

# Product Snapshot

## FHA 203(k) Standard

The FHA 203(k) Standard Program allows the borrower to obtain a single mortgage loan to finance both the purchase and rehabilitation of the property, or to finance the rehabilitation of an existing home. There is a minimum repair cost of \$5,000 and the use of a 203(k) Consultant is required. The mortgage amount is based on the projected value of the property with the work completed.

For topics not addressed within this Product Snapshot, refer to applicable sections of the FHA Lending Guide and to HUD Handbook 4000.1.

Conforming & High Balance Purchase				
Property Type	Maximum DTI	LTV/CLTV <sup>1</sup>	Credit Score	Manual Underwriting Permitted
1-4 Unit Manufactured Home <sup>6</sup>	Per AUS <sup>2</sup>	96.5%	620	Yes <sup>4</sup>
1-2 Unit \$100 Down Payment Program Only	43% <sup>3</sup>	100%		Refer: No Approve/Ineligible: Yes <sup>5</sup>
Footnotes				
<sup>1</sup> LTV is calculated on the base loan amount. LTV may be exceeded by the financed UFMIP <sup>2</sup> Maximum 50% DTI for properties located in West Virginia regardless of AUS approval <sup>3</sup> No exceptions to DTI restriction at 43% and cannot use compensating factors <sup>4</sup> Manual Underwriting eligible as manual downgrade only and not as a result of a Refer recommendation by AUS <sup>5</sup> Automated Underwriting Findings will result in Approve/Ineligible findings when the loan amount exceeds the FHA maximum loan amount calculation. The underwriter will validate that the reason for the ineligible is only as a result of the HUD REO \$100 LTV and no other ineligibility reasons are allowed <sup>6</sup> Manufactured Homes are ineligible for high balance loan amount				

Conforming & High Balance Rate and Term Refinance				
Property Type	Maximum DTI	LTV/CLTV <sup>1</sup>	Credit Score	Manual Underwriting Permitted
1-4 Unit Manufactured Home <sup>4</sup>	Per AUS <sup>2</sup>	97.75%	620	Yes <sup>3</sup>

**Footnotes**

<sup>1</sup> LTV is calculated on the base loan amount. LTV may be exceeded by the financed UFMIP

<sup>2</sup> Maximum 50% DTI for properties located in West Virginia regardless of AUS approval

<sup>3</sup> Manual Underwriting eligible as manual downgrade only and not as a result of a Refer recommendation by AUS

