



203(k) Streamline Rehabilitation Loan Training

**IdaMortgage:
We Make Home Buying More Affordable!**



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and Finance
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203(k) Streamline Requirements for Brokers

- Must be in good standing with IHFA
- Must be an approved FHA IdaMortgage broker
- Must complete the IdaMortgage 203(k) Streamline Mortgage Broker Training
- Must continue to provide quality files



203(k) Training Agenda

- FHA 203(k) Streamline Overview
- Advantages and Opportunities
- Guidelines
- Process Flow
- Working with IdaMortgage/IHFA
- Resources



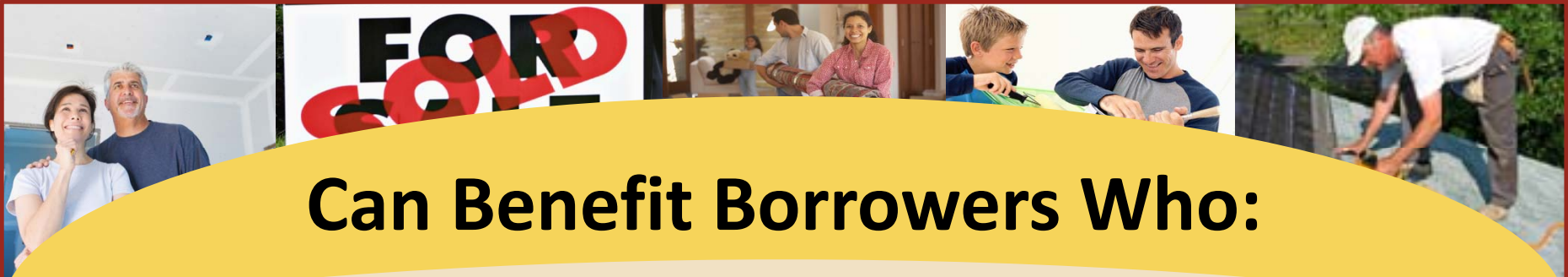
203(k) Streamline Loan Overview

- Provides borrowers with an affordable, stable financing solution that combines the purchase of the home along with the costs of the improvements into a single loan
- Opportunity to borrow against the value of the home after improvements
- Work can be completed by contractor



203(k) Streamline Loan Overview Cont'd

- Owner occupied, one unit properties, PUDs, and Condominiums
- No manufactured housing
- Properties must be at least one year old
- FHA guidelines apply – available on Advantage Loan only
- Can be used with HUD REO programs, EEM mortgages, and IdaMortgage down payment assistance



Can Benefit Borrowers Who:

- Are interested in purchasing a property in need of repair
- Want to save time and money by financing the purchase with the cost of repairs
- May not qualify for a conventional loan due to down payment requirements

