

RENOVATION

Review

VOLUME 7



Planet Home Lending[®]
CORRESPONDENT DIVISION

Working with FHA 203(k) Consultants

The FHA 203(k) loan is an incredible program, and FHA 203(k) Consultants can make it even better. In this volume of the Renovation Review, we will explore the history of 203(k) Consultants and how they can bring value to your sales and operations teams, your company, and most importantly, your borrowers.

When FHA 203(k) loan programs were created, there was an option to utilize the services of a “plan reviewer” to take contractors’ bids and review them to ensure the accuracy of the home improvement budget being used to establish the “as repaired value.” They would also make sure the budget was reasonable and sufficient to complete the proposed improvements. Lastly, the reviewer would allocate funds to labor, materials, and overhead. This was done to ensure that borrowers were not paid for any labor they put into the project if a lender allowed for self-help/DIY (as borrowers can’t be paid for their own labor).

Eventually, this reviewer took on the official title of “203(k) Consultant.” As years went by, this role added the responsibility of preparing a Specification of Repair (SOR), which is sometimes referred to as a “Work Write Up.” This SOR is broken down into 35 categories of work, including a Recap of Subtotals, and a Draw Request Form that can be used by all interested parties in the renovation loan process. These work write-ups have made their way into the many conventional and government renovation loan programs as an additional level of support and industry best practices.

What is a 203(k) Consultant?

The best definition of a 203(k) Consultant we have found so far can be found [in this recent statement from the FHA Office of Single Family Housing](#). We've provided their definition for you below:

"The Consultant plays a guiding role throughout the rehabilitation process, acting as the liaison between the homeowner, contractor(s), and lender. The Consultant inspects the property and prepares a feasibility study, architectural exhibits, work write-ups, cost estimates, draw request inspections, and change orders; and ensures that all work is performed in compliance with FHA requirements. Any Consultant who performs work on a 203(k) project must be listed on the FHA-approved 203(k) Consultant Roster."

Further information on their requirements can be found in the HUD Handbook 4000.1 but the basic qualifications are that they are experienced in construction, home improvement, building codes, and permit requirements. They must also possess the ability to estimate and prepare the SOR and basic architectural exhibits/drawings.

From our perspective, these consultants are independent third-party construction cost estimators during the underwriting and processing of a renovation loan. After closing, they function as field service representatives during the draw process. Lenders are required to select, screen, and review consultant qualifications and to monitor their performance at least once a year as part of their quality control programs.

From a business development perspective, lenders should look for consultants who are willing to help build and grow renovation loan business through the education of loan officers, operations and underwriting staff, and referral partners. Additionally, be sure all vendors project a positive and professional image and exemplify high-level customer service to your borrowers.

A FHA 203(k) Consultant is required to visit the property and complete an inspection to ensure it meets FHA Minimum Property Standards and that all health and safety requirements for the FHA-financed home are addressed. This evaluation is to be done independent of any information given to them by the contractor(s) or others involved in the transaction.



This process is in place to protect the lender, FHA/HUD, and most importantly your borrower from ending up with a project that has been underbudgeted, over-promised, or that will not result in the property meeting FHA minimum property requirements. Many times, this evaluation makes recommendations as required vs. desired repairs, because it is typical for borrowers to be focused on more of the cosmetic repairs and upgrades vs. FHA-required repairs, health and safety, and structural-related improvements.

FHA 203(k) Consultants are required on Standard 203(k) loans and their fees can be financed into the loan. On a Limited 203(k), FHA 203(k) Consultants are optional and their fees are not allowed to be financed. If the borrower wants a 203(k) Limited Consultant, they must pay their fees upfront.

HUD has established Allowable Consultant Fees associated with 203(k) loans for the Feasibility Studies, Specification of Repairs, Draw Inspection, and Re-inspection. The fees can be found [here](#). In most cases, these are industry-accepted fees for conventional and other renovation-related loan programs. All consultants should provide you with a copy of their fee schedules as well as have a fee agreement in place with their FHA borrowers as part of the loan documentation.



Benefits of using FHA 203(k) Consultants for any renovation loan:

- Provide assistance and education to all parties (borrower, contractor, appraiser, processor) from application through underwriting and into post-closing
- Serve as a liaison between all parties at every step in the process
- Can address building code and permit requirements
- Identify structural issues, mold, lead-based paint
- Support your efforts to grow your business
- Act as an additional resource, bringing knowledge and experience to the project
- Allow loan officers more time to focus on new production

As you can see, FHA 203(k) Consultants can bring incredible value into