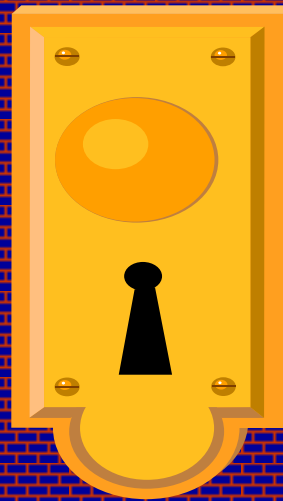


FHA's Streamlined (k) Rehab Program

11/06



Program Details



General Comments

- ◆ A first mortgage that combines the purchase or refinance with the renovation costs.
- ◆ Fully disbursed at closing and insurable.
- ◆ Interest rate and discount points negotiable.
- ◆ Downpayment and Credit underwriting the same as for any FHA loan.

Mortgagee Letter 2005-50

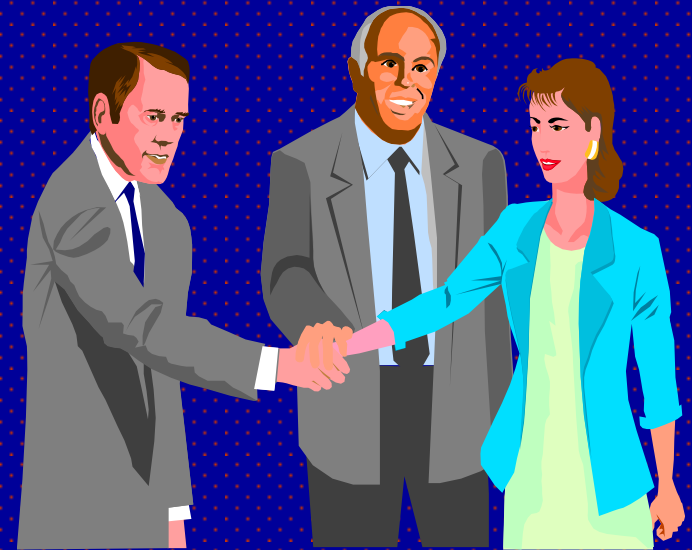
Outlines the Streamlined (k) Program

Uses of Streamlined (k)

- ◆ To buy a home, or
- ◆ Refinance an existing loan and
- ◆ Make limited repairs up to \$35,000

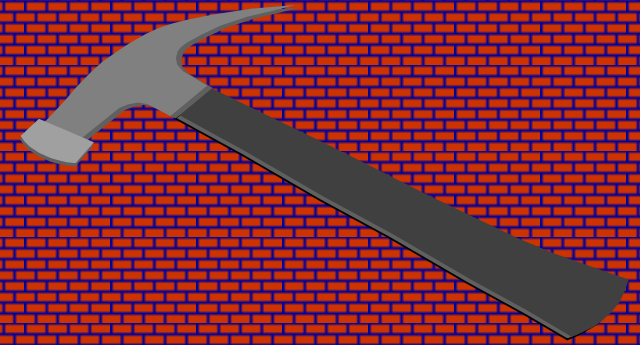
Who Can Get a 203(k) Loan ?

- ◆ Owner-occupants
- ◆ HUD approved
Non-profits
- ◆ Governmental
agencies



Eligible Properties

- ◆ 1- 4 units
- ◆ Existing more than 1 year (from date ready for occupancy)
- ◆ Condos (not co-ops)
- ◆ Manufactured homes
- ◆ Mixed-Use Properties



Eligible Improvements

Up to \$35,000 of minor or
uncomplicated repairs

Repairs identified in appraisal

Discretionary repairs/improvements

Improvements such as

- ◆ Non-Structural repairs
- ◆ Repair, Replace or Upgrade
 - Roof, gutters, downspouts
 - Existing HVAC systems
 - Plumbing and electrical systems
 - Flooring
- ◆ Painting, interior and exterior
- ◆ Weatherization
- ◆ Appliances

More Improvements

- ◆ Repair, replace or add exterior decks, patios, porches, fencing
- ◆ Basement waterproofing
- ◆ Window and door replacement and exterior siding
- ◆ Septic and/or well repair or replacement

And more Improvements

- ◆ Siding
- ◆ Improvements for accessibility
- ◆ Lead-based paint stabilization or abatement of lead-based paint hazards

Energy Improvements

- ◆ FHA's Energy Efficient Mortgage (EEM) can be used together with the Streamlined (k). - Mortgagee Letter 2005-21
- ◆ Cost effective EEM improvements can be added above the \$35,000 maximum.
- ◆ Weatherization items can be included in the repair escrow.

Ineligible Improvements

- ◆ Major structural repairs
- ◆ New construction (adding a room)
- ◆ Repairs requiring detailed plans and specs
- ◆ Any repair taking longer than 6 months
- ◆ Repairs requiring more than 2 draws

