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FHA 203(k) Streamline Steps to Follow and Contact Sheet

1. For the pre-approval process, call Glenn Gerber.
2. Have a contractor give an estimate of the cost of the repairs requested.
3. Pull comparables and make sure the property will appraise with renovation monies added to purchase price.
(the appraisal is done as if repairs or renovations have already been completed – purchase price plus repairs/renovations must = a maximum of 110% of appraised value.)
4. Call Glenn Gerber who will help in putting together closing costs and to answer any questions that either the buyer, the contractor, or you may have.
5. After the agreement of sale is accepted, I will take the application and collect the cost of the FHA appraisal from the borrower.
6. Resume and references for the contractor plus the contract of the work to be completed in detail. (appraisal cannot be ordered without this information – so this is needed ASAP)
7. We will fax to you and mail the commitment to the borrower.
8. Settlement.

Contact information:		Phone #	Fax #
Manager:	Glenn Gerber glenn@alliedmg.com	610-212-3360	610-680-3841
Processor:	Denise Gerber deniseg@alliedmg.com	484-557-1958	610-680-3363

Condensed Guidelines

- Finance repairs/renovations into loan amount with all work done after settlement.
- Finance 110% of (after renovations) appraised value subject to:
 - Purchase has requirement of 2.25% down
 - Refinance requires maximum of 95% total (110%) value (no cash out only)
- FHA guidelines as to credit – full doc – primary occupancy only (maximum loan amounts vary depending upon area and number of units)
- Collections never need to be paid off (except child support and judgments)
- Credit scores are never a qualifying criteria (credit is evaluated)
- Fixed rates with no prepayment penalties
- 1-4 family homes, condos, mix use, mobile homes are eligible (mixed use has a maximum for commercial usage:

One Story Building	25%
Two Story Building	49%
Three Story Building	33%

The rehab funds will only be used for the residential functions of the dwelling and areas used to access the residential part of the property. Mobile homes and condos have guidelines they need to meet to be acceptable)
- Can be used to:
 - Purchase a property and repair/renovate it.
 - Purchase a dwelling on another site, move it onto a new foundation and repair/renovate it.
 - Refinance existing indebtedness and repair/renovate a property.
 - Repair/renovate a presently owned property.
- Eligible Improvements include items such as structural alterations, additions, reconstruction, remodeling, new siding, plumbing, painting, decking, heating, air conditioning, electrical systems, roofing, flooring, carpeting, energy conservation improvements, and major landscaping work.
- Two variations of the program are available:
 1. Streamlined (K): Maximum of \$35,000 renovations, no structural work can be done or needed, maximum of two draws per contractor – no minimum amount of repairs. No landscaping or similar site amenity improvements, no room additions, relocating of load-bearing walls, repairs requiring detailed drawings or architectural drawings and cannot take more than six (6) months to complete.
 2. Full 203 (K): No maximum amount of repairs - \$5,000 is minimum, needs to be an existing property (over 1 year old) and have at least a

foundation existing). Needs an FHA estimator to complete the specification and repairs form with the contractor prior to the appraisal.

The FHA 203(k) Renovation Loan Highlights

An important tool for community and neighborhood revitalization, the FHA 203(k) loan offers flexible qualifying and low down payments:

- FHA standard guidelines
- FHA down payment (2.25%)
- Flexible credit qualifying
- Assumable loans
- Finance up to 6 months of mortgage payments
- Purchase or Refinance and Improve all in one loan

The 203(k) loan program offers borrowers the resources to rehabilitate a home that may be in need of repair, either the home that they currently live in, or that special fixer-upper opportunity. One single loan is used to pay for the purchase (or refinance) and the cost of renovating the home.

Made available to certain lenders by the U.S. Department of Housing and Urban Development (HUD), the FHA 203(k) program has already provided many buyers with the funds necessary to buy their first home, or greatly improve a current home. The FHA 203(k) loan is available to borrowers of all income levels, to homeowners who plan to occupy the house, and for homes with one to four units.

- **203(k) Eligible Borrowers:**
 - Owner Occupants - Purchase - Refinance
 - Non- Profits
 - Investors NOT allowed
- **Types of 203(k) Loans:**
 - 30 or 15 year fixed rates
 - One year ARMS
 - Assumable to a qualified buyer, with no money down
- **Eligible Properties:**
 - Single family dwellings
 - Condominium
 - Townhouse
 - Mixed Use (Storefront)
 - 1-4 Unit buildings- you can increase or decrease the number of units with this loan.
- **Structural Alteration and Reconstruction:**
 - Changes for improved functions and modernization
 - Elimination of health/safety hazards
 - Changes for aesthetic appeal
 - Plumbing, heating air conditioning, and electrical upgrades
 - Well and/or septic repairs
 - Roofing, gutters and downspouts
 - Flooring, tiling and carpeting
 - Energy conservation improvements
 - Major landscape work and site improvement
 - Access for the disabled

- **Home Inspection:**
The cost of your construction is estimated by an FHA Approved 203(k) consultant (estimator). The cost consultant assists you in determining the scope of repairs and the costs budgeted for the renovation job.
 - Perform a home inspection to create preliminary costs estimates based upon FHA minimum property standards plus the scope of work as defined by the home owner/buyer.
 - Once project has been determined, the cost consultant prepares a "work-write up" and then a contractor(s) bids on work to be completed.
- **Appraisal:**
The appraiser will be given a copy of your "work-write up" to estimate an **after improved value** for your new or current home. We loan against that improved value thus allowing you to finance the cost of repairs.
- **Other Eligible Costs:**
(THESE COSTS MAY BE FINANCED INTO THE MORTGAGE LOAN)
 - Contingency reserve (10-15%)
 - Up to 6 months PITI mortgage payments
 - Permit costs
 - Consultant fees
 - Inspection and title update fees
 - Architectural & Engineering fees (if needed)
- **Here are a few suggestions to get you started:**
 - Get pre-approved by one of our loan officers
 - Locate a home and submit a contract
 - Once the contract is accepted, contact us for the names of FHA approved consultants to get you started

WHAT IS FHA “STREAMLINE (k)”?

