



FHA STANDARD 203(k) PROGRAM

(This Product is NOT available for Correspondent relationships. Broker only)

POLICY	GUIDELINE
GENERAL DESCRIPTION	The standard 203(k) program enables borrowers to finance the purchase or refinance of a home and the cost of rehabilitation through a single mortgage. The standard 203(k) program offers expanded eligible improvements and increased amount of rehabilitation funds than the Streamlined 203(k) program.
CORE PROGRAM	Unless specifically addressed in this product matrix, all standard FHA requirements apply.
PRODUCT TYPE & TERMS	<ul style="list-style-type: none"> 30 and 15 year fixed rate mortgage 203(k) Basic with ADP Code 702 203(k) Condominium with ADP Code 804 <p>Temporary buy downs are not permitted.</p>
GENERAL REHABILITATION GUIDELINES	<ul style="list-style-type: none"> Minimum amount of rehabilitation: \$5,000 Maximum amount of rehabilitation: none Rehabilitation Construction must begin within 30 days of closing, and all work must be completed within 6 months depending on the extent of the work to be completed. Lender may require less than 6 months. Repair/Rehabilitation escrow funds held by the lender in an Interest-bearing account No more than five escrow disbursements If the borrower fails to perform under the agreements under the terms of the Rehabilitation Agreement, the lender may refuse to make further releases from the Rehabilitation Escrow Account. The funds in the account can be applied to reduce the principal balance. Also, the lender has the option to call the mortgage loan due and payable.
ELIGIBLE IMPROVEMENTS	See attached list
INELIGIBLE IMPROVEMENTS	Luxury improvements are not eligible – installing a new swimming pool (or repairing an above-ground pool) detached living space, hot tubs, tennis courts, gazebos, barbecue pits, saunas or alterations to support commercial use.
REHABILITATION ESCROW ACCOUNT	<p>The 203(k) mortgage amount cannot be increased to cover additional or increased expenses during the rehabilitation period. It is very important for the borrower to carefully select a contractor who will accurately estimate the cost of improvements and satisfactorily complete the rehabilitation at or below the estimate. All cost over runs (beyond the costs that can be covered from the contingency reserve) will be the responsibility of the borrower.</p> <p>When the loan is closed, the proceeds (not disbursed prior to or at closing) designated for the rehabilitation or improvement, including contingency reserve, are to be placed in an interest bearing escrow account. This account is not an escrow account for the paying of real estate taxes, insurance premiums, etc. and is not to be treated as such. The net income earned from the account must be paid to the mortgagor. The lender will release escrowed funds upon completion of the proposed rehabilitation in accordance with the Work Write-Up and Draw Request.</p> <ul style="list-style-type: none"> Repairs – including materials and labor Inspection fees are set by the HUD Consultant (initially disclose \$1000 for 5 draws) - maximum of 5 inspections will be allowed for inclusion in the cost of rehabilitation. If all inspections are not required or if the fee is less than what has been collected, remaining funds will be applied to principal balance (unless funded in cash) after the Final Release Notice is issued. If additional inspections are required (more than 5), the borrower or contractor will be responsible for payment. Cost of title update (estimate \$150) ordered prior to final disbursement Consultant and/or architectural/engineering fees HUD Consultant Fee Permits Mortgage payments, only if property is uninhabitable as determined by the appraiser Contingency Reserve calculated from the total cost of repairs Supplemental origination fee which is calculated as 1.5% of the portion of the mortgage allocated to rehabilitation or \$350 whichever is greater. If the result of this calculation is greater than \$750, the supplemental origination fee is capped at \$750.
MORTGAGE PAYMENT RESERVE	Funds not to exceed the amount of 6 mortgage payments (including the mortgage insurance premium) can be included in the cost of rehabilitation to assist a borrower when the property is not habitable during rehabilitation (as deemed by the appraiser). The number of payments cannot exceed the completion time frame established by the Appraiser. The lender must make the monthly mortgage payments directly from the interest bearing reserve account. Funds remaining in the reserve account after the Final Release Notice must be applied to the mortgage principal.

