



FHA Streamline 203K Rehabilitation Mortgage Insurance Program

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1. Product Information

Overview

The FHA Streamline 203(k) insurance program enables borrowers to finance the purchase or refinance of a home and the cost of its rehabilitation through a single mortgage.

- Combines the funds needed to purchase or refinance (pay off existing liens) along with the funds needed to repair/improve the property. Repairs/improvements are completed after closing.
- One closing, with rehabilitation funds escrowed and disbursed once the work is satisfactorily completed. Up to 50% of each contractor’s bid may be paid in initial disbursement, **provided all work is eligible for streamlines 203K without a consultant**
- May update homes, correct health and safety issues, pay for higher cost items such as a roof, etc.
- Property value must be sufficient to purchase/refinance and complete the rehabilitation.
- Property must be 100% complete per the Certificate of Occupancy (CO) or equivalent document, and must be at least 1 year old. [EXCEPTION: FEMA approved Presidentially-declared disaster areas for 1 year after the disaster]
- Borrower and credit eligibility is the same as on a regular FHA loan
- HSOA limits borrower ‘self-help’ work to final painting. Borrower may be reimbursed only for materials.
- No minimum amount of repairs/improvements;
- **Maximum amount of repairs/improvements allowed is \$31,120 minus the amount of a consultant’s fee if applicable. If repairs/improvements exceed this amount, the project MUST be reduced in scope. It is not acceptable for the borrower to pay cash for the cost of improvements that exceed this limitation.**
- Appraiser must be provided with a copy of all estimates/bids for repairs/improvements, and the appraiser is to complete the appraisal with a “subject to” value based on all repairs/improvements listed on estimates.
- 203(k) Consultant (and plan) is allowed **and strongly encouraged**, but not required.
- *Use of contractors is required for all work, except final painting.*

Note: The “Streamline” in Streamline 203(k) refers to processes and documentation requirements that are streamlined compared to a standard 203(k) loan. Do not confuse it with the FHA streamline program that allows for non-credit qualifying refinances.

Link to HUD’s website for 203K information:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/203kmenu

Product Codes

The 203k program is available on FHA fixed rate loans; applicable eligible product codes are:

FF30KS

FF30JKS

Subject to FHA Product Summary

Unless specifically addressed within this section, FHA Streamline 203(k) follow the same FHA-required origination, underwriting, and delivery policies. Refer to FHA underwriting guidelines and the HSOA FHA Product Summary for details

Loan Purpose

- Rehabilitate existing structure completed for more than one year
- Purchase and rehabilitate existing structure completed for more than one year
- Rehabilitate a structure completed for more than one year and refinance the outstanding indebtedness

Occupancy

Owner-occupied

Non-Arms-Length – Identity of Interest loans

Not allowed

Maximum Loan Amount and Loan-to-Value

HUD-92700 is required to determine actual Loan Amount.

Not to exceed the county statutory limits, the maximum loan amount is calculated as follows:

Purchases

96.5% LTV is calculated based on the lesser of:

- Sales Price plus Rehabilitation Cost (improvements), or
- As-Is Value plus Rehabilitation Cost (improvements), or
- 110% of After-Improvement value

For HUD \$100 down transactions: maximum mortgage is \$100 less than the lowest of the 3 values above.

Refinances

Use the lesser of:

- 97.75% LTV Factor multiplied by the sum of As-Is Value plus Rehabilitation Cost (improvements), or
- 97.75% LTV Factor multiplied by the 110% of After-Improved Value, or
- Sum of Existing Debt plus Rehabilitation Cost (improvements) plus Borrower Paid Closing Costs plus Prepays plus Discount Points on Total Loan Amount minus Discount on Repair Costs minus FHA MIP Refund.

Seasoning requirement: If the loan being paid off has less than 12 payments made, 'as-is' value is the lesser of the appraiser's as-is value estimate or the borrower's acquisition cost (price paid plus documented improvements made to the property)

Credit Scores and FHA TOTAL

Minimum credit score is the same as FHA 203(b) loans; all loans must be submitted to FHA TOTAL.

Origination fees

- The origination fee must be typical and customary.
- In addition, borrowers are charged a 'Supplemental 203(k) Origination fee' of \$350 or 1.5% of the rehab costs and charges, whichever is greater. However, this fee will be forwarded to HSOA's investor; it will NOT be paid to originators or retained by HSOA.

