



FHA LIMITED 203(k) PROGRAM – Broker Only
 (This Product is NOT available for Correspondent relationships. Broker only)

POLICY	GUIDELINE
GENERAL DESCRIPTION	The Limited 203(k) program enables borrowers to finance the purchase or refinance of a home and the cost of certain minor rehabilitation through a single mortgage. Limited 203(k) is subject to the same guidelines as Standard 203(k), but it's the eligible improvements and disbursement process that are "limited" or streamlined.
CORE PROGRAM	Unless specifically addressed in this product matrix, all standard FHA requirements apply.
PRODUCT TYPE & TERMS	<ul style="list-style-type: none"> • 30 year and 15 yr fixed rate mortgage • 203(k) Basic with ADP Code 702 • 203(k) Condominium with ADP Code 804 Temporary buy downs are not permitted.
GENERAL REHABILITATION GUIDELINES	<ul style="list-style-type: none"> • Maximum amount of total rehabilitation account: \$35,000 – this figure must include inspection fees, title update fees, supplemental origination fee, building & other permits, contingency reserve, and the cost of repairs • Minimum amount of rehabilitation: None • Rehabilitation Construction must begin within 30 days of closing, and all work must be completed within 4 months of closing. • Repair/Rehabilitation escrow funds held by the lender in an Interest-bearing account • No more than two escrow disbursements (Initial & Final) paid to contractor
REHABILITATION ESCROW ACCOUNT	Total of all the items listed below cannot exceed \$35,000: <ul style="list-style-type: none"> • Repairs • Cost of inspection fee (estimate \$150) ordered prior to final disbursement • Cost of title update (estimate \$150) ordered prior to final disbursement • Permits • Contingency Reserve calculated from the total cost of repairs, if required • Supplemental origination fee which is calculated as 1.5% of the portion of the mortgage allocated to rehabilitation or \$350 whichever is greater. If multiple final draws (one per contractor) are necessary, additional inspection and title update fees must be collected accordingly. Multiple final draws are permitted on a case-by-case basis and approved by Underwriting prior to loan closing.
CONTINGENCY RESERVE	If the utilities are shut off at the property, a minimum 10% contingency will be required. If the utilities are on at the property a contingency reserve may be required by the underwriter. The decision to require a contingency reserve is dependent on the scope of the proposed work. <p>The Contingency Reserve is used solely to pay for the proposed repairs or improvements and any unforeseen items related to these repair items. It is not intended to pay for additional "wish list" items at the end of the project.</p> <p>Any unspent funds remaining after the final draw is disbursed, must be applied to the mortgage principal, unless the borrower funded the contingency reserve in cash.</p> <p>Note to Underwriter- indicate on the Maximum Mortgage Worksheet if loan does not require a contingency reserve or if the contingency will be paid in cash.</p>
ELIGIBLE PROPERTY IMPROVEMENTS	<ul style="list-style-type: none"> • Repair/Replacement of roofs, gutters and downspouts • Repair/Replacement/upgrade of existing HVAC systems • Repair/Replacement/upgrade of plumbing and electrical systems • Repair/Replacement of flooring (not subflooring) • Minor remodeling, such as kitchens, which does not involve structural repairs • Painting, both exterior and interior • Weatherization, including storm windows and doors, insulation, weather stripping, etc. • Purchase and installation of appliances, including free-standing ranges, refrigerators, washers, dryers, dishwashers and microwave ovens (purchase transactions only) • Accessibility improvements for persons with disabilities • Lead-based paint stabilization or abatement of lead-based paint hazards • Repair/replace/add exterior decks, patios, porches – this must increase the property value equal to the dollar amount spent on improvements. • Basement finishing and remodeling, which does not involve structural repairs • Basement waterproofing • Window and door replacements and exterior wall re-siding • Septic system and/or well repair or replacement or connect to public water and sewer • In-ground pool repair or removal (funds cannot be used to install a new pool or to repair an existing above-ground pool). • Repairs of existing fence or addition of a new fence Removal of a tree if tree represents a potential imminent threat to the home (safety issue)

