

FHA STREAMLINED 203(k) LOAN PROGRAM

AUGUST 1, 2015



Planet Home Lending
WE'LL GET YOU HOME



OVERVIEW FHA STREAMLINED 203(k) PROGRAM



- ✓ Through the Federal Housing Administration's (FHA) Streamlined 203(k) program, borrowers can purchase or refinance their home and include rehabilitation and repair costs in a single mortgage
- ✓ The Streamlined 203(k) program is intended to help facilitate uncomplicated rehabilitation/improvements and cosmetic repairs
- ✓ There is no minimum rehabilitation amount for a Streamlined 203(k)
- ✓ Maximum \$35,000 in total rehabilitation costs
- ✓ Any repairs and improvements must comply with HUD's minimum property standards and must meet all local building, zoning and other codes
- ✓ Borrowers are not required to hire professional consultants, licensed engineers or architects. The appraiser will put together a list of recommended (and in some cases required) repairs/improvements

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STREAMLINED 203(k) LOAN REQUIREMENTS



- ✓ Up to \$35,000 in renovation allowed (labor and material)
 - Includes total rehab amount + contingency fee + inspection fees + permit fees (if applicable) + final title update fee + discount points (only percentage attributed to renovation portion).
 - Example: \$25K renovation costs and the loan has discount points. Maximum amount that can be included in the loan equals \$250.00
- ✓ Must utilize borrower directed licensed contractor. Contractors provide written work, plans and cost estimates. Contractor(s) must be licensed and bonded; as required by locality. A timeframe is established for the completion of the work. Maximum four (4) months allowed.

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STREAMLINED 203(k) LOAN REQUIREMENTS



- ✓ Maximum 2 draws allowed
 - Initial draw disbursed at closing by Seller of up to 50% of the repair costs
 - Final 50% draw disbursed by Planet Home Lending upon final inspection
 - Any funds remaining in the escrow account will be applied directly as a principal reduction
 - Base loan amount can never exceed the maximum loan limits for the area
 - Borrower must make their monthly mortgage payment throughout the course of the repair and/or rehabilitation period
- ✓ All rehabilitation work must start within 30 days of closing, cannot cease for more than 30 days and must be completed within four (4) months of closing
- ✓ Planet Home Lending will charge a Supplemental Origination Fee to pay for post-closing services performed such as additional cost of disbursement and inspections. The fee is the greater of 1.5% of the total rehabilitation cost or \$350

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STREAMLINED 203(k) ELIGIBLE REPAIRS



- ✓ Improvements Allowed, But Not Limited to:
 - Roof repair, gutters, downspouts
 - Existing HVAC systems
 - Plumbing and electrical systems
 - Flooring
 - Painting
 - Purchase and installation of appliances, including free-standing ranges, refrigerators, washer/dryer, dishwasher and microwaves
 - Weatherization
 - Repair, replace or add exterior decks, patios, porches

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STREAMLINED 203(k) ELIGIBLE REPAIRS



- ✓ Improvements Allowed (continued)
 - Basement waterproofing
 - Window and door replacement and exterior siding
 - Septic and/or well repair or replacement
 - Improvements for accessibility for persons with disabilities
 - Lead base paint stabilization or abatement of lead base paint
 - Basement remodeling which does not involve structural repairs
 - Minor remodeling that does not involve structural or foundational repairs

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STREAMLINED 203(k) INELIGIBLE REPAIRS



- ✓ Improvements Not Allowed, But Not Limited To:
 - Structural repairs/major rehabilitation
 - New construction (adding a room)
 - Repairs requiring detailed plans and specs
 - Any repair taking longer than 4 months
 - Repairs requiring more than 2 draws
 - Luxury items are not eligible:
 - Landscaping
 - Swimming pools
 - Hot tubs
 - Tennis courts

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STREAMLINED 203(k) CONTRACTOR REQUIREMENTS



- ✓ What does the Contractor need to do?
 - Provide written work plan and cost estimates
 - Must include nature and type of repair and the cost of completion
 - Must be licensed and bonded
 - Must agree in writing to complete the work for the amount of the cost estimate and within the allowed time

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STREAMLINED 203(k) FEATURES



- ✓ Program Highlights
 - Purchase or Refinance
 - Minimum 620 FICO Score
 - Fixed Rate: 15 and 30 year
 - 1-2 unit Owner-Occupied
 - Single family residences, Condo's; PUD's (attached/detached)
 - Purchase Money: Minimum 3.5% Down Payment; 96.50% LTV/105.00 CLTV
 - Refinance: 97.75% LTV/97.75% CLTV allowed

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



✓ Appraisal Requirements:

