

## FHA 203(k) Standard Product Guide

Section 203(k) Financing enables homebuyers and homeowners to finance both the purchase (or refinancing) of a house and the cost of its rehabilitation through a single mortgage.

Amortization & Loan Terms	<p>Fixed Rate</p> <ul style="list-style-type: none"> <li>• 15, 25, 30 year terms available</li> </ul>
Borrower(s)	<p>Eligible:</p> <ul style="list-style-type: none"> <li>• U.S. Citizens</li> <li>• Permanent resident aliens</li> <li>• Non-occupant co-borrowers</li> <li>• Non-permanent resident aliens</li> </ul> <p>Ineligible:</p> <ul style="list-style-type: none"> <li>• Trusts</li> <li>• Investors</li> </ul>
Maximum LTV/CLTV	<p>LTV is based on the lesser of:</p> <ul style="list-style-type: none"> <li>• Sales price (on purchase) or as-is value (on refinance or HUD REO) plus total rehabilitation costs, or</li> <li>• 110% of subject-to appraised value.</li> </ul> <p>Use standard FHA guidelines and apply to the above:</p> <ul style="list-style-type: none"> <li>• Purchase, max 96.5% LTV/CLTV</li> <li>• Refinance, max 97.75% LTV/CLTV</li> </ul> <p>Maximum Mortgage Worksheet (form HUD-92700) is used to calculate the maximum loan amount and LTV.</p>
Minimum Loan Amount	\$100,000
Maximum Loan Amount	FHA Mortgage Limits per county as found online at <a href="https://entp.hud.gov/idapp/html/hicostlook.cfm">https://entp.hud.gov/idapp/html/hicostlook.cfm</a> .
Loan Purpose	<ul style="list-style-type: none"> <li>• Purchase</li> <li>• Rate/Term Refinance<sup>1</sup></li> </ul>
Minimum Renovation Amount	<p>Minimum of \$5,000 in eligible improvements on existing structure(s) on property is required, such as those affecting health and life safety of the occupants.</p> <p>Minor or cosmetic repairs by themselves cannot be included in the first \$5,000, but may be added after the \$5,000 threshold has been met.</p>
Maximum Renovation Amount	No maximum, as long as total amount needed for repairs plus the purchase price or pay off of existing mortgage does not

<sup>1</sup> Cash-out refinances are not allowed.

	exceed 110% of the subject-to appraised value or FHA Mortgage Limits per County, whichever is less.
Credit requirements	<p>Standard FHA credit guidelines apply with the following overlay:</p> <ul style="list-style-type: none"> <li>• DTI: AUS approved, not to exceed 50%</li> <li>• Minimum Credit Score: 620</li> <li>• AUS Findings: DU Approve/Eligible. No manual underwriting allowed.</li> <li>• Seller Contributions: Allowed, per standard FHA guidelines.</li> </ul>
Geographic Location	CA, CO, NV, OR, UT, ID
Occupancy	Owner occupied
Property Types	<p>Eligible:</p> <ul style="list-style-type: none"> <li>• SFRs and PUDs (attached or detached)</li> <li>• 2-4 units (owner occupied only)</li> <li>• Condos<sup>2</sup></li> <li>• Mixed Use</li> </ul> <p>Ineligible:</p> <ul style="list-style-type: none"> <li>• Modular Homes</li> <li>• Log Homes</li> <li>• Manufactured Homes</li> <li>• Condotels</li> <li>• Cooperatives</li> <li>• New construction homes that were not completed</li> <li>• Any property owned by the seller less than 90 days, unless the property is an REO</li> </ul> <p>All properties must have been completed for at least 12 months and a Certificate of Occupancy must have been issued where required by locale.</p>
Appraisal	<p>A subject-to appraisal report must be ordered through an Essex-approved AMC, providing a value of the property after all improvements have been completed (appraisal form 1004).</p> <p>The HUD Consultant's Work Write-Up should be included as an addendum to the appraisal report. At minimum, the Specification of Repairs and Draw Request (Form HUD-9746-A) must be included in the report.</p>

<sup>2</sup> Must be located in an FHA approved condominium project.