OCCUPANCY	Primary Residence ONLY
MINIMUM FICO	<ul style="list-style-type: none"> • Minimum 620 credit score for all borrowers. • Tri-merge credit report is required. • Non-traditional credit is not permitted.
LOAN PURPOSE	<ul style="list-style-type: none"> • Purchase • Rate Term Refinance or Simple Refinance <p>Cash-out refinance transactions are not permitted.</p>
MAXIMUM LOAN AMOUNT	<p>Standard FHA investment required. HUD maximum mortgage loan limits apply.</p> <p>PURCHASE: <u>96.5% LTV / 100% CLTV</u></p> <p>The maximum mortgage amount for purchase transaction is based on the lesser of 1) or 2) below:</p> <ol style="list-style-type: none"> 1) The “as-is” value (if an “as-is” appraisal is performed) or the purchase price of the property minus any inducements to purchase whichever is less, plus the estimated cost of or rehabilitation; or 2) 110% of “after-improved” value as evidenced by the appraisal (condominiums limited to 100%) <p>REFINANCE: <u>97.75% LTV / 100% CLTV</u> – review Max Mortgage Worksheet for complete instructions</p> <p>The maximum mortgage amount for refinance transaction is based on the lesser of 1) or 2) below:</p> <ol style="list-style-type: none"> 1) The adjusted “as-is” value plus the estimated cost of or rehabilitation; or 2) 110% of “after-improved” value as evidenced by the appraisal (condominiums limited to 100%)
203(k) ORIGINATION FEES	<p>The following fees must be included on the Good Faith Estimate</p> <ul style="list-style-type: none"> • Supplemental origination fee equal to the greater of \$350 or 1.5% of the rehabilitation account • Title Update – estimate of \$150 – if the title update will cost more than this amount, please use actual cost. • Final Inspection – estimate of \$150 – at the discretion of underwriting, a final inspection may not be required depending on the scope of the project. For example, if the repairs are less than \$15,000 and comprise of the purchase and installation of appliances, floor covering and painting, the underwriter may waive the final inspection. However, all loans should be disclosed with the final inspection fee on the GFE.
ELIGIBLE PROPERTY TYPES	<p>Only available for properties located in the MLS approved states below</p> <ul style="list-style-type: none"> • 1 unit, detached and attached Site Condos • 2-4 unit properties • Site Condos • PUDs • Condos – Rehabilitation limited to interior only <ul style="list-style-type: none"> ○ FHA Approved Projects by HRAP method only • Modular Homes & Log Homes with 2 modular / log comps • Including HUD/Bank REO Properties <p>Property must be 100% complete and at least one (1) year old</p> <p>MANUFACTURED HOMES AND CO-OPS ARE INELIGIBLE</p> <p>PROPERTY IS NOT ELIGIBLE FOR FHA INSURANCE IF THE BUILDING AND RELATED IMPROVEMENTS TO THE PROPERTY ARE LOCATED WITHIN A SFHA (ZONE A, A “SPECIAL FLOOD ZONE AREA”, OR ZONE V, A “COASTAL AREA”) AND INSURANCE UNDER THE NATIONAL FLOOD INSURANCE PROGRAM (NFIP) IS NOT AVAILABLE IN THE COMMUNITY. A PROPERTY IS NOT ELIGIBLE FOR FHA MORTGAGE INSURANCE IF THE IMPROVEMENTS ARE, OR ARE PROPOSED TO BE LOCATED, WITHIN THE COASTAL BARRIER RESOURCE SYSTEM (CBRS).</p>
GEOGRAPHIC RESTRICTIONS	Available in all MLS eligible states as identified on the MLS Website - LINK
DU TOTAL SCORECARD –	Please refer to FHA product matrix.
QUALIFYING RATIOS	Please refer to FHA product matrix.
ELIGIBLE BORROWERS	<ul style="list-style-type: none"> • All borrowers must have a valid US Social Security number. • US Citizen. • Permanent Resident Alien with a valid green card. • Non-Permanent Resident Alien with an acceptable visa. • Must have established credit in the US. • Must be paid in US dollars. • Funds to close / reserves must be in US dollars in a US depository.
NON OCCUPANT BORROWERS	Please refer to FHA product matrix.
IDENTITY-OF-INTEREST	<p>Identity-of-Interest:</p> <ul style="list-style-type: none"> • Between the buyer and the seller - If there is an identity-of-interest between the buyer and the seller of the property, the parties involved (and/or their family members) cannot use any commission from the sale or listing of the property for down payment. In addition, the LTV will be limited to 85%. • Between the buyer and the contractor – not permitted • Between the buyer and the lender – not permitted.