The 203 (k) program has been the primary tool of the Federal Housing Administration (FHA) for providing insured mortgages for the purchase or refinance of single-family properties (one to 4 units) in need of major rehabilitation. But what if a smaller scale of repairs is required? The Streamline (k) loan program is a simplified 203 (k) that was developed to specifically address these needs. With the Streamline (k) program you obtain one loan for the purchase (or refinance of an existing debt), and the amount necessary to complete the required repairs.

Q. Is the Streamline (k) for purchase transactions only?

A. No. The Streamline (k) may be used for a purchase or refinance of an existing loan. It may also be used to purchase a HUD REO (Real Estate Owned) property.

Q. Who is responsible for the repairs?

A. The homebuyer/owner pays for the repairs from the loan proceeds.

Q. Do the repairs have to be completed before loan closing?

A. No. The repairs may begin *after* the loan is closed.

Q. Do I have to hire an FHA inspector?

A. No. We use the contractor’s proposal of work to be completed. The FHA appraiser does the two inspections.

Q. What repairs are eligible under the FHA Streamline (k)?

A. The following repair items are eligible:

- Repair/Replacement of roofs, gutter and downspouts.
- Repair/Replacement/upgrade of existing HVAC systems.
- Repair/Replacement/upgrade of plumbing and electrical systems.
- Repair/Replacement of existing flooring.
- Minor remodeling, such as kitchens.
- Exterior and interior painting.
- Weatherization that includes storm windows and doors, insulation, weather stripping, etc.
- Non-structural improvements for accessibility for persons with disabilities.
- Discretionary repair items that may not have been included in the appraisal, such as, repair of exterior decks, basement waterproofing, etc.

Q. What repairs are not allowable?

A. Repairs that are considered to be major rehabilitation or requiring structural modification.

Q. What if the property requires major repairs?

A. You may use the regular GHA 203(k) program in this instance.

Q. Who receives the payments for the repairs?

A. Up to 2 payments may be made to the contractor or the homeowner.

Q. How much down payment do I need?

A. As with most FHA mortgage loan programs, the Streamline(k) has a minimum investment of 3% (percent).

Q. What about loan fees?

A. Most loan fees (i.e.: origination, loan discount points, title update costs, permit costs) may be financed into the loan.

Q. Where can I find more information about the FHA Streamline(k)?

A. 1-800-Call-FHA

What improvements are eligible under the new Streamlined (k) program?

The Streamlined (k) program is intended to facilitate uncomplicated rehabilitation and/or improvements to a home for which plans, consultants, engineers and/or architects are not required. The Streamlined (k) program includes the discretionary improvements and/or repairs shown below:

- 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
- 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, washer/dryers, dishwashers and microwave ovens.
- Accessibility improvements for persons with disabilities
- Lead-based paint stabilization or abatement of lead-based paint hazards
- Repair/replace/add exterior decks, patios, porches
- 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

What are the minimum and maximum amounts for repair costs under this program?

Given the need for homeowners to make minor repairs without exhausting personal savings, and in consideration of the increasing cost of materials, the minimum repair cost of \$5,000 is eliminated and the ceiling is now raised to \$35,000. This revised maximum repair/rehabilitation amount recognizes the cost of making older homes more energy efficient.

Can this program be used for repairs and improvements on purchases of HUD Homes?

Like the regular Section 203(k) program, Streamlined (k) may be used for single-family housing sold by HUD. REO properties that have been designated by FHA's Management and Marketing contractor (M&M) as "insurable" with repair escrow (\$5,000 or less in required repairs) or "uninsurable" (with more than \$5,000 but no more than \$35,000 in required repairs) are eligible for the Streamlined (k) program provided that the repairs qualify as eligible work items outlined in eligible improvements..

In addition, mortgagees are reminded that nonprofit purchasers of multiple HUD Homes using the Streamlined (k) program must comply with the approval and financing requirements described in Mortgagee Letter 00-8.

What if the REO property requires lead-based paint stabilization?

The Streamlined (k) program may be used for the financing of REO purchases where a pre-1978 property has been determined to contain lead-based paint and the M&M Contractor has completed a stabilization plan and cost estimate to stabilize (mitigate) the deteriorated paint. The purchaser must sign a 203(k) rehabilitation financing lead agreement requiring that a clearance examination and report be included in the work write-up and conducted before release of the final construction disbursement and before occupancy. The credit from HUD, received at sales closing by the purchaser, associated with the lead-based paint stabilization plan is not included in the \$35,000 Streamlined (k) limit. The Streamlined (k) program may be used for all eligible repair items as shown above, including the cost of lead-based paint stabilization *not* paid for by HUD when it sells a property requiring lead-based paint stabilization. A state- or Environmental Protection Agency (EPA) certified lead-based paint inspector, certified risk assessor or sampling technician, must perform the clearance examination.

When the Department sells a single-family REO property, the M&M Contractor determines whether repairs are necessary to stabilize any lead-based paint. HUD's regulations for pre-1978 housing require the stabilization of paint except for paint determined not to be lead-based paint. HUD may reduce the sales price by the amount of a *credit* equal to the Department's contribution toward the cost of lead-based paint stabilization. Any lead-based paint stabilization costs in excess of this credit become the responsibility of the purchaser.

Can the Streamlined (k) program be used for refinancing the mortgage?

The Streamlined (k) program is also available for mortgage refinance transactions including those where the property is owned free-and clear. Only credit-qualifying “no cash out” refinance transactions with an appraisal are eligible for the Streamlined (k) program. The form HUD-92700 provides instructions for calculating the maximum mortgage permitted for Streamlined (k) loans for purchase and refinance transactions.

If the borrower has owned the property for less than a year, the acquisition cost must be used to determine the maximum mortgage amount. The requirement to use the *lowest sales price* within the last year does not apply to the Streamlined (k) program.

What are the appraisal requirements under the Streamlined (k) program?

