer to **4000.1.II.A.4-Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL)** and to **4000.1.II.A.5-Manual Underwriting of the Borrower**.

Manufactured Housing not eligible for manual underwriting.

Section 11 Credit

Credit Score:

- Conforming Balance:
  - Excluding Manufactured Housing: **620** Credit Score
  - Manufactured Housing: **640** Credit Score
- High Balance: **620** Credit Score

No Credit Score: Borrowers without a minimum qualifying credit score are ineligible.

Qualifying Credit Score:

- A tri-merge bureau is required on all loans.
- The qualifying score is the lower of two or the middle of three scores.
- The lowest qualifying score of all applicants is used to qualify.
- Each borrower must have at least one credit score.

Housing Payment History:

- The mortgage payment history may be deemed satisfactory when the mortgage credit rating is disclosed on the credit report, is evaluated by the AUS, and the loan receives an "Approve/Eligible" or "Accept/Eligible" recommendation.
- The rental payment history will be deemed acceptable per the AUS findings for loans that receive an "Approve/Eligible" or "Accept/Eligible" recommendation.
- When the housing payment history is not evaluated by an AUS, or for Refer/manually underwritten loans:
  - There may be no history of any 30-day late mortgage or rental payments within the last 12 months.
  - There may be no more than two 30-day late mortgage or rental payments in the previous 24 months.
  - The housing payment history must be documented by:
    - The credit report; or
    - VOR received directly from the landlord (for landlords with no Identity of Interest with the borrower); or
    - VOM received directly from an institutional mortgage servicer; or
    - Canceled checks that cover the most recent 12-month period.
- Borrowers who are living rent free are eligible provided the Mortgagee obtains verification directly from the property owner that the borrower has been living rent-free and the amount of time the borrower has been living rent free.

Revolving and Installment Accounts - Manually Underwritten Loans:

- Installment Accounts must be no more than 0 x 30 in the last 12 months and 2 x 30 in the last 24 months.
- Revolving Accounts must be no more than 2 x 60 or 0 x 90 in the last 12 months.

Non-traditional Credit - Manually Underwritten Loans:

- All loans require a credit score. Borrowers without a minimum qualifying credit score are ineligible.
- Manually underwritten loans require sufficient credit depth. To demonstrate sufficient credit depth, borrower credit on manually underwritten loans must fit into one of the following scenarios. Borrowers whose traditional credit does not meet one of the following scenarios must supplement their traditional credit with non-traditional credit.
  a. The borrower has three traditional trade lines that have been evaluated for at least 12 months. These trade lines do not need to be currently active but require some activity in the last 24 months.
  b. The borrower has two traditional trade lines that have been evaluated for at least 24 months and have had some activity in the last 24 months.
  c. The borrower has a traditional credit history of 5+ years and there are not any accounts with late payments or any collection accounts in the last 24 months.

Non-traditional trade lines may be considered in addition to traditional credit; however, it is not acceptable to base a credit decision solely off of non-traditional trade lines. Non-traditional trade lines can only be used to build on traditional credit.

Refer to **4000.1.II.A.5-Non-Traditional and Insufficient Credit (Manual)**

Section 12 Income and Employment

Refer to **4000.1.II.A.4-Income Requirements (TOTAL)** or **4000.1.II.A.5-Income Requirements (Manual)**.

Verbal Verification of Employment:

- Required on all loans
- VOE must cover the most recent 2-year period.
- Must be performed within 10 days of the loan closing.

The Verbal VOE for Self-Employed Borrowers:

- Must verify the existence of the borrower's business within 30 days prior to the funding date.
- Verify from a third party, such as a CPA, regulatory agency or the applicable licensing bureau and by verifying a phone listing and address for the borrower's business using a telephone book, the Internet or directory assistance.
- Verify and document the name and title of the person that confirmed the employment and the date of the call.
- The Telephone Verification of Employment form must also include the name and title of the Plaza associate that performed the verification.

IRS Form 4506-T:

- All transactions require a signed and dated IRS Form 4506-T for all borrowers completed prior to closing.
- Refer to Plaza's **Tax Transcript Guidelines** to determine if transcripts are required.

Section 13 Down Payment / Gifts

Down Payment:

On purchase transactions the borrower must make a Minimum Required Investment (MRI) of 3.5% of the lesser of the appraised value or sales price plus rehabilitation costs. Refer to the 203(k) Calculator or the **FHA Standard 203(k) Maximum Mortgage Worksheet HUD-92700** for details. This amount is in addition to any borrower closing costs.

Section 14 Reserves

Reserve Requirements:

- Cash reserves are not a requirement for 1-2 unit FHA loans approved through TOTAL Scorecard.
- 1 month reserves are required for Manual Underwriting.
- All assets submitted to TOTAL Scorecard must be verified.
- 3-4 unit properties:
  - 3 months PITIA are required.
- Gift funds not acceptable for reserves.

Refer to **4000.1.II.A.4-Reserves (TOTAL)** or **4000.1.II.A.5-Reserves (Manual)**.

Section 15 Interested Party Contributions

Sellers, or other interested parties such as real estate agents, builders, developers, etc., or a combination of parties are permitted to contribute up to 6% of the property sales price toward the buyer's actual closing costs, prepaid expenses, discount points and other financing concessions. The 6% is based on the actual purchase price, not the after improved value. Closing costs normally paid by the borrower are considered contributions if paid by the seller.

Each dollar exceeding FHA's 6% limit must be subtracted from the property's sales price before applying the appropriate loan-to-value (LTV) ratio.

Section 16 Property Flips/ Resale Requirements

Property flipping is a practice whereby a property recently acquired is resold for a considerable profit with an artificially inflated value.

To address the issue of property flipping, FHA has placed certain time restrictions and additional documentation requirements on purchase transactions involving the resale of an existing property, including 203(k) loans.

Property eligibility is based upon the time that has elapsed between the date the seller acquired the property (based upon the date of settlement) and the date the buyer and seller execute the sales contract that will result in the FHA mortgage insurance (the re-sale date).

Dwelling must have been completed for minimum of 12 months from certificate of occupancy. **No builder spec foreclosures.**

If uncertain about property eligibility, check with the local Homeownership Center (HOC).

Resale Less Than or Equal to 90 Days: If the re-sale date is 90 days or less following the date of acquisition by the seller, the property is not eligible for a mortgage to be insured by FHA.

Transactions involving one of the following exemptions are not subject to the restrictions above:

- FHA REO properties sold by FHA.
- Resale of properties purchased by an employer or relocation agency in connection with employee relocation. What FHA intends to exempt is bona fide relocation agencies that contract with employers to handle relocations of their employees. A relocation agency DOES NOT include individual real estate agents that advertise themselves as relocation experts and who purchase properties from persons who are relocating from the area.
- Property inherited by the property seller. The property seller will not be required to hold title to that property for 90 days before he/she can sell it with FHA insured financing. The property seller must still be the owner of record but the 90-day ownership period will not be required. Further, since there was no previous sale of the property because it was inherited, there is no previous sales price that might trigger the second appraisal requirement set forth in the flipping rules. The underwriter must include the documentation evidencing the inheritance in the case binder when submitting the case for insurance.
- Sales of properties by state and federally charted financial institutions and Government Sponsored Enterprises (e.g. Fannie Mae and Freddie Mac). **Note:** Mortgage Insurance companies are not considered a state or federally chartered financial institution and are not qualified as a GSE.
- Sales of properties by nonprofits approved to purchase HUD-owned single family properties at a discount with resale restrictions.
- Sales of properties by local and state government agencies.
- Sales of properties within Presidentially-Declared Disaster Areas, upon FHA's announcement of eligibility in a mortgagee letter specific to said disaster.