<sup>4</sup> Manufactured Homes are ineligible for high balance loan amount

**Program Parameters**

<b>FHA 203(k) Standard Benefits</b>	<ul style="list-style-type: none"> <li>● Allows borrowers to make major renovation and repairs, including room additions, and structural alterations and improvements</li> <li>● An FHA cost consultant is required</li> <li>● Minimum \$5,000 rehabilitation amount</li> <li>● No limit on repair amount</li> </ul>						
<b>Occupancy</b>	Primary residence only						
<b>Acceptable Transaction Terms</b>	<ul style="list-style-type: none"> <li>● FHA 15 Year Fixed 203K Standard</li> <li>● FHA 15 Year Fixed 203K High Balance Standard</li> <li>● FHA 30 Year Fixed 203K Standard</li> <li>● FHA 30 Year Fixed 203K High Balance Standard</li> </ul>						
<b>Down Payment</b>	<ul style="list-style-type: none"> <li>● A minimum cash investment of 3.5% based on the purchase price and total project cost is required; refer to the Maximum Loan Amount Calculation section below.</li> </ul>						
<b>Eligible Transactions</b>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #00a68f; color: white;"> <th style="width: 30%;">Transaction Type</th> <th>Requirements</th> </tr> </thead> <tbody> <tr> <td><b>Purchase</b></td> <td> <ul style="list-style-type: none"> <li>● To acquire and rehabilitate an existing structure that has been completed for at least 1 year prior to case number assignment date (Certificate of Occupancy has been issued over 12 months)</li> <li>● For a HUD REO 203(k) purchase utilizing the Good Neighbor Next Door (GNND) or \$100 Down sales incentive, the mortgagee must calculate the maximum mortgage amount that FHA will insure in accordance with HUD REO Purchasing as noted in the HUD Handbook 4000.1.</li> </ul> </td> </tr> <tr> <td><b>Rate and Term Refinance</b></td> <td> <ul style="list-style-type: none"> <li>● To rehabilitate an existing structure that has been completed for at least 1 year prior to case number assignment date and to refinance the outstanding indebtedness</li> <li>● The loan amount may not exceed the existing debt on the property being refinanced, plus the actual cost of the rehabilitation repairs and reasonable</li> </ul> </td> </tr> </tbody> </table>	Transaction Type	Requirements	<b>Purchase</b>	<ul style="list-style-type: none"> <li>● To acquire and rehabilitate an existing structure that has been completed for at least 1 year prior to case number assignment date (Certificate of Occupancy has been issued over 12 months)</li> <li>● For a HUD REO 203(k) purchase utilizing the Good Neighbor Next Door (GNND) or \$100 Down sales incentive, the mortgagee must calculate the maximum mortgage amount that FHA will insure in accordance with HUD REO Purchasing as noted in the HUD Handbook 4000.1.</li> </ul>	<b>Rate and Term Refinance</b>	<ul style="list-style-type: none"> <li>● To rehabilitate an existing structure that has been completed for at least 1 year prior to case number assignment date and to refinance the outstanding indebtedness</li> <li>● The loan amount may not exceed the existing debt on the property being refinanced, plus the actual cost of the rehabilitation repairs and reasonable</li> </ul>
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	<p>customary closing costs including the fees associated with the FHA 203(k)</p> <ul style="list-style-type: none"> <li>● Zero incidental cash back to the borrower. Any additional excess funds must be applied as a principal curtailment</li> <li>● Note: 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</li> </ul>
<p><b>Eligible Properties</b></p>	<p>The Property must be an existing Property that has been completed for at least one year prior to the case number assignment date. A Property that is not eligible for a 203(b) Mortgage due to health and safety or security issues may be eligible under 203(k) if the rehabilitation or repair work performed will correct such issues.</p> <p>The following property types may be financed:</p> <ul style="list-style-type: none"> <li>● 1-4 Unit SFRs</li> <li>● Attached/detached SFRs</li> <li>● Attached/detached PUDs</li> <li>● FHA-approved Condos including Site Condominium units <ul style="list-style-type: none"> <li>○ Must comply with all FHA requirements for condominiums</li> <li>○ Rehabilitation or improvements are limited to the interior of the unit, except for the installation of firewalls in the attic for the unit</li> <li>○ No more than five units per Condominium Association, or 25 percent of the total number of units, whichever is less, can undergo rehabilitation at any time</li> <li>○ After rehabilitation is complete, the unit is located in a Structure containing no more than four units. For townhome 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;</li> <li>○ Evidence of HOA approval for the renovation must be provided prior to closing</li> </ul> </li> <li>● A HUD Real Estate Owned (REO) Property: <ul style="list-style-type: none"> <li>○ The Property is identified as eligible for 203(k) financing as evidenced in the sales contract or addendum. Investor purchases of HUD REO Properties are not eligible for 203(k) financing</li> </ul> </li> <li>● Manufactured Housing that meets the following requirements <ul style="list-style-type: none"> <li>○ 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.</li> </ul> </li> </ul>
<p><b>Ineligible Transactions</b></p>	<ul style="list-style-type: none"> <li>● Cash-out Refinance</li> <li>● Escrow waivers are not permitted</li> <li>● Life Estates</li> <li>● Blind Trusts</li> <li>● Irrevocable Trusts</li> <li>● 1031 Exchanges</li> <li>● LLC's, Corporations and Partnerships</li> </ul>