The Streamlined (k) program may be used for discretionary repairs and/or improvements that may not have been identified in the course of a pre-purchase inspection or appraisal. The mortgagee must provide the appraiser with information regarding the proposed rehabilitation 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 appraiser is to indicate in the reconciliation section of the appraisal report an after-improved value subject to completion of the proposed repairs and/or improvements.

What are the mortgagor's requirements for selecting the contractor? And what are the mortgagee's requirements for review of the contractor and the rehabilitation proposal?

The mortgagor must use one or more contractors to complete the repairs. "Self-help" arrangements, in which the mortgagor performs the work, are not to be approved unless the mortgagor can sufficiently demonstrate that he or she has the necessary expertise and experience to perform the work competently (e.g., mortgagor is an electrician and will perform electrical repairs/upgrades to the property).

The mortgagor will select the contractor(s) who will provide estimates for work to be done. The mortgagee reviews the mortgagor's proposed work plan and cost estimates to ensure the planned work meets all program and repair recommendations as noted on the appraisal report. The mortgagor must provide the mortgagee with a written cost estimate(s) and references from a duly licensed and bonded contractor(s) for each specialized repair or improvement. If "self-help" arrangements are utilized, the mortgagor must provide written estimates from the suppliers of the materials. Those repairs and improvements must meet any local codes and ordinances and the mortgagor and/or contractor must obtain all required permits prior to the commencement of work.

The cost estimate(s) must clearly state the nature and type of repair and the cost for completion of the work item and must be made even if the mortgagor is performing some or all of the work under a self-help arrangement. The mortgagee must review the contractor's credentials, work experience and client references and may require the mortgagor to provide additional cost estimates if necessary. After review, the selected contractor(s) must agree in writing to complete the work for the amount of the cost estimate and within the allotted time frame. A copy of the contractor's cost estimate(s) and the Homeowner/Contractor Agreements(s) must be placed in the insuring binder. The contractor must finish the work in accordance with the written estimate and Homeowner/Contractor Agreement and any approved change order. As in the regular 203(k) program, the Rehabilitation Construction Period begins when the mortgage loan is closed.

What are the mortgagee's requirements for paying contractors?

No more than two payments may be made to each contractor, or to the mortgagor if the mortgagor is performing the work under a self-help arrangement. The first payment is intended to defray material costs and shall not be more than 50% of the estimated costs of all repairs/improvements. When permits are required, those fees may be reimbursed to the contractor at closing. The final payment to the contractor will be made following completion of all work and release of any and all liens arising out of the contract or submission of receipts or other evidence of payment covering all subcontractors or suppliers who could file a legal claim. When necessary, the mortgagee may arrange a payment schedule, not to exceed two (2) releases, per specialized contractor (an initial release plus a final release). Mortgagees are to issue payments solely to the contractor, except if the mortgagor is performing the work under a self-help arrangement, in which case the mortgagor may be reimbursed for materials purchased in accordance with the previously obtained estimates; the mortgagor may not be compensated for his or her labor.

May the mortgagee establish a Contingency Reserve?

The Streamlined (k) program does not mandate a contingency reserve be established. However, at the mortgagee's discretion a contingency reserve account may be set up for administering the loan. Funds held back in contingency reserve must be used solely to pay for the proposed repairs or improvements and any unforeseen items related to these repair items. Any unspent funds remaining after the final work item payment(s) is made, must be applied to the mortgage principal.

Is there a maximum mortgage amount worksheet that must be used?

Form HUD-92700, 203(k) Maximum Mortgage Worksheet must be used to calculate the mortgage amount. Also, the appraiser must provide an after-improved value since 110% of that amount is used in calculating the maximum mortgage. Architectural and consultant fees, line items 6 and 7 Section B of the worksheet are not applicable to the Streamlined (k) program. For Item 3 of Section D, please refer to handbook HUD-4155.1 Rev-5, paragraph 1-7 which provides the various maximum loan-to-value ratios.

Expenses that may be included in the total amount of the improvements, not to exceed the \$35,000 limit, are inspection fees, building and other permits, the supplemental origination fee, title update costs and the amount of any contingency reserve required by the mortgagee.

Can we combine the Streamlined (k) with an Energy Efficient Mortgage (EEM)?

The EEM program, as described in ML 05-21, may be used in conjunction with the Streamlined (k) program. The amounts permissible under the EEM program-as well as the qualifying requirements-are in addition to those available under the Streamlined (k) program and, thus, combined may exceed the \$35,000 Streamlined (k) repair cost limit. Both the cost of EEM improvements as well as weatherization items (not to exceed \$2,000) may be added to the total FHA loan amount.

What items remain ineligible for the Streamlined (k) program?

Properties that require the following work items are not eligible for financing under the Streamlined (k):

- Major rehabilitation or major remodeling, such as the relocation of a load-bearing wall;
- New construction (including room additions);
- Repair of structural damage;
- Repairs requiring detailed drawings or architectural exhibits;
- Landscaping or similar site amenity improvements;
- Any repair or improvement requiring a work schedule longer than six (6) months; or
- Rehabilitation activities that require more than two (2) payments per specialized contractor.

Mortgagors may not use the Streamlined (k) program to finance any required repairs arising from the appraisal that do not appear on the list of Streamlined (k) Eligible Work Items or that would:

- Necessitate a “consultant” to develop a “Specification of Repairs/Work Write-Up”;
- Require plans or architectural exhibits;
- Require a plan reviewer;
- Require more than six months to complete;
- Result in work not starting within 30 days after loan closing; or
- Cause the mortgagor to be displaced from the property for more than 30 days during the time the rehabilitation work is being conducted. (FHA anticipates that, in a typical case, the mortgagor would be able to occupy the property after mortgage loan closing).

What is the FHA 203(k) Program?

The FHA Loan Program named 203(k) allows homeowners to finance the **purchase of a home and the cost of its rehabilitation** through a single mortgage -- or to **finance an existing mortgage and the rehabilitation** of the existing home.

Section 203(k) is one of many FHA programs that insure mortgage loans, and thus encourage mortgage companies to make mortgage credit available to consumers who would not otherwise qualify for conventional loans on affordable terms and to residents of disadvantaged neighborhoods.