Resale Greater Than 90 Days:

Loans with resale dates greater than 90 days and up to 180 days are generally eligible for a mortgage insured by FHA but may require supplemental documentation, including an additional appraisal.

- If the resale price is greater than or equal to 100% of the property seller's acquisition price, a second FHA appraisal from a new appraiser is required. The second appraisal cannot be provided by or paid for by the borrower. If the resale price is less than 100% of the property seller's acquisition price, then no additional appraisal documentation is required.

Unexpired Redemption Period:

Foreclosed properties that are located in a state where a redemption period is allowed, including Fannie Mae and Freddie Mac owned or HUD REO are not eligible until all of the following are met:

- The redemption period has expired. **AND**
- The foreclosure sale has been confirmed. **AND**
- Clear and marketable title is obtained.

Refer to **4000.1.II.A.1.b-Restrictions on Property Flipping**.

Section 17 Eligible/Ineligible Improvements

Eligible Improvements:

Standard 203(k)	Limited 203(k)
The mortgage *must include* one or more of the following types of improvements for the existing structure on the property: • Structural alterations and additions to structure. Any addition of a structure unit must be attached to the existing structure. • Kitchen or bath remodels • Minor foundation issues • Termite and Pest Issues • Completion of un-permitted structures (green house for example). • Modernization and improvements to the home's function. • Elimination of health and safety hazards (electrical and plumbing upgrades). • Changes that improve appearance and eliminate obsolescence. • Reconditioning or replacing plumbing; installing a well and/or septic system. • Adding or replacing roofing, gutters, and downspouts • Adding or replacing floors and/or floor treatments • Major landscape work and site improvement, patios, decks and terraces that improve the value of the property equal to the dollar amount spent on the improvements or required to preserve the property from erosion.	**The mortgage *may only include* the following types of non-structural improvements, however, this is not an all-inclusive list:** • Kitchen or bath remodels • Repair/replacement of roofs, gutters and downspouts. • Repair/replacement/upgrade of existing heating, ventilation & air conditioning systems. • Repair/replacement of plumbing and electrical systems. • Repair/replacement of flooring • Minor remodeling that does not involve structural repairs, such as kitchens. • Exterior and interior painting • Weatherization, including storm windows and doors, insulation, weather stripping, etc. • Purchase and installation of appliances, including free-standing ranges, refrigerators, washers and dryers, dishwashers and microwaves. • Improvements for accessibility for persons with disabilities. • Lead-based paint stabilization or abatement of lead-based paint hazards. • Repair/replacement/addition of exterior decks, patios, porches.

• The correction of grading and drainage problems is also acceptable. • Installing or repairing fences, walkways, and driveways. • Weatherization, including storm windows and doors, insulation, weather stripping, etc. • Improvements for accessibility for persons with disabilities. • Lead-based paint stabilization or abatement of lead-based paint hazards. • Repair/replacement/addition of exterior decks, patios, porches. • Basement waterproofing • Replacement of window and doors and exterior wall re-siding. • Pool repairs up to $1,500 total for minimum health and safety items. When basic improvements are involved, the following costs can be included in addition to the minimum $5,000 requirement: • New free standing range, refrigerator, washer and dryer, trash compactor and other appurtenances (used appliances are not eligible.) • Interior and exterior painting • The repair of a swimming pool not to exceed $1,500. ○ Repair costs exceeding the $1,500 limit must be paid into the contingency reserve fund by the applicant. **Note**: The installation of a new swimming pool is not allowed.	• Installing or repairing fences, walkways, and driveways. • Basement waterproofing • Replacement of window and doors and exterior wall re-siding. • Pool repairs up to $1,500 total for minimum health and safety items.

All repairs that are required to meet HUD's Minimum Property Standards must be completed.

Ineligible Improvements:

Standard 203(k)	Limited 203(k)
• Tear Downs or homes that will be demolished including the foundation as part of the rehabilitation. • Homes that have been demolished, or will be razed as part of the rehabilitation work, including those where a portion of the existing foundation system remains in place. • Moving a house from another location onto the subject property. • Completion of an already underway construction project (for example builder standing inventory). • Improvements that result in commercial use or are commercial in nature. • Changes to the number of dwelling units • Any improvement that does not become a permanent part of the subject property. • Tree surgery is not allowed, except if it is to eliminate	• Structural repairs, rehabilitation or improvements such as load bearing walls, foundation repair or flooring support joists. • Improvements or changes that were not approved prior to the start of the work. • Materials or work performed prior to the first draw disbursement. • Landscaping • Any improvement that does not become a permanent part of the subject property. • Recreational & Luxury Items

endangerment to the existing improvements. • Recreational & Luxury Items. • Structural changes on manufactured homes	

Recreational & Luxury Items include (but are not limited to):

- BBQ Pits
- Outdoor Spas
- Bath House
- Tennis Court
- Satellite Dish
- TV Antenna
- Outdoor Fireplace or Hearth
- Gazebo
- Dumbwaiters
- New Swimming Pool (above or below ground) installed
- Existing swimming pool repairs that are not a health and safety concern and/or in excess of $1500.

Section 18 Cost of Improvements

Minimum Costs of Improvements:

Standard 203(k)	Limited 203(k)
$5000 minimum in eligible repairs and improvements from the Eligible Improvement list. Repairs that are minor in nature cannot be included in the first $5000, but may be added after the initial $5000 in eligible improvements is reached.	No minimum.

Maximum Costs of Improvements:

Standard 203(k)	Limited 203(k)
Except for manufactured homes, there is no maximum dollar amount, as long as the total base loan amount does not exceed HUD's county loan limit. Manufactured Housing repairs are limited to the lesser of 50% of the "as completed" value or $50,000.	• $35,000 maximum including fees and contingency. • $50,000 maximum including fees and contingency for properties located in Qualified Opportunity Zones (QOZ). **Tip:** Use $30,935 ($44,350 for QOZ) maximum in actual repairs and material costs (to ensure the total amount does not exceed $35,000 ($50,000 in QOZ). Note: this number is based on a 10% contingency; a higher contingency reserve will result in an actual repair amount below this number. Alternatively an EEM will result in a higher actual repair amount.

Section 19 Forms and Rehabilitation Documentation

Below are the required documents and forms specific to both Standard and Limited 203(k) at time of origination and for submission to Plaza for review of project acceptance:

Standard 203(k)	Limited 203(k)
• Sales Contract. The sales contract must include a provision that the Borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by the Mortgagee. An addendum to the contract is acceptable. • **FHA Connect 203(k) Calculator** • Contractor's Fully Executed Bid(s) • HUD Consultant Write-up (Specification of Repairs (SOR), Work Write-up (WWU)) • **FHA Standard 203(k) Homeowner/Contractor Agreement(s)** • **FHA Standard 203(k) Contractor Profile Report** • **FHA Standard 203(k) Draw Request HUD-9746-A** • **FHA 203(k) Borrower's Acknowledgement HUD-92700-A** • Contractor **W-9** Form – completed by contractor(s) • Consultant **W-9** Form – completed by consultant • **FHA 203(k) Borrower's Identity-of-Interest Certification** • **FHA 203(k) HUD Consultant's Identity-of-Interest Certification** • **FHA 203(k) Rehabilitation Loan Agreement** *provided and signed at closing **HUD REO Properties only:** • The first block on Line 4 of **form HUD-9548**, **Instructions for Sales Contract**, must be checked as well as the applicable block for **Property Disposition Program 203(k) Rehabilitation Financing Lead Agreement HUD 9548-G**. • **Property Disposition Program 203(k) Rehabilitation Financing Lead Agreement HUD-9548-G**, This is an addendum to the contract provided by the M&M Marketing firm and must be part of the file when applicable.	• Sales Contract. The sales contract must include a provision that the Borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by the Mortgagee. An addendum to the contract is acceptable. • **FHA Connect 203(k) Calculator** • Contractor's Fully Executed Bid(s) • Work Plan. See **Section 30**. • **FHA Limited 203(k) Borrower Acknowledgement HUD- 92700-A** • **FHA Limited 203(k) Contractor Profile Report** • Contractor **W-9** Form – completed by contractor(s) • **FHA Limited 203(k) Borrower's Identity-of-Interest Certification** • **FHA Limited 203(k) Homeowner/Contractor Agreement(s)** • **FHA Limited 203(k) Homeowner/Contractor Agreement Addendum** • **FHA Limited 203(k) Self Help Agreement** if applicable • **FHA 203(k) Rehabilitation Loan Agreement** *provided and signed at closing **HUD REO Properties only:** • The first block on Line 4 of **form HUD-9548**, **Instructions for Sales Contract**, must be checked as well as the applicable block for **Property Disposition Program 203(k) Rehabilitation Financing Lead Agreement HUD 9548-G**. • **Property Disposition Program 203(k) Rehabilitation Financing Lead Agreement HUD- 9548-G**, This is an addendum to the contract provided by the M&M Marketing firm and must be part of the file when applicable.