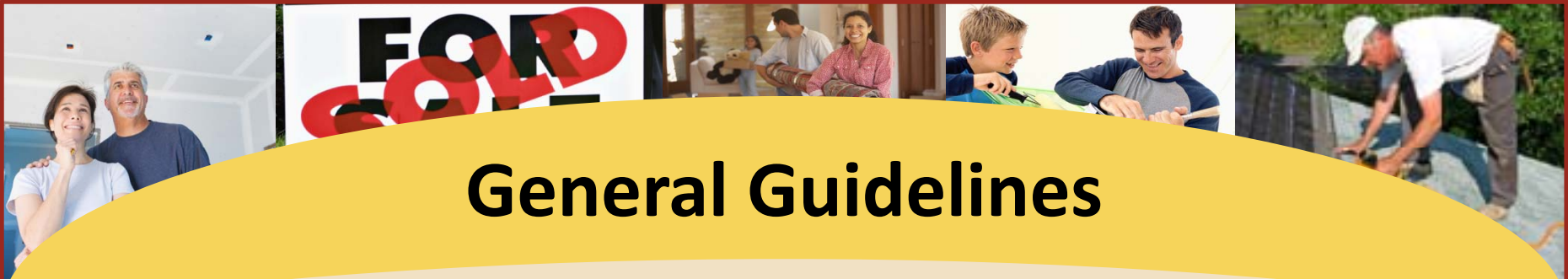




Target Market

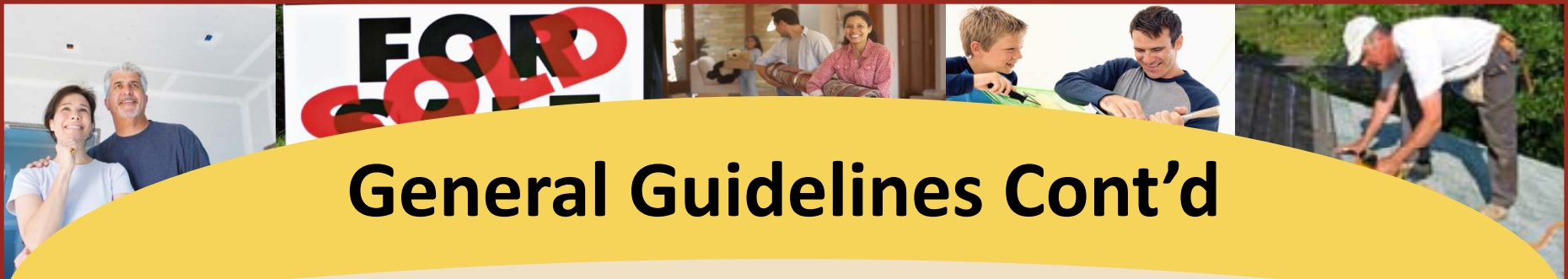
- Borrowers purchasing a home in need of rehabilitation
 - REOs, foreclosures, and short sales
 - Incomplete renovations
 - Out-dated kitchen, bathrooms, etc
- Being first-time homebuyers status is not a requirement





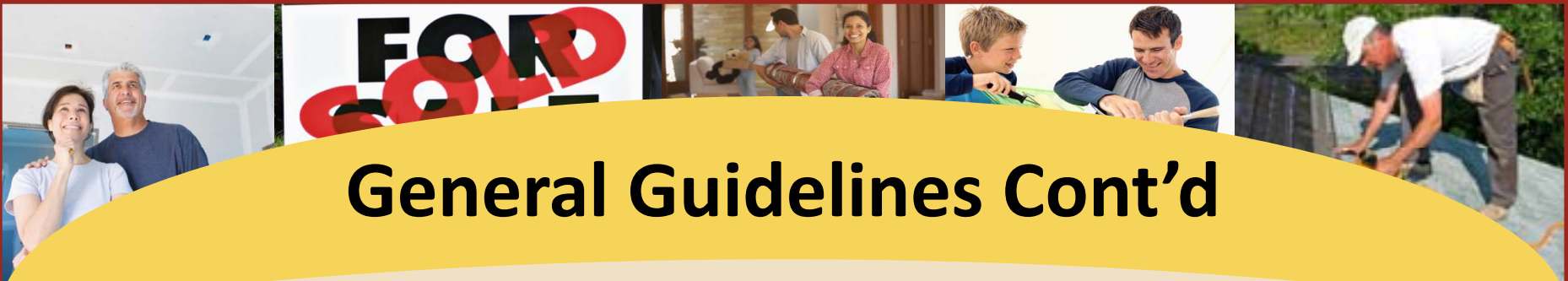
General Guidelines

- Standard FHA investment = 96.50%
- Loan-to-value is based on the lesser of:
 - Sales price plus repairs OR
 - 110% of “as completed” appraised value
- \$1,000 minimum cost of the rehabilitation
 - Initial draw is disbursed at closing
 - Final draw is disbursed by First American Title Company after appraiser has completed his final inspection
- Interested party/seller contributions allowed up to 6%



General Guidelines Cont'd

- Borrowers can finance up to an additional \$35,000, including fees and contingency reserve into their mortgage to make improvements
- 30-year, fixed-rate mortgages only
- Owner occupied properties only
 - Attached and detached single-family residences, condos, and PUDs
 - One unit properties
- No manufactured homes
- FHA guidelines apply



General Guidelines Cont'd

- All loans must be run through Desktop Underwriting® (DU®) or Loan Prospector (LP). Manual underwriting is not allowed. Non-traditional trade lines are not allowed.
 - Loan must meet all IdaMortgage Advantage Loan guidelines.
 - Minimum 580 credit score required on all government loan transactions
- Full documentation only
- DTI guidelines per AUS approval. Loans with DTI exceeding 31% / 41% DTI should have compensating factors per IHFA standard FHA guidelines
- Cash reserves are not required