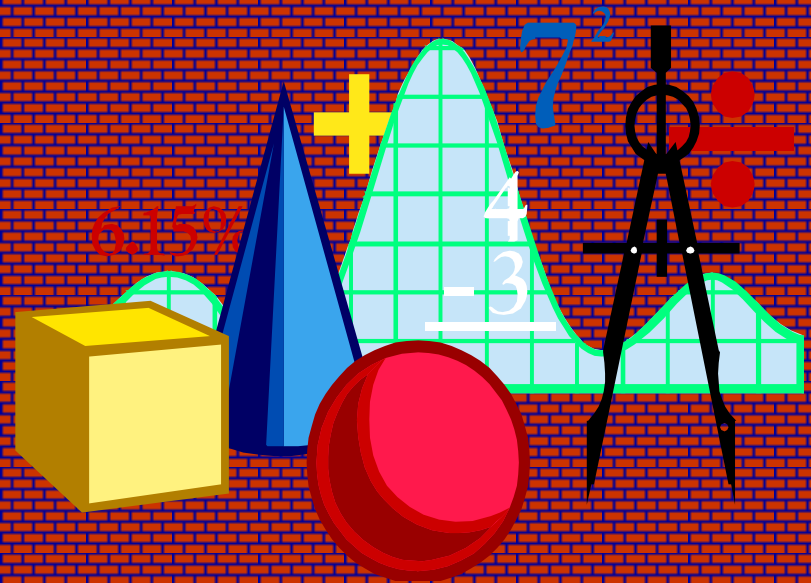


Escrow Account

- ◆ Total cost of rehab (incl. Energy package and lead-based paint abatement costs)
- ◆ Supplemental origination fee & discount points
- ◆ Contingency reserves (at lender's option)
- ◆ Inspection Fees (if required)
- ◆ Permits and other fees

Work to be done

Based on
contractors
bids/work
plan



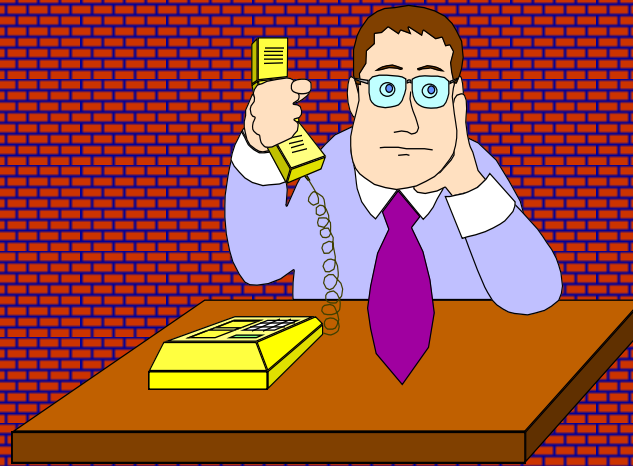
203(k) Consultant Is Not Required

A 203(k) Consultant may be used at the borrower's option

Contractor

- ◆ Provide written work plan and cost estimates
 - Must include nature and type of repair and the cost of completion
- ◆ Must be licensed and bonded for each specialized repair or improvement
- ◆ Must agree in writing to complete the work for the amount of the cost estimate and within the allowed time.

Underwriting the 203(k) Loan



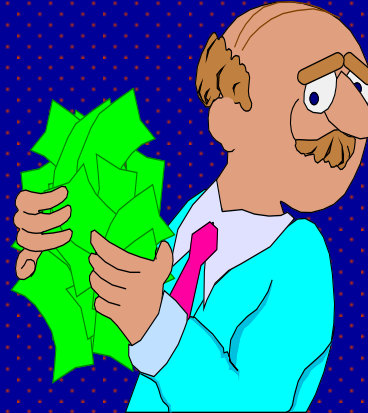
General Policies

- ◆ Unless changed by Mortgagee letters - follow the 4155.1 Handbook (mortgage credit) and the 4150.2 Handbook (appraisal)



Allowable Lender Fees

- ◆ Supplemental origination fee – 1 1/2% of the rehab cost or \$350, whichever is greater.
- ◆ Inspection fees (usual and customary)



Standards for Work

- ◆ Rehab construction must comply with HUD's minimum requirements for existing units and local building codes.
- ◆ Work must be done in a workman-like manner.
- ◆ Contractors must comply with local jurisdictions' licensing and bonding requirements.

Appraisal Issues

- ◆ Only one “as repaired” appraisal is required.
- ◆ Appraiser is given the contractor’s cost estimate and work plan.

Rehab Period

- ◆ The rehab time period should be a realistic time to complete the work.
- ◆ The maximum work period is within 6 months of the loan closing.



Draws

- ◆ There will be no more than 2 draws per contractor
- ◆ There may be no more than 2 inspections per contractor required by the lender.
- ◆ Lender may advance up to 50% of the estimated rehab cost for materials only, prior to the start of work.

The Streamlined (k) and REO

Buying A HUD Home

- ◆ **Make required repairs to a HUD-Home with Streamlined (k)**

Eligible REO Properties

- ◆ Those designated by the M&M as
 - “Insurable with Repair Escrow” (When the total cost of improvements exceed \$5,000)
 - “Uninsurable” (Limited repairs up to \$35,000)
- ◆ Any property sold by HUD requiring lead-based paint stabilization
 - That stabilization and other repairs may be financed with Streamline (k)

Non-Profit Purchasers

- ◆ Must be HUD approved
- ◆ Must comply with Mortgagee Letter 2000-08
- ◆ Discount sales – buyer may use 203(k) to finance necessary repairs

Lead- based Paint Stabilization

- ◆ Can be financed by Streamlined (k)
- ◆ M&M must have complete Stabilization Plan and cost estimate
- ◆ Purchaser signs 203(k) Rehab Financing Lead Agreement
 - Requires clearance exam and report to be part of rehab and conducted before release of funds and occupancy
 - State or EPA certified lead-based paint inspector, certified risk assessor, or sampling technician must perform the inspection.

HUD's Credit for Stabilization

- ◆ HUD may reduce sales price by a credit equal to HUD's contribution to the stabilization.
- ◆ Borrower is responsible for any costs over this amount
- ◆ Credit from HUD is not part of the \$35,000

Sales Incentives

- ◆ Reduced downpayment – No further downpayment is required for repair costs
- ◆ Bidders given 60 days to close the 203(k) loan.
- ◆ GNND – buyer may add all closing costs and broker fees, less \$100, into the 203(k) loan amount.