2. Property Eligibility

Eligible Properties

- Attached and detached SFRs and PUDs
- 2-4 unit properties

- Properties that are existing and at least one year old
- HUD REO properties that have been designated by FHA's Management and Marketing contractor (M&M) as "insurable" with repair escrow (\$5,000 or less in required repairs) or "uninsurable" (with more than \$5,000 but no more than \$35,000 in required repairs) are eligible for the Streamlined (k) program provided that the repairs qualify as eligible work items (see Eligible Improvements, below_

Ineligible Properties

- Properties less than one year old
- *Condominiums*
- *Log homes*
- Condotels
- Cooperatives
- Manufactured homes
- Homes that have never been completed
- Homes that have been demolished

Additional Documentation Requirements

Additional documentation is required supporting the rehabilitation portion of the loan. The use of the Documentation Checklist (see Forms) is required.

Cash-Out

Cash-Out Refinances are not allowed.

Cash back at closing to the borrower is not allowed, except for an repair escrow initial disbursement for a permit fee previously paid by the borrower. The loan amount must not exceed the actual cost of construction, the purchase price or refinance of an existing lien, plus reasonable closing costs.

In addition, after all work is completed any unused loan proceeds will be applied to principal.

Geographic Restrictions

Not allowed in Texas

Buydowns

Not allowed

Secondary Financing

Subject to the limitations and policies as indicated in the FHA Product Summary.

3. Transaction Requirements

Rehabilitation Amount

Minimum: None

Maximum: \$35,000 (inclusive of all charges and fees)

FHA 203(k) Loan Amounts

Maximum loan limits are determined by geographic areas. A complete schedule of FHA mortgage limits for all areas is available at: <https://entp.hud.gov/idapp/html/hicostlook.cfm>. For 203(k) loans, the county limit applies to the base loan amount (after adding the total rehab/escrow, but excluding the UFMIP).

Eligible Expenses

Expenses eligible to be included in the cost of rehabilitation are materials, labor, contingency reserve, plus expenses related to the rehabilitation such as permits, fees, inspection fees by a HUD accepted inspector, and lien protection fees for title. The cost of rehabilitation may also include the supplemental origination fee. See the 92700 worksheet for details.

Maximum Mortgage Worksheet - HUD 92700

Loan amount calculations will be based on amounts shown on the 203(k) Maximum Mortgage Worksheet (HUD 92700).

- Please note – this form is also used for regular (non-streamlined) 203(k); therefore includes numerous fields not applicable to streamline 203(k)s. All data fields not applicable to streamline 203(k)s have been made inaccessible.
- Loan submissions should include a forwarding of the 92700 excel spreadsheet. Send it to the ROCs at GM:ehomesd@myhsoa.com (*include the borrowers name and the loan number in the subject line*)
- The underwriter is responsible to update the 92700 form and assure the information contained thereon is consistent with all other documents and calculations in the loan file
- The final 92700 is to be imaged in DocTrac.

Eligible Improvements

The Streamlined FHA 203(k) program is intended to facilitate uncomplicated rehabilitation and/or improvements to a home for which plans, consultants, engineers and/or architects are not required. Due to the rehabilitation amount limitation of \$35,000, eligible improvements are limited and cannot include any major rehabilitation or remodeling, new construction such as a room addition, repairs to structural damage, moving or removing bearing walls, or site amenity improvements. Repairs of this nature should be completed under the standard FHA 203(k) program (not currently offered by HSOA).

If the FHA appraiser notes health and safety or minimum property standard violations that must be fixed, those items that represent a dangerous condition, or are not included in the 203(K) scope of work, must be completed before closing. All other health and safety items may be included in the 203(k) repairs.

Work for improvements (or materials delivered) that are included in the 203(k) escrow cannot begin until after loan closing and disbursement.

Materials purchased by borrowers (other than painting supplies) are allowed, subject to the following:

- Borrower Self-Help agreement is required.
- The following shows how disbursements are to be calculated:
 - Summary: the material plus installation cost – though separate entries, should be considered as one ‘bid/project’ and paid out accordingly. Example:
 - Borrower wants to buy carpeting (\$3,000) and windows/doors \$6,000) directly, but hire a contractor install each (\$1,000 for carpet, \$2,500 for windows/doors)
 - Carpet project: total is \$4,000, of which half (\$2,000) may be paid out at the initial disbursement (\$500 to the contractor, \$1,500 to the borrower*. The remainder is paid out at final disbursement
 - Window/door project: total is \$8,500, of which half is \$4,250) may be paid out at the initial disbursement (\$1,250 to the contractor, \$3,000 to the borrower*). The remainder is paid out at final disbursement.
 - Appliances purchased by borrower follow these same procedures, with the initial draw check (for the appliances) payable to the borrower*. If a contractor is installing them, follow the project examples above.

- *Note: Payee must be either to the borrower, or to the borrower and store - most retail stores will not accept dual payees (borrower and store).