Section 20 Appraisal

Refer to **4000.1.II.A.8-Appraisals for Standard 203(k) and Limited 203(k)** and **4000.1.II.B.1-Appraiser and Property Requirements**.

A finalized copy of the bid/cost estimate must be included with the appraisal.

Establishing Value:

An After Improved Value and an Adjusted As-Is Value of the Property must be determined.

If both an as-is and an after-improved appraised value are required, the case will require two separate appraisal assignments and reports.

After Improved Value is established using an appraisal of the property subject to the repairs and improvements.

- Standard 203(k): The appraiser must be provided with a copy of the Consultant's WWU and Cost Estimate.
- Limited 203(k): The appraiser must be provided the work plan, contractor's proposal and Cost Estimates.

Adjusted As-Is Value may be determined by alternate methods or by obtaining an as-is appraisal, depending on the transaction. Specific requirements for determining adjusted as-is value are listed in this section.

- **Purchases:** Adjusted As-Is Value is based on the purchase price less any inducements to purchase. Note: An as-is appraisal is not required; however, if an as-is appraisal is obtained, then the Adjusted As-Is Value is the lesser of the purchase price or the as-is appraised value.

- **Refinances - Properties Acquired Greater Than or Equal to 12 Months:** Prior to the Case Assignment Date:
  - Adjusted As-Is Value is based on existing debt when the After Improved Value is greater than the existing debt plus financeable items. Refer to **Financeable Items** section for list of acceptable financeable items. An as-is appraisal is not required in this scenario.
  - Adjusted As-Is Value is based on an as-is appraisal when the After Improved Value is less than the existing debt plus financeable items. In this case a separate as-is appraisal is required and the Adjusted As-Is Value is the as-is appraised value.
  - **Note:** Obtaining a second appraisal to establish as-is value rather than using the existing debt (even when the appraisal is not required by FHA) will typically result in less borrower required cash at closing. The fee of the second appraisal is a financeable item.

- **Refinances - Properties Acquired Less Than 12 Months:** Prior to the Case Assignment Date:
  - As-is appraisal is required (separate as-is appraisal is required)
  - Adjusted As-Is Value is the lesser of the existing debt plus fees associated with the new mortgage or the as-is appraised value.

Existing Debt consists of:

- The unpaid principal balance of the first Mortgage as of the month prior to mortgage Disbursement.
- The unpaid principal balance of any purchase money junior Mortgage as of the month prior to mortgage Disbursement.
- The unpaid principal balance of any junior liens over 12 months old as of the date of mortgage Disbursement. If the balance or any portion of an equity line of credit in excess of $1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the Property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new Mortgage.
- Interest due on the existing Mortgage(s).

- Mortgage Insurance Premium (MIP) due on existing Mortgage.
- Any prepayment penalties assessed
- Late charges, and
- Escrow shortages

Financeable Items consist of:

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

Inherited Properties: For properties acquired by the Borrower through inheritance or through a gift from a Family Member, regardless of when the property was acquired, the calculation of Adjusted As-Is Value for properties acquired greater than or equal to 12 months prior to the case assignment date may be used.

Property Flipping: In the case of Property Flipping, an as-is appraisal must be obtained if needed to comply with the Property Flipping guidelines. If an as-is appraisal is obtained, then the Adjusted As-Is Value is the lesser of the purchase price or the as-is appraised value.

Section 21 Valuation Analysis and Review

Underwriter Responsibilities:

The underwriter is responsible for the quality of the appraisal report and should request appraiser clarification and discuss components of the appraisal that influence its quality. The underwriter bears the primary responsibility for determining the eligibility of a property for FHA insurance.

- Complete the 203(k) Calculator in FHA Connection to determine the after rehabilitation market value of the property and the maximum mortgage amount.
    - Print and save to the loan file a copy of the final 203(k) Calculator.
- Ensure the FHA appraiser has conditioned for any FHA minimum property requirements that the proposed scope of the repair work (WWU) does not address.
    - When an appraisal report identifies the need for health and safety repairs that were not included in the Consultant's WWU, borrower's work plan or contractor's proposal, the underwriter must ensure repairs are included in the Consultant's final WWU and contractor's bid.
- The Appraiser and HUD Consultant or contractor CANNOT be the same individual.

Section 22 Borrower Loan Fees and Costs

Due to the nature of the 203(k) program, there are a number of fees which the borrower will incur throughout the completion of the renovation. To save the borrower the immediate expense, HUD has made provisions which allow for various fees to be financed. Guidelines have been established to what fees can be charged.

The borrower's cost includes the following:

- The purchase price of the property, or the existing debt in cases involving refinancing.
- The reasonable and customary closing costs incidental to closing the transaction.
- HUD's accepted rehabilitation cost estimate. This figure represents the proposed improvement and any required repairs, including the cost of rehabilitation.

Limited 203(k) Ineligible Fees and Costs:

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

- Mortgage payment reserves
- Architectural/engineering professional fees
- 203(k) HUD Consultant Fee
- Feasibility Study fee

Borrowers may not pay a tax service fee on any 203(k) transaction.

HUD Consultant Specification of Repairs/Work Write-Up Fees:

HUD Consultant Fee Schedule	
Cost of Repairs	**Consultant Fee**
$5,000 - $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
$100,001 +	$1,000 then $50 for each additional $25,000 in repairs over $100,000

Consultant Inspection Fees:

- Neither HUD nor the lender will be responsible to the HUD Consultant for fees owed by the borrower.
- HUD Consultant fees are based on the dollar amount of repairs and are subject to the limits in the 203(k) HUD Consultant Fee Schedule.
- The fee charged by the HUD Consultant can be included in the mortgage as a part of the cost of rehabilitation.
- For each draw request the lender is required to obtain a compliance inspection **(Form-92051)** stating that the work for that particular draw has been satisfactorily completed.
- For each draw request, the Consultant may charge an Inspection Fee that is reasonable and customary for work performed in the area where the property is located, provided the fee does not exceed a maximum of $350.
- When travel distance exceeds 30 miles roundtrip from the reviewer's place of business, a mileage charge (established by the HUD Field Office) may be added to the above charges, including toll road and other charges where applicable.
- Feasibility Study (see below)

Consultant Feasibility Study:

- Not required unless requested by the borrower. At the request of the borrower, A HUD Consultant must provide a Feasibility Study to the borrower.
- Plaza does not require a Feasibility Study unless the borrower has requested one. If a Feasibility Study was performed to determine if the project is financially feasible, a copy of the study must be provided in the loan file regardless if the cost was financed.
- Consultants may charge up to $200 for a Feasibility Study. This fee is in addition to the WWU.
- A buyer/borrower may request a Feasibility Study prior to submitting an offer to a seller.