	<ul style="list-style-type: none"> <li>● Community Land Trusts</li> <li>● Identity of Interest when the current loan is delinquent or in foreclosure</li> <li>● Loans with qualifying income earned from state-legalized marijuana businesses, as this is not considered as legally-derived income based on Federal law</li> <li>● Temporary Buydowns</li> <li>● Texas Cash-Out 50 (a) (6) Transactions</li> <li>● Negative Equity Refinance transactions (including short pay off of subject property)</li> <li>● Lava Zones 1 and 2</li> </ul>
AUS	<p>DU Approve or LPA Accept required</p> <ul style="list-style-type: none"> <li>● Purchase Transactions Utilizing DU <ul style="list-style-type: none"> <li>○ There are a few scenarios that may exist on a purchase 203(k) transaction that DU cannot fully support.</li> <li>○ When the estimated closing costs plus the sales price or as-is value is greater than 20% of the sales price, DU will fire a "Critical" warning on the DU Checks Tab on the AUS screen. That message will alert you that the loan must be manually underwritten. <ul style="list-style-type: none"> <li>■ In this specific scenario, users will not be able to run DU.</li> <li>■ Please run LPA if this error is recognized.</li> </ul> </li> <li>○ When an 'as-is' appraisal is obtained on a Purchase Transaction and the 'as-is' value is significantly lower than the Purchase Price, DU will not be able to assess the transaction and a 'Critical' warning will be issued. <ul style="list-style-type: none"> <li>■ In this scenario, users will not be able to run DU.</li> <li>■ Please run LPA if this error is recognized.</li> </ul> </li> </ul> </li> <li>● AUS Refer is not permitted, however, if the loan is manually downgraded, the below requirements apply: <ul style="list-style-type: none"> <li>○ DTI: 31/43 No compensating factors required</li> <li>○ DTI: 37/47 One of the following Compensating factors required: <ul style="list-style-type: none"> <li>■ Verified and documented cash Reserves</li> <li>■ Minimal Increase in housing payment</li> <li>■ Residual income</li> </ul> </li> <li>○ DTI: 40/40 Compensating factor <ul style="list-style-type: none"> <li>■ No Discretionary debt</li> </ul> </li> <li>○ DTI: 40/50 Two of the following Compensating factors required: <ul style="list-style-type: none"> <li>■ Verified and documented cash Reserves</li> <li>■ Minimal Increase in housing payment</li> <li>■ Residual income</li> </ul> </li> </ul> </li> <li>● \$100 Down-Payment Program <ul style="list-style-type: none"> <li>○ An "Ineligible" Automated Underwriting finding is acceptable only if the reason for ineligibility is due to financing the repair escrow or the loan to value exceeding 96.5% due to the eligibility for an expanded loan to value as a HUD owned REO and not for other reasons (for example: short to close).</li> <li>○ Underwriter must comment on the HUD 92900-LT form regarding the reason for ineligibility</li> </ul> </li> </ul>

<p><b>Appraisal Requirements</b></p>	<p>All appraisals must be completed by a HUD-approved appraiser</p> <p>Establishing Value</p> <ul style="list-style-type: none"> <li>● Must establish both an Adjusted As-Is Value and an After Improved Value of the subject property (two separate appraisals may not be required)</li> <li>● Adjusted As-Is Value <ul style="list-style-type: none"> <li>○ Purchase transaction <ul style="list-style-type: none"> <li>■ As-Is Value is the lesser of: <ul style="list-style-type: none"> <li>● The purchase price less any inducements to purchase; or</li> <li>● The As-Is property value if an As-Is appraisal is obtained. An As-Is appraisal is required in the case of Property Flipping (follow standard FHA guidelines)</li> </ul> </li> </ul> </li> <li>○ Refinance transaction <ul style="list-style-type: none"> <li>■ Properties acquired <math>\geq</math> 12 months prior to Case Number Assignment date <ul style="list-style-type: none"> <li>● Obtain an As-Is appraisal when the existing debt on the property plus the total financeable rehabilitation costs exceeds the After Improved Value. <ul style="list-style-type: none"> <li>○ When an appraisal is obtained, the Adjusted As-Is Value is the As-Is value.</li> </ul> </li> <li>● Option of using the existing debt + fees associated with the new loan OR obtaining an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the property plus the total financeable rehabilitation costs do NOT exceed the After Improved Value.</li> <li>● Existing Debt is defined in the FHA Lending Guide, 203(k) section.</li> </ul> </li> <li>■ Properties acquired <math>&lt;</math> 12 months prior to Case Number Assignment date <ul style="list-style-type: none"> <li>● Obtain an As-Is appraisal;</li> <li>● For properties acquired by inheritance or gift within 12 months, utilize the above calculation for <i>Adjusted As-Is Value &gt; Refinance Transaction &gt; Properties acquired greater than or equal to 12 months</i></li> </ul> </li> </ul> </li> </ul> </li> <li>● After Improved Value <ul style="list-style-type: none"> <li>○ To establish the After Improved Value, an appraisal of the property subject to the repairs and improvements must be obtained</li> </ul> </li> </ul> <p>Documents to be Provided to the Appraiser at Assignment</p> <ul style="list-style-type: none"> <li>● A copy of the Consultant's Work Write-Up and Cost Estimate is required</li> </ul>
<p><b>Closing Costs / 203(k) Charges</b></p>	<p>Financeable Repair and Improvement Costs and Fees</p> <ul style="list-style-type: none"> <li>● The following repair and improvement costs and fees may be financed: <ul style="list-style-type: none"> <li>○ costs of construction, repairs and rehabilitation;</li> <li>○ architectural/engineering professional fees;</li> <li>○ the 203(k) Consultant fee subject to the limits in the Consultant</li> </ul> </li> </ul>