Eligible Property Improvements

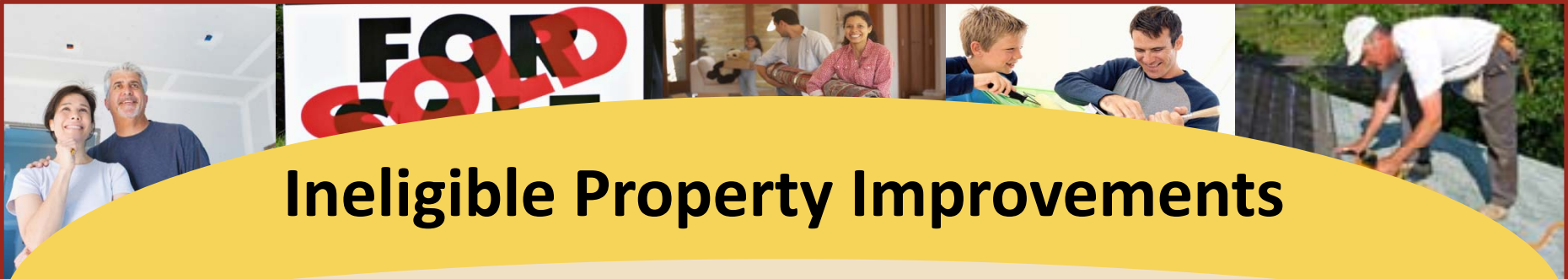
- Repair or Replace
 - Roofs, gutters, and downspouts
 - Heating, ventilation, and air conditioning systems
 - Finish flooring and non-structural subflooring (does not include structural subfloor elements such as floor joists)
- Upgrade or replace plumbing and electrical systems
- Painting – interior/exterior – including lead-based paint stabilization or abatement of lead-based paint hazards
- Bathroom and kitchen remodels that do not involve any structural repairs
- New appliances
- Energy-efficient improvements – may include windows, doors, HVAC systems, furnaces, solar panels, etc





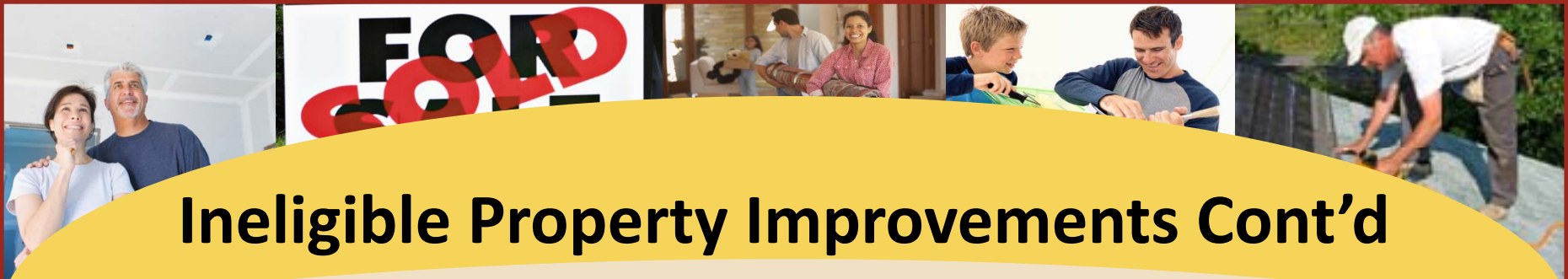
Eligible Property Improvements Cont'd

- Accessibility improvements for disabled – kitchen and bath remodels to lower counter/cabinet height, installing wheelchair access ramps, widening doorways (non-load-bearing walls only)
- Exterior improvements such as decks, patios, and fences
- Basement finishing and remodeling – including adding walls and bathrooms provided that there are no structural elements involved
- Basement waterproofing
- Treatment of active termite infestation and repairs
- Connection to public water or sewer
- Repair or replacement of septic tank or well systems



Ineligible Property Improvements

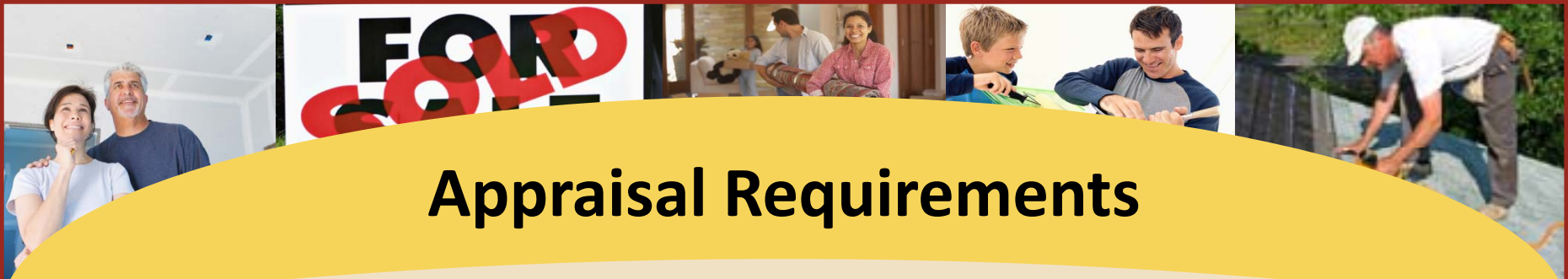
- Pool repair or construction – pools must be in good working order at the time of the appraisal inspection
- Solar panels used to heat a pool or spa
- Adding or repairing a driveway or sidewalk
- Replacing posts in crawl spaces
- Structural subfloors
- Landscaping or similar site amenities
- Repair of structural damage
- New construction including room additions