- Appraisals must be completed by a licensed FHA approved appraiser
- All 203(k) appraisals are completed “Subject To”
- Purchase transactions require an “After-Improved” value (value after improvements are completed). HUD does not require an “As-Is” value; HUD assumes the purchase price is the “As-Is” value.
- Refinance transactions require both an “As-Is” value and an “After-Improved” value. The “As-Is” value is typically provided on the addendum and the “After-Improved” value is provided in the Reconciliation section of the appraisal report.
- The appraisal must include remarks in the Improvements section detailing the scope of work
 - The Reconciliation section of the appraisal report must be completed by checking the box stating “Subject to the following required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration of repair” is checked

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



- ✓ AUS:
 - An “Approve/Eligible” finding is required. Manual underwriting is not allowed
- ✓ Cash Out: Not Allowed
 - Condominiums:
 - Condos are subject to the following:
 - Condo must be located in a condominium project approved by HUD at time of case number assignment
 - Rehabilitation limited to the interior of the unit. Rehabilitation of the exterior of the condo, or any area that is the responsibility of the condominium association is not allowed with the exception of installation of firewalls in the attic for the unit
 - Maximum mortgage cannot exceed 100% of the “After-Improved” value
 - Rehab at any one time or limited to the lesser of:
 - » 5 units, or
 - » 25% of the total number of units in the project

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



✓ Condominiums (continued):

– Condos are subject to the following:

- The individual condo building cannot have more than 4 units in the subject property building. HUD allows greater than 4 units in a building only when the renovation reduces the number of units to 4 or less. The project as a whole can have more than 4 units (i.e. the project consists of 5 buildings, each with 4 units, for a total of 20 units in the project).
- Projects made up of attached townhomes are not subject to the 4 unit per building restriction. HUD considers each townhome an individual building as long as each unit is separated by a firewall that reaches from the foundation to the roof and is rated 1½ hours.

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



✓ Contractor Requirements:

– The following items must be provided:

- Copy of current license and bond, as required by the state or county. License and bond must be valid through the estimated date of completion of the project.
- Confirmation the contractor is able to pull their own permits (when required for the work being performed)
- Copy of current liability insurance policy
- A fully completed Federal W-9
- Completed Contactor Profile
- Homeowner/Contractor Agreement
- Borrower/Contractor Identity of Interest/Conflict of Interest Form
- Contractor Acknowledgment
- Evidence of Current Workman's Comp Insurance, if applicable

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



✓ Contingency Reserve:

- A Contingency Reserve is held from the loan proceeds to cover health and safety costs that arise during construction (i.e. mold/termite). A Contingency Reserve account will be set up for all 203(k) Streamlined loans
 - Contingency funds shall be 10% to 15% percent of the total rehab cost
 - If the utilities were not turned on at time of inspections, a minimum of 15% is required
 - Contingency reserve funds can only be used for unexpected costs associated with the original contractor bid
 - Contingency reserve cannot be used for change orders or the purchase of appliances or work not included in the original bid

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



- ✓ The Contingency Reserve may be financed or funded by the borrower from their own funds
 - Financed Contingency Reserve: Any funds remaining at the end of the renovation process must be applied as a principal reduction
 - Borrower Funded Contingency Reserve: Any funds remaining at the end of the renovation process are returned to the borrower or applied as a principal reduction
 - Borrower Funded Contingency Reserve is included in the total cost of rehabilitation not to exceed \$35,000
- ✓ Contingency Reserve does not allow for unplanned additions, unless they are to address health/safety issues

Scenario:

- Cabinets being upgraded through project and mold is discovered in demolition
 - Mold correction is OK as it will address a health/safety issue
- In same project borrower wants to replace dishwasher (not part of original Contractor Bid)
 - Addition of dishwasher not permitted as was not part of original Contractor Bid and is not a health/safety issue

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



- ✓ Credit Score:
 - A minimum credit score of 620 regardless of DU Findings is required
- ✓ Disbursements:
 - Seller may disburse up to initial 50% draw at closing
 - Borrower will be contacted by the Planet Home Lending Renovation Concierge Service department to manage the entire process until completed
 - Remaining 50% will be disbursed by Planet Home Lending when all of the following are complete:
 - Work/repairs
 - Final Title update (to evidence no liens)
 - Final inspection by appraiser
 - Checks made payable jointly to homeowner and contractor
 - Checks are two party and sent via 2nd day UPS
 - Any remaining amount in the repair escrow account will be applied toward the principal balance of the loan. This includes any unused contingency funds or inspections fees remaining.