	<p>Fee Schedule section (see below);</p> <ul style="list-style-type: none"> <li>○ inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;</li> <li>○ title update fees;</li> <li>○ permits; and</li> <li>○ a Feasibility Study, when necessary to determine if the rehabilitation is feasible</li> </ul> <p>Financeable Contingency Reserves</p> <ul style="list-style-type: none"> <li>● Contingency Reserve refers to funds that are set aside to cover unforeseen project costs</li> <li>● Refer to the Contingency Reserve section below</li> </ul> <p>Standard 203(k) Financeable Mortgage Payment Reserves</p> <ul style="list-style-type: none"> <li>● A Financeable Mortgage Payment Reserve may be established if the property will be uninhabitable for any amount of time exceeding one month from the Note date</li> <li>● The Financeable Mortgage Payment Reserve may not exceed six months of Mortgage Payments</li> <li>● The Mortgage Payment Reserve includes Mortgage Payments only for the period during which the Property cannot be occupied</li> <li>● The Reserve may not exceed the completion time frame required in the Rehabilitation Loan Agreement</li> <li>● For multi-unit properties, if one or more units are occupied, the Mortgage Payment Reserve may only include the portion of the Mortgage Payment attributable to the units that cannot be occupied</li> <li>● The Borrower is responsible for paying the portion of the Mortgage not covered by the Mortgage Payment Reserve</li> </ul>
<p><b>Consultant Fee Schedule</b></p>	<p>Below are the maximum fees that may be charged by the Consultant</p> <ul style="list-style-type: none"> <li>● Feasibility Study <ul style="list-style-type: none"> <li>○ If requested by the Borrower or Mortgagee to determine if a 203(k) Mortgage is feasible, the Consultant may charge an additional fee of \$100 for the preparation of a Feasibility Study.</li> </ul> </li> <li>● Work Write-up <ul style="list-style-type: none"> <li>○ The Consultant may charge the fees listed below for the preparation of the Work WriteUp and review of architectural exhibits: <ul style="list-style-type: none"> <li>■ \$400 for repairs less than \$7,500</li> <li>■ \$500 for repairs between \$7,501 and \$15,000</li> <li>■ \$600 for repairs between \$15,001 and \$30,000</li> <li>■ \$700 for repairs between \$30,001 and \$50,000</li> <li>■ \$800 for repairs between \$50,001 and \$75,000</li> <li>■ \$900 for repairs between \$75,001 and \$100,000</li> <li>■ \$1,000 for repairs over \$100,000</li> </ul> </li> <li>○ The Consultant may charge an additional \$25 per additional Dwelling Unit.</li> </ul> </li> <li>● Draw Inspection Fee <ul style="list-style-type: none"> <li>○ For each draw request, the Consultant may charge an inspection fee that is reasonable and customary for work performed in the</li> </ul> </li> </ul>