CONTINGENCY RESERVE	<p>In most cases, a contingency reserve is required. Minimum of 10% of the cost of rehabilitation and maximum of 20%, based on the following:</p> <table border="1" data-bbox="370 201 1534 446"> <thead> <tr> <th>Criteria</th> <th>Contingency</th> </tr> </thead> <tbody> <tr> <td>properties older than 30 years</td> <td>Minimum 10%; however for major remodeling is required, 20% can be used (underwriter discretion)</td> </tr> <tr> <td>properties less than 30 years old</td> <td> <ul style="list-style-type: none"> If evidence of termite damage, 10% minimum contingency reserve all others, the cost estimate may include a contingency reserve; </td> </tr> <tr> <td>utilities were not turned on for inspection</td> <td>minimum 15%</td> </tr> </tbody> </table> <p>If the scope of the work is well defined and uncomplicated, and the rehabilitation cost is less than \$7,500, the lender may waive the requirement for a contingency reserve.</p> <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- to indicate on the Maximum Mortgage Worksheet if loan does not require a contingency reserve or if the contingency will be paid in cash.</p>	Criteria	Contingency	properties older than 30 years	Minimum 10%; however for major remodeling is required, 20% can be used (underwriter discretion)	properties less than 30 years old	<ul style="list-style-type: none"> If evidence of termite damage, 10% minimum contingency reserve all others, the cost estimate may include a contingency reserve; 	utilities were not turned on for inspection	minimum 15%										
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203(k) ORIGATION 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 (capped at \$750) Title Update – estimate of \$150 – if the title update will cost more than this amount, please use actual cost. Final Inspection – estimate of \$1000 (for a 5 draw loan) – cost per inspection is set by the HUD Consultant and the accurate amount may need to be re-disclosed upon receipt of the Work Write Up from the HUD Consultant HUD Consultant Fee 																		
DISCOUNT FEES	<p>May finance a portion of the discount points not to exceed an amount equal to the discount point percentage multiplied by the total of 1) financeable repair and improvement costs and fees; 2) financeable contingency reserves; and 3) financeable mortgage payment reserves.</p>																		
HUD CONSULTANT	<p>A HUD Consultant is required. Prior to the appraisal, a HUD Consultant must visit the site to ensure compliance with the program requirements. The utilities must be on for this site review to take place. The fees below are generally followed but should be verified with the individual HUD Consultant. May need to be re-disclosed if determined to be different upon receipt of the Work Write-Up.</p> <table border="1" data-bbox="542 1489 1274 1755"> <thead> <tr> <th colspan="2">HUD Consultant Fee Schedule</th> </tr> <tr> <th>Cost of Repairs</th> <th>Fee</th> </tr> </thead> <tbody> <tr> <td>\$7,500 or less</td> <td>\$400</td> </tr> <tr> <td>\$7,501 – \$15,000</td> <td>\$500</td> </tr> <tr> <td>\$15,001 – \$30,000</td> <td>\$600</td> </tr> <tr> <td>\$30,001 – \$50,000</td> <td>\$700</td> </tr> <tr> <td>\$50,001 – \$75,000</td> <td>\$800</td> </tr> <tr> <td>\$75,001 – \$100,000</td> <td>\$900</td> </tr> <tr> <td>\$100,000 and greater</td> <td>\$1000</td> </tr> </tbody> </table> <p>Consultants can be found on HUD’s website: https://entp.hud.gov/idapp/html/f17cnsldata.cfm. Consultant information must be entered into FHA Connection.</p> <p>The Consultant ensures that the improvements comply with HUD’s minimum property standards and all local codes and ordinances. The borrower must provide the lender with the appropriate architectural exhibits that clearly show the scope of work to be accomplished. The following list of exhibits are recommended, but may be modified by the jurisdictional HUD office as required.</p> <ol style="list-style-type: none"> A Plot Plan of the Site is required only if a new addition is being made to the existing structure. Show the location of the structure(s), walks, drives, streets, and other relevant details. Include finished grade elevations at the property corners and building corners. Show the required flood elevation. Proposed Interior Plan of the Dwelling – show where the structural or planning changes are contemplated, including an addition to the dwelling (an existing plan is no longer required.) Work Write-up and Cost Estimate – HUD Form 9746-A 	HUD Consultant Fee Schedule		Cost of Repairs	Fee	\$7,500 or less	\$400	\$7,501 – \$15,000	\$500	\$15,001 – \$30,000	\$600	\$30,001 – \$50,000	\$700	\$50,001 – \$75,000	\$800	\$75,001 – \$100,000	\$900	\$100,000 and greater	\$1000
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OCCUPANCY	<p>Primary Residence ONLY</p>																		
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-92700 (Maximum Mortgage Worksheet) must be used to determine the maximum mortgage amount.</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 adjusted “as-is” value or the purchase price of the property before rehabilitation 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><u>\$100 Down Program</u> \$100 down program can be utilized on applicable HUD homes. Bids above the HUD “as is” appraised value will require additional down payment in an amount equal to the difference between the sales price and the “as is” value.</p> <p>REFINANCE: <u>97.75% LTV / 100% CLTV</u> – review Max Mortgage Worksheet for complete instructions Based on the lesser of:</p> <ol style="list-style-type: none"> 1) The “as is” value when an “as-is” appraisal is performed OR existing debt on the property before rehabilitation, plus the estimated cost of rehabilitation and allowable closing costs; or 2) The lesser of the adjusted as-is value plus rehabilitation costs or 110% of the after-improved value (condominiums limited to 100%) multiplied by the appropriate LTV factor. <p>Note: If the property was owned less than 1 year, an “as-is” appraisal is required.</p> <p>HUD maximum mortgage amounts apply.</p>
ELIGIBLE PROPERTY TYPES	<p>Only available for properties located in the following states: MLS States listed below</p> <ul style="list-style-type: none"> • 1 unit, detached and Site Condos • 2-4 unit properties • PUDs • Condos – Rehabilitation limited to interior only <ul style="list-style-type: none"> ○ FHA Approved Projects by HRAP method only ○ Maximum mortgage amount cannot exceed 100% of after-improved value. ○ Rehabilitation is limited to the interior of the unit. Proceeds are not to be used for the rehabilitation of exteriors or other areas which are the responsibility of the condominium association, except for the installation of firewalls in the attic for the unit. ○ Only the lesser of 5 units per condominium association, or 25% of the total number of units, can be undergoing rehabilitation at any one time. ○ After rehabilitation is complete, the individual buildings within the condominium must not contain more than 4 units. By law, 203k financing can only be used to rehabilitate 1-4 unit structures. However, this does not mean that the condominium project, as a whole, can only have 4 units or that all individual structures must be detached. • 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	<p>Available in all MLS eligible states as identified on the MLS Website - LINK</p>
RECENTLY ACQUIRED PROPERTIES	<p>Homebuyers who purchase a property with cash can refinance the property using 203(k) within 6 months of purchase, the same as if the buyer purchased the property with a 203(k) insured loan to begin with. Evidence of interim financing is not required; the mortgage calculations will be done the same as a purchase transaction. Cash back will be allowed to the borrower in this situation less any down payment and closing cost requirement for the 203(k) loan. A copy of the sales contract and the HUD-1 Settlement Statement must be submitted to verify the accepted bid price (as-is value) of the property and the closing date.</p>