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



- ✓ Escrow/Impounds: Required on all loans, no exceptions
- ✓ Fees and Charges:
 - Contingency Reserve
 - Labor and Materials
 - Overhead and Repairs
 - Inspection Fee
 - Appraisal Fee
 - Title Update
 - Discount Points on repair costs and fees

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



✓ Forms:

These forms are in addition to normal required FHA forms/disclosures:

- Borrower/Contractor Identity of Interest/Conflict of Interest Certification
- Homeowner/Contractor Agreement
- Contractor Acknowledgement
- Homeowner/Contractor Certification
- 203(k) Maximum Mortgage Worksheet–Form HUD-92700
- 203(k) Borrower’s Acknowledgement-Form HUD-92700-A
- Rehabilitation Loan Agreement
- Rehabilitation Loan Rider to the Mortgage/Deed of Trust

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



✓ Gift Funds: Allowed

- Gift Funds are ineligible if the borrower has a credit score of 620-639 and the property is located in Arkansas, Connecticut, Delaware, Illinois, Iowa, Kentucky, Louisiana, Maryland, Mississippi, New Jersey, New Mexico, New York, Oklahoma, South Carolina, Tennessee, or Utah. Gift funds may be used after the borrower meets the down payment requirement from borrower own funds for closing costs or to further reduce the LTV
- Grants and funds from a down payment assistant (DPA) program are eligible for down payment, closing costs and reserves, if required.

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



- ✓ Identity of Interest:
 - Defined as the purchase of a primary residence between parties with a family or business relationship/business affiliates
 - The borrower cannot have any relationship with any party to the 203(k) transactions including:
 - Seller
 - Contractor(s)
 - Appraiser
 - Lender
 - Realtor
 - Closing Agent
 - The borrower(s) and contractor must sign an Identity of Interest/Conflict of Interest Certification stating there is no relationship between them and any party to the transaction
- ✓ Investment Property: Not allowed
- ✓ Loan Terms: 15 and 30 year fixed rate term only

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



- ✓ Maximum Fees & Charges:
 - Total cost of rehabilitation labor & material
 - Contingency Reserve of 10-15%
 - 15% required on properties where utilities are not on or not in proper working order
 - Planet Home Lending Supplemental Origination Fee (the fee is 1.5% of the rehabilitation cost or \$350; whichever is greater)
 - Discount Points on repair costs, if applicable (only percentage attributed to renovation portion)
 - Appraisal Fee
 - A single appraisal is needed
 - Permit Fee(s) as applicable
 - Title Update Fee
 - Planet Home Lending will require only one title update fee if a lien waiver is signed by the contractor
 - Final Inspection Fee

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



✓ Maximum Loan-To-Value (LTV):

– The maximum LTV is based on the lesser of:

- The sales price of “As Is” appraised value plus the Borrower paid repairs minus sales concessions ; or
- 110% of the “As Completed” appraised value. Condo’s are limited to 100% of the “As Completed” appraised value; or
- “As-Is” value plus total renovation costs (HUD assumes the purchase price is the “As-is” value)

– Refinance Transactions

- Maximum 97.75% LTV
- Total loan amount cannot exceed the county limits established by FHA
- LTV is calculated using the lesser of
 - Existing debt* plus rehabilitation costs plus closing costs/prepays, or
 - 110% of the “After-Improved” appraised value multiplied by 97.75%, or
 - “As-Is” appraised value plus rehabilitation costs multiplied by 97.75%

*If subject property owned less than one year, use the lesser of the existing debt (outstanding loan balance) or purchase price

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



- ✓ **Maximum Mortgage Amount:**
 - The mortgage amount cannot exceed the applicable LTV ratio and maximum loan amount allowed by FHA County limits
 - Purchase: 96.50%
 - Refinance: 97.75%
 - Expenses to be included in the Cost of Rehabilitation
 - Renovation costs (inspection fees and title update fees)
 - Material & Labor, soft costs (permits and licenses)
 - Contingency Reserve of 10%-15% (15% when utilities are not on and functioning)
 - Contingency reserve is used to cover unplanned expenses occurring during the renovation to correct fire, health or safety issues
 - HomeBridge Supplemental Origination Fee (the fee is 1.5% of the total rehabilitation cost or \$350; whichever is greater)
 - “As-Is” Value (Sales Price)
 - “After-Improved” Value (110%)
- ✓ **Mortgage Insurance:**
 - Mortgage insurance is collected according to standard FHA guidelines

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



✓ Maximum Loan Amount: Purchase Calculations

Step 1: Identify the lesser of the below calculations:



*For Condos use 100% of After-Improved Value

**HUD does not require an "As-Is" value; HUD assumes the purchase price is the "As-Is" value

Step 2: Multiply the lesser calculation by 96.5% to obtain Base Loan Amount:



Step 3: Add UFMIP to Base Loan Amount to obtain Total Loan Amount:



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STREAMLINED 203(k) PROGRAM ELIGIBILITY