	<p>area where the Property is located, provided the fee does not exceed a maximum of \$350.</p> <ul style="list-style-type: none"> <li>● Change Order Fee <ul style="list-style-type: none"> <li>○ The Consultant may charge \$100 per change order request.</li> </ul> </li> <li>● Re-inspection Fee <ul style="list-style-type: none"> <li>○ The Consultant may charge a \$50 fee when re-inspection of a Work Item is requested by the Borrower or Mortgagee.</li> </ul> </li> <li>● Mileage Fee <ul style="list-style-type: none"> <li>○ The Consultant may charge a mileage fee at the current Internal Revenue Service (IRS) mileage rate when the Consultant's place of business is more than 15 miles from the Property.</li> </ul> </li> </ul>										
<b>Construction Period</b>	<p>Rehabilitation Construction Period begins when the mortgage loan is closed.</p> <ul style="list-style-type: none"> <li>● The Mortgagee may consider the Mortgage to be in default if work: <ul style="list-style-type: none"> <li>○ Has not started within 30 Days of the Disbursement Date;</li> <li>○ Ceases for more than 30 consecutive Days; or</li> <li>○ Has not been completed within the established time frame, or an extended time frame approved by the Mortgagee</li> </ul> </li> </ul>										
<b>Contractor Requirements</b>	<ul style="list-style-type: none"> <li>● If a contractor is required, a written proposal and Cost Estimate from a contractor for each specialized repair or improvement must be obtained.</li> <li>● The selected contractor must meet all jurisdictional licensing and bonding requirements.</li> <li>● The Cost Estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials.</li> <li>● The contractors' credentials and bids must be submitted for review to ensure the contractor credentials and work plan / bids fall within the usual and customary range for similar work.</li> </ul>										
<b>Contingency Reserve</b>	<p>Contingency Reserve refers to funds that are set aside to cover unforeseen project costs that may arise during the renovation.</p> <ul style="list-style-type: none"> <li>● The contingency reserve must be financed into the loan amount.</li> <li>● Unused reserves, once all Health and Safety issues have been remedied, may be used towards allowable cosmetic repairs; an acceptable change order detailing the repairs must be provided.</li> <li>● Any unused portion of the financed contingency reserve will then be applied as a principal reduction after completion of renovations.</li> </ul> <table border="1" data-bbox="521 1442 1507 1782"> <thead> <tr> <th colspan="2" style="background-color: #00a68a; color: white;">Contingency Reserve Requirements</th> </tr> <tr> <th style="width: 50%;">Hard Construction Costs</th> <th style="width: 50%;">Contingency Reserves Required</th> </tr> </thead> <tbody> <tr> <td>\$0 - Maximum Allowed</td> <td>10%</td> </tr> <tr> <td>Any Utility is Inoperable</td> <td>15%</td> </tr> <tr> <td>Discretionary based on Feasibility/Cost Analysis report</td> <td>10 - 20%</td> </tr> </tbody> </table>	Contingency Reserve Requirements		Hard Construction Costs	Contingency Reserves Required	\$0 - Maximum Allowed	10%	Any Utility is Inoperable	15%	Discretionary based on Feasibility/Cost Analysis report	10 - 20%
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<p><b>Documentation Requirements</b></p>	<p>Required Documentation and Review</p> <ul style="list-style-type: none"> <li>● Identity of Interest Certification</li> <li>● Repairs noted by the Appraiser <ul style="list-style-type: none"> <li>○ When the appraisal identifies the need for health and safety repairs that were not included in the Work Write-Up or contractor’s proposal, Cardinal must ensure the repairs are included in the Consultant’s Final Work Write-Up</li> </ul> </li> <li>● 203(k) Borrower’s Acknowledgment (HUD-92700-A)</li> <li>● Feasibility Study (where applicable)</li> <li>● Borrower Contractor Agreement <ul style="list-style-type: none"> <li>○ Obtain a written agreement between the borrower and the general contractor, or if there is no general contractor, for each contractor.</li> <li>○ The contractor must agree in writing to complete the work for the amount of the Cost Estimate and within the allotted time frame.</li> </ul> </li> <li>● Consultant Final Work Write-Up and Cost Estimate</li> <li>● Architectural Exhibits</li> <li>● Consultant / Borrower Agreement <ul style="list-style-type: none"> <li>○ Obtain a written agreement between the Consultant and the borrower that fully explains the services to be performed and the fees to be charged for each service.</li> <li>○ 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, <i>For Your Protection Get a Home Inspection</i></li> </ul> </li> <li>● Sales Contract</li> <li>● W-9 Form - completed by contractor</li> </ul> <p>Closing Forms</p> <ul style="list-style-type: none"> <li>● Rehabilitation Loan Agreement</li> <li>● Security Instrument and Rehabilitation Loan Rider</li> </ul>
<p><b>Draw / Disbursement Process</b></p>	<p>After closing, proceeds designated for the rehabilitation, including the contingency reserve, are placed in an interest bearing escrow account. Up to 5 draws are permitted (including the final disbursement). Draw amounts are determined by the lender based on progress inspections.</p> <ul style="list-style-type: none"> <li>● All work must be completed and inspected prior to subsequent disbursement(s).</li> <li>● Proof of permits must be submitted prior to or with the first draw request.</li> <li>● All draws (with the exception of the final draw) will have a 10% holdback. The accumulated holdback amount will be made payable upon completion of all work and as a part of the final draw disbursement.</li> </ul> <p>Initial Draw at Closing</p> <p>The Mortgagee must document the amount and purpose of an initial draw at closing on the form HUD-92900-LT.</p> <p>For any Disbursements paid to the contractor, Cardinal must hold back 10 percent of the draw request in the Contingency Reserve.</p>