Section 203(k) fills a unique and important need for home-buyers in another way, as well. Normally, when a home-buyer seeks to purchase a single family residence home, multi-unit property (2-4 units) or a mixed-use property (store front with residential units) that is need of repair or modernization, the new home-buyer usually must follow a complicated and costly loan process. First, the home-buyer needs to obtain financing to purchase the property. Second, he or she needs to get additional financing for the rehabilitation work. And lastly, he or she must find a permanent mortgage after rehabilitation is completed to pay off the interim loans. The interim acquisition and improvement loans often have relatively high interest rates and short repayment terms.

However, Section 203(k) offers a simple solution that helps borrowers secure a single, long-term, fixed- or adjustable-rate loans that covers both the acquisition and rehabilitation of a property. Section 203(k) insured loans save borrowers time, money and hassles.

Two variations of the program are available:

- 1) Streamlined (k): maximum of \$35,000.00 in renovations – is simplified in procedures and processing time. Certain repairs are not valid for the streamline process. No minimum of repairs are required to qualify for this program.
- 2) Full 203(k): no maximum amount of repairs, but a \$5,000.00 minimum is required. This is a more structured process with less limitations of the type of work that will qualify.

INTRODUCTION

The Federal Housing Administration (FHA), which is part of the Department of Housing and Urban Development (HUD), administers various single family mortgage insurance programs. These programs operate through FHA-approved lending institutions which submit applications to have the property appraised and have the buyer's credit approved. Allied Mortgage Group funds the mortgage loans which the Department insures. HUD does not make direct loans to help people buy homes.

The Section 203(k) program is the Department's primary program for the rehabilitation and repair of single family properties. As such, it is an important tool for community and neighborhood revitalization and for expanding homeownership opportunities. Since these are the primary goals of HUD, the Department believes that Section 203(k) is an important program and we intend to continue to strongly support the program and the lenders that participate in it.

The Department also believes that the Section 203(k) program is an excellent means for lenders to demonstrate their commitment to lending in lower income communities. HUD is committed to increasing homeownership opportunities for families in these communities.

ELIGIBLE PROPERTY

To be eligible, the property must be a one- to four-family dwelling that has been completed for at least one year. The number of units on the site must be acceptable according to the provisions of local zoning requirements. All newly constructed units must be attached to the existing dwelling. Cooperative units are not eligible.

Homes that have been demolished, or will be razed as part of the rehabilitation work, are eligible provided some of the existing foundation system remains in place.

In addition to typical home rehabilitation projects, this program can be used to convert a one-family dwelling to a two-, three-, or four-family dwelling. An existing multi-unit dwelling could be decreased to a one- to four-family unit.

An existing house (or modular unit) on another site can be moved onto the mortgaged property; however, release of loan proceeds for the existing structure on the non-mortgaged property is not allowed until the new foundation has been properly inspected and the dwelling has been properly placed and secured to the new foundation.

A 203(k) mortgage may be originated on a "mixed use" residential property provided: (1) The property has no greater than 25 percent (for a one story building); 3 percent (for a three story building); and 49 percent (for a two story building) of its floor area used for commercial (storefront) purposes; (2) the commercial use will not affect the health and safety of the occupants of the residential property; and (3) the rehabilitation funds will only be used for the residential functions of the dwelling and areas used to access the residential part of the property.

CONDOMINIUM UNIT

The Department also permits Section 203(k) mortgages to be used for individual units in condominium projects that have been approved by FHA, or otherwise be eligible on a spot loan basis.

The 203(k) program was not intended to be a project mortgage insurance program, as large scale development has considerably more risk than individual single-family mortgage insurance. Therefore, condominium rehabilitation is subject to the following conditions:

- Owner/occupant and qualified non-profit borrowers only; no investors;
- Rehabilitation is limited only to the interior of the unit. Mortgage 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 five units per condominium association, or 25 percent of the total number of units, can be undergoing rehabilitation at any one time;
- The maximum mortgage amount cannot exceed 100 percent of after-improved value.

After rehabilitation is complete, the individual buildings within the condominium must not contain more than four units. By law, Section 203(k) can only be used to rehabilitate units in one-to-, four unit structures. However, this does not mean that the condominium project, as a whole, can only have four units or that all individual structures must be detached.

Example: A project might consist of six buildings each containing four units, for a total of 24 units in the project and, thus, be eligible for Section 203(k). Likewise, a project could contain a row of more than four attached townhouses and be eligible for Section 203(k) because HUD considers each townhouse as one structure, provided each unit is separated by a 1 1/2 hour firewall (from foundation up to the roof).

Similar to a project with a condominium unit with a mortgage insured under Section 234(c) of the National Housing Act, the condominium project must be approved by HUD prior to the closing of any individual mortgages on the condominium units.

HOW THE PROGRAM CAN BE USED

This program can be used to accomplish rehabilitation and/or improvement of an existing one-to-four unit dwelling in one of three ways:

- To purchase a dwelling and the land on which the dwelling is located and rehabilitate it.
- To purchase a dwelling on another site, move it onto a new foundation on the mortgaged property and rehabilitate it.
- To refinance existing indebtedness and rehabilitate such a dwelling.

For A and C above, the mortgage must be a first lien on the property and the loan proceeds (other than rehabilitation funds) must be available before the rehabilitation begins.

For B above, the mortgage must be a first lien on the property; however, loan proceeds for the moving of the house cannot be made available until the unit is attached to the new foundation.

ELIGIBLE IMPROVEMENTS 203(k)

Mortgage proceeds must be used in part for rehabilitation and/or improvements to a property. There is a minimum \$5000 requirement for the eligible improvements on the existing structure(s) on the property. 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 in this first \$5000. Properties with separate detached units are acceptable, however, a newly constructed unit must be attached to an existing unit to be eligible under 203(k).

Any repair is acceptable in the first \$5000 requirement that may affect the health and safety of the occupants. Minor-or cosmetic repairs by themselves cannot be included in the first \$5000, but may be added after the \$5000 threshold is reached.