MORTGAGE INSURANCE PREMIUMS	MORTGAGE INSURANCE PREMIUMS			
	1.75% Up-Front MIP Premium (UFMIP) for all loan types			
	Term	LTV	Annual MIP	Duration of Annual MIP
	Greater than 15 year	>95%	.85%	Mortgage term
		> 90% but ≤95%	.80%	Mortgage term
		≤90%	.80%	11 years
15 year or less	> 90%	.70%	Mortgage term	
	≤90%	.45%	11 years	
RESERVES	<ul style="list-style-type: none"> • 1 – 2 Unit Properties: No reserves required. • 3 – 4 Unit Properties: 3 months PITI. The subject property must be “self-sufficient”. This means that the gross rents less the vacancy factor for all units, including the owner occupied unit, must be equal to or greater than the total payment for the subject property. 			
TITLE COMMITMENT	Mechanic’s lien coverage is not required. However, the title company needs to be aware that the loan is a 203k.			
APPRAISAL REQUIREMENTS	<p>An appraisal is always required to establish the After-Improved Value of the property.</p> <p><u>As-Is Appraisal</u> To determine an Adjusted As-Is Value, a second As-Is appraisal is required in certain refinance and property flipping transactions as defined below. Otherwise an As-Is appraisal is not required.</p> <p><u>Purchase Transactions</u> Property Flipping - If the seller (including non-profit, foreclosure, or deed-in-lieu of transfer) has owned the property between 91 and 180 days and the new sales price exceeds the previous sales price by 100% or more, a second appraisal by a second appraiser is required to support value. The cost of the second appraisal may not be charged to the borrower.</p> <p>The Adjusted As-Is Value is the lesser of:</p> <ul style="list-style-type: none"> • The purchase price less any inducements to purchase; or • The As-Is Property Value <p>The As-Is Property Value refers to the as-is value as determined by an FHA Roster Appraiser, when an as-is appraisal is performed. In the case of property flipping, the lender must obtain an as-is appraisal if needed to comply with the Property Flipping guidelines.</p> <p><u>Refinance Transactions</u></p> <p>Properties Acquired Greater than 12 months prior to Case Assignment Date</p> <ul style="list-style-type: none"> • Lender must obtain an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the property plus the following items EXCEEDS the After-Improved Value: financeable repairs and Improvement costs + financeable mortgage fees + financeable contingency reserves. • Lender has the option of using the existing debt or an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the property plus the following items DOES NOT EXCEED the After-Improved Value: financeable repairs and Improvement costs + financeable mortgage fees + financeable contingency reserves. <p>Properties Acquired less than 12 months prior to Case Assignment Date For properties acquired by the borrower within 12 months of the case number assignment date, an as-is appraisal must be obtained.</p> <p><u>Other Appraisal Items</u></p> <ul style="list-style-type: none"> • Utilities must be on during the inspection. • The FHA appraiser must be provided with a copy of the bid or the Work Write-up. A description of the proposed repairs and/or improvements must be included in the appraisal report as well as the contractor’s cost estimate. The appraiser is to include in the reconciliation section of the appraisal report an after-improved value subject to completion of the proposed repairs and/or improvements. • Value must be sufficient to support purchase/refinance and complete property rehabilitation. • DECLINING MARKETS (decline in prices/oversupply/extended marketing time) <ul style="list-style-type: none"> ○ There must be 2 comparables that have sold within 90 days of the appraisal date. If there aren’t any, the appraiser must then provide a detailed explanation. ○ Also, the appraiser must provide 2 active listings or pending sales. This is in addition to a minimum of 3 sold comps. Appropriate adjustments must be made to the list/pending sale price. 			