Ineligible Property Improvements Cont'd

- Major rehabilitation or remodeling such as the relocation of load-bearing walls
- Any repair or improvements that will require more than four months to complete or will displace the borrower for more than 30 days
- Work that will not begin within 30 days of closing
- Repairs that will require more than two draws
- Repairs that require detailed drawings or architectural exhibits





Appraisal Requirements

- Request an FHA case # - indicate streamline 203(k) when ordering (ADP code 702 or 807 for EEM). Note – you will not be required to include the appraiser information at the time the case # is requested
- Order the appraisal through an IHFA approved appraisal management company (AMC) – indicate the loan will be a 203(k) streamline
- Provide the AMC with FHA case # at the time of the appraisal order
- Provide the AMC a copy of the complete cost breakdown and contractors bids (two bids per repair/improvement item)
- The appraisal will be completed “subject to” repairs, with an “after improved” value.
- The appraiser may require additional items not included in the contractors bids if needed to meet FHA minimum property standards – all repairs must be included on the contractors bids
- Interior photos will be required



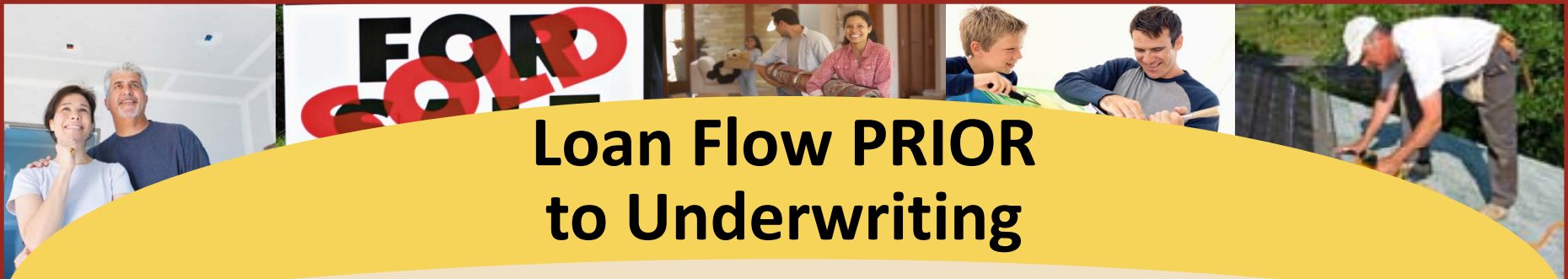
Appraisal Requirements Cont'd

- If the appraiser recommends a pest inspection, one will be required by IHFA, and any repair items on the pest inspection report must be completed in the 203(k) streamline
- All appraiser repair items **MUST** be within the \$35,000 limit (eligible EEM and weatherization improvements may be financed above this limit provided they meet the EEM guidelines)
- If the 203(k) repairs exceed \$35,000 before EEM improvements, the loan will be ineligible for financing on the streamline 203(k) program
- No items listed on the appraisal, and included in the value, may be left out of the bids or the financed repairs
- Utilities must be on at the time the appraisal inspection to confirm that all mechanical systems are operational – IHFA may consider loans that do not have the utilities and if approved will require an increased contingency reserve
- A housing quality standards (HQS) inspection will be required for broker loans




Occupancy

- Owner occupied only
- Construction must BEGIN within 30 days of closing
- All rehabilitation must be completed within 120 days of closing
- The borrower cannot be displaced from the property for more than 30 days during the rehabilitation period
 - Properties that will not have running water – plumbing repairs that would require the water to be shut off for long periods of time
 - No electricity – electrical repairs that would require the electricity to be shut off for long periods of time
 - Missing doors or windows
 - Leaking or missing roof
 - No heat source