Title Update Fees:

- In order to ensure that the mortgage lien position remains intact on title, a title update or lien waiver is required prior to draw release and final close out. The amount allowed to be financed for title updates cannot exceed $500 on a Standard 203(k) and $150 on a Limited 203(k):
  - Standard 203(k) @ $100 per draw, maximum 5 draws
  - Limited 203(k) @ $150 per draw, maximum 1 draw
- Any unused monies will be applied as a principal reduction at the completion of the project.
- Note: The Title Update fees above are determined by Plaza.

Supplemental Origination Fee:

- Limited 203(k): Greater of $350 or 1.50% of the renovation costs, however not to exceed $525.
- Standard 203(k): A Supplemental origination fee is not collected by Plaza on Standard 203(k) loans.

Discount Points:

The discount is determined between the lender and the borrower on each loan and is not regulated by HUD. A portion of the total discount paid by the borrower can be financed and is included as part of the Total Rehabilitation costs. The discount that may be financed (Discount Points on the Repair Costs) is equal to the number of discount points multiplied by the figure in Step 1. D.2.

Note: The number of discount points charged on the rehabilitation amount CANNOT be more than the number of discount points charged on the total loan, and must be equal to or less than the points that will be paid in cash. The cash discount is the difference between the discount on the total loan, and the amount of discount being financed as discount on the rehabilitation. This is the cash that the borrower will bring to closing to pay for discount points. To calculate, multiply the number of discount points by the total loan amount and deduct the discount on the repairs where applicable.

The following example will help properly calculate and display discount points, if applicable, on 203(k) transactions.

Example: On a $100,000 loan with a sub total of $25,000 (including total cost of repairs, contingency reserve, inspections fees, title update fees, mortgage payments escrowed, architectural and engineering fees, consultant fee, permits and other fees if applicable), the discount on the total loan is $2,000 (2% of $100,000). The portion that can be financed is $500 or 2% of the sub total of $25,000. The firm commitment should reflect the total loan discount. Regardless of whether or not any discount is financed, if 2% is charged on this loan, the total discount points, whether paid in cash or financed, cannot exceed $2,000.

- When the seller has agreed to pay any portion of the total discount, multiply the amount of the discount on the loan times the Sales Contract Price.
- If the seller pays a financing concession to include discount points for both the sales price and rehabilitation costs of the dwelling, then the sales contract must be very clear and concise to assure that the seller completely understands the concession agreement.
- On HUD-owned properties, any amount HUD has agreed to pay towards the purchaser's closing and/or financing costs (Line 5 of the Sales Contract, form HUD-9548), applies only to the contract sales price and not to the total of the purchase price plus cost of rehabilitation.

Note:

- The discount points on the total loan (both financed and paid in cash) should be shown on the HUD Form 92900-A (HUD/VA Addendum to Loan Application), Pages 1 & 3.
- Any discount points paid in cash at closing should be shown on the FHA Loan Underwriting and Transmittal Summary (LT).

Standard 203(k)	Limited 203(k)
The value of the property is determined by either: • The value of the property before rehabilitation (sales price or as-is value) plus the cost of rehabilitation (see cost of rehabilitation below), minus any sales concessions, **OR** • 110 percent (100% for condos) of the appraised value of the property after rehabilitation, whichever is less. **Note:** If ownership is less than 1 year, value is based on the lesser of original sales price or current appraised value. The Maximum Base Loan Amount for a purchase and refinance transactions is calculated by using the 203(k) Calculator in FHA Connection. **Cost of Rehabilitation / Eligible Expenses:** Expenses eligible to be included in the cost of rehabilitation are: • Material, labor, contingency reserve, overhead and construction profit (noted in each work item). • Up to 6 months of mortgage payments • Expenses related to the rehabilitation such as permits, fees, inspection fees by a qualified home inspector (for example, a member of the American Society of Home Inspectors), licenses, inspection fees during construction by a HUD accepted inspector, lien protection fees, title updates and architectural/engineering fees. • The cost of rehabilitation may also include the supplemental origination fee and the discounts which the borrower will pay on that portion of the mortgage proceeds allocated to the rehabilitation.	The value of the property is determined by either: • The value of the property before rehabilitation (sales price or as-is value) plus the cost of rehabilitation (see cost of rehabilitation below), minus any sales concessions, **OR** • 110 percent (100% for condos) of the appraised value of the property after rehabilitation, whichever is less. **Note:** If ownership is less than 1 year, value is based on the lesser of original sales price or current appraised value. The Maximum Base Loan Amount for a purchase and refinance transactions is calculated by using the 203(k) Calculator in FHA Connection. **Cost of Rehabilitation / Eligible Expenses:** Expenses eligible to be included in the cost of rehabilitation are: • Material, labor, contingency reserve, overhead and construction profit (noted in each work item). Overhead and construction profit may only be included if reasonable and customary. • Expenses related to the rehabilitation such as permits, fees, inspection fees by a qualified home inspector (for example, a member of the American Society of Home Inspectors), licenses, inspection fees during construction by a HUD accepted inspector, lien protection fees, title updates. • The cost of rehabilitation may also include the supplemental origination fee and the discounts which the borrower will pay on that portion of the mortgage proceeds allocated to the rehabilitation. **Note:** • Architectural and consultant fees, line items 6 and 7 of Section B of the worksheet are not applicable to the Limited 203(k) program. • Expenses that may be included in the total amount of the improvements, not to exceed the $35,000 ($50,000 in QOZ) limit, are inspection fees, building and other permits, the supplemental origination fee and title update costs.

Borrower Provided Materials:

Materials provided by the borrower may be allowed but cannot be financed in the loan amount.

- All materials provided by the borrower must be new from the manufacturer and be documented with paid invoices, and
- Source of funds to acquire the materials must be documented, and
- For Standard 203(k) loans, the HUD Consultant must provide photos of the borrower provided materials.

Section 24 Contingency Reserve

All Standard and Limited 203(k) loans require a Contingency Reserve Fund.

- Plaza requires a minimum of 10% and a maximum of 20% in contingency reserves for repair costs.
- If the utilities were not turned on at time of inspection, a minimum 15% contingency reserve is required.
- Contingency Funds may only be used to pay for the proposed repairs and improvements and any unforeseen items that may arise related to the repair.
- No items considered luxury may be paid for with rehabilitation or contingency reserve funds.
- Any unused portion of the contingency reserve fund (that are not borrower's direct funds) remaining when the Final Release Notice is issued must be applied to the mortgage principal.

If the mortgage is at the maximum mortgage limit and a contingency reserve is required, the required reserve amount must be place in the Rehabilitation Escrow Account from borrower funds.

- If the contingency reserve funds placed into the account by the borrower are not used, the reserve account funds will be released to the borrower after the Final Release Notice is issued.
- Any unused portion of the contingency reserve fund (that are not borrower's direct funds) remaining when the Final Release Notice is issued must be applied to the mortgage principal.

Section 25 Draw Contingency Holdback

Standard 203(k)	Limited 203(k)
A 10% percent holdback is required on each release from the Rehabilitation Escrow Account. The total of all holdbacks may be released only after the final inspection and issuance of the Final Release Notice is received from borrower, HUD Consultant, and inspector as applicable.	Not applicable.

Section 26 Mortgage Payment Reserves

If the extent or nature of the construction prohibits the borrower from occupying the property, up to 6 months of mortgage payments may be financed and Plaza will make the payments on the borrower's behalf.