HUD CONSULTANT	HUD 203(k) Consultant is not required. In FHA Connection, enter "203KS" into the Consultant field. Case number must verify that it was registered as a Limited 203k program.
INTERESTED PARTY CONTRIBUTIONS	6% maximum
ESCROW WAIVERS	Not allowed on FHA loans regardless of LTV
SELF-HELP	<p>Self-Help is NOT permitted except under the scenarios listed below.</p> <ul style="list-style-type: none"> • Borrower is only financing the purchase and installation of appliances. • Borrower is working with a home improvement store such as Home Depot or Lowe's where the store is acting as the contractor. • Borrower is financing the painting of the home. <p>Exceptions to this policy will only be granted on a case-by-case basis after evaluating the borrower and their work experience. Borrower to provide written statement of work plan, no labor added in. Minimum contingency reserve of 10% will be required. Two months PITI required in reserves.</p>
CONTRACTS/BIDS	<ul style="list-style-type: none"> • Only "fixed price" contracts subject to changes made by the underwriter are acceptable • "Cost plus" or "time and materials" contracts are prohibited • Contract must breakdown cost of materials and cost of labor. • Contract must specify the total cost estimate and allotted time to complete the work signed and dated by all parties • Additional bids may be required at Underwriter's discretion after review of the cost estimates to insure accuracy.
CONTRACTOR REQUIREMENTS AND ACCEPTANCE	<p>All renovation work must be performed by a licensed contractor. Only one General Contractor can be used. An additional "specialty" contractor may be required based on the scope of work. This will be permitted on a case-by-case basis.</p> <p>A borrower must choose his or her own contractor to perform the needed renovation, subject to the lender's determination that the contractor is qualified and experienced, has all appropriate credentials required by the state, is financially able to perform the duties necessary to complete the renovation work in a timely manner, and agrees to indemnify the borrower for all property losses or damages caused by its employees or subcontractors. There cannot be an identity-of-interest between any parties participating in the transaction.</p> <p>The lender may not choose the contractor or refer the borrower to any one specific contractor.</p> <p>Contractor must meet the following requirements:</p> <ul style="list-style-type: none"> • Must be licensed, if applicable per state or other jurisdictional law • Must be insured and bonded • Must have at least 3 years work experience <p>Contractor to complete contractor package. Contractor package located on TPO connect website. Package to be emailed to assigned AE or to email address below.</p> <ul style="list-style-type: none"> • Builder Registration Form • Project Jurisdiction Information Sheet • Important Notice to Contractor • IRS Form W-9 • Contractor License • Evidence of Liability Insurance, and Worker's Compensation Insurance, unless exempt • Valid City Tax Certificate, if applicable. <p>MLS will perform the contractor acceptance review. Broker will order the Contractor Review from assigned AE or Processor.</p> <p>MLS has the ultimate authority for accepting a contractor.</p> <p>Review the Accepted Contractor List on the Renovation TPO connect website.</p>

**ADDITIONAL
REQUIRED FORMS**

Borrower signed documents	
During Processing	<ul style="list-style-type: none"> • Homeowner/Contractor Agreement (not required on Self-Build) – one agreement signed per contractor (if there are 3 contractors, there should be 3 Homeowner Contractor Agreements in the file. • 203(k) Borrower’s Acknowledgement • FHA Streamlined 203(k) Notice to Borrower • FHA Streamlined 203(k) Loan Disbursement Guide • FHA 203(k) Borrower’s Identity-of-Interest Certification • Rehabilitation (Self-Help) Agreement, only if self-build
After receipt of acceptable bids	<ul style="list-style-type: none"> • Maximum Base Mortgage Calculation – Limited 203(k) program – does not require signatures • 203k Borrower Disclosure and Indemnification Agreement • 203k Initial Indemnification Agreement
At Closing	<ul style="list-style-type: none"> • Rehabilitation Loan Agreement • Rehabilitation Loan Rider • Maximum Base Mortgage Calculation – Limited 203(k) program – does not require signatures • Contact Information Sheet / Authorization for Third Party Release

Contractor signed documents – not applicable on Self-Build	
During Processing	<ul style="list-style-type: none"> • Homeowner/Contractor Agreement – one agreement signed per contractor (if there are 3 contractors, there should be 3 Homeowner Contractor Agreements in the file. • MLS Contractor’s Profile, one per Contractor • W-9, one per Contractor (not applicable if the borrower is using a home improvement store like Home Depot or Lowe’s) • Notice to Contractor • Project Jurisdiction Sheet • 203k Loan Disbursement Guide, for informational purposes only
After receipt of acceptable bids	<ul style="list-style-type: none"> • 203k Initial Indemnification Agreement