Examples of eligible improvements are listed below. (This list is not all inclusive.)

- Structural alterations and reconstruction (e.g., repair or replacement of structural damage, chimney repair, additions to the structure, installation of an additional bath(s), skylights, finished attics and/or basements, repair of termite damage and the treatment against termites or other insect infestation, etc.).
- Changes for improved functions and modernization (e.g., remodeled bathrooms and kitchens, including permanently installed appliances, i.e., built-in range and/ or oven, range hood, microwave, 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 for aesthetic appeal and elimination of obsolescence (e.g., new exterior siding, adding a second story to the home, covered porch, stair railings, attached carport).
- Reconditioning or replacement of 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. A property less than 1/2 acre with a separate well or septic system is not acceptable; also, a property less than one acre with both a well and a septic system is unacceptable. Lots smaller than these sizes usually have problems in the future; however, the local HUD Field Office can approve smaller lot size requirements where the local health authority can justify smaller lots. 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.) Refer to HUD Handbook 49 10. 1, Appendix K, for additional information. HUD Handbooks may be ordered online from The HUD Compendium or from HUDCLIPS.
- Roofing, gutters and downspouts.
- Flooring, tiling and carpeting.

ELIGIBLE IMPROVEMENTS 203(k) (CONTINUED)

- Energy conservation improvements (e.g., new double pane windows, steel insulated exterior doors, insulation, solar domestic hot water systems, caulking and weatherstripping, etc.).
- Major landscape work and site improvement, (e.g. 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 (i.e., trees, shrubs, seeding or sodding) cannot be in the first \$5000 requirement.)
- Improvements for accessibility to a Disabled Person (e.g., remodeling kitchens and baths for wheelchair access, lowering kitchen cabinets, installing wider doors and exterior ramps, etc.).

When basic improvements are involved, the following costs can be included in addition to the minimum \$5000 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 \$1,500. Repair costs exceeding the \$1,500 limit must be paid into the contingency reserve fund by the borrower. The installation of a new swimming pool is not allowed.

Luxury items and improvements that do not become a permanent part of the real property are not eligible as a cost of rehabilitation. The items listed below (not limited to this list) are not acceptable under the 203(k) program, including the repair of any of the following: Barbecue pit; bathhouse; dumbwaiter; exterior hot tub; sauna, spa and whirlpool bath; outdoor fireplace or hearth; photo mural; installation of a new swimming pool; gazebo; television antenna; satellite dish; tennis court; tree surgery. Additions or alterations to provide for commercial use are not eligible.

ELIGIBLE IMPROVEMENTS STREAMLINE (k)

Mortgage proceeds must be used in part for rehabilitation and/or improvements to a property. There is no minimum requirement for the eligible improvements on the existing structure on the property.

Examples of eligible improvements are the same as the 203 (k) with the following exceptions: no landscaping or similar site amenity improvements; no room additions; relocating of load-bearing walls; repairs requiring detailed drawings or architectural drawings; and cannot take more than six (6) months to complete.

REQUIRED IMPROVEMENTS

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

A. Cost Effective Energy Conservation Standards

(1) Addition to Existing Structure. New construction must conform to local codes and HUD Minimum Property Standards in 24 CFR 200.926d.

(2) 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 infiltration.
- 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. For additional information and requirements, refer to 24 CFR Part 39.

(3) 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 percent oversized for the critical design, heating or cooling, except to satisfy the manufacturer's next closest nominal size.

B. Smoke Detectors. Each sleeping area must be provided with a minimum of one (1) approved, listed and labeled smoke detector installed adjacent to the sleeping area.

REQUIRED APPRAISALS

In order to determine the maximum mortgage amount, the 203(k) valuation analysis consists of two separate determinations of value.

A. As-Is Value. A separate appraisal (Uniform Residential Appraisal Report) may be required to determine the as-is value. However, the lender may determine that an as-is appraisal is not feasible or necessary. In this instance, the lender may use the contract sales price on a purchase transaction, or the existing debt on a refinance transaction, as the as-is value, when this does not exceed a reasonable estimate of value.

Further, on a refinance transaction, when a large amount of existing debt (i.e., first and second mortgages) suggests that the borrower has little or no equity in the property, the lender must obtain a current as-is appraisal on which to base the estimated as-is value.

On a refinance, the borrower may have substantial equity in the property to assure that no further down payment is required on the new loan amount. In some cases, the borrower will not have an existing mortgage on the property. In this case, the lender should obtain some comparables from a real estate agent/ broker to estimate an approximate as-is value of the property.

Another way of establishing the as-is value is to obtain a copy of the local jurisdiction tax valuation on the property.

B. Value after Rehabilitation. The expected market value of the property is determined upon completion of the proposed rehabilitation and/or improvements.

For a HUD-owned property an as-is appraisal is not required and a DE lender may request the HUD Field Office to release the outstanding HUD Property Disposition appraisal on the property to the lender to establish the maximum mortgage for the property. The HUD appraisal will be considered acceptable for use by the lender if. (1) it is not over one year old prior to bid acceptance from HUD; and (2) the sales contract price plus the cost of rehabilitation does not exceed 110 percent of the "As Repaired Value" shown on the HUD appraisal. If the HUD appraisal is insufficient, the DE Lender may order another appraisal to assure the market value of the property will be adequate to make the purchase of the property feasible.

RECENTLY ACQUIRED PROPERTIES

Homebuyers who purchase a property with cash can refinance the property using 203(k) within six (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 20 3 (k) loan. A copy of the Sales Contract and the H U D- 1 Settlement Statement must be submitted to verify the accepted bid price (as-is value) of the property and the closing date.

ARCHITECTURAL EXHIBITS

The improvements must comply with HUD's Minimum Property Standards (24 CFR 200.926d and/or HUD Handbook 4905.1) and all local codes and ordinances. The homebuyer may decide to employ an architect or a consultant to prepare the proposal. The homebuyer 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 local HUD Field Office as required.