CHAIN OF TITLE	<p>If the property sold within the previous 1 year period prior to closing, prior ownership must be reviewed. The 203(k) loan must be based on the lowest sales price in the previous year. Foreclosure and deed-in-lieu transfers are not considered sales for the purpose of determining lowest sales price for calculation of the maximum loan amount.</p> <p>If the seller (including non-profit, foreclosure, or deed-in-lieu of transfer) acquired the property less than 91 days prior to the date of the contract to sell, the loan is not eligible for FHA financing. The date the seller obtains full rights to the property is considered the acquisition date.</p> <p>Property transfers between 91 and 180 days 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 is required to support value. Please see the appraisal section for more details. Note: Must use the foreclosure value for the previous sales price.</p>																													
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.																													
DU TOTAL SCORECARD	Please refer to FHA product matrix.																													
QUALIFYING RATIOS	Please refer to FHA product matrix.																													
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. 																													
MORTGAGE INSURANCE PREMIUMS	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="4" style="background-color: #d9ead3;">MORTGAGE INSURANCE PREMIUMS</th> </tr> <tr> <th colspan="4" style="background-color: #d9ead3;">1.75% Up-Front MIP Premium (UFMIP) for all loan types</th> </tr> <tr> <th style="background-color: #d9ead3;">Term</th> <th style="background-color: #d9ead3;">LTV</th> <th style="background-color: #d9ead3;">Annual MIP</th> <th style="background-color: #d9ead3;">Duration of Annual MIP</th> </tr> </thead> <tbody> <tr> <td rowspan="3" style="text-align: center;">Greater than 15 year</td> <td style="text-align: center;">>95%</td> <td style="text-align: center;">.85%</td> <td style="text-align: center;">Mortgage term</td> </tr> <tr> <td style="text-align: center;">> 90% but ≤95%</td> <td style="text-align: center;">.80%</td> <td style="text-align: center;">Mortgage term</td> </tr> <tr> <td style="text-align: center;">≤90%</td> <td style="text-align: center;">.80%</td> <td style="text-align: center;">11 years</td> </tr> <tr> <td rowspan="2" style="text-align: center;">15 year or less</td> <td style="text-align: center;">> 90%</td> <td style="text-align: center;">.70%</td> <td style="text-align: center;">Mortgage term</td> </tr> <tr> <td style="text-align: center;">≤90%</td> <td style="text-align: center;">.45%</td> <td style="text-align: center;">11 years</td> </tr> </tbody> </table>	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
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TITLE COMMITMENT	Mechanic’s lien coverage is not required. However, the title company needs to be aware that the loan is a 203k.																													
INTERESTED PARTY CONTRIBUTIONS	6% Maximum																													
ESCROW WAIVERS	Not allowed on FHA loans regardless of LTV																													