	<p>The following may be disbursed at closing:</p> <ul style="list-style-type: none"> <li>● Permit fees (the permit must be obtained before work commences);</li> <li>● Prepaid architectural or engineering fees;</li> <li>● Prepaid Consultant fees;</li> <li>● 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</li> <li>● 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. <ul style="list-style-type: none"> <li>○ This amount cannot exceed 15% of the entire project.</li> <li>○ For example, on a \$100,000 renovation, a contractor can receive no more than \$15,000 for materials even if the total material cost on the bid is \$60,000.</li> </ul> </li> </ul>
<p><b>Eligible Improvements</b></p>	<p>The Standard 203(k) requires a MINIMUM of \$5,000 in eligible improvements.</p> <p>Borrowers are not permitted to perform their own work under FHA's Rehabilitation Self-Help Agreement; all work must be performed by an eligible contractor.</p> <ul style="list-style-type: none"> <li>● Types of eligible improvements include but are not limited to: <ul style="list-style-type: none"> <li>○ Converting a one-family structure to a one-family structure with an ADU, two-, three- or four-family dwelling;</li> <li>○ Adding an Accessory Dwelling Unit (ADU) that will be attached to an existing Structure;</li> <li>○ Renovating an existing ADU that is attached or unattached to an existing Structure;</li> <li>○ Decreasing an existing multi-unit structure to a one-to-four family dwelling;</li> <li>○ Reconstructing a structure that has been or will be demolished, provided the complete existing foundation system is not affected and will still be used;</li> <li>○ Repairing, reconstructing or elevating an existing foundation where the structure will not be demolished;</li> <li>○ Purchasing an existing structure on another site, moving it onto a new foundation and repairing / renovating it;</li> <li>○ Structural alterations, repairs and additions to structure;</li> <li>○ Rehabilitating, improving or constructing a garage;</li> <li>○ Eliminating health and safety hazards that would violate HUD's Minimum Property Requirements;</li> <li>○ Installing or repairing wells and/or septic systems;</li> <li>○ Connecting to public water and sewage systems;</li> <li>○ Repairing / replacing plumbing, heating, AC and electrical systems;</li> <li>○ Making changes for improved functions and modernization;</li> <li>○ Making changes for aesthetic appeal;</li> <li>○ Adding or replacing floors and/or floor treatments;</li> <li>○ Repairing or adding roofing, gutters and downspouts;</li> <li>○ Making energy conservation improvements;</li> <li>○ Weatherization, including storm windows and doors, insulation, weather stripping, etc.;</li> <li>○ Basement waterproofing;</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ Replacement of windows, doors, and exterior wall siding;</li> <li>○ Creating accessibility for persons with disabilities;</li> <li>○ Installing or repairing fences, walkways, and driveways;</li> <li>○ Installing new kitchen or laundry appliances;</li> <li>○ Repair of an existing swimming pool (installation of a new swimming pool is not permitted)</li> <li>○ Installing smoke detectors;</li> <li>○ Making site improvements;</li> <li>○ Correction of grading and drainage problems;</li> <li>○ Landscaping; <ul style="list-style-type: none"> <li>■ Tree removal only if the tree is a safety hazard to the property;</li> </ul> </li> <li>○ Installing or repairing exterior decks, patios, and porches;</li> <li>○ Constructing a windstorm shelter; and</li> <li>○ Covering lead-based paint stabilization costs if the structure was built before 1978.</li> </ul> <p>All health, safety, and energy conservation items must be addressed prior to completing general home improvements. The work write-up must demonstrate that when the rehabilitation is completed, the property will meet HUD’s minimum property standards.</p> <p><b>Specific Improvement Standards:</b> Any addition of a structure unit must be attached to the existing structure. Site improvements, landscaping, patios, decks, and terraces must increase the “As-Is” property value equal to the dollar amount spent on improvements, or be necessary to preserve the property from erosion.</p>
<p><b>Ineligible Improvements</b></p>	<p>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, including:</p> <ul style="list-style-type: none"> <li>● Recreational or luxury improvements such as, <ul style="list-style-type: none"> <li>○ Installation of a new swimming pool (note: existing swimming pools can be repaired);</li> <li>○ Exterior hot tub, spa, whirlpool bath, or sauna;</li> <li>○ Barbecue pits, outdoor fireplaces or hearths;</li> <li>○ Bath houses;</li> <li>○ Tennis courts;</li> <li>○ Satellite dishes;</li> <li>○ Tree surgery (except when eliminating an endangerment to existing improvements);</li> <li>○ Gazebos; or</li> </ul> </li> <li>● Additions or alterations to support commercial use or to equip or refurbish space for commercial use.</li> </ul>
<p><b>Extension Period</b></p>	<p>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.</p> <p>Required Documentation</p> <ul style="list-style-type: none"> <li>● Evidence that the Mortgage is current;</li> </ul>