Work Write-up and Cost Estimate. Any format may be used for these documents, however, quantity and the cost of each item must be shown. Also include a complete description of the work for each item (where necessary). The Rehabilitation Checklist in Appendix 1 of Handbook 4240.4 REV-2 should be used to ensure all work items are considered. Transfer the costs to the Draw Request (Form HUD 9746-A).

Cost estimates must include labor and materials sufficient to complete the work by a contractor. Homebuyers doing their own work cannot eliminate the cost estimate for labor, because if they cannot complete the work there must be sufficient money in the escrow account to get a subcontractor to do the work. The Work Write-up does not need to reflect the color or specific model numbers of appliances, bathroom fixtures, carpeting, etc., unless they are nonstandard units.

The consultant who prepares the work write-up and cost estimate (or an architect, engineering or home inspection service) needs to inspect the property to assure: (1) there are no rodents, dry rot, termites and other infestation; (2) there are no defects that will affect the health and safety of the occupants; (3) the adequacy of the existing structural, heating, plumbing, electrical and roofing systems; and (4) the upgrading of thermal protection (where necessary).

Definitions for Use in the 203(k) Program

- A. Insurance of Advances. This refers to insurance of the 203(k) mortgage prior to the rehabilitation period. A mortgage that is a first lien on the property is eligible to be endorsed for insurance following mortgage loan closing, disbursement of the mortgage proceeds, and establishment of the Rehabilitation Escrow Account.

The mortgage amount may include funds for the purchase of the property or the refinance of existing indebtedness, the costs incidental to closing the transaction, and the completion of the proposed rehabilitation. The mortgage Proceeds allocated for the rehabilitation will be escrowed at closing in a Rehabilitation Escrow Account.

- B. Rehabilitation Escrow Account. When the loan is closed, the proceeds designated for the rehabilitation or improvement, including the contingency reserve, is to be placed in an interesting escrow account insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA). This account is not an escrow for the paying of real estate taxes, insurance premiums, delinquent notes, ground rents or assessments, and is not to be treated as such. The net income earned by the Rehabilitation Escrow Account must be paid to the mortgagor. The method of such payment is subject to agreement between mortgagor and mortgagee. The lender (or its agent) will release escrowed funds upon completion of the proposed rehabilitation in accordance with the Work Write-Up and the Draw Request (Form HUD 9746,A).

The streamline (k) does not require a contingency reserve.

- C. Inspections. Inspections on 203(k) are performed by HUD approved fee inspectors. The fee inspector is to use the architectural exhibits in order to make a determination of compliance or non-compliance. When the inspection is scheduled with a payment, the inspector is to indicate whether or not the work has been completed. Also, the inspector is to use the Draw Request form (Form HUD 9746-A). The first draw must not be scheduled until the lender has determined that the applicable building permits have been issued.

Inspections on streamline (k) are performed by HUD approved fee inspectors. The fee inspector is to use the contractor's statement of work to be completed in making his inspections.

- D. Holdback. A ten (10) percent 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 (or its agent) 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.

On the streamline (k), no holdback is required.

- E. Contingency Reserve. At the discretion of the HUD Field Office, the cost estimate may include a contingency reserve if the existing construction is less than 30 years old, or the nature of the work is complex or extensive. For properties older than 30 years, the cost estimate must include a contingency reserve of a minimum of ten

Definitions for Use in the 203(k) Program Continued

(10) percent of the cost of rehabilitation; however, the contingency reserve may not exceed twenty (20) percent where major remodeling is contemplated. If the utilities were not turned on for inspection, a minimum fifteen (15) percent is required. If the scope of work is well defined and uncomplicated, and the rehabilitation cost is less than \$7500, the lender may waive the requirement for a contingency reserve.

The contingency reserve account can be used by the borrower to make additional improvements to the dwelling. A Request for, Change Letter must be submitted with the applicable cost estimates. However, the change can only be accepted when the lender determines: (1) It is unlikely that any deficiency that may affect the health and safety of the property will be discovered; and (2) the mortgage will not exceed the appraised value of the property less the statutory investment requirement. If the mortgage exceeds the appraised value less the statutory investment, then the contingency reserve must be paid down on the mortgage principal. If a borrower feels that the contingency reserve will not be used and he wishes to avoid having the reserve applied to reduce the mortgage balance after issuance of the Final Release Notice, the borrower may place his own funds into the contingency reserve account. In this case, if monies are remaining in the account after the Final Release Notice is issued, the monies may be released back to the borrower.

If the mortgage is at the maximum mortgage limit for the area or for the particular type of transaction, but a contingency reserve is necessary, the contingency reserve must be placed into an escrow account from other funds of the borrower at closing. Under these circumstances, if the contingency reserve is not used, the remaining funds in the escrow account will be released to the borrower after the Final Release Notice has been issued.

On the streamline (k), no contingency reserve is normally required.

F. Mortgage Payment Reserve. Funds not to exceed the amount of six (6) mortgage payments (including the mortgage insurance premium) can be included in the cost of rehabilitation to assist a mortgagor when the property is not occupied during rehabilitation. The number of mortgage payments cannot exceed the completion time frame required in the Rehabilitation Loan Agreement. The lender must make the monthly mortgage payments directly from the interest bearing reserve account. Monies remaining in the reserve account after the Final Release Notice must be applied to the mortgage principal.

Mortgage payment reserves are not allowed on a streamline (k).

G. Approval of Non-Profit Agencies. A non -profit agency, before it can be approved as an eligible mortgagor and obtain the same mortgage amount as available to owner-occupants on Section 203(k) mortgages, must demonstrate its experience as a housing provider to H U D and meet all other requirements described in HUD Handbook 4155.1 REV-4, paragraphs 1-5. It must also be able to provide satisfactory evidence that it has the financial capacity to purchase the properties.

MAXIMUM MORTGAGE AMOUNT

The mortgage amount, when added to any other existing indebtedness against the property, cannot exceed the applicable loan-to-value ratio and maximum dollar amount limitations prescribed for similar properties under Section 203(b). The Mortgage Payment Reserve is considered a part of the cost of rehabilitation for determining the maximum mortgage amount.