	For maximum financing a 2 <sup>nd</sup> As-is value appraisal will be required for all refinance transactions.
Mortgage Insurance	Follow standard FHA requirements: <a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/comp/premiums/ufmain">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/comp/premiums/ufmain</a>
Fees	Loan program-specific fees that must be disclosed on the Maximum Mortgage Worksheet (Form HUD-92700) and Loan Estimate including: <ul style="list-style-type: none"> <li>• 1-5 Inspection Fee(s) (number and amount determined by HUD Consultant) (Box 3)</li> <li>• 1-5 Title Update Fee(s) (approx.. \$50 each) (Box 1)</li> <li>• Architectural and/or Engineering Fee(s) (Box 6)</li> <li>• HUD Consultant fee (see HUD Consultant) (Box 6)</li> <li>• Permit(s) (Box 3)</li> <li>• Discount points on repair costs, if applicable (Box 3).</li> </ul> <p>Traditional processing fees also apply (e.g. processing fee, underwriting fee, flood cert., title insurance premium, etc.).</p>
Contingency Reserve	Minimum of 10% is required; however, contingency reserve should be increased to 15% when utilities are off and cannot be tested. A maximum of 20% may be used where unknowns exists.  Status of utilities is determined by using the HUD Consultant's Work Write-Up or FHA subject-to appraisal.  Contingency withholding may be changed at underwriter's discretion.
Escrowed Mortgage Payments	Up to 6 monthly PITI mortgage payments may be financed into the loan, per the HUD Consultant's approval, and only when the property is uninhabitable during renovation. Uninhabitability is determined by the consultant.
Improvements	Required Improvements: <ul style="list-style-type: none"> <li>• Repairs necessary to bring property up to FHA's Minimum Property Standards</li> </ul> <p>Eligible improvements that may be included in the first \$5,000:</p> <ul style="list-style-type: none"> <li>• Structural alterations and reconstruction</li> <li>• Changes for improved functions and modernization</li> <li>• New additions</li> <li>• Elimination of health and life safety hazards</li> <li>• Changes for aesthetic appeal and elimination of</li> </ul>

	<p>obsolescence</p> <ul style="list-style-type: none"> <li>• Reconditioning or replacement of plumbing, heating, air conditioning and electrical systems</li> <li>• Installation/repair of well/septic systems</li> <li>• Roofing, gutters, downspouts</li> <li>• Flooring, tiling, carpeting</li> <li>• Energy conservation improvements</li> <li>• Improvements for accessibility to the handicapped</li> </ul> <p>Eligible improvements that may be financed <i>after</i> the initial \$5,000:</p> <ul style="list-style-type: none"> <li>• Major landscape work and site improvement, fencing, 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. Tree removal, if a safety hazard exists. Repair of existing walks and driveway, if fall hazard exists</li> <li>• Appliances</li> <li>• Interior/exterior painting</li> <li>• Swimming pool repairs (not to exceed \$1,500)</li> </ul> <p>Ineligible Improvements:</p> <ul style="list-style-type: none"> <li>• Self-help improvements are not allowed</li> <li>• Luxury items (e.g. BBQ pit, bathhouse, hot tub, sauna, spa, outdoor fireplace, installation of swimming pool, gazebo, satellite dish, tennis court, carriage house over garage)</li> </ul> <p>All improvements must begin within 30 days of closing and must be completed within 6 months of closing. At no time should there be a lapse of construction exceeding 30 days. Extensions may be granted on a case-by-case basis when the completion date must exceed 6 months from closing due to inclement weather or extenuating circumstances.</p>
Contractor Requirements	<p>Only one General Contractor is allowed. General contractors will undergo an acceptance process as outlined in the RRL Procedures and Services Guide. At minimum, GC must provide:</p> <ul style="list-style-type: none"> <li>• Essex Contractor Application</li> <li>• Copy of license, if required by locale</li> <li>• Liability and Worker’s Comp Insurance information</li> <li>• W-9</li> </ul>