	<ul style="list-style-type: none"> <li>• An explanation for the delay from the Borrower, contractor, or Consultant; and</li> <li>• A new estimated completion date</li> </ul> <p>Escrow Closeout Certification Screen</p> <ul style="list-style-type: none"> <li>• The Mortgagee must complete the required fields on the Escrow Closeout Certification screen in FHAC to document the approval or the denial for the extension request of the rehabilitation period specified in the Rehabilitation Loan Agreement</li> </ul>
<b>FHA Connection Requirements</b>	<p>Case number Assignment Data Entry Requirements</p> <ul style="list-style-type: none"> <li>• 203(k) Program Type Indicator: Must select Standard 203(k)</li> <li>• Consultant Identification Number: Consultant ID entered; for Limited with no Consultant, enter “203KS” in the ID field</li> <li>• Construction Code: Must enter “Substantial Rehabilitation” in the drop-down menu labeled “Construction Code”</li> <li>• Refinance Type: Select “Not Streamlined”</li> <li>• Converting from a non-203(k) to a 203(k): Update the existing case data changing the ADP code to a valid 203(k) ADP code and the Construction Code to “Substantial Rehabilitation”.</li> </ul>
<b>FHA Connection - 203(k) Calculator</b>	<p>DE Underwriter is responsible to complete the 203(k) Calculator in the FHA Connection</p> <ul style="list-style-type: none"> <li>• <a href="#">203k Calculator   FHA Connection</a></li> <li>• The fields should be compared to Octane &gt; Construction &gt; 203(k) Calculator screen</li> <li>• Once completed, a screen print of the completed form should be uploaded to the Octane Smart Document   FHA 203(k) Calculator Results for Loan</li> </ul>
<b>Identity of Interest</b>	<p>Identity of Interest refers to a transaction between family members, business partners or other business affiliates.</p> <p>Sales transactions between family members and tenants/landlords that meet the FHA’s requirements for Exceptions to the Maximum LTV are permitted. However, there must be no other instances of Identity of Interest or conflict of interest between parties in the 203(k) transaction.</p> <ul style="list-style-type: none"> <li>• The Borrower and the 203(k) Consultant must each sign an Identity-of-Interest certification that is placed in the case binder.</li> <li>• 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</li> </ul>
<b>Inspection and HUD Consultant Requirements</b>	<p>The proposed improvements must comply with HUD’s minimum property standards and all local codes and ordinances.</p> <p><b>Standard 203(k):</b></p> <ul style="list-style-type: none"> <li>• The HUD Cost Consultant is the key to the standard 203(k) program. The Consultant will provide the Work Write-up and determine the scope of work. They will control time frames and consolidate the functions of a home inspection, site visit and the creation of the bid package.</li> <li>• A FHA-approved 203(k) Consultant is required for all Standard 203(k) Mortgages. Any Consultant who performs work on a 203(k) must be active and listed on the FHA 203(k) Consultant Roster; HUD maintains a list of</li> </ul>