A. Maximum Mortgage Calculation. The value is defined as the lesser of:

- The as-is value of the property before rehabilitation plus the cost of rehabilitation; or
- 110 percent of the expected market value of the property upon completion of the work.

Principal Residence (Owner-Occupant) & HUD Approved Non-Profit Organization. For purchases with 203(k): The maximum mortgage amount is to be based upon the HUD estimate of value in 1) or 2) above, less the statutory investment requirement. For refinances with 203(k): The maximum mortgage amount is to be based upon 97/95/90 percent of the HUD estimate of value in 1) or 2) above.

B. Cost of Rehabilitation. Expenses eligible to be included in the cost of rehabilitation are materials, labor, contingency reserve, overhead and construction profit, up to six (6) months of mortgage payments, plus expenses related to the rehabilitation such as permits, fees, inspection fees by a qualified home inspector, licenses and consultant and/or architectural/engineering fees. The cost of rehabilitation may also include the supplemental origination fee which the mortgagor is permitted to pay when the mortgage involves insurance of advances, and the discounts which the mortgagor will pay on that portion of the mortgage proceeds allocated to the rehabilitation.

C. Solar Energy Increase. The mortgage is eligible for an increase of up to 20 percent in the maximum insurable mortgage amount if such an increase is necessary for the installation of solar energy equipment.

The solar energy system's contribution to value will be limited by its replacement cost or by its effect on the value of the dwelling.

D. Energy Efficient Mortgage Program. Under the FHA EEM Program, a borrower can finance into the mortgage 100 percent of the cost of eligible energy efficient improvements, subject to certain dollar limitations, without an appraisal of the energy improvements and without further credit qualification of the borrower. To be eligible for inclusion into the mortgage, the energy efficient improvements must be "cost effective," i.e., the total cost of the improvements (including maintenance costs) must be less than the total present value of the energy saved over the useful life of the improvements. The cost of any improvement to the property that will increase the property's energy efficiency and that is determined to be "cost effective" is eligible for financing into the mortgage and its cost may be added to the mortgage amount up to the greater of:

- 5 percent of the property's value (not to exceed \$8000) or,

MAXIMUM MORTGAGE AMOUNT CONTINUED

- \$4000.

"Cost effective" means that the total cost of the improvements, including any maintenance costs, is less than the total present value of the energy saved over the useful life of the energy improvement. The FHA maximum loan limit for the area may be exceeded by the cost of the energy efficient improvements. However, the entire mortgage cannot exceed 110 percent of the value of the property

The cost of the energy improvements and the estimate of the energy savings must be determined based upon a physical inspection of the property by a home energy rating system (HERS) or energy consultant. For a 203(k) loan, the entire cost of the HERS or the energy consultant can be included in the mortgage.

On new construction (an addition or new building on an existing foundation), the energy improvement must be over and above those required for compliance with the current FHA energy conservation standards for new construction. The estimate of the energy savings in new construction must be based upon a comparison of plans and specification of the house with the additional energy saving improvements to those of the basic house which complies with the current FHA energy conservation standards. Presently, these standards are those of the 1992 CABO Model Energy Code (MEC).

The energy inspection of the property must be performed prior to completion of the work write-up and cost estimate to assure there is no duplication of work items in the mortgage. After the completion of the appraisal, the cost of the energy improvements are calculated by the lender to determine how much can be added to the mortgage amount.

MAXIMUM CHARGES AND FEES

The statutory requirements and administrative policies of Section 203(k) result in deviations from the maximum amount of charges and fees permitted under Section 203(b).

A. Supplemental Origination Fee. When the Section 203(k) mortgage involves insurance of advances, the lender may collect from the mortgagor a supplemental origination fee. This fee is calculated as one and one-half percent (1-1/2%) of the portion of the mortgage allocated to the rehabilitation or \$350, whichever is greater. This supplemental origination fee is collected in addition to the one percent origination fee on the total mortgage amount.

B. Independent Consultant Fee. A borrower can have an independent consultant prepare the required architectural exhibits. A borrower can also use a contractor to prepare the construction exhibits or prepare the exhibits themselves. The use of a consultant is not required; however, the borrower should consider using this service in order to expedite the processing of the 203(k) loan. When a consultant is used, HUD does not warrant the competence of the consultant or the quality of the work the consultant may perform for the borrower. The consultant must enter into a written agreement with the borrower that completely explains what services the consultant will perform for the borrower and the fee charged. The fee charged by the consultant can be included in the mortgage. A fee of \$400 is acceptable for a property with repairs less than \$7,500; \$500 for repairs between \$7,501 and \$15,000; \$600 for repairs between \$ 15,001 and \$ 30,000; and \$ 700 for repairs between \$30,001 and \$50,000; \$800 for repairs between \$50,001 and \$75,000; \$900 for repairs between \$75,001 and \$100,000; and \$ 1,000 for repairs over \$100,000. An additional fee of \$25 can be charged for each additional unit in the property under the same FHA case number. For this fee, the consultant would inspect the property and provide all the required architectural exhibits. State licensed Architect or Engineer fees are not restricted by this fee schedule. The architect and engineer fees must be customary and reasonable for the type of project.)

C. Plan Review Fee . Prior to the appraisal, a HUD-accepted plan reviewer (or fee consultant) must visit the site to ensure compliance with program requirements. The utilities must be on for this site review to take place. The fee is as follows and may not be changed without HUD Headquarters approval:

- Initial review prior to appraisal: Cost of Repairs/Fee: <\$15,000=\$100.00, >\$15,001but less than or equal to<\$30,000=\$150.00, >\$30,001=\$200.00
 - Additional unit review (two to four units with same case number)- \$50.00/unit.
 - Additional review (re-inspection of the same unit)-\$50.00. When travel distance exceeds 30 miles round trip from the reviewer's place of business, a mileage charge (established by HUD Field Office) may be applied to the above charges, including toll road and other charges where applicable.
- D. Appraisal Fee. To process a Section 203(k) mortgage, two appraisals can be performed: (1) As-is value of the property; and (2) Estimated market value of the property assuming completion of the rehabilitation. The maximum fee which a

MAXIMUM CHARGES AND FEES CONTINUED

lender may collect for these two appraisals is one and one-half times the amount permitted for a Section 203(b) proposed construction appraisal, as established by the HUD Field Office. If only one appraisal is done, the fee will be the same as a proposed construction appraisal.