Lender signed documents	
During Processing by Originator	<ul style="list-style-type: none"> • 203(k) Borrower’s Acknowledgement
At Approval by Underwriter	<ul style="list-style-type: none"> • Maximum Base Mortgage Calculation – Limited 203(k) program – does not require signatures, • MLS Streamlined 203(k) Worksheets – Initial Disbursement tab
At Closing	<ul style="list-style-type: none"> • Rehabilitation Loan Agreement • MLS Streamlined 203(k) Worksheets – HUD1 Worksheet tab

Consultant signed documents – only applicable if Borrower uses Consultant	
During Processing	<ul style="list-style-type: none"> • 203(k) Work Write-Up • FHA 203(k) Consultant’s Identity-of-Interest Certification

**Consult approved attorney for completion of required forms. Encompass does not support these documents at this time.*

See *Escrow Disbursements* section below for listing of documents needed for final draw

DOCUMENT AGE	<ul style="list-style-type: none"> • Credit Docs, 120 Days • Appraisal, 120 Days 												
PERMITS	Required for all rehabilitations prior to the commencement of work. Evidence of permits must be received by MLS prior to final draw.												
WORK CHANGE ORDERS/COST OVER-RUNS	<p>Work change orders are not allowed without the expressed written approval of MLS. Any work that is authorized without approval requires the borrower to pay for the work with their own funds. Renovation funds cannot be used.</p> <p>Cost over-runs that cannot be covered by the contingency reserve will become the responsibility of the borrower. Funds used to pay cost-over-runs must be documented during the final disbursement process.</p>												
ESCROW DISBURSEMENTS	<p>Only two disbursements allowed: Initial and final</p> <p>Initial Disbursement at Closing The initial disbursement will be 35% of the total cost of repairs. Exceptions to this policy are at the discretion of the Underwriter typically for borrowers working with a home improvement store such as Home Depot or Lowe’s.</p> <p>Underwriter will complete a MLS FHA Streamlined 203(k) Worksheet – Initial Disbursement tab detailing the disbursement amounts for the Closer.</p> <p>If there are multiple contractors, the above calculation must be applied to each individual contractor to determine their individual disbursement at closing.</p> <p>The checks will be made payable to the borrower and contractor at time of disbursement. Checks will be made payable to the borrower only if considered Self-Build. All disbursements must be reflected on the HUD-1.</p> <p>Final Disbursement The balance of eligible funds is disbursed upon completion of <u>all</u> work and the receipt of the following acceptable documentation. If there are multiple contractors, multiple final draws (one per contractor) are permitted on a case-by-case basis only.</p> <table border="1" data-bbox="380 1352 1528 1553"> <thead> <tr> <th colspan="2" data-bbox="380 1352 1528 1400">Borrower documents – Prior to Final Disbursement</th> </tr> </thead> <tbody> <tr> <td data-bbox="380 1403 626 1553">Before Final Disbursement</td> <td data-bbox="630 1403 1528 1553"> Borrower must sign and date the following: <ul style="list-style-type: none"> • Mortgagor’s Letter of Completion • 203k Final Indemnification Agreement • If there are cost over-runs, funds used to pay the over-run must be documented. </td> </tr> </tbody> </table> <table border="1" data-bbox="380 1593 1528 1835"> <thead> <tr> <th colspan="2" data-bbox="380 1593 1528 1642">Contractor documents – Prior to Final Disbursement</th> </tr> </thead> <tbody> <tr> <td data-bbox="380 1645 626 1835">Before Final Disbursement</td> <td data-bbox="630 1645 1528 1835"> <ul style="list-style-type: none"> • Contractor’s Final Invoice – all contractor’s must submit final invoices on business letterhead, one invoice per contractor • 203k Final Indemnification Agreement (Alabama only), not applicable for self-build • 203k Final Indemnification Agreement and Lien Waiver (Florida, Indiana and Michigan), not applicable for self-build • Evidence of permits </td> </tr> </tbody> </table> <table border="1" data-bbox="380 1876 1528 2104"> <thead> <tr> <th colspan="2" data-bbox="380 1876 1528 1924">Post-Closing Ordered Documents</th> </tr> </thead> <tbody> <tr> <td data-bbox="380 1927 626 2104">Before Final Disbursement</td> <td data-bbox="630 1927 1528 2104"> <ul style="list-style-type: none"> • Final Inspection reflecting all repairs have been completed, if applicable – at the discretion of underwriting, some projects may not require a final inspection (for example, if the only repairs are the installation of new appliances, a final inspection will not be required.). Review the Maximum Mortgage Worksheet to determine if a final inspection is required. • Title update title company – reflecting no mechanic’s liens </td> </tr> </tbody> </table>	Borrower documents – Prior to Final Disbursement		Before Final Disbursement	Borrower must sign and date the following: <ul style="list-style-type: none"> • Mortgagor’s Letter of Completion • 203k Final Indemnification Agreement • If there are cost over-runs, funds used to pay the over-run must be documented. 	