Standard 203(k)	Limited 203(k)
The mortgage payment reserve: • Cannot exceed the amount of six mortgage payments (including PITIA and the MIP). • The number of mortgage payments cannot exceed the completion time frame required in the Rehabilitation Loan Agreement • Mortgage payments cannot be paid out of the remaining contingency. • Any contingency remaining at the end of the project will be used to pay down the principal balance on the loan. • Mortgage payment reserves are not allowed for multi-unit properties.	Not allowed.

Section 27 Identity of Interest

Identity of Interest refers to a transaction between family members, business partners or other business affiliates. Conflict of interest refers to any party to the transaction who has a direct or indirect personal, business or financial relationship sufficient to appear that may cause partiality and influence the transaction.

- Sales transactions between family members are permitted; no other instances of Identity of Interest or conflict of interest between parties are allowed.
- No relationship may exist between the Contractor and any other party to the transaction.
- The Borrower and the 203(k) Consultant must each sign an Identity of Interest certification that is placed in the case binder.
- If the Borrower selected a 203(k) Consultant to perform a Feasibility Study, the Mortgagee may select the same 203(k) Consultant for the project without creating an Identity of Interest.

Chain of Title:

To preclude any undisclosed identity-of-interest transactions and to discourage the flipping of properties, documents must be obtained verifying the ownership of property for the 24 month period prior to the application for the loan.

Note: The Chain of Title requirement does not apply to HUD owned REOs.

Identity of Interest Certification Forms:

The borrower and consultant must certify that they do not have a conflict-of-interest with any other party to the transaction, including the realtor, lender, contractor, consultant/borrower and/or appraiser. Therefore, borrowers and consultants must sign and date certifications for all loans with mortgage credit applications. See form **FHA Standard 203(k) HUD Consultant's Identity-of-Interest Certification FM-191** and **FHA 203(k) Borrower's Identity-of-Interest Certification FM-190** for the Standard 203(k) and form **FHA 203(k) Borrower's Identity-of-Interest Certification FM-190** for the Limited 203(k).

Section 28 HUD Consultant

Refer to **4000.1.I.B.2-203(k) Consultants**.

On 203(k) loans and prior to the appraisal, a HUD approved Consultant must visit the site to ensure compliance with program requirements. The Standard 203(k) program the use of a Consultant is a requirement that may not be waived. On the Limited 203(k) the service of a HUD Consultant is optional at the borrower's choice. If the borrower decides to use the services of a HUD Consultant on the Limited 203(k), the HUD Consultant fee cannot be included in the mortgage as a part of the cost of rehabilitation.

- The utilities must be turned on for this site review to be completed or a minimum 15% contingency reserve will be required.
- A written agreement must be obtained between the HUD Consultant and the Borrower 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***.
- All HUD Consultants must be HUD approved. Refer to HUDs website for a list of **approved HUD consultants**.
- Prior to the appraisal, a HUD approved HUD Consultant must visit the site to ensure compliance with program requirements.

HUD Consultant Fees: Refer to **Section 22 Borrower Fees and Loan Costs** of these Program Guidelines for the Consultant fee schedule.

Section 29 Specification of Repairs / Work Write-Up

<table>
<tr><th>Standard 203(k)</th><th>Limited 203(k)</th></tr>
<tr>
<td>
The following list of exhibits are required as applicable:

Specification of Repairs (SOR)/Work Write-Up (WWU). Any format may be used for these documents however; the quantity and the cost of each item must be shown.

Include a complete description of the work for each item (where necessary).
Include costs of labor and materials sufficient to complete the work by a contractor.
The WWU does not need to reflect the color or specific model numbers of appliances, bathroom fixtures, carpeting, etc., unless they are nonstandard units.
The HUD Consultant will transfer the costs to the FHA Standard 203(k) Draw Request HUD-9746-A.
The HUD Consultant who prepares the WWU and cost estimate (or an architect, engineering or home inspection service) needs to inspect the property to assure:

There are no rodents, dry rot, termites and other infestation.
There are no defects that will affect the health and safety of the occupants.
The adequacy of the existing structural, heating, plumbing, electrical and roofing systems. AND
The upgrading of thermal protection (where necessary).

Written Proposal and Cost Estimates (contractor’s bid). The file must contain a written proposal and Cost Estimate/bid from a contractor for each specialized repair or improvement. The selected contractor must meet all jurisdictional licensing and bonding requirements. The Cost Estimate must state the nature and type of repair, quality and quantity of materials and cost for each work item, broken down by labor and materials.
A Plot Plan of the Site is required only if a new addition is being made to the existing structure. Plot plan should:

Show the location of the structure(s), walks, drives, streets, and other relevant details.
Include finished grade elevations at the property corners and building corners.
Show the required flood elevation.

Proposed Interior Plan of the Dwelling

Show where structural or planning changes are contemplated, including an addition to the dwelling.

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The following list of exhibits are required as applicable:

Documentation to establish Repair and Improvement Costs:

Work Plan. Per FHA Handbook 4000.1 the Mortgagee must obtain a work plan from the Borrower detailing the proposed repairs or improvements. The Borrower may develop the work plan themselves or engage an outside party, including a Contractor or a 203(k) Consultant, to assist. There is no required format for the work plan.
Written Proposal and Cost Estimates (contractor’s bid). The file must contain a written proposal and Cost Estimate/bid from a contractor for each specialized repair or improvement. The selected contractor must meet all jurisdictional licensing and bonding requirements. The Cost Estimate must state the nature and type of repair, quality and quantity of materials and cost for each Work item, broken down by labor and materials.
The written proposal must indicate work items that require permits and state that repairs are non-structural.

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• Architectural exhibits and or engineer reports are required if an addition or structural reconfiguration are part of the proposed work and must be provided in the loan file. • If a Feasibility Study was performed to determine if the project is financially feasible, a copy of the study must be included in the loan file regardless if cost of study is financed.	

Section 30 Contractor Requirements

Contactors are selected by the borrower; however, the contractor must also be reviewed by and determined to be qualified by the originating lender. HUD does not certify 203(k) contractors for home rehabilitation projects that are being financed with an FHA 203(k) loan.

All loans require that all borrower-selected contractors sign the **FHA 203(k) Homeowner/Contractor Agreement** before closing.

Contractor Requirements:

Underwriters must ensure that a qualified general or specialized contractor has been hired and, by contract, has agreed to complete the work described in the WWU or repair bid for the amount of the Cost Estimate and within the allotted time frame (up to 6 months). To determine whether the contractor is qualified, the Underwriter must review the contractor's credentials, work experience and client references, and ensure that the contractor meets all jurisdictional licensing and bonding requirements.

- All contractors must be licensed as required by the state or county in which jurisdiction the subject property is located.
  - Licensing requirements and license in good standing should be confirmed through the licensing entity.
  - Printouts from the licensing entity website showing requirements and current licenses may be provided to satisfy this requirement.
- The contractor's license must be active at the time of loan closing and for at least 6 months past the closing date.
- The contractor must provide proof of Liability Insurance. Documentation must include a certificate of liability insurance with minimum insurance of $1 million.
- Any jurisdictional contractor bond requirements must be met.
- The borrower is limited to a total of three (3) sub-contractors or a General Contractor will be required.
- The borrower may not act as the General Contractor. "Self-Help" loans are not permitted for Standard 203(k) transactions.
- The contractor must complete and return to Plaza the **FHA Standard 203(k) Contractor Profile Report**.

Note: Specific federal requirements exist for contractors working on housing or child-occupied facilities built before 1978. Under these requirements, contractors need to complete training and obtain a Lead Based Paint Renovation license before they can bid on renovation projects involving pre-1978 housing and child-occupied facilities.