Summary of requirements - repairs and consultants

Item	Non-structural repairs - <u>without a consultant</u>	Non-structural repairs - <u>with a consultant</u>	Minor Structural repairs – <u>with consultant</u>	Minor structural repairs without a consultant or Major structural repairs
Eligible repairs	All repairs must be 'Eligible Improvements without a Consultant'	All repairs must be 'Eligible Improvements without a Consultant'	All repairs must be 'Eligible Improvements without a Consultant' or Improvements with Consultants involving minor structural repairs	N/A – not allowed
Initial Disbursement	At closing by HSOA	At closing by HSOA	Must be disbursed by Investor, after loan is purchased	N/A
Consultant W-9	Not required	Required	Required	N/A
Consultant work write-up form	Not required	Required	Required	N/A
9746 Master Draw Request	Not required	Not required	Required, with the column indicating total costs completed, and the form signed and dated by all borrowers, consultants, and Contractors	N/A
Initial Draw Request	Required	Required	N/A	N/A

Improvements without using Consultants

Examples of eligible improvements are listed below (this list is not all-inclusive):

- Repair/Replacement of roofs (**shingles and roof sheathing**), gutters, and downspouts; **however, rafter repair is structural and therefore not acceptable.**
- Repair/Replacement/Upgrade of existing heating, ventilation, and air conditioning systems
- Repair/Replacement of plumbing and electrical systems; however, **floor joist repair** is considered structural and therefore not acceptable.
- Minor remodeling such as kitchens that does not involve structural repairs and/or any change to load-bearing walls
- Exterior and interior painting
- Weatherization, including storm windows and doors, insulation, and weather stripping
- Purchase and installation of appliances, including free-standing ranges, refrigerators, washers and dryers, dishwashers, and microwaves
 - The sum of all appliances cannot exceed 50% of the total cost of repairs (line B1 of the 92700 form.)
 - If the appliances are included in a contractor bid, and the contractor bid meets the requirements that allow for an initial disbursement, 50% of the total contractor bid may be paid out at initial disbursement.
- Improvements for accessibility for persons with disabilities
- Repair/Replacement/Addition of exterior decks, patios, porches; provided any repairs do not involve replacing any feature that relies on the home's structural integrity.
- Basement finishing and remodeling that does not involve structural repairs

- Basement waterproofing
- Mold remediation; provided
 - the mold remediation requirement is minor, and
 - pre-and post- remediation testing and repairs are completed by licensed mold remediation contractors
- Replacement of windows and doors and exterior wall re-siding
- Septic system and/or well repair or replacement
- Pool repairs up to \$1500.

Improvements with Consultants involving minor structural repairs

The above list of eligible repairs that also involve structural activities, or other minor structural repairs, but not requiring detailed drawings and exhibits, are eligible, provided:

- An FHA consultant is involved and who writes or approves the scope of work
- Total cost of repairs >=\$5,000
- Consultant’s ID code is entered into FHA Connection
- All draws are handled by HSOA’s investor; there will not be an initial disbursement at closing. Additional restrictions apply -see Rehabilitation/ Repair Disbursement Process – with Consultants
- All other limitations and restrictions of the streamline 203(k) are followed.
- Final inspection is completed by an FHA inspector or the consultant (not the appraiser).
- Additional forms required:
 - Master Draw Request, Form 9746
 - Architectural drawings are required for any structural repairs, cabinet drawings are required if new cabinets are included in the project.
 - 203K Specification of Repairs/Consultant Work Write-Up signed by borrower and consultant.

Consultant’s fees, as set by HUD, excluding mileage

Repair Cost	Consultant Fee
Feasibility Study	\$300.00
\$5,000 to \$7,500	\$400.00
\$7,501 to \$15,000	\$500.00
\$15,001 to \$30,000	\$600.00
\$30,001 to \$31,120	\$700.00

Note:

- If the consultant charges an inspection fee in addition to the consultant fee, include the sum of these items in the consultant fee line (B7).
- The consultant must provide a W-9
- If HSOA pays the consultant, a HSOA contractor ID # is required for the consultant. The DataTrac accounting entries are to include the HSOA contractor ID # in the check/authorization field.
- The DataTrac Act2 screen is to reflect the amount HSOA disburses to the consultant, while the DT Fees (Doc1 screen) is to reflect the full Consultant’s charge, regardless of who pays it and when it is paid.