<p>APPRAISAL REQUIREMENTS continued</p>	<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 <u>second As-Is appraisal</u> 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> 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 + financeable Mortgage Payment 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 + financeable Mortgage Payment 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.
<p>PERMITS</p>	<p>All required permits must be obtained prior to the commencement of work.</p>
<p>COST OVER-RUNS</p>	<p>It is crucial that the work estimates be accurate to ensure there are enough funds to complete the work specified. The contingency reserve provides an “emergency supply” of funds for unforeseen expenses that may arise during a project, but it is not meant as a cushion for poor estimating. Any funds remaining after the project has been completed can be used for additional improvements or upgrades approved by the lender or applied to the principal.</p> <p>Any costs that exceed the total amount of repairs and contingency must be paid by the borrower. Funds used to pay cost-over-runs must be documented during the final disbursement process.</p>

<p>IDENTITY-OF-INTEREST</p>	<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.
<p>SELF-HELP</p>	<p>Self Help is NOT permitted.</p>
<p>CONTRACTOR REQUIREMENTS AND ACCEPTANCE</p>	<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 Processor.</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 by emailing the 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>
<p>CONTRACTS/BIDS</p>	<ul style="list-style-type: none"> • Only “fixed price” contracts subject to changes made by the underwriter are acceptable • Contract must cover labor and cost of material. • 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.

