



FHA 203(K) GUIDELINES

Renovation loans

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General Responsibilities

Nations Direct is responsible for reviewing the credentials of contractors, consultants, and appraisers on FHA 203(k) loans. Nations Direct is expected to maintain this information and update it periodically.

Consultants

- Standard 203(k) loans *require* an FHA Consultant. An FHA Consultant *may* be used on a Limited 203(k).
- Consultants are selected by the Nations Direct Mortgage from the FHA 203(k) Consultant Roster located on www.hud.gov and FHA Connection. Acceptable consultants prepare the cost estimates in the form of an original Work Write-Up that includes a detailed description of the costs for labor, materials, and a narrative format. A plan review of a contractors bid is not acceptable.

Contractors

- NDM must ensure all 203(k) loans have a legally binding contract between the borrower and contractor prior to loan closing. Bid letters are not an acceptable substitute. The contract must contain the terms and conditions for completion and be for an amount that does not exceed the work write-up. Clauses that provide for open-ended changes are not acceptable.
- A copy of the contractor information sheet, profile or the equivalent review document must be included in the loan file and maintained to provide current information.

HUD Properties

- The “as-is” appraisal or HUD statement of value must be obtained from the marketing company that is selling the property for HUD. The conditions of the property must be taken into consideration by the consultant in performing the work write-up. Provide the consultant with a copy of the “as-is” appraisal along with the work order.

Note: A title policy is required by Nations Direct Mortgage on all HUD properties as additional protection for everyone.

Self-Help or Borrower Acting as General Contractor

- Nations Direct Mortgage has determined that self-help or the borrower acting as the general contractor represents increased risk and additional liability. Historically, these projects do not stay within the scope of the work write-up or allotted timeframe and demand additional resources to monitor.
- Transactions with self-help or the borrower acting as the General Contractor are not eligible for purchase by Nations Direct Mortgage.

Mortgage Insurance Certificate

- Nations Direct Mortgage requires that FHA loans be submitted to HUD for insuring and insured within 30 days of closing. Nations Direct Mortgage verifies submission for insurance by FHA Connection. Case binders can be submitted and insurance is issued for 203(k) loans before the work is completed.

203(k) Loan Programs

Limited 203(k)

A proposed plan from the borrower and contractor bids are required for the Limited 203(k) Program and must be provided to the appraiser.

No more than 2-3 specialized contractors are to be used for the Limited 203(k). Screening, bids, and Homeowner/Contractor agreements are needed for each contractor. A general contractor with subcontractors is not a specialized contractor.

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

The appraisal must state that the property meets FHA requirements once the renovations are completed. It must indicate "subject to the following Repairs or Alterations" in the reconciliation section of the report. ([4150.2 Appendix D](#)).

Nations Direct Mortgage will accept the release of up to 50% of the Limited 203(k) rehabilitation amount at closing, if the borrower requires it, with the following requirements:

- Total amount disbursed at closing cannot exceed 50% of line item B-1 of the 203(k) Maximum Mortgage Worksheet. The released amount can NEVER exceed \$17,500.
- All Disbursements must be reflected on the HUD-1 Settlement Statement (1300 Series on the HUD-1- for closed-in residential mortgage loan applications dated prior to October 3, 2015) or the Closing Disclosure (for closed-in residential mortgage loan applications received on or after October 3, 2015). This must include the amount released, the contractor name and the Borrower's name.
- Settlement Agent to provide a copy of the Draw Disbursement Check (2 party payable to borrower and contractor) issued at closing.
- For each contractor, receipt of a fully executed Allowable Costs Released at Closing form.
- No individual contractor can receive more than 50% of the amount of their agreed upon work proposal.
- Nations Direct Mortgage will reimburse the selling lender the amount of the disbursed funds in the purchase wire; as long as the proper documentation required to release the funds is delivered within the loan file (ie: ALL permits, executed draw documents, etc.).
- If proper documentation required for release of funds is not available at the time of loan purchase, the reimbursement will occur when the proper documentation becomes available during the draw processing phase. Reimbursement will be by check made payable to the selling lender.

Good Neighbor Next Door

Nations Direct Mortgage does not currently offer this program

HUD REO and Special Offers

Nations Direct Mortgage will accept for purchase HUD REO loans made with special down payments and conditions to owner occupied borrowers.

Energy Efficient Mortgage

Nations Direct Mortgage does not currently accept energy efficient mortgages

Underwriting Requirements

- Nations Direct Mortgage requires the use of DU and the use of TOTAL Scorecard. Approved/Ineligible decisions are acceptable if the reason for the ineligible is addressed, such as with the HUD Special down payment programs. The use of Freddie Mac LPA is not acceptable
- **All borrowers must have a FICO score.**
- **A minimum FICO score of 620 is required for all Conforming loan transactions.**
- **A minimum FICO score of 640 is required for all High Balance loan transactions.**
- The “as-is” appraisal or HUD statement of value must be obtained from the marketing company that is selling the property for HUD. The original conditions of the property must be taken into consideration by the consultant in performing the work write-up.