	<p>local, eligible Cost Consultants; loan officers / TC must use the <a href="#">FHA Connection website</a> to assign an approved HUD Cost Consultant on each loan file.</p> <ul style="list-style-type: none"> <li>● The Consultant must obtain the appropriate architectural exhibits (if applicable) that clearly show the scope of work to be completed. Exhibits include, but are not limited to: <ul style="list-style-type: none"> <li>○ Well certification;</li> <li>○ Septic certification;</li> <li>○ Termite report (including all outbuildings);</li> <li>○ Proposed plot plans for new additions;</li> <li>○ Foundation certification by a licensed structural engineer if the existing structure will be moved to a new foundation, is being reconstructed on the existing foundation, or the existing structure will be elevated;</li> <li>○ Cabinetry plans and elevations;</li> <li>○ New construction exhibits to obtain a building permit for an addition;</li> <li>○ Grading and drainage plans; or</li> <li>○ Engineering and soil/geotechnical reports</li> </ul> </li> <li>● The Consultant must complete the property inspection and complete the Work Write-up and Cost Estimate as soon as possible after the borrower signs the sales contract. The documents must specify the type of repair and cost of each work item and assure that all health and safety issues are addressed and included in the Work Items.</li> <li>● After the Work Write-Up and Cost Estimates are completed, the borrower will begin the process to secure a contractor and/or subcontractors. <ul style="list-style-type: none"> <li>○ A qualified general or specialized contractor must be hired and, by contract, has agreed to complete the work described in the Cost Consultant Work Write-up for the amount of the Cost Estimate and within the allotted time frame.</li> </ul> </li> <li>● The Rehabilitation Checklist should be used to ensure all work items are considered. The costs must be transferred to the Draw Request (<a href="#">form HUD-9746-A</a>). Cost estimates must include labor and materials sufficient to complete the work by a contractor. The Work Write-Up does not need to reflect the color or specific model numbers of appliances, bathroom fixtures, carpeting, etc.unless they are non-standard units.</li> </ul> <p>The Consultant must also perform the following duties, where applicable. Refer to HUD Handbook 4000.1 for expanded requirements:</p> <ul style="list-style-type: none"> <li>● Feasibility Study</li> <li>● Consultant Inspection</li> <li>● Draw Request Inspection</li> <li>● Change Order</li> <li>● Work Stoppages or Deviations from the Approved Write-Up</li> </ul> <p>All 203(k) Consultants are required to sign the 203(k) Consultant's Certification after preparing/reviewing the Work Write-Up and Cost Estimate.</p>
<p><b>Maximum Loan Amount Calculation</b></p>	<p>The maximum loan amount will be determined in accordance with HUD's 203(k) calculated value.</p> <p>Maximum Mortgage Amount for Purchase</p> <ul style="list-style-type: none"> <li>● The maximum mortgage amount that FHA will insure on a 203(k)</li> </ul>

	<p>purchase is the lesser of:</p> <ul style="list-style-type: none"> <li>○ the appropriate Loan-to-Value (LTV) ratio from the Purchase Loan-to-Value Limits, multiplied by the lesser of: <ul style="list-style-type: none"> <li>■ the Adjusted As-Is Value, plus: <ul style="list-style-type: none"> <li>● Financeable Repair and Improvement Costs;</li> <li>● Financeable Mortgage Fees;</li> <li>● Financeable Contingency Reserves;</li> <li>● Financeable Mortgage Payment Reserves; or</li> </ul> </li> <li>■ 110 percent of the After Improved Value (100 percent for condominiums); or</li> </ul> </li> <li>○ the Nationwide Mortgage Limits</li> </ul> <p>Maximum Mortgage Amount for Refinance</p> <ul style="list-style-type: none"> <li>● The maximum mortgage amount that FHA will insure on a 203(k) refinance is the lesser of: <ul style="list-style-type: none"> <li>○ the existing debt and fees associated with the new Mortgage, plus: <ul style="list-style-type: none"> <li>■ Financeable Repair and Improvement Costs;</li> <li>■ Financeable Mortgage Fees;</li> <li>■ Financeable Contingency Reserves;</li> <li>■ Financeable Mortgage Payment Reserves; or</li> </ul> </li> <li>○ the appropriate LTV ratio below, multiplied by the lesser of: <ul style="list-style-type: none"> <li>■ the Adjusted As-Is Value, plus <ul style="list-style-type: none"> <li>● Financeable Repair and Improvement Costs;</li> <li>● Financeable Mortgage Fees</li> <li>● Financeable Contingency Reserves;</li> <li>● Financeable Mortgage Payment Reserves; or</li> </ul> </li> <li>■ 110 percent of the After Improved Value (100 percent for condominiums); or</li> </ul> </li> <li>○ the Nationwide Mortgage Limits</li> </ul> </li> </ul>
<b>Mortgage Insurance Premium</b>	<p>LTV Calculation for Application of the MIP Factor</p> <ul style="list-style-type: none"> <li>● Divide the Base Loan Amount by the After Improved Value</li> </ul>
<b>Sales Contract</b>	<ul style="list-style-type: none"> <li>● The sales contract must include a provision that the borrower has applied for a 203(k) program and that the contract is contingent upon mortgage approval and borrowers acceptance of any additional required improvements that might be necessary</li> <li>● When the borrower is financing a HUD REO property, ensure that the first block on Line 4 of form HUD-9548, Instructions and Sales Contract, is checked as well as the applicable block for 203(k)</li> </ul>
<b>Secondary Financing</b>	<ul style="list-style-type: none"> <li>● The maximum CLTV for secondary financing provided by private individuals and other organizations is 110 percent of the After Improved Value</li> <li>● Secondary financing provided by private individuals and other organizations may not be used to meet the Borrower's minimum down payment requirement</li> </ul>

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