Loan Flow PRIOR to Underwriting

1. Borrower applies for the streamline 203(k) loan
2. Borrower provides completed contractor bids – two bid minimum
3. All 203(k) required forms are completed and signed
4. Processor requests clear CAIVR's. LDP, GSA, and condo approval (if applicable) – if any issues arise they should be resolved at this stage
5. Case # is ordered as a 203(k) streamline rehabilitation loan
6. Appraisal is ordered and a copy of the contractors bid and other pertinent information is provided to the appraiser
7. Appraisal is received. The appraiser has provided an “after improved” value – “subject to” the repairs listed on the contractors bid (please make sure that the bids and cost breakdown have been attached to the appraisal)



Loan Flow AFTER Submitting to Underwriting

1. AUS is run and the loan receives an approve/eligible
2. Loan is approved and conditions are cleared
3. Loan closes – first draw is disbursed to the homeowner/contractor by First American Title Company
4. Rehabilitation of the property begins within 30 days of closing
5. Loan is submitted to and purchased by IHFA
6. IHFA will send a “welcome letter” to the borrower with instructions on how to request the final (2nd) draw when the work has been completed
7. Borrower notifies IHFA when all repairs are completed
8. IHFA notifies the appraiser and the appraiser inspects the property and issues a 1004d to confirm that all required repairs have been completed
9. Final funds are disbursed to the homeowner/contractor by the title company upon approval of final inspection



Required Forms for Submission

- Maximum Mortgage Worksheet
- Homeowner/Contractor Agreement from each contractor (must be separate agreement for each contractor)
- Contractor W-9
- Contractor bids, proof of bond, and valid liability insurance (along with three letters of reference)
- 92700a – 203(k) Borrower Acknowledgement



All forms must be fully completed and signed before submitting.



92700a – 203(k) Borrower's Acknowledgement

203 (k) Borrower's Acknowledgement

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

Condition of Property: I understand that the property I am purchasing is not HUD approved and HUD does not warrant the condition or the value of the property. I understand the HUD plan review (where performed) and the appraisal are performed to determine compliance with the required architectural

exhibits and to estimate the value of the property, but neither guarantees the house is free of defects. I understand I was responsible to have an independent consultant and/or a professional home inspection service perform an inspection of the property and the cost of the inspection was (or could be) included in the mortgage.

Loan Requirements

• I understand at the time of the loan closing of an FHA-insured 203(k) Rehabilitation Loan, for which I have applied to my lender, the proceeds designated for the rehabilitation or improvement (including a contingency reserve, mortgage payments and any other fees, where applicable) are to be placed in an interest bearing escrow account. The Rehabilitation Escrow Account is not, nor will it be treated as an escrow for the paying of real estate taxes, insurance premiums, delinquent notes, ground rents or assessments. I hereby request the lender, after the Final Release Notice is issued, to:

- Pay the net interest income directly to me/us.
- Apply the net interest income directly to the mortgage principal balance for an equal amount of principal reduction.

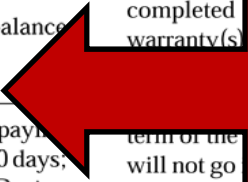
Other: **Not used for 203(k) streamline**

• I understand that the Rehabilitation Escrow Account will cease paying interest to me if (1) the loan payments are delinquent for more than 30 days, or (2) the completion date (or an approved extension) has expired. During this period, the interest will be paid down on the mortgage principal. I understand if I clear up the delinquent or default status and/or the completion date has not expired or an extension has been approved, then the interest on the escrow account will begin again to be paid according to the request

• I understand if I change a contractor for any reason, I may be obligated under the terms of the original contractor's agreement and I should seek legal advice before taking such action. If I disagree with the contractor regarding the acceptable completion of the work, I can request an inspection by the fee inspector to determine if the work has been properly completed. If an agreement cannot be made with the contractor, the lender may hold the money until such time as an agreement is reached or an arbitrator's decision is rendered.

• I understand I will receive a completed warranty(s) upon completion of the work.

I understand that the lender will not go beyond 30 days; if the work is not completed or is not progressing as it should, or if the work does not comply with the accepted architectural exhibits, the lender may require additional compliance inspections to protect the borrower's investment.