**ADDITIONAL
REQUIRED FORMS**

Borrower signed documents	
During Processing	<ul style="list-style-type: none"> • 203(k) Borrower’s Acknowledgement • FHA Standard 203(k) Notice to Borrower • FHA 203(k) Borrower’s Identity-of-Interest Certification • FHA 203(k) Loan Disbursement Guide
After receipt of acceptable bid	<ul style="list-style-type: none"> • Homeowner/Contractor Agreement • 203(k) and Streamlined (k) Maximum Mortgage Worksheet, borrower’s signature is optional
At Closing	<ul style="list-style-type: none"> • Rehabilitation Loan Agreement • Rehabilitation Loan Rider • Maximum Base Mortgage Calculation – Standard 203(k) program – does not require signatures • Contact Information Sheet/Authorization for Third Party Release

Contractor signed documents	
During Processing	<ul style="list-style-type: none"> • Contractor Profile Form • Project Jurisdiction Information Sheet • Important Notice to Contractor • W-9 <p>Must obtain copies of contractor’s valid license and evidence of insurance. Also obtain copy of valid city tax certificate, if applicable.</p>
After receipt of acceptable bid	<ul style="list-style-type: none"> • Homeowner/Contractor 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 – Standard 203(k) program – does not require signatures
At Closing	<ul style="list-style-type: none"> • Rehabilitation Loan Agreement

Consultant signed documents	
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

- Wood Destroying Insect Report – **90 Days**
- Credit Docs, **120 Days**
- Appraisal, **120 Days**

**ESCROW
DISBURSEMENTS**

Disbursements are made from the repair escrow account to pay for the repairs made to the home.

- Disbursements are made as each phase of the project is completed based on the draw paperwork provided by the HUD consultant. Disbursement amounts vary and are based on the work performed. Checks are made payable to the borrower and the contractor.

The only exception is for the cost of flooring, roofing, cabinets, and windows where 50% of the cost of these items can be disbursed up-front as part of a normal draw. The deposits for these items should be included as part of one of the normally scheduled draws. For deposit money, checks are payable to the material supplier/vendor.
- Evidence that permits have been issued are required prior to release of the first disbursement.
- Inspections are required prior to each disbursement.
- A maximum of 5 draws are allowed – a 10% reserve is held back on each draw (see Holdback section). The holdback funds are disbursed upon completion of all work along with the final disbursement.
- Title must be clear before the final funds are disbursed.

Continued next page

**ESCROW
DISBURSEMENTS
(continued)**

Holdback

A 10% holdback is required on each release from the Rehabilitation Escrow Account. The total of all holdbacks may be released only after a final inspection of the rehabilitation and issuance of the final release notice. The lender may retain the holdback for a maximum of 35 calendar days, or the time period required by law to file a lien, whichever is longer, to ensure that no liens are placed on the property.

For deposits on flooring, roofing, cabinets and windows there is no holdback on the deposit, but the final payment is subject to the holdback.

Disbursement Documentation

At each draw request, the following documents are required

203(k) Draw Request form signed by the HUD Consultant, the Contractor and the Borrower.

Invoice from the Contractor

Lien Waiver signed by the Contractor

Inspection supporting disbursement

Evidence that the proper permits were secured with the municipality (first disbursement only)

For Final Disbursement – all of the above and the following:

Photos of the completed project provided by the HUD Consultant

Mortgagor's Letter of Completion signed by the borrower

Final Close-out/Release Notice

Any amount remaining in the repair escrow account after the final disbursement will be applied to 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).

ELIGIBLE IMPROVEMENTS FOR STANDARD 203(k) PROGRAM

The extent of the rehabilitation may range from relatively minor (though exceeding \$5,000 in cost) to virtual reconstruction: a home that has been demolished or will be razed as part of the rehabilitation is eligible, for example, provided that the existing foundation system remains in place.

Minor or cosmetic repairs by themselves are unacceptable; however, they may be added to the minimum requirement.