- ✓ Purchase Examples: Why Not Requiring an “As-Is” Value is a Benefit
 - Example #1: Purchase Price + Renovation Costs
 - Purchase Price is \$150,000
 - Total Renovation cost is \$20,000
 - Appraisal does not show an “As-Is” Value only a \$225,000 “After-Improved” Value
 - Max Base Loan Amount is \$164,050 ($\$150,000 + \$20,000 = \$170,000 \times 96.5\%$)
 - Example #2: 110% of Value
 - Purchase Price is \$100,000
 - Total Renovation cost is \$30,000
 - Appraisal does not show an “As-Is” Value only a \$118,000 “After-Improved” Value
 - 110% of \$118,000 is \$129,800
 - Max Base Loan Amount is \$125,257 ($\$129,800 \times 96.5\%$)
 - Example #3: “As-Is” Value + Renovation Costs
 - Purchase Price is \$150,000
 - Total Renovation cost is \$20,000
 - Appraisal shows an “As-Is” Value of \$140,000 and an “After-Improved” Value of \$225,000
 - Max Base Loan Amount is \$154,400 ($\$140,000 + \$20,000 = \$160,000 \times 96.5\%$)

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



Maximum Loan Amount: Purchase Calculations

Step 1: Identify the lesser of the below calculations:



*For Condos use 100% of After-Improved Value

Step 2: The lesser of the above calculations equals the Base Loan Amount:



Step 3: Add UFMIP to Base Loan Amount to obtain Total Loan Amount:



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STREAMLINED 203(k) PROGRAM ELIGIBILITY



✓ Maximum Mortgage Amount: Streamlined Refinance Example

Streamlined 203(k) Refinance	
Existing Debt, Renovation, Closing Costs and Prepays	Dollar Amount
Existing Debt	\$120,000
Total Cost of Repairs (labor and material)	\$24,500
Contingency Reserve (10%)	\$2,450
Allowable Fees/Costs	\$650
Closing Costs/Prepays	\$3,500
Total Existing Debt, Renovation, Closing Costs, and Prepays	\$151,100
As-Is Value + Renovation Costs <i>As-Is Value from Appraisal (typically noted with Addendum to report)</i>	\$157,600
110% of After-Improved Value <i>After-Improved Value (located in Reconciliation section of Appraisal)</i>	\$176,000
Maximum Base Loan Amount	\$151,000
UPMIP	\$2,644
Total Loan Amount	\$153,744

LTV Calculation

Step 1:

- Identify the lesser of the below calculations
- Existing Debt + Renovation Costs + Closing Costs and Prepaid
- (As-Is Value + Renovation Costs) X 97.75%
- (110% of After-Improved Value) X 97.75%

Step 2:
The lesser of the above calculations equals the Base Loan Amount

Step 3:
Add UFMIP to Base Loan Amount to obtain Total Loan Amount

In This example the Existing Debt + Renovation Costs + Closing Costs and Prepays is the lesser calculation.

Therefore, \$151,100 is the Base Loan Amount

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



- ✓ Property Eligibility
 - SFR
 - PUD (attached/detached)
 - Condos (attached/detached)
 - REOs
- ✓ Qualifying Ratios:
 - Per AUS Findings
- ✓ Reserves: Not required
- ✓ Self Help: Not eligible
- ✓ Seller Contributions
 - Allowed up to 6% of the sales price
- ✓ Utilities:
 - Utilities must be inspected to ensure they are in proper working order
 - If the Utilities were not on at the time of the appraisal inspection or are determined to not be in good working order, a 15% contingency reserve must be established
 - When obtaining bids, the contractor should provide a bid that allows for any repairs that may be required

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



- ✓ Utilities not on at time of inspection and Work-Write Up does not require repairs, the following alternative documentation to validate condition of utilities may be provided:
 - Winterized Property: Winterization Certification
 - Certification from acceptable licensed professional* confirming utilities in good working order
 - Bank or acceptable agency owned property: Home Inspection from Listing Report

*Acceptable licensed professionals: Inspector, Contractor, Plumber or Electrician

- ✓ If utility inspection reveals utilities are not in good working order, Contractor Bid(s) must specify required repairs

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STREAMLINED 203(k) PROGRAM ELIGIBILITY



- ✓ Acceptable REO property (agency or bank owned) typically has winterized utilities since the property is vacant
 - Proof of winterization required via:
 - Winterization Certification OR
 - Home inspection from Listing Report
 - Reminder: HUD REO Ineligible

Winterized properties always require a 15% Contingency Reserve (of the total rehab cost)

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RENOVATION CONCIERGE CONTACT INFORMATION



Planet Home Lending Renovation
Concierge Department contact information:

renovation@planethomelending.com

This email address is to be used by Borrowers and
Contractors for questions and status inquiries.

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