**Always Choose
Option 3: "Other"
with this verbiage**



Contractor Requirements

- Borrower selects a contractor
- Contractors must sign a fully completed Homeowner/Contractor Agreement along with the borrower
 - The rehab amount listed on agreement must match exactly all bids from the contractors
 - It must also indicate the work will begin within 30 days of closing and be completed by a date no longer than 120 days from closing
- All contractors must complete and sign a W-9 form and include their SS# for individuals, or an employer ID# for corporations
 - Contractors who are an LLC, must indicate the type of LLC on the W-9



Contractor Requirements Cont'd

- Contractors provides proof of bond and valid liability insurance
- Contractor must be able to provide proof of qualifications – resume and three references (not required for subcontractors working under a general contractors state registration and bond)
- Contractors who have employees must provide proof of workman's comp insurance for all subcontractors doing work on the job site



The Contractors Bids

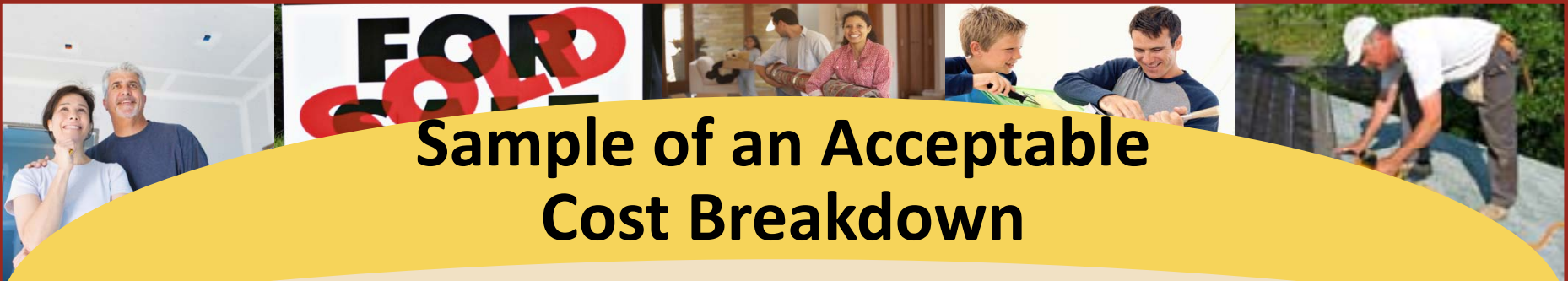
- Contractor provides a work estimate for the repairs/improvements being done
- The contractor's bid or cost estimate must clearly state the nature and type of all repairs and the cost itemization for each repair
- The cost estimates must be reasonable based on the nature of the repair and the size of the home
- The underwriter will review the contractors bids carefully to ensure that all required repairs are included, and the cost estimates are reasonable
 - The underwriter may require the contractor to provide additional cost estimates if necessary



Sample of Unacceptable Cost Breakdown

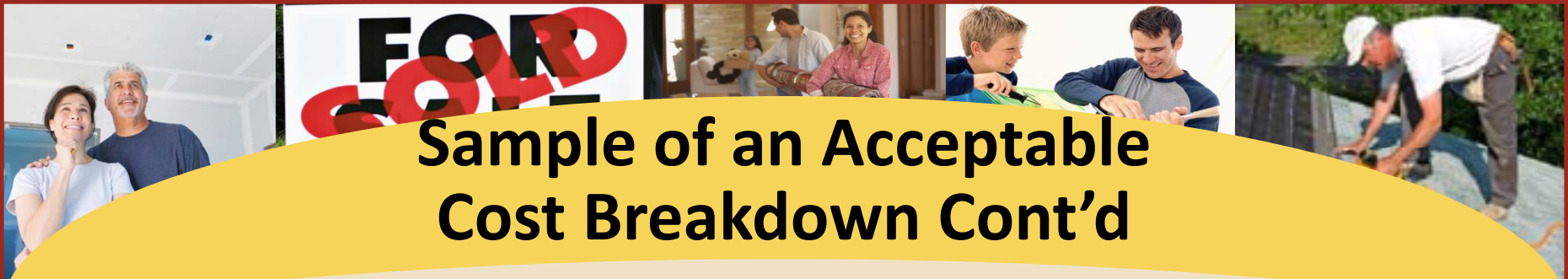
Kitchen Remodel:	
Demo and disposal, new cabinets, countertops, floors, appliances, and fixtures (Price includes all material and labor)	\$ 15,244
Flooring	\$ 5,599
New windows	\$ 2,800
Total	\$ 23,643

This bid does not provide enough detail about the work being done.