Ineligible Improvements

Ineligible improvements include but are not limited to the following:

- Major rehabilitation or major remodeling, including the relocation or alteration of a load-bearing wall
- Repair of structural damage
- New Construction, including room additions
- Repairs requiring detailed drawings, plans or architectural exhibits or that involve moving load-bearing walls
- Landscaping or similar site amenity improvements including a new pool, or any pool repair greater than \$1500.
- Building or rebuilding of a driveway or sidewalk is not allowed.
- Any repair or improvement requiring a work schedule longer than six (6) months
- Rehabilitation activities that require more than two (2) payments per contractor.

- Energy Efficiency Mortgage add-ons that result in a base mortgage exceeding the statutory county limit
- Work requiring architectural exhibits
- Fences – repair, replacement or new
- Result in work not starting within 30 days after loan closing; or cause the mortgagor to be displaced from the property for more than the first 30 days after closing, during the time the rehabilitation work is being conducted. [NOTE: The borrower must be able to occupy the property within 30 days after closing.]

Link to HUD’s website for 203K information:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/203kmenu

Lead Paint Mitigation Requirements

Lead paint mitigation is allowed, subject to the following criteria being met:

- Home is inspected by a licensed lead paint mitigation specialist firm, with the inspection report providing details of all sources of lead paint needing corrective action.
- The contractor doing the mitigation is a licensed lead paint mitigation specialist
- For HUD-owned homes where FHA provides a credit (typically \$4,000) at closing for the mitigation:
 - HUD’s credit is reflected on the details of transaction
 - the base mortgage is to be reduced by the amount of HUD’s credit
 - The credit amount is netted out of the wire at closing (the closing agent cannot cut a separate check to HSOA).

NOTE: Repairs required by the appraisal that are not eligible 203(k) eligible improvements must be completed before closing, and cannot be included in the 203(k) escrow.

Funding the Loan/ Repair Escrow Account

As allowed by the program, the initial contractor disbursements will occur at closing if all repairs are non-structural. Bank of America will handle all other initial disbursements and final rehabilitation disbursements and project inspections.

The full loan amount will be funded at closing. The un-disbursed rehabilitation funds will be set up in an interest-bearing repair escrow account; the balance used to purchase the property or refinance an existing loan, and provide initial contractor disbursements.

After the loan is purchased by BAC, borrowers should direct 203(k) Repair Escrow account inquiries and documents to:

Bank of America, N.A.
Mail Stop CA6-914-01-91
1800 Tapo Canyon Rd.
Simi Valley, CA 93063
800.293.8155
Fax: 805.306.7041

Rehabilitation Period

Rehabilitation construction must begin within 30 days of closing, and all work must be completed within six months of closing.

Self-Help Requirements

Self-help arrangements in which the borrower is performing some or all of the work items are strongly discouraged and will be considered only for painting. Self-help arrangements must also meet the following requirements:

- Borrowers doing their own work must have HSOA approval, sign a self-help agreement, and fully understand that construction must be completed within six months of loan closing.
- Maintain records documenting actual costs and lien waivers in the same way that a general contractor would.
- Supply copies of bids from licensed contracts
- Provide cash reserves/credit sufficient to fund rehab costs until the final draw request is processed.

Contractor(s) Requirements

All loans require that a borrower-selected contractor sign the "Homeowner/Contractor Agreement" before closing. All contractors must be licensed and bonded if required by state. The Underwriter must review the following items pursuant to the proposed contractor:

- Credentials (evidence of licensing/bonding and insurance as may be required)
 - Licensing and bonding required if required by the state or municipality.
- Work experience
- Client references
- W-9

Note: If there is a personal or business relationship between the contractor, borrower or seller:

- The relationship must be fully disclosed
- Contractor and borrower to confirm the borrower will not perform any of the rehab activities
- An FHA consultant must be used, who must confirm the scope of work and reasonableness of all fees.
- HSOA approval of the relationship.

HSOA Contractor ID #

All contractors and FHA Consultants receiving initial disbursements from Home Savings must be assigned an HSOA Contractor ID #, which is entered by closers in DataTrac's acct2 screen. After reviewing and approving the contractor's information, forward copies of the contractor's W-9, license and bonding to Carl Peterson to obtain an HSOA contractor ID #.

Contractor Bid Requirements

Each bid must contain all of the following, as applicable:

- Contractor's business name, address and contact information
- Borrower name
- Subject property address (city, state, zip)
- Summary description of work to be performed
- **Detailed break out of specific costs for materials, labor, permits, etc**
- SKU number for each appliance, or make and model #
- If an initial deposit of 50% of the total bid amount is required before the contractor will agree to start work (Contractor is not eligible for an initial draw if this deposit requirement is not stated on the bid, **or if the 203(k) project entails minor structural repairs**).
- Dated within 120 days of closing
- Estimated completion date is within 6 months of closing
- Signed by contractor and borrower
- Bid must be fixed cost bids. "Cost-plus" bids are NOT allowed.