Note: The appraiser and contractor CANNOT be the same individual.

Contractor Bid Requirements:

The Contractor's Bid must be completed by the contractor and submitted on the contractor's letterhead. Bids must be signed and dated by the contractor. The bid must address all Contractor Bid checklist requirements. The underwriter is responsible for reviewing the Contractor Bid and completing Plaza's Contractor Bid checklist.

Comparing the Work Write-Up to Contractor Bids:

The WWU and cost estimate on a Standard 203(k) are not required to match the contractor bid(s) dollar-for-dollar; however, the WWU and contractor bid(s) are to be compared to confirm that all improvements/repairs have been addressed and to confirm the current market costs of materials and labor for the project.

The Consultant must be able to prepare the WWU and cost estimate without using contractor bids. It is important for the Consultant to use cost estimates that are reasonable for the area where the property is located. If contractor bids come in higher than the cost estimates, the Consultant will need to discuss this situation with the Borrower and the lender to reconcile the differences and determine if the proposed repair escrow account may be too low to complete the job. At that point, if the Consultant agrees with the higher costs, an adjusted WWU with supporting documentation is required to be submitted to the lender for consideration.

Section 31 Self-Help Requirements

Self-help in which the borrower is performing some or all of the work items is only eligible for Limited 203(k) transactions. Self-help, even on Limited 203(k) is strongly discouraged unless the borrower's ability to perform the work in a competent, timely, and workmanlike manner is self-evident and easily documented.

Standard 203(k)	Limited 203(k)
Self-help is not allowed.	Self-help may be allowed subject to specific requirements and limitations. Self-help requirements and limitations: • The borrower must be a qualified contractor and meet all of Plaza's contractor requirements. • Borrower must submit a work plan detailing the Work Items to be performed by the Borrower. The borrower must also 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 costs for labor and materials for each Work item to be completed by the Borrower must be included under a Rehabilitation (Self-Help) Loan Agreement. The Borrower must not be reimbursed for labor costs. Any remaining funds will be used towards principal reduction. • If permits are required the borrower must be a licensed contractor working in the specific field necessary for the rehabilitation. • If mold abatement, lead based abatement, HVAC or electrical or plumbing work is necessary for rehabilitation, the borrower must be licensed under those specific trades. • Contractor/Borrower must maintain complete records documenting actual cost of rehabilitation, including paid receipts for materials and lien waivers in the same way that a general contractor would. • The borrower must perform the self-help work themselves, subcontractors are not allowed.

	• Borrowers providing interior/exterior painting labor are not required to be contractors. Only materials will be reimbursed. • Contingency reserve of 20% required. • Contractor/Borrower must sign **FHA Limited 203(k) Self Help Agreement**. Construction must be completed within 6 months of loan closing or a shorter period, as determined by the DE Underwriter. • A LOE will be required from the borrower/ contractor addressing how the work will be completed within a 6 months' time period and all levels of current business will remain. • The borrower must sign the **FHA 203(k) Rehabilitation Agreement** prior to closing. The Agreement is provided with the closing documents. • Self-Help is not allowed for properties in the State of Texas. **Home Depot or Lowes installation services:** • Purchasing appliances: Borrowers may purchase appliances from Home Depot, Lowes, or other appliance stores. • Other construction work: Borrowers may use Home Deport or Lowes for other construction work and may include the cost of labor, materials and installation of appliance, cabinetry, flooring, etc. The specific contractor from Lowes or Home Depot is not usually identified until the work begins. Because the borrower cannot provide the required contractor information prior to close, these scenarios are considered "self-help". • Borrowers must sign the **FHA Limited 203(k) Self Help Agreement**. Construction must be completed within 6 months of loan closing or a shorter period, as determined by the DE Underwriter. • Labor and materials may be reimbursed when installation services are provided by Home Depot or Lowes. • Borrowers must maintain records documenting actual costs and lien waivers in the same way that a general contractor would. • Self-Help is not allowed for properties in the State of Texas.

Section 32 Rehabilitation Period

Standard 203(k)	Limited 203(k)
• Rehabilitation construction must begin within 30 days of closing. • If work is not started within 30 days, or if the work ceases for more than 30 consecutive days, or is not progressing reasonably during the rehabilitation period, Plaza may consider the loan to be in default. • The length of the rehabilitation period will be no longer than 6 months. • If the work is not complete within the 6-month period, Plaza may verify the status of the work. • An extension can be approved within the 6-month window; however, the extension can only be granted if the loan payments are current. • While the DE Underwriter can approve extensions, the rehabilitation is limited to 5 draws (4 during rehab and 1 final). **Cold Climate or Weather Related Delays:** • In cold climate areas, some exterior work items may be impossible to complete. • Owners and contractors should try their best to complete this work when the weather is not a factor. • If closing occurred in midwinter, it may be difficult to schedule these exterior items. Submit **Request for Acceptance of Changes in Approved Drawings and Specifications HUD-92577**, with adequate documentation, to request an extension for weather related items.	• Rehabilitation construction must begin within 30 days of closing. • Work must not cease for more than a 30-day period. • All work must be completed within 6 months of closing. **Cold Climate or Weather Related Delays:** • In cold climate areas, some exterior work items may be impossible to complete. • Owners and contractors should try their best to complete this work when the weather is not a factor. • If closing occurred in midwinter, it may be difficult to schedule these exterior items. • Borrower must provide adequate documentation and written request to request an extension for weather related items.

Section 33 203(k) Calculator

- The maximum insurable amount (loan amount) is determined using the 203(k) Calculator within FHA Connection. A copy of the final 203(k) calculator worksheet is to be printed and retained in the loan file.
- Information from the 203(k) Calculator is transferred to the HUD 92900-A.
- The 92700 Maximum Mortgage Worksheet is used by the client when submitting the file to Plaza. Plaza will transfer and finalize the figures from the 92700 to the 203(k) Calculator. Any subsequent changes must be reflected in the 203(k) Calculator in FHA Connection.

Section 34 Inspections

When the property repairs have been completed, Plaza will order an inspection by the original appraiser, HUD Inspector or HUD Consultant if on a Standard 203(k) interim draw. The inspector assigned or AMC will coordinate access to the property for the inspection directly with the borrower.

Section 35 Closing Documents

The closing documentation for 203(k) loans is basically the same as for a standard FHA 203(b), except for the following:

- FHA 203(k) Rehabilitation Loan Agreement
- Notice to Borrower Regarding 203(k) Loan Program
- 203(k) Security Instrument modifications
  - Modifications to the security instrument are necessary for mortgages that involve releases from the rehabilitation escrow account. For these, the following language should be typed in the form: "Provisions pertaining to releases are contained in the Rehabilitation Rider which is attached to this mortgage, and made a part hereof." A Rehabilitation Rider is a required modification to the security instrument.
- Rehabilitation Loan Rider

Section 36 Draw Process

Standard 203(k)	Limited 203(k)

The full loan amount must be funded at closing. The following may be disbursed at closing; all other draws are handled through loan servicing.
• Permit fees (the permit must be obtained before work commences;
• Prepaid architectural or engineering fees;
• Prepaid Consultant fees;
• Materials costs:
  ○ Materials prepaid 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; or
  ○ Materials 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. Disbursement for materials not yet paid is limited to 50 percent of the materials costs.
  ○ The check issued at closing for the early materials draw from the named supplier/manufacturer must be issued as a two party check to the contractor and borrower.
  ○ The amount of the materials draw is limited to $15,000.
• The amount and purpose of an initial disbursement at closing must be documented on the HUD-92900-LT.
• For any Disbursements paid to the contractor, 10 percent of the draw request must be held back in the Contingency Reserve.
 	