D. Appraisal Fee. To process a Section 203(k) mortgage, two appraisals can be performed; (1) As-is value of the property; and (2) Estimated market value of the property assuming completion of the rehabilitation. The maximum fee which a lender may collect for these two appraisals is one and one-half times the amount permitted for a Section 203(b) proposed construction appraisal, as established by the HUD Field Office. If only one appraisal is done, the fee will be the same as a proposed construction appraisal.

E. Inspection Fee (during the rehabilitation construction period). Established by the local HUD Field Office.

- Fees for a maximum of five draw inspections will be allowed for inclusion in the cost of rehabilitation. If all inspections are not required, remaining funds will be applied to the principal after the Final Release Notice is issued.
- If additional inspections are required by the lender to ensure satisfactory compliance with exhibits, the borrower or contractor will be responsible for payment; however, the lender has ultimate responsibility.
- Title Update Fee. To protect the validity of the mortgage position from mechanics liens on the property, reasonable fees charged by a title company may be included as an allowable cost of rehabilitation. When the mortgage position is protected and is not in jeopardy, this fee may not apply. Borrowers may wish to obtain lien protection, but the fees must be paid by the borrower where such lien protection is not required to ensure the validity of the security instrument. The allowable fee should not exceed \$50.00 per draw release. If all draw inspections are not made, monies left in escrow must be applied to reduce the mortgage balance.

APPLICATION PROCESS 203(k)

This describes a typical step-by-step application/mortgage origination process for a transaction involving the purchase and rehabilitation of a property. It explains the role of HUD, the mortgage lender, the contractor, the borrower, consultant, the plan reviewer, appraiser and the inspector.

A. Homebuyer Locates the Property.

B. Preliminary Feasibility Analysis. After the property is located, the homebuyer and their realtor should make a marketability analysis prior to signing the sales contract. The following should be determined:

- The extent of the rehabilitation work required;
 - Rough cost estimate of the work; and
 - The expected market value of the property after completion of the work.
- Note: The borrower does not want to spend money for appraisals and repair specifications (plans), then discover that the value of the property will be less than the purchase price (or existing indebtedness), plus the cost of improvements.

C. Sales Contract is Executed. A provision should be included in the sales contract that the buyer has applied for Section 203(k) financing, and that the contract is contingent upon loan approval and buyer's acceptance of additional required improvements as determined by HUD or Allied Mortgage Group.

D. Homebuyer applies with Allied Mortgage Group, Inc.

E. Homebuyer Prepares Work Write-up and Cost Estimate. A consultant can help the buyer prepare the exhibits to speed up the loan process. If a plan reviewer is the consultant, item G can be skipped and the exhibits can go directly to the appraisal stage.

F. Allied Mortgage Group requests HUD Case Number. Upon acceptance of the architectural exhibits, Allied Mortgage Group requests the assignment of a HUD case number, the plan reviewer, appraiser, and the inspector.

G. Plan Reviewer Visits Property. The homebuyer and contractor (where applicable) meet with the plan reviewer to ensure that the architectural exhibits are acceptable and that all program requirements have been properly shown on the exhibits.

H. Appraiser Performs the Appraisal.

I. Allied Mortgage Group Reviews the Application The appraisal is reviewed to determine the maximum insurable mortgage amount for the property.

J. Issuance of Conditional Commitment/Statement of Appraised Value. This is issued by Allied Mortgage Group and establishes the maximum insurable mortgage amount for the property.

APPLICATION PROCESS 203(k) CONTINUED

K. Allied Mortgage Group Prepares Firm Commitment Application. The borrower provides information for Allied Mortgage Group to request a credit report, verifications of employment and deposits, and any other source documents needed to establish the ability of the borrower to repay the mortgage.

L. Allied Mortgage Group Issues Firm Commitment. If the application is found acceptable, the firm commitment is issued to the borrower. It states the maximum mortgage amount that HUD will insure for the borrower and the property.

M. Mortgage Loan Closing. After issuance of the firm commitment, Allied Mortgage Group prepares for the closing of the mortgage. This includes the preparation of the Rehabilitation Loan Agreement. The Agreement is executed by the borrower and Allied Mortgage Group in order to establish the conditions under which Allied Mortgage Group will release funds from the Rehabilitation Escrow Account. Following closing, the borrower is required to begin making mortgage payments on the entire principal amount for the mortgage, including the amount in the Rehabilitation Escrow Account that has not yet been disbursed.

N. Rehabilitation Construction Begins. At loan closing, the mortgage proceeds will be disbursed to pay off the seller of the existing property and the Rehabilitation Escrow Account will be established. Construction may begin. The homeowner has up to six (6) months to complete the work depending on the extent of work to be completed. (Lenders may require less than six months.)

O. Releases from Rehabilitation Escrow Account. As construction progresses, funds are released after the work is inspected by a HUD-approved inspector. A maximum of four draw inspections plus a final inspection are allowed. The inspector reviews the Draw Request (Form HUD 9746-A) that is prepared by the borrower and contractor. If the cost of rehabilitation exceeds \$ 10,000, additional draw inspections are authorized provided the lender and borrower agree in writing and the number of draw inspections is shown on Form HUD 92700, 203(k) Maximum Mortgage Worksheet.

P. Completion of Work/Final Inspection. When all work is complete according to the approved architectural exhibits and change orders, the borrower provides a letter indicating that all work is satisfactorily complete and ready for final inspection. If the HUD-approved inspector agrees, the final draw may be released, minus the required 10 percent holdback. If there is unused contingency funds or mortgage payment reserves in the Account, Allied Mortgage Group must apply the funds to prepay the mortgage principal.