Appraisal Requirements

All appraisals for FHA loans must be completed by a HUD-approved appraiser. Properties considered in less than "average" condition, based on 'as completed' condition, are ineligible.

The appraiser must be provided information regarding the proposed rehabilitation or improvements and all cost estimates so that an after-improved value can be estimated. A description of the proposed repairs and/or improvement must be included in the appraisal report as well as the contractor's cost estimate. The appraiser is to indicate in the reconciliation section of the appraisal report an after-improved value subject to completion of the proposed repairs and/or improvements.

Loan-to-Value

The loan-to-value is based on the lesser of:

- The sales price or "as is" appraised value, plus eligible repairs and related fees, or
- 110% of "as completed" appraised value

The appraisal report must provide an "as completed" appraised value that estimates the value of the property after completion of the rehabilitation work. The contractors' bids must be available for the appraiser to use in order to determine the "as completed" value. In order to determine the maximum mortgage amount, the FHA 203(k) valuation analysis consists of two separate determinations of value as noted below.

As-Is Value

Purchases

HSOA will use the contract sales price as the as-is value on a purchase transaction.

For a HUD-owned property, request the HUD field office to release the outstanding HUD property disposition appraisal on the property to the Client to establish the maximum mortgage for the property. The HUD appraisal will be considered acceptable if:

- It is not expired according to FHA's requirements (120 days for appraisals with an effective date on and after April 1, 2010) prior to bid acceptance from HUD, and
- The sales contract price plus the cost of rehabilitation does not exceed 110% of the "as repaired value" shown on the HUD appraisal

If the HUD appraisal is outdated, use it as a reference for the property's condition; however, a new HUD REO (as-is) appraisal is not required..

Refinances

On refinances, HSOA will use the lower of the as-is value as determined by the appraisal or the unpaid balance of existing liens. The appraiser must state the 'as-is' value in the body of the as-completed appraisal. The existing debt may be used as the as-is value on a refinance transaction when this does not exceed a reasonable estimate of value.

As Completed/After Rehabilitation Value

The expected market value of the property based on the proposed rehabilitation and/or improvements. **All loans must have an as-completed (after rehab) appraisal.**

Closing Costs

Borrowers may be charged those customary and reasonable costs necessary to close the mortgage. Borrowers may not pay a tax service fee.

The following additional fees are specific to the 203(k) program:

- Supplemental origination fee. The borrower will be charged a supplemental origination fee. This fee is calculated as 1.5% of the portion of the mortgage allocated to rehabilitation, or \$350, whichever is greater. HSOA's investor deducts this fee from wire proceeds for the management of the rehabilitation activity.
- One inspection fee is normally charged on every loan.
- Title update fee
- FHA Consultant Fee, if a Consultant is used

Note: HSOA does not allow 'Discounts on repair costs and fees' to be charged.

Contingency Reserve

A contingency reserve required to cover unexpected expenses. The reserve must be a minimum of 10% of the cost of rehabilitation. **Contingency reserve must be 15% if utilities are not turned on before closing.**

The contingency reserve is for those changes that affect the health, safety, or an increase in cost due to a necessity item, or an unanticipated property condition discovered after repairs started. 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.

When all demolition work is complete, and all repairs are nearing completion, if the full contingency fund is unused, then the investor will consider allowing additional 203(k)-eligible improvements in lieu of applying the contingency fund as a principal reduction.

4. Documentation and Process

Contractors, rehabilitation criteria and process overview

Contractor(s) - when contractor(s) will be completing work, the following is required:

- Borrower selects contractor
- Underwriter must review the contractor's credentials, work experience and client references
- Contractors provide estimates for the work to be done
- The cost estimate(s) must provide detailed proposed work and clearly state the nature and type of repair and the cost for completion of the work item
- The underwriter will review the work plans and estimates
- The underwriter may require the mortgagor to provide additional cost estimates if necessary.
- After review, the selected contractor(s) must agree in writing to complete the work for the amount of the cost estimate and within the allotted time frame.
- The contractor must finish the work in accordance with the written estimate and Homeowner/Contractor Agreement and any approved change order.
- The underwriter is responsible for ensuring that the cost of the repair is reasonable and customary for the area in which the property is located.

Borrower(s) - when borrower(s) will be completing work, the following is required:

- The borrower has the necessary expertise and experience to complete the work in a satisfactory (workmanlike) and timely manner.
- A "self-help" agreement is executed by the borrower and lender
- The borrower has provided written estimates from the suppliers of the materials that the mortgagor will purchase.
- Estimates of the repair/rehabilitation costs; must have contractor bids to determine the escrow amount, and to use as a backup in case the borrower does not complete their portion of the work. The cost of labor is included in the repair/rehabilitation cost in case the borrower is unable to complete the work, and a contractor must be hired, but the borrower will be paid only for materials. Receipts must be provided before reimbursement.

