

FHA Streamline (203K) Loans...

HUD has developed an FHA insured mortgage, called the "Streamline (K)" Limited Repair Program that permits homebuyers to finance up to an additional \$35,000 into their mortgage to improve or upgrade their home before move-in. With this product, homebuyers can quickly and easily tap into cash to pay for property repairs or improvements, such as those identified by a home inspector or FHA appraiser. All standard FHA underwriting guides apply as they do for regular FHA loans in regards to credit, income & asset documentation. As well as the use of automated underwriting systems and manual underwrites.

How Streamline (203K) Loans are Underwritten

GENERAL

1. May be used for purchase or refinance of one-to-four (single family) residences, including HUD REO properties
2. May be either Fixed or Adjustable rate mortgages
3. Combines the funds to purchase or refinance (pay off existing liens) along with the funds needed to repair/rehabilitate the property. Repairs are completed after closing. (NOTE: Cannot do a Cash-Out Refinance)
4. One closing, with rehabilitation funds escrowed and disbursed as the work is satisfactorily completed
5. Can be used to update homes, correct health and safety issues, pay for higher cost items such as a roof, etc.
6. Property value must be sufficient to purchase/refinance and complete the rehabilitation
7. Property must be 100% complete or equivalent document and must be at least one (1) year old.
8. Borrower and credit eligibility same as for other programs (No Investors, including REO sales)

STREAMLINED (K)

1. No minimum threshold; maximum is \$35,000, includes the 10% contingency
2. Appraisal is completed as "Subject To"
3. Minimum 10% Contingency
4. Consultant (and plan) is not required; General contractor is not required
5. Lender is responsible for ensuring that the cost of the repair is reasonable and customary for the area in which the property is located
6. Preparation of architectural exhibits (as listed in Handbook 4240.4 REV-2, Paragraph 3 – 2) is not required
7. Helps address the repair issues that could delay/prevent the sale or refinance

ELIGIBLE IMPROVEMENTS INCLUDE

1. Repair/Replacement of roofs, gutters and downspouts
2. Repair/Replacement/upgrade of existing HVAC systems
3. Repair/Replacement/upgrade of plumbing and electrical systems
4. Repair/Replacement of flooring
5. Minor remodeling, such as kitchens, which does not involve structural repairs
6. Painting, both exterior and interior
7. Weatherization, including storm windows and doors, insulation, weather stripping, etc.
8. Purchase and installation of appliances, including free-standing ranges, refrigerators, washers/dryers, dishwashers and microwave ovens
9. Accessibility improvements for persons with disabilities
10. Lead-based paint stabilization or abatement of lead-based paint hazards
11. Repair/replace/add exterior decks, patios, porches
12. Basement finishing and remodeling, which does not involve structural repairs
13. Basement waterproofing
14. Window and door replacements and exterior wall re-siding
15. Septic system and/or well repair or replacement

INELIGIBLE IMPROVEMENTS INCLUDE

1. Major rehabilitation or major remodeling, such as the relocation of a load bearing wall
2. New construction (including room additions)
3. Repair of structural damage
4. Repairs requiring detailed drawings or architectural exhibits
5. Landscaping or similar site amenity improvements
6. Any repair or improvement requiring a work schedule longer than three (3) months; or Rehabilitation activities that require more than two (2) payments per specialized contractor. That would necessitate a "consultant" to develop a "Specification of Repairs/Work Write-Up"
7. Require plans or architectural exhibits
8. Require a plan reviewer
9. 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)

DOCUMENTATION

1. Contractor to provide a resume and two references (Prior to Close)
2. A copy of the contractor's cost estimate(s) and the Homeowner/Contractor Agreement(s) (Prior to Close)
3. Rehabilitation cost estimate (At Close)
4. 203k Loan Agreement (At Close)
5. 203k Rider (At Close)
6. Mortgagors Letter of Completion (At Close)

MORTGAGE CALCULATION

1. The lesser of:
 - A. Maximum (statutory) mortgage limit for area
 - B. "As is" value (usually the purchase price or outstanding debt in case of a refinance transaction) plus cost of rehabilitation
 - C. 110% of "After Improved" value; Condominiums limited to 100% of "After Improved" value.
 - D. If the borrower has owned the property for less than one year, the acquisition cost must be used to determine the maximum mortgage amount.

CONTRACTORS AND REHABILITATION CRITERIA

1. Must use contractors to complete repairs/rehabilitation (unless borrower can demonstrate needed expertise/experience)
2. Use of contractors:
 - A. Borrower selects contractor
 - B. Contractors provide estimates for the work to be done, if applicable
 - C. Lender must review the contractor's credentials verifying jurisdictional requirements for licensing, bonding & insurance are met (need copy of all these docs)
 - D. The cost estimate(s) must clearly state the nature and type of repair and the cost for completion of the work item
 - E. The lender will review the work plans and estimates with the borrower
 - F. The lender may require the mortgagor to provide additional cost estimates if necessary
3. Borrower(s) to complete work – Lender must document that:
 - A. The borrower has the necessary expertise and experience to complete the work in a satisfactory (workmanlike) manner (ie: borrower is a licensed plumber and will complete that portion of the work)
 - B. The work can be completed in a timely manner
 - C. A "self-help" agreement is executed by the borrower and lender
 - D. The cost of labor is included in the repair/rehabilitation cost (in case the borrower is unable to complete the work and a contractor must be hired). The mortgagor may not be compensated for his/her labor.
 - E. Estimates of the repair/rehabilitation costs
 - F. The borrower has provided written estimates from the suppliers of the materials that the mortgagor will purchase
 - G. "Cost plus" or "time and material" contracts are prohibited
4. The Rehabilitation Construction Period begins when the mortgage loan is closed