Contractor documents – Prior to Final Disbursement		Before Final Disbursement	<ul style="list-style-type: none"> • Contractor’s Final Invoice – all contractor’s must submit final invoices on business letterhead, one invoice per contractor • 203k Final Indemnification Agreement (Alabama only), not applicable for self-build • 203k Final Indemnification Agreement and Lien Waiver (Florida, Indiana and Michigan), not applicable for self-build • Evidence of permits 	Post-Closing Ordered Documents		Before Final Disbursement	<ul style="list-style-type: none"> • Final Inspection reflecting all repairs have been completed, if applicable – at the discretion of underwriting, some projects may not require a final inspection (for example, if the only repairs are the installation of new appliances, a final inspection will not be required.). Review the Maximum Mortgage Worksheet to determine if a final inspection is required. • Title update title company – reflecting no mechanic’s liens
Borrower documents – Prior to Final Disbursement													
Before Final Disbursement	Borrower must sign and date the following: <ul style="list-style-type: none"> • Mortgagor’s Letter of Completion • 203k Final Indemnification Agreement • If there are cost over-runs, funds used to pay the over-run must be documented. 												
Contractor documents – Prior to Final Disbursement													
Before Final Disbursement	<ul style="list-style-type: none"> • Contractor’s Final Invoice – all contractor’s must submit final invoices on business letterhead, one invoice per contractor • 203k Final Indemnification Agreement (Alabama only), not applicable for self-build • 203k Final Indemnification Agreement and Lien Waiver (Florida, Indiana and Michigan), not applicable for self-build • Evidence of permits 												
Post-Closing Ordered Documents													
Before Final Disbursement	<ul style="list-style-type: none"> • Final Inspection reflecting all repairs have been completed, if applicable – at the discretion of underwriting, some projects may not require a final inspection (for example, if the only repairs are the installation of new appliances, a final inspection will not be required.). Review the Maximum Mortgage Worksheet to determine if a final inspection is required. • Title update title company – reflecting no mechanic’s liens 												

**FINAL
DISBURSEMENT
PROCESS**

Use the *Streamline 203(k) Final Disbursement Checklist/Approval Form*

The Construction Lending Department is responsible for obtaining all of the documents listed above. Once received, the documents are submitted to the Underwriter who will review and approve the final draw. The Accounting department is responsible for releasing the funds based on instruction from the Underwriter. The Accounting department will send the disbursement check(s) to the Post-Closing Department. The Post-Closing Department will send the check(s) to the borrower.

The repair escrow funds are held in an interest bearing account. During the final disbursement process, any interest earned on the account will be paid to the borrower according to their instructions on the 203k Borrower's Acknowledgment Disclosure (signed at application). It is typically applied to principal or paid in cash to the borrower. If the borrower chose the cash option, a separate check (payable to the borrower only) will be issued by Accounting and sent to the Construction Lending Department for distribution with the final disbursement check(s).

Final Close-out / Payment of Interest from the Repair Escrow Account

Any amount remaining in the repair escrow account after the final disbursement will be applied to the principal balance of the loan. This includes any unused portion of the bid, contingency reserve funds, inspection fees or title update fees (unless the borrower paid cash for any of these items).

The CLD is responsible for the final close-out of the loan in FHA Connection.