Only "fixed price" contracts, which are subject to written change orders approved by the DE Underwriter in the event of unforeseen conditions, are acceptable.

- "Cost plus" or "time and material" contracts are prohibited.
- The lender is responsible for ensuring that the cost of the repair is reasonable and customary for the area in which the property is located.

The Rehabilitation Construction Period begins when the mortgage loan is closed.

Documentation Requirements

- Fully completed HUD-92700 / Streamline K Worksheet.
- Form HUD-92700-A / 203(k) Borrowers Acknowledgement, signed and dated by borrower(s).
- Copy of Contractor's Cost Estimate(s), clearly stating the nature and type of repair and the cost for completion of the work item. **Initial disbursement for up to 50% of the total estimate amount allowed, provided the estimates specifically state that the contractor requires a deposit to begin repairs/improvements.** Must be signed by all Contractor(s) and Borrower(s).
- Contractor approval documents

- Copy of each Contractor’s resume and credentials verifying jurisdictional requirements for licensing are met. If contractor does not have one or more of the listed credentials and it is not State required (where subject property is located), documentation that the State does not require the specific credential is required.
 - Evidence of Contractor’s insurance and bonding (if the state or municipality requires licensing and/or bonding, evidence of licensing and bonding is required for all bids; when the locale does not have such requirements, bonding is *not required for bids less than \$4,000*)
 - W-9 from Contractor
 - Copy of two references on each Contractor by previous clients. The client references must provide client name(s), address, day time phone number, signature, brief description of repairs/rehabilitation performed, how long it took to complete, total cost and overall satisfaction of workmanship/services performed.
 - Homeowner/Contractor Agreement Form, fully completed, signed and dated by contractor(s) and borrower(s). One form per contractor.
 - Copy of permits for the work to be completed
 - **Refinance:** If not provided in the initial submission, permits are required prior to docs.
 - **Purchase:** If not provided prior to closing; closing agent to prepare initial disbursement checks, but MUST NOT distribute them until HSOA receives copies of the permits.
- Purchase Contract must reflect FHA financing.
 - On purchase transactions, the HUD Amendatory Clause form, signed by borrowers and sellers is required (if not included within the purchase contract already).
 - Appraisal to be completed to reflect a value “Subject To” the specific repairs/improvements as disclosed on contractor’s estimate(s). The appraisal must include a description of the proposed repairs/improvements, as well as copies of the contractor’s estimates.
 - Copy of Property Condition Report from HUD M&M Contractor (required when property is a HUD REO)
 - Copy of HUD REO appraisal (required when property is a HUD REO)
 - If the property has well or septic, the distances of the septic system & drain field to the property structure, property line and to the well (if applicable) are required. These can be provided by the appraiser, inspection or other qualified party. Underwriter to review and determine if distances are acceptable to HUD guidelines.

Underwriting and Closing

Refer to the NOA on 203Ks, both of which shows how and where the various 203k fees and disbursements are apportioned on the GFE, HUD and accounting.

Rehabilitation/ Repair Disbursement Process – **with no structural repairs**

HSOA will provide an initial disbursement at closing, according to FHA limitation. Up to 50% of the rehabilitation funds are disbursed at closing

However, if the closing agent is unwilling to write the checks and disburse the initial draws, the initial draw cannot occur until after the loan is purchased by HSOA’s investor, and then set up on their 203k draw system. Borrowers should expect at least 30 days after closing before the initial draws could occur.

The Initial Contractor draws will be disbursed in a check made payable to the borrower(s) and the contractor.

The final disbursement process, including inspections and title updates will be handled by HSOA’s investor.

The loan will be purchased by HSOA’s investor and set up in its servicing system (a process which takes approximately seven to 10 days). Included with the disbursement is an instruction letter that explains how the final disbursement works and provides Bank of America contact information. 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 and a two-party check is made out to the borrower and the contractor and sent to the borrower.

The balance is disbursed upon completion of **all** work. If the cost of the renovation is over \$15,000, an inspection by the original appraiser is required. As with the rest of the rehabilitation process, HSOA's investor coordinates the inspection directly with the borrower.

*The borrower may be reimbursed for the cost of permits beyond the 50% of the Maximum Mortgage Worksheet line item B1 allowed for distribution, if the permits are NOT included in the contractor's bid.