Remaining Draw Process:
• No more than five draws are allowed. Funds disbursed at closing are not considered a draw. The borrower may have up to 5 draws in addition to any
	The full loan amount must be funded at closing. The first draw of rehab funds may be made at closing 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 material incurred prior to construction. Draws at closing are handled through escrow/title.
	• Permit fees may be disbursed at closing.
	• The first draw will be 50% of the total cost of the repairs, not to exceed $17,500. This is the figure from step 1:A.1 in the 203(k) Calculator. This is also line B1 on the estimated Maximum Mortgage Worksheet.
	• If there are multiple contractors being used, 50% of the cost of the repairs for each contractor will be disbursed at closing.
	• The amount and purpose of an initial draw at closing must be documented on the HUD-92900-LT.
	
	Remaining Draw Process:
	• No more than 1 draw is allowed. Funds disbursed at closing are not considered a draw. The borrower may have 1 draw in addition to funds disbursed at closing.
	• Funds will be made available via a two-party check payable to the borrower and contractor.
	• Plaza will set up an interest-bearing repair escrow account which is insured by the Federal Deposit Insurance Corporation (FDIC), to fund the remaining disbursements for improvements.
	• Any interest earned is applied as a principal reduction to the loan, along with any other unused funds.
	• Plaza will handle all project inspections and all remaining rehabilitation disbursement.
	• A final invoice from the contractor/vendor must be submitted in order to disburse final funds. If the

funds disbursed at closing. • Funds will be made available via a two-party check payable to the borrower and contractor. • Plaza will set up an interest-bearing repair escrow account which is insured by the Federal Deposit Insurance Corporation (FDIC), to fund the remaining disbursements for improvements. • Any interest earned is applied as a principal reduction to the loan, along with any other unused funds. • Plaza will handle all project inspections and all remaining rehabilitation disbursement. • Title must be cleared before the final draw. • After the loan is set up in the servicing system the borrower will receive a "Welcome" package that will explain how the disbursement works and will provide them with contact information. **Funds may be released under the following conditions:** • Allowable fees paid by the borrower, or on his/her behalf, may be reimbursed provided they are included in the final 203(k) Calculator figures in FHA Connection. • Permits from the local or State building authority are required. • The actual cost will be paid at the initial draw at closing. Excess in estimated fees must be put in the contingency reserve. • Under no circumstances is a draw request to be approved for work that is not yet complete, including materials that have been paid for but not yet installed. • An exception may be allowed for kitchen and bath cabinetry, or floor covering, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date. • Intermediate draws (five maximum) are inspected by the HUD Consultant. • The inspector visits the site with the accepted architectural exhibits. Improvements must be satisfactorily completed in compliance with industry standards, local practices and to the satisfaction of the fee inspector. • Escrowed funds may be partially released based on the percentage of completion of each line item shown on **FHA Standard 203(k) Draw Request HUD-9746-A**. **Plaza may require a property inspection if there have been no draw requests for 30 days or more.**	invoice shows the payment has been received in full, the funds go to the borrower. If the invoice shows a balance due, a two-party check will be disbursed. • For borrowers doing the work themselves, a self-help agreement must be in the file before the funds are disbursed and the check is made out directly to the borrower. • For borrowers working with a contractor, a W-9 must be provided to set up the contractor in the system. A two-party check is made out to the borrower and the contractor and sent to the borrower. • The balance of rehabilitation funds will only be disbursed upon completion of ALL work. • Plaza will order an inspection by the original appraiser. The appraisal management company coordinates the inspection directly with the borrower. • Title must be cleared before the final draw. • After the loan is set up in the servicing system the borrower will receive a "Welcome" package that will explain how the disbursement works and will provide them with contact information.

Draw Requests:
Plaza, who controls the Rehabilitation Escrow Account, should release monies to the borrower (and builder, or contractor, where applicable) within 24-48 hours after receipt of a properly executed:
• **FHA Standard 203(k) Draw Request HUD-9746-A**. If the work is acceptable, the HUD Consultant completes the Draw Request and sends it to Plaza.
    ○ A holdback of 10% will be made on all intermediate draws.
    ○ **Plaza** may determine that additional compliance inspections are required throughout the rehabilitation period to ensure that the work is progressing in a satisfactory manner.
• Release of funds is not authorized on this type of inspection; however, the borrower is responsible for paying the inspection fee.
• Title update, where necessary
• HUD Consultant's bill; the payment will be released from the Rehabilitation Escrow account.	

Common Missing Items That Will Cause Draw Delays:

- Missing **W-9s**. These must be completed and signed by every contractor working on the project.
- Missing or incomplete **FHA 203(k) Homeowner/Contractor Agreement**.
- A fully executed **FHA Limited 203(k) Self-Help Agreement**.
- **FHA 203(k) Borrower Acknowledgement HUD-92700-A** is missing

Borrower Questions:

Borrowers with questions on their funded 203(k) loan may contact Plaza Customer Service as follows:

Phone: 1-888-807-2620
Fax: 1-858-332-1861
Email: **renoservicing@plazahomemortgage.com**

Section 37 Change Orders and Contingency Items

Standard 203(k)	Limited 203(k)
• Change order requests **(Request for Acceptance of Changes in Approved Drawings and Specifications HUD-92577)** are not accepted until 50% of total repairs have been completed. • The Change Order Request **(Request for Acceptance of Changes in Approved Drawings and Specifications HUD-92577)** is used for contingency items and other changes that may increase or decrease the cost of rehabilitation and/or the value of the property. • Change Order Request **(Request for Acceptance of**	• The Change Order Request **(Request for Acceptance of Changes in Approved Drawings and Specifications HUD-92577)** is used for contingency items and other changes that may increase or decrease the cost of rehabilitation and/or the value of the property. • Change Order Request **(Request for Acceptance of Changes in Approved Drawings and Specifications HUD-92577)** is prepared by the borrower, or builder, and submitted to Plaza, for acceptance.

Changes in Approved Drawings and Specifications HUD-92577) is prepared by the borrower, or builder, and submitted to Plaza, for acceptance.
• Work must be 100% complete on each change order item before release of any monies to the borrower, builder, or contractor.
• The contingency reserve can only be used on those changes that affect the health, safety, or items of necessity of the occupants. If the contingency reserve is insufficient, the borrower must place additional monies into the account for payment upon acceptance of the change.
• If a change order results in a decrease in costs, the amount will be added to the contingency reserve.
• Additional improvements that do not affect the health and safety, or an increase in cost due to a necessary item, must be paid for by the homebuyer and not paid out of the contingency reserve fund.
• If the work is complicated, a 20% contingency reserve may be added to the change order request.
• The consultant will complete the Draw Request and send it to Plaza Customer Service.
• If acceptable, Plaza's Customer Service representative prepares a Contingency Release Letter and sends it to the borrower.
  ○ The work for each contingency item must be complete and in compliance with industry standards.
  ○ Partial release of contingency items is unacceptable.
  ○ 10% holdback is required for each draw.
• Final Inspection will be approved when all work has been satisfactorily completed in compliance with industry standards, local practices and to the satisfaction of the fee inspector.
• The borrower must provide a FHA 203(k) Homeowner's Notice of Work Completion to Plaza, requesting final inspection and indicating that the work is satisfactorily complete.
• Upon receipt, Plaza will schedule the inspection with the HUD Consultant.
• The HUD Consultant visits the site, makes the inspection to determine whether or not the work has been completed according to the accepted exhibits and completes the **FHA Standard 203(k) Draw Request HUD-9746-A**.
	• The contingency reserve can only be used on those changes that affect the health, safety, or items of necessity of the occupants.
	• If the contingency reserve is insufficient, the borrower must place additional monies into the account for payment upon acceptance of the change.