DATA ENTRY REQUIREMENTS FOR CASE ASSIGNMENT REQUEST

1. Case number assignment request must reflect accurate data. Ensure inaccurate data is updated.
2. Ensure correct ADP code is reflected
3. The "Repair Escrow Amount" field must reflect the amount of the repairs
4. The "203k consultant ID field" must show: Minor 203KS
5. If the mortgage is for a refinance transaction, please enter "Substantial Rehabilitation" in the drop down screen labeled "Construction Code" and "Not Streamlined" (the refinance type) in the drop down screen labeled "All Refinances" in the Case Number Assignment Screen

CONDOMINIUM REQUIREMENTS

1. HUD also permits Streamlined 203 (k) mortgages to be used for individual units in condominium projects that have been approved by FHA. The 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:
 - A. Owner occupant only; no investors
 - B. 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
 - C. 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
 - D. The maximum mortgage amount cannot exceed 100 percent of the after Improved value
2. 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, 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 town-houses and be eligible for Section 203(k) because HUD considers each town-house as one structure, provided each unit is separated by a 1½ hour firewall (from foundation up to the roof).

CONSIDERATIONS

1. Supplemental Origination Fee is the GREATER of 1.5% of the mortgage allocated to rehabilitation (the cost of the repairs/rehabilitation) OR \$350
2. Customary for industry to charge both a supplemental origination fee and discount points to offset the additional cost of administering the escrow account and related responsibilities of the 203k loan. Note: Total Discount Points can be charged ONLY ONCE. Those reflected on the 203k worksheet (HUD 92700) must be subtracted from the total amount, with the difference reflected on the MCAW. (Example: Total discount points are \$3,000. \$1200 reflected on the 203k Worksheet. Only \$1800 may be reflected on the MCAW.)
3. Appraised Value – Estimates the value "after improved". The sales price (or outstanding debt for refinances) is used as the "as is" value
4. Both pages of the 203k worksheet (HUD 92700) must be used to accurately underwrite a 203k loan
5. The calculations (based on file documented data) is recorded on page 1
6. The data is transferred to the appropriate section (purchase or refinance) on page 2
7. The data is transferred from page 2 to the Mortgage Credit Analysis worksheet (MCAW) (HUD 92900 WS or HUD 92900 PUR, as applicable)
NOTE: The mortgage amount – along with other data – will be incorrect if the mortgage calculations are attempted on the MCAW instead of the 203k worksheet

COMPLETION AND PAYMENTS

1. No more than two payments may be made
2. The first payment is intended to defray material costs and shall not be more than 50% of the estimated costs of all repairs/improvements
3. When permits are required from a local or State building authority, permit fees will be reimbursed to the contractor at closing
 - A. If they are included in the contractors estimate or
 - B. If not included in the estimate but all proceeds are not needed for the completion of the improvements
4. 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 file a legal claim
5. When necessary, the mortgagee may arrange a payment schedule, not to exceed two releases per specialized contractor (an initial release plus a final release)
6. Mortgagees are to issue payments solely to the contractor, unless the mortgagor is performing the work under a self-help arrangement, in which case the mortgagor may only be reimbursed for materials purchased in accordance with the previously obtained estimates
7. All loans must have a final inspection regardless of the repair/rehabilitation amount. Each loan will be charged a \$100 final inspection fee.
8. Before a final release is made, the mortgagor must sign a statement acknowledging that the work has been completed in a workmanlike and satisfactory manner. Final Inspection is required.

PROCESS OVERVIEW

1. Borrower makes application with lender and provides the standard credit documentation
2. Lender pulls: CAIVRS, LDP & GSA, Condo approval (if applicable), Any issues are resolved prior to continuing the process
3. Case number is ordered
4. Appraisal is ordered (and a copy of the cost estimates & other pertinent information provided with the order), 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
5. Processor orders credit report, VOD, VOE, VOR, etc.. Begins assembling the property and credit package for underwriter
6. The complete property and credit package is provided to DE Underwriter
7. DE Underwriter underwrites package, logs appraisal into the FHA Connection and decision is communicated
8. Prior-to-Closing conditions are cleared; Loan closes
9. Repair/rehabilitation Escrow account is set up
10. The repairs are completed, with the funds appropriately disbursed
 - A. Rehabilitation escrow account is closed out
 - B. FHA Connection updated to show the close-out (see FAQ's)

FREQUENTLY ASKED QUESTIONS

What are the "closeout requirements" under the Streamlined (K)

program? - The mortgagee electronically certifies the closeout via the FHA Connection and is not required to forward the closeout documents to FHA. As with all FHA case binders, the originator must retain the file, either in hard copy or electronic format, for two years following endorsement of the mortgage. Proper close-out means that the mortgagee has certified that it has reviewed and verified for accuracy of the following without limitations: mortgagors acknowledgement of satisfactory completion, evidence of release of lien(s), mortgagees inspection report(s), change orders, mortgage accounting of the escrow funds and record of disbursements.

Can this program be used for repairs and improvements on purchases of HUD REO 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.

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

- The Streamline (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 leadbased 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.

Can the Streamline (K) program be used for refinancing a current mortgage?

- The Streamline (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 for Streamlined (k) loans for purchase and refinance transactions. The requirements to use the lowest sales price within the last year does not apply to the Streamlined (k) program.

May the mortgagee establish a contingency Reserve? - The lender requires a 10% contingency reserve on all Streamline (k) program. Funds held 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.