Example: B1=\$25,000; Permits=\$1,000 not included in contractor bids from 92700 Worksheet line B8:

1st draw can equal \$13,500 (50% of B1 is \$12,500 plus B8 permits of \$1,000).
Final draw amount will be \$11,500.

Completion and payments

- Maximum of two disbursements for each loan; one at closing, the other when all the work is completed. **If there are multiple contractors, all work by all contractors –and the borrower, if applicable – must be completed before any contractor is paid.**
- No more than two disbursements may be made to each contractor. The Borrower will receive only one disbursement upon completion of all work (if the borrower is performing the work under a self-help arrangement for final painting)
- The first disbursement is intended to defray material costs and must not be more than 50% of each contractor's estimated costs of all repairs/improvements.
- When permits are required from a local or State building authority
 - The cost of building permits that are paid for by the contractor may be included in the contractor's total estimate and the contractor may receive a maximum of 50% of the total estimate on initial draw at closing
 - If the borrower has paid the building permits cost out of pocket or upfront to the contractor, the entire cost of the building permits may be included in the initial disbursement at closing. Proof of payment is required.
- The final disbursement will be made following completion of all work and release of any and all liens arising out of the contract or submission of receipts or other evidence of payment covering all subcontractors and/or suppliers who could file a legal claim (example: window installer – requires lien release from the installer AND from the window supply firm).
- The borrower may not be compensated for his or her labor.
- To eliminate the need and cost for an inspection of the completed repair(s) or improvement(s), HSOA or its investor may accept receipts or proof of completion of the work to the homeowner's satisfaction from the contractor (provided total rehab costs do not exceed \$15,000).
- Before a final release is made, the borrower must sign a statement acknowledging that the work has been completed in a workmanlike and satisfactory manner.
- After final payments to contractors and fees, any remaining funds are applied as a principal reduction.

An invoice from the contractor/vendor can be submitted to the new servicer for them to disburse final funds. If the 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.

Rehabilitation/ Repair Disbursement Process – with minor structural repairs

After the loan is purchased by HSOA's investor and set up in their disbursement system (a process which takes approximately seven to 10 days), a welcome package is sent to the borrower explaining the process. As with the Streamlined FHA 203(k), a W-9 is required for all contractors and the contractor must be set up in the system.

Disbursements are made as each phase of the project is completed based on the draw paperwork provided by the cost consultant. The only exception is for the cost of flooring, roofing, cabinets, and windows where 50% of the cost of these items can be disbursed upfront as part of a normal draw. Inspections are required prior to each disbursement.

A maximum of five draws are allowed on the standard FHA 203(k) program that are disbursed according to the draw paperwork. Draw amounts can vary and are based on the cost of the work performed. Keep in mind that a 10% reserve is held back on **each** draw. The holdback funds are disbursed upon completion of **all** work along with the final disbursement.

Additional forms required:

- Master Draw Request, Form 9746
- 203K Specification of Repairs/Consultant Work Write-Up signed by borrow and consultant (form provided by consultant).

Forms

All required forms are listed on the HSOA FHA 203(K) checklist; all forms are available on HSOA's website.

Data Entry Requirements

FHA Connection

Case Number Assignment must reflect the following:

- Sponsor ID for wholesale loans = 22443-09996
- Construction Code = Substantial Rehabilitation
- ADP Codes:
 - Fixed Rate = 702
- Housing Program = Improvements (203k)
- Consultant ID = enter the consultant's ID, or if no consultant, enter 203KS

From HUD's Mortgagee Letter 2005-50:

What are the "closeout requirements" under the Streamlined (k) program?

The mortgagee electronically certifies the closeout via the FHA Connection and is not required to forward the closeout documents to FHA. As with all FHA case binders, the originator must retain the file, either in hard copy or electronic format, for two years following endorsement of the mortgage. Proper close-out means that the mortgagee has certified that it has reviewed and verified for accuracy of the following without limitations: mortgagor's acknowledgement of satisfactory completion, evidence of release of lien(s), mortgagee's inspection report(s), change orders, mortgagee accounting of the escrow funds, and record of disbursements.

Are there specific data entry requirements under the Streamlined (k) program?

The mortgagee must enter the consultant ID or "203KS" in the 203(k) Consultant ID field in the Case Number Assignment Screen (and the Insurance Application Screen) to identify the Streamlined (k) product and enter the amount of the repairs in the Repair Escrow Amount field in the Insurance Application Screen. In the event that the mortgagee had originally begun processing the case as a purchase mortgage without repairs, the mortgagee should update the existing case data in the Case Number Assignment screen, changing the ADP Code to a valid 203(k) ADP Code and the Construction Code to Substantial Rehabilitation.