Section 38 Final Release Notice and Lien Waivers

Final Release Notice:

- Final Release Notice is issued by Plaza after reviewing the case file to ensure that all work has been satisfactorily completed.
- If an occupancy permit is required by the local jurisdiction, it must be provided prior to the issuance of the Final Release Notice.
- Acceptance of the final inspection report will authorize the release of all monies remaining in the Rehabilitation Escrow Account, including all holdbacks from previous draws.
- However, if required to protect the priority of the security instrument, Plaza 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.
- A copy of the final inspection report and Final Release Notice will be provided to the borrower.

Plaza may require a property inspection if there have been no draw requests for 30 days or more.

Mechanic's and Material Men's Lien Waivers: Plaza obtains lien waivers at the time of any disbursement of funds from the Rehabilitation Escrow Account and is responsible to ensure the validity of the first lien on the property.

FHA Connection Escrow Close Out: After final distribution of all escrow monies, Plaza will review the file for completion and provide an escrow close-out via HUD's FHA Connection.

Section 39 Geographic Restrictions

State or geographic restrictions are identified here, however at this time Plaza may not be lending in all states listed. Properties are limited to those states where Plaza branches are currently authorized to originate loans.

Alaska: Properties built prior to June 1992 outside of the city limits of Fairbanks but within the surrounding communities require an engineering report or evidence that the property meets the Alaska Housing Finance Agency property inspections requirements.

Hawaii:

- Properties in Lava Flow Zones 1 or 2 are not allowed.
- Manufactured Housing not eligible.

Iowa: An attorney's opinion of title is acceptable in lieu of a title policy, or a title policy may be ordered through the Title Guaranty Division (TGD) of the Iowa Financial Authority.

Massachusetts: Title V requires dwellings with individual sewage disposal systems, new and existing, be inspected by a DEP approved inspector and, where repairs are indicated, be repaired prior to closing for all purchase transactions.

Montana: Lot size of the property may not exceed 40 acres.

Rhode Island: Manufactured Housing not eligible.

Texas: For properties located in Texas, the following restrictions apply:

- TX (a)(6) loans are not eligible.
- The Self-Help option is not allowed for properties in the State of Texas.

For Texas purchase and rate/term refinances the following additional requirements apply for all 203(k) loans:

- The Texas FHA 203(k) Rehabilitation Document Checklist must be completed and submitted to Corporate Underwriting for every loan.
  - All improvements must be performed by a third-party builder. Self-Help is not allowed.
  - Disclosures must be delivered to the borrower at least 1 day before closing.
  - All closing documents must be delivered to the borrower not later than 1 business day before closing.
  - The builder's contract must be signed by all owners and spouses.
  - The builder's contract must be signed and closing must occur at the lender's office, a title company or an attorney's office.
  - The builder's contract must not be signed before the 5th day after the written application.
  - The builder's contract may be rescinded within 3 days after all parties have signed (purchase and refinance).
  - No materials may be furnished or labor performed before the 3-day rescission period expires.
  - A 10% statutory retainage must be withheld from each advance to cover any claim notices from subcontractors or suppliers. The entire retainage, representing 10% of construction costs, will be retained for 30 days after final completion. Subcontractors and suppliers have only 30 days after completion to notify the borrower of nonpayment claims.
  - Additional monies requested for cost and upgrades are secured under the builder's contract only if they are evidenced by change orders signed by both parties. Any modification agreement to increase the loan amount must have original change orders attached.
  - Subject property must be a Texas homestead.

Additional documents for Texas FHA 203(k):

- Texas Property Code 53.255 Disclosure
- Builder's Note
- Builder's Contract – signed by the builder and all owners and their spouses before any material is furnished or labor is performed.
- Texas Notice of Right to Cancel the Builder's Contract (3-day rescission) required on purchase and refinance, in addition to the Federal Notice of Right-to-Cancel in a refinance transaction.
- Texas Home Improvement Certification from originating lender
- Renewal and Extension Exhibit to the Deed of Trust, describing the lien created by the Builder's Contract.
- Borrower's Acknowledgement of Construction of Compliance Procedures
- List of subcontractors and suppliers
- Texas Disbursement Authorization
- Texas Disbursement Statement (Draw Request)
- Affidavit of Commencement
- Affidavit of Completion
- Lien Waiver
- Final Bills-Paid Affidavit

Section 40 Max Financed Properties

The maximum number of financed 1-4 unit properties, including the subject property and regardless of the lending source is limited to four.

Maximum Loans/Maximum Exposure: A maximum of four Plaza loans is permitted to one borrower.

Section 41 Mortgage Insurance Premiums

On 203(k) loans, the LTV calculation for purposes of determining the Monthly MIP (MMIP) factor differs from the calculation of the LTV of the loan itself. For MMIP factor purposes, determine the LTV by dividing the base loan amount by the after improved value. FHA TOTAL Scorecard has not been updated to reflect this difference so the mortgagee is responsible for manually applying the correct MMIP factor.

Refer to **4000.1.II.A.2-Mortgage Insurance Premiums** for additional information.

Section 42 Escrow Accounts

Escrows are required.

Section 43 Repair Escrows

Not applicable.

Section 44 ARM Adjustments

Not applicable.

Section 45 Temporary Buydown

Not allowed.

Section 46 Prepayment Penalty

Not allowed.

Section 47 EEM, GNND and HUD REO

Energy Efficient Mortgage: When a Purchase or Rate/Term Refinance transactions is coupled with an energy efficient mortgage (EEM), the base loan amount may exceed the county maximum. Therefore, LTV's may exceed those above in these scenarios.

The Energy Efficient Mortgage (EEM) program, as described in **4000.1.II.A.8-Energy Efficient Mortgages**, may be used in conjunction with both the Standard and Limited 203(k) program. The amounts permissible under the EEM program are in addition to those available under the 203(k) program and, thus, combined may exceed the $35,000 ($50,000 in QOZ) Limited(k) repair cost limit. The cost of EEM improvements may be added to the total FHA loan amount. Any costs for EEM are accounted for separately and must not be included in the financeable repair and improvement costs.

Good Neighbor Next Door: When a borrower is using the Good Neighbor Next Door (GNND) program to purchase a property, LTV's may exceed those above. Refer to **4000.1.II.A.8-Good Neighbor Next Door**.

This program aims to revitalize neighborhoods by encouraging borrowers in selected professions to purchase and live in HUD-acquired single-family properties.

Eligible Borrowers:

- Law enforcement officers
- Firefighters
- Emergency medical technicians (EMTs)
- Private and public school teachers

HUD REO: When a borrower is using the HUD REO program to purchase a property, LTVs may exceed those above. Refer to **4000.1.II.A.8-HUD Real Estate Owned Processing**.

Through the Property Disposition Insured Sales Program, HUD offers its Real Estate Owned (REO) properties for sale with FHA insured financing available. Properties must meet the intent of the FHA's Minimum Property Standards (MPS) for existing properties and MPS for new construction to be eligible for this program.

Section 48 Qualified Opportunity Zones (QOZ)

Qualified Opportunity Zones (QOZ)

Limited 203(k) mortgages of properties located in QOZs are eligible for increased rehabilitation costs, up to $50,000 total, for the first 15,000 mortgages endorsed each year. All other Limited 203(k) guidelines and requirements apply.

The case number assignment must identify the property is in an eligible QOZ and that the loan is eligible for increased rehabilitation cost.

A list of QOZs is available through the Treasury Department's Community Development Financial Institutions Fund webpage.

FHA Mortgagee Letter 2019-18 – Maximum Rehabilitation Costs in Qualified Opportunity Zones (QOZs) for Limited 203(k) Mortgages.

This section will be updated as HUD makes more information available.