Sample of an Acceptable Cost Breakdown

Kitchen Remodel/ Bid #1 of 3:	
Demo and disposal	\$ 500
New Cabinets – maple	\$ 4,500
Labor	\$ 2,700
Granite Countertops	\$ 2,200
Labor	\$ 1,200
New Sink/Faucet/Disposal	\$ 800
Labor	\$ 200
New Tile Flooring (170 sq. feet @ 3.20/per sq. ft.)	\$ 544
Labor	\$ 400
GE Appliances – dishwasher range, oven, range hood, and microwave	\$ 2,200
Total	\$ 15,244



Sample of an Acceptable Cost Breakdown Cont'd

Flooring Contract/ Bid #2 of 3:	
Remove and replace carpet in living room, dining room 3 Bedrooms (100 sq. yards @ \$28/ sq. yd.)	\$ 2,800
Labor	\$ 500
Hardwood flooring in entry and family room (260 sq. yards @ \$6.15/ sq. yd.)	\$ 1,599
Labor	\$ 700
Total	\$ 5,599



Sample of an Acceptable Cost Breakdown Cont'd

Replace Windows/ Bid #3 of 3:	
9 Vinyl Windows, Materials and Labor	\$ 2,600
Labor	\$ 200
Total	\$ 2,800

Total of all three Bids:	
Kitchen Remodel	\$ 15,244
Flooring Contract	\$ 5,599
Replace Windows	\$ 2,800
Total	\$ 23,643



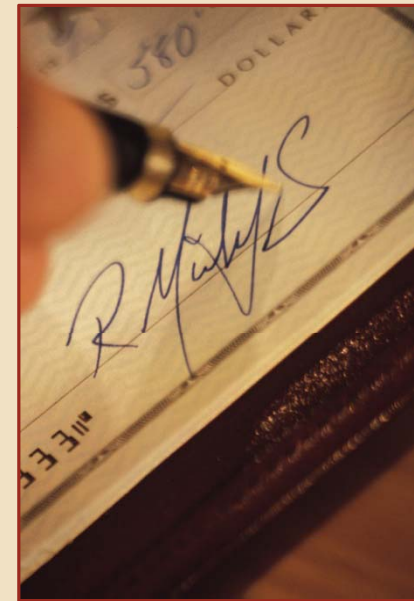
Post-Closing Process

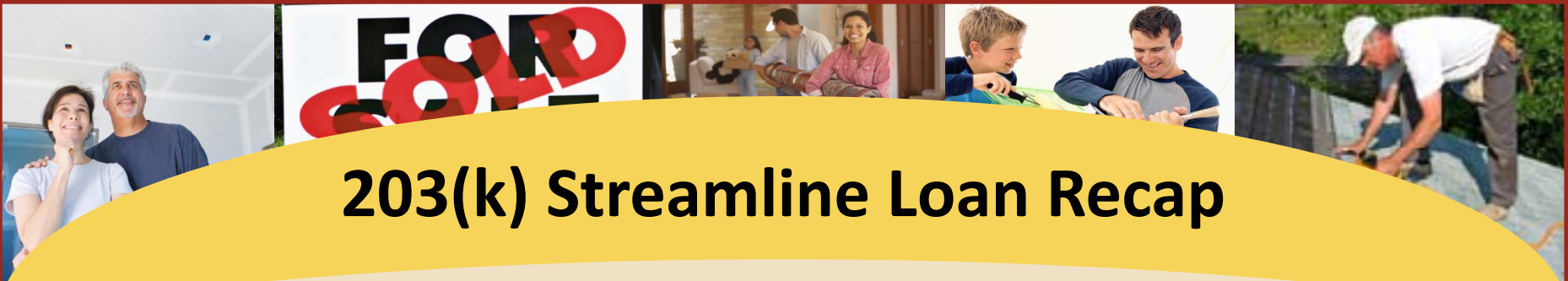
1. First draw is disbursed – 50% of each bid included in the 203(k) streamline loan, or cost of materials, will be disbursed at closing by the title company
2. Work begins within 30 days
3. Borrowers to acknowledge limitation of funds and receives instructions on how to request final draw
4. Loan is purchased by IHFA
5. Borrower must receive instructions on how to request the final draw once all work is completed on the property