The types of improvements that borrowers may make include, (this list is not all-inclusive)

- Structural alterations and reconstruction (such as the repair or replacement of structural damage, chimney repair, additions to the structure, installation of an additional bath(s), skylights, finished attics and/or basements, or repair of termite damage and the treatment against termites or other insect infestation).
- Rehabilitation or improvements to a detached garage, a new detached garage, or the addition of an attached unit(s) (if allowed by the local zoning ordinances) can also be included. Properties with separate detached units are acceptable; however, a newly constructed unit must be attached to an existing unit to be eligible.
- Changes for improved functions and modernization (remodeled bathrooms and kitchens, including permanently installed appliances, such as a built-in range and/or oven, range hood, microwave, or dishwasher).
- Elimination of health and safety hazards (including the resolution of defective paint surfaces or lead-based paint problems on homes built prior to 1978).
- Changes that improve the appearance and eliminate obsolescence (new exterior siding, adding a second story to the home, covered porch, stair railings, attached carport)
- Reconditioning or replacing plumbing (including connecting to public water and/or sewer system), heating air conditioning and electrical systems. Installation of new plumbing fixtures is acceptable, including interior whirlpool bathtubs.
- Installation of well and/or septic system. The well or septic system must be installed or repaired prior to beginning any other repairs to the property. The installation of a new well or the repair of an existing well (used for the primary water source to the property) can be allowed provided there is adequate documentation to show there is reason to believe the well will produce a sufficient amount of potable water for the occupants. (A well log of surrounding properties from the local health authority is acceptable documentation).
- Adding or replacing roofing, gutters, and downspouts
- Adding or replacing floors and/or floor treatments
- Energy conservation improvements (such as a new double pane windows, steel insulated exterior doors, insulation, solar domestic hot water systems, or caulking and weather-stripping).
- Major landscape work and site improvements, patios, decks and terraces that improve the value of the property equal to the dollar amount spent on the improvements or required to preserve the property from erosion. The correction of grading and drainage problems is also acceptable. Tree removal is acceptable if the tree is a safety hazard to the property. Repair of existing walks and driveway is acceptable if it may affect the safety of the property. (Fencing, new walks and driveways, and general landscape work- trees, shrubs, seeding or sod) cannot be the first \$5,000 requirement).
- Improvements for accessibility to the handicapped (such as remodeling kitchens and baths for wheelchair access, lowering kitchen cabinets, or installing wider doors and exterior ramps). When basic improvements are involved, the following costs can be included in addition to the minimum \$5,000 requirement:
 - New free standing range, refrigerator, washer and dryer, trash compactor and other appurtenances (used appliances are not eligible)
 - Interior and exterior painting
 - The repair of a swimming pool not to exceed \$1500. Repair costs exceeding the \$1500 limit must be paid into the contingency reserve fund by the borrower. The installation of a new swimming pool is not allowed.
- In-ground pool repair (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)

All health, safety and energy conservation items must be addressed prior to completing general home improvements.

Required Improvements: All rehabilitation construction and/or additions financed with 203(k) mortgage proceeds must comply with the following:

Cost Effective Energy Conservation Standards

- Addition to existing structure. New construction must conform to local codes and HUD minimum property standards.
- Rehabilitation of Existing Structure – to improve the thermal efficiency of the dwelling, the following are required:
 - Weather strip all doors and windows to reduce infiltration of air when existing weather stripping is inadequate or nonexistent.
 - Caulk or seal all openings, cracks or joints in the building envelope to reduce air filtration.
 - Insulate all openings in exterior walls where the cavity has been exposed as a result of the rehabilitation. Insulate ceiling areas where necessary.
 - Adequately ventilate attic and crawl space areas.
- Replacement Systems
 - Heating, ventilating, and air conditioning system supply and return pipes and ducts must be insulated whenever they run through unconditioned spaces.
 - Heating systems, burners, and air conditioning systems must be carefully sized to be no greater than 15% oversized for the critical design, heating or cooling, except to satisfy the manufacturer's next closest nominal size.

Smoke Detectors – each sleeping area must be provided with a minimum of 1 approved, listed and labeled smoke detector installed adjacent to the sleeping area.