	Owner/GC is not allowed.
Contractor Bid/Inspections	<p>GC's must provide a bid on repairs that meets the following requirements:</p> <ul style="list-style-type: none"> <li>• On GC's letterhead, including contact info for GC (i.e. company name, name of primary contact, business address, telephone/fax number(s), email address)</li> <li>• Issued to borrower (not loan officer, realtor, relative, etc.)</li> <li>• References subject property address</li> <li>• Be an actual bid, not an estimate</li> <li>• Itemized, including both labor and materials per line item. Taxes may NOT be indicated as a separate line item</li> <li>• Include permit cost(s), preferably as a separate line item</li> <li>• Signed by both contractor and borrower(s)</li> </ul> <p>Supplemental reports, exhibits, or documents may include:</p> <ul style="list-style-type: none"> <li>• Architectural exhibits</li> <li>• Wood-Destroying Pest report</li> <li>• Home Inspection</li> <li>• Roof Certification</li> <li>• Lead-Based Paint test/remediation</li> <li>• Asbestos test/ remediation</li> <li>• Radon Gas test/ remediation</li> </ul>
HUD Consultant (required)	<p>Lender/RRL to select HUD Consultants from FHA's online roster at <a href="https://entp.hud.gov/idapp/html/f17cnsldata.cfm">https://entp.hud.gov/idapp/html/f17cnsldata.cfm</a></p> <p>HUD's recommended fee schedule is as follows:</p> <ul style="list-style-type: none"> <li>• \$400 for repairs less than \$7,500</li> <li>• \$500 for repairs - \$7,501 and \$15,000</li> <li>• \$600 for repairs - \$15,001 and \$30,000</li> <li>• \$700 for repairs - \$30,001 and \$50,000</li> <li>• \$800 for repairs - \$50,001 and \$75,000</li> <li>• \$900 for repairs - \$75,001 and \$100,000</li> <li>• \$1,000 for repairs over \$100,000, and an additional \$50 for each additional \$25,000 in repairs over \$100,000.</li> </ul> <p>See ML 2000-25 for further information regarding the responsibilities of the HUD Consultant in an FHA 203(k) transaction.</p> <p>The HUD Consultant's Work Write-Up package should include</p>

	<p>the following:</p> <ul style="list-style-type: none"> <li>• Specification of Repairs with Recap Page</li> <li>• Initial Draw Request (Form HUD-9746A)</li> <li>• Consultant’s Narrative (optional)</li> <li>• Consultant’s Allowable Fee Agreement</li> <li>• Consultant Identity of Interest</li> <li>• Consultant Certification</li> <li>• Consultant Invoice</li> <li>• Permit Certification.</li> </ul>
Disclosures	<p>Application:</p> <ul style="list-style-type: none"> <li>• Maximum Mortgage Worksheet</li> <li>• 203(k) Borrower’s Acknowledgment (Form HUD-92700-A)</li> <li>• Borrower’s Identity of Interest Certification</li> </ul> <p>Closing:</p> <ul style="list-style-type: none"> <li>• Homeowner/Contractor Agreement</li> <li>• Rehabilitation Loan Rider</li> </ul> <p>Post-Closing:</p> <ul style="list-style-type: none"> <li>• See “Draws”</li> </ul>
Loan Programs	<p>The following loan programs ARE eligible in combination with the FHA 203(k) Standard:</p> <ul style="list-style-type: none"> <li>• Good Neighbor Next Door (GNND).</li> </ul> <p>The following loan programs are NOT eligible in combination with the FHA 203(k) Standard:</p> <ul style="list-style-type: none"> <li>• Energy Efficient Mortgage (EEM)</li> <li>• FHA 203(h).</li> </ul>
Draws	<p>No disbursements are made at closing, except for itemized permits and/or architect fees.</p> <p>All work must be completed and inspected prior to disbursement.</p> <p>Materials draws are not allowed.</p> <p>Proof of permits must be submitted prior to or with the first draw request.</p> <p>A maximum of 5 draws are allowed, as determined by the HUD Consultant. All draws (with exception of the final draw) will have a 10% holdback. The accumulated holdback amount will</p>

	<p>be made payable upon completion of all work and as a part of the final draw disbursement.</p> <p>The following items must be received before the final draw is processed:</p> <ul style="list-style-type: none"><li>• HUD Consultant's Draw Request (Form 9746A)</li><li>• Lien Waiver from GC</li><li>• Mortgagor's Letter of Completion</li><li>• Title Update.</li></ul> <p>Draws must be submitted per Servicer's procedure which will be communicated post funding.</p>
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