Post-Closing Process Cont'd

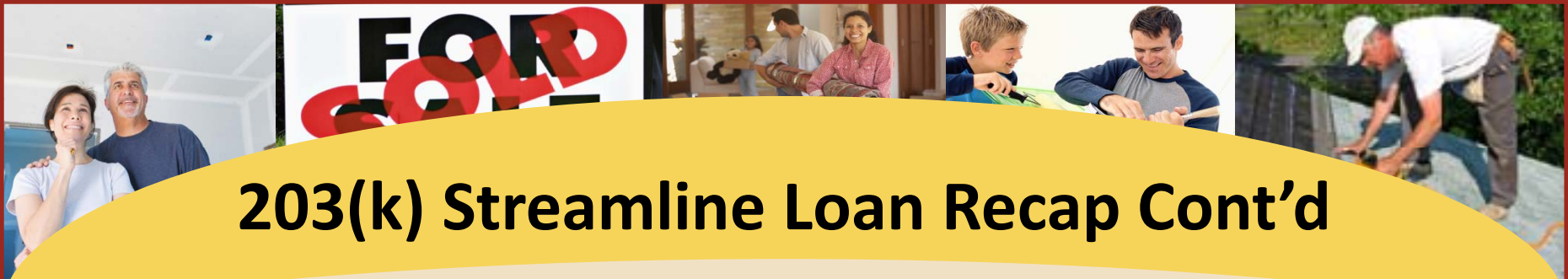
6. Lenders may choose to monitor the loan
7. Borrower notifies IHFA or the lender that all work is completed
8. IHFA or the lender will contact the appraiser
9. Appraiser inspects the property and issues a Compliance Inspection Report confirming all work is complete as required
10. Title company will confirm no mechanics liens
11. Title company will disburse the final (2nd) draw





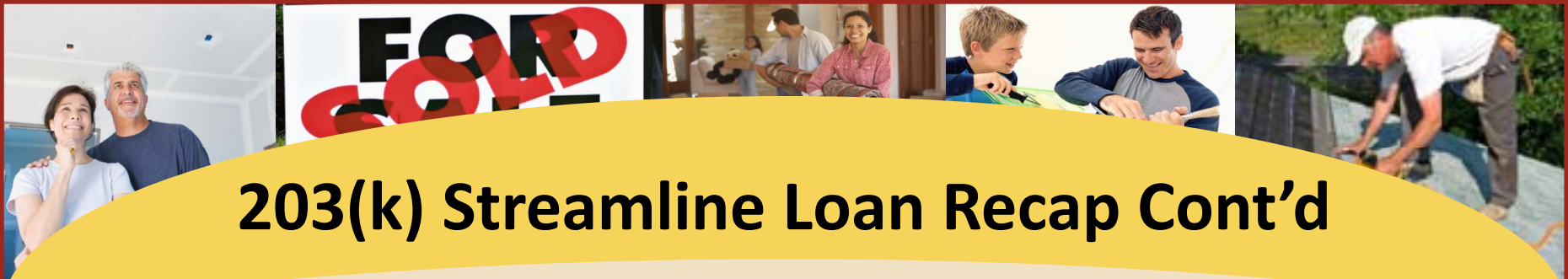
203(k) Streamline Loan Recap

- The \$35,000 maximum rehabilitation includes the cost of the repairs, plus all fees
- There is a \$1,000 minimum rehabilitation amount
- The underwriter may require a 10% contingency reserve
- There can be no cash back to the borrower – any excess funds must be applied to the principal
- Maximum origination fee of 1% and maximum processing fee of \$650
- Appraised value: always “after improved” – purchases will use the sales price as the “as is” value



203(k) Streamline Loan Recap Cont'd

- All appraisal required repair items must be included in the 203(k) rehabilitation loan and be within the \$35,000 maximum – otherwise the loan will not be eligible for the streamline 203(k)
- No appraisal required repair items can be done outside of the 203(k) streamline loan
- Housing quality standards (HQS) inspection is required on broker loans and is strongly recommended for lender loans
- Rehabilitation MUST begin within 30 days of closing – weather related delays will be considered case by case
- Initial draw can be for cost of materials, not to exceed 50% of the rehabilitation total



203(k) Streamline Loan Recap Cont'd

- The 203(k) streamline only has two draws
- The final draw (2nd draw) will be disbursed by First American Title Company
- All contractors must complete their work and a final inspection be issued before ANY contractors receive their final draw
- Title must be clear before final payment is made
- The most common causes for a delay in draw are illegible documents and incomplete or unsigned 203(k) forms
- Order title commitments from First American by email at:
orderup@firstamholding.com - Title fees = \$250 + \$10/check



FHA 203(k) Streamline Resources

- For FHA guidelines, refer to:
 - HUD handbook 4240.4
 - Mortgage letters 2005-19 and 2005-50
- For FHA mortgage limits by area:
<https://entp.hud.gov/idapp/html/hicostlook.cfm>
- To transfer the loan, access FHA Connection located on the HUD Web site at:
<https://entp.hud.gov/clas/index.cfm>
 - Under “single-family servicing,” select “mortgage record changes” and then “servicing/holder transfer”
 - Then input the new servicer’s lender ID 10101-0999-8 under “New Holding Mortgage” and New Servicer Mortgagee”
- For information on U.S. Department of Housing and Urban Development, visit:
www.hud.gov
- For information on FHA mortgage program questions, email:
info@fhaoutreach.com



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