If the Streamlined (k) mortgage is for a refinance transaction, please enter "substantial rehabilitation" in the drop down screen labeled "Construction Code" and "Not Streamlined" (the refinance type) in the drop down screen labeled "All Refinances" in the Case Number Assignment Screen in FHA Connection.

Data Trac and DU - underwriter

- Appraised value: enter 'after-improved' value
- Enter the purchase price as the purchase price
- Enter escrow amount (B14 on the 92700t) in details of transactions under repairs; and add them closing costs; and then reducing the closing cost sum by the amount of the 203k costs entered.
- DU (but not DataTrac) combines these 2 entries into the sales price on the DU findings page 1, and calculates the LTV accordingly. Use DU's LTV calculation for LTV changes to the LT.

92900- LT

Note that the LTV displaying in DT and the 92900 will NOT be accurate. Enter a note on the 92900 LT that the entries coincide with the 92700. (On the final 92900 LT that is imaged, handwrite the corrections to the LTV/CLTVs on the final 92900 to match DU.)

Data Trac

Completed by underwriting:

- Closing Fees for 203K loans in DOC1 Screens. the sum of the following entries must match B14.
 - 203k Initial disbursement
 - 203k Repair holdback
 - Confirm that the following fees, previously entered during GFE, are accurate
 - 203k inspection fee
 - 203k Title Update fee
 - 203k Supplemental Origination fee
 - 203K Consultant fee, if applicable
- accounting entries (ACT2 screen)
 - Enter Escrow amount (B14) as a payment (tran code 700)
 - Enter the following disbursements:
 - Permit reimbursement, if applicable (tran code 801)
 - Individual entries for each contractor initial draw (tran code 800)
 - FHA consultant fee (tran code 802) for the amount paid by HSOA, if applicable

Underwriting conditions

Closing agent to disburse the following checks, and notate each of them on a HUD-1 addendum:

- Contractor draws: Each check must be payable jointly to the borrower(s) and the Contractor:
- Borrowers to sign the 92700 at closing (PTF)
- Permit reimbursement to borrower(s) for \$ (if applicable)
- Permits:
 - refinance: If permits not yet received, condition for them (PTD and UTC)
 - purchase: If not provided before closing,
 - “Borrower/contractor must provide copies of permits before the construction draws are released.”
 - “Closing agent to prepare disbursement checks, but must not release them until HSOA receives the permits and authorizes disbursement check release

92800 Conditional Commitment

- Appraised value: use the ‘after-improved’ value
- List all required repairs:
 - As required by the appraiser before closing for items unrelated to the 203k repairs
 - 203k-required repairs: sum of B1 (total cost of repairs) plus B2 (contingency)

Doc Magic

See the applicable NOA for detailed entry requirements. At present, the Initial Disbursement and the Repair holdback transfer over to the Charges and Fees tabs and transfer over as origination charges. Before you process the package, the closer **MUST** remove these two fees from the Charges and Fees tab in DocMagic. Failure to remove these fees from the charges and fees prior to processing your documents will result in incorrect amounts disclosed on the GFE and HUD-1.

The remaining 203k fees correctly transfer to DocMagic under the correct category. Specifically:

- 203k Inspection Fee is a lender required fee and is disclosed in Block 3 of the GFE and the 800 series of the HUD-1
- 203k Title Update is a Title fee and is disclosed in Block 4 of the GFE and the 1100 series on the HUD-1
- 203k Consultant fee, if a Consultant is used, is disclosed in Block 3 of the GFE and the 800 series of the HUD-1
- 203k Supplemental Origination Fee is an Origination Charge and is disclosed in Block 1 of the GFE and in the 800 series of the HUD-1.

At closing, the fees that are disclosed as 203k Initial Disbursement and 203k Repair holdback must be disclosed on the first page of the HUD-1, in the 100 section. Click on the HUD-1 tab in DocMagic and

enter separate fee lines in the 100 section of the HUD-1 for the 203k escrow amount and the 203k initial disbursement.

Itemized initial contractor draw disbursements – detailing each draw separately -and identifying the payee and amount -must be documented through one of the following

- Itemization on the HUD-1
- Itemization on a HUD-1 addendum
- Copies of each initial disbursement check

5. Compliance

Home Owners insurance

Homeowner’s insurance: Because the allowed work on streamline 203ks is non-structural, borrowers should be able to obtain a standard Homeowner’s Policy. A Contractor’s policy is not necessary

RESPA/Settlement Statement

HUD-1 Settlement Statement must reflect the full escrow amount (92700 form, line B14), separated into draws disbursed at closing and un-disbursed funds; as well as the inspection, title update and supplemental origination fees. See ‘Follow the Money’ for details.