The Maximum Mortgage Amount for 203(k) loan is the FHA statutory loan limits for the subject property location. Refer to current published county limits at <https://entp.hud.gov/idapp/html/hicostlook.cfm>
High Balance - per HUD designated high cost areas maximum loan amount

The Maximum Mortgage Amount is calculated by using the 203(k) Maximum Mortgage Worksheets located at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/sample_documents.

The LTV/CLTV are FHA requirements according to Maximum Mortgage Worksheet, not to exceed 110% (100% for condos).

- **The debt-to-income ratio (DTI) on all 203(k) loans must be 55% or less.**
- Ineligible Transactions:
 - Historical Properties
 - Transactions with self-help where borrower is performing any of the work or acting as the General Contractor

Closing Instructions and Requirements

A title policy is required by Nations Direct Mortgage on all HUD properties.

Releases from the Escrow Account at Closing.

- Allowable costs that are shown on Line B13 of the Maximum Mortgage Worksheet can be released at closing. These costs can be released at closing with the appropriate documentation in the form of a paid receipt or an invoice that is to be paid. Up to 50% of the rehabilitation amount can be released for Limited 203(k) loans only.
- When loan is a Standard 203(k), no funds for repairs or advances for materials can be done until at least one day following closing, AND with evidence that all required permits have been obtained.

Additional Closing Documents for 203(k)

- Rehabilitation Loan Agreement
- Rehabilitation Loan Rider

Draw Management

Draw Requests

Draw requests are made by completing a draw request form (form HUD-9746-A) and escrow disbursement form along with the supporting documentation. Freedom Mortgage will accept faxed or e-mailed requests to facilitate payment.

Draw Management will review the draw request within 24 hours of receipt and advise NDM if any corrections or additional documentation are needed to approve the draw.

Permits

Building permits for all aspects of the renovation project must be in place prior to the acquisition/delivery of materials and commencement of work and before the release of any escrow funds. Releases for aspects of the renovation project that do not specifically require work permits will not be paid unless all permits have been issued.

If permits are not required by the local jurisdiction, a certification or other documentation stating no permits are required for the project must be obtained in lieu of the permit.

Zoning

Projects that increase density, change the current use, or do not conform to legal use must be addressed prior to closing to avoid unsaleable loans.

Title Requirements

The NDM must ensure validity of the first lien on the property.

- Interim Draws – Title updates or lien waivers are appropriate based upon local lien laws.
- Final Draws – An endorsement to the title policy extending the effective date through the completion of the renovation and assuring first lien position is required. A lien waiver is not a substitute for an endorsement to the title policy for a final draw.

Disbursements

Checks will be processed in 24 to 48 hours, upon receipt of complete draw documentation. All disbursement checks are sent to the NDM for distribution to the appropriate payees to ensure the customer records are complete and accurate.

All disbursements from the renovation escrow account will be made by check to establish the required audit trail for disposition of the borrower's funds. Draw checks will be made payable to all parties named in the Security Instrument. Additional payees may be added. Checks co-payable to the borrower(s) and contractor are encouraged.

Original signatures from the borrower(s), inspector or consultant, the contractor and the underwriter or authorized agent/employee are required on the Draw Request Form prior to each release.

Receipts

Funds will be released for work completed and inspected. Advances for repairs are not permitted.

Paid receipts or cancelled checks are required to reimburse the borrower or contractor for paid allowable costs that are financed in the renovation escrow. Payment of financed fee items may be made with an invoice and after the service has been provided. Advances for allowable costs including, but not limited to, Architectural and Engineering fees are not permitted.

Final Accounting

An appropriate completion certification along with a title policy endorsement are needed for the final accounting. The endorsement must have an effective date that insures first position on or after the date of the completion of the project and final inspection.

Completion Requirements

Renovation loans are made with a renovation project proposed which will have an expected after improved value. Projects that are not completed or those that take an exceptional time to complete reduce the value of the property.

Renovation loans over 180 days from closing are considered out of compliance and need to be documented as to the course of resolution for the project to get completed. NDMs who cannot consistently perform to get completion of projects may be subject to repurchase or limitations on their ability to sell renovation loans to Freedom Mortgage.

Reporting

Nations Direct Mortgage will communicate at least monthly to any NDM with one or more open draw accounts. Report information will include activity dates and alerts for recommended action steps to ensure meeting Agency guidelines.

Escrow Close-out Screen

FHA 203(k) loans cannot be closed-out on FHA Connection until an MIC has been issued.

NDMs or Holder/Servicer of Record are required to complete the escrow close-out screen on FHA Connection when the final completion of the renovation has occurred.

Refinances cannot be processed until the renovation project is completed and the close-out information has been processed in FHA Connection. If the project is not completed, no new case number will be issued on the property without an override by the FHA Homeownership Center (HOC) jurisdiction.

Assumptions cannot be processed if the project has not been completed. Transfer of a project in process is not permitted.

Interest on Escrow

Interest is calculated and posted monthly and at the final accounting to the Accounting Form. The rate that is currently paid is 0.25% on the remaining balance. This rate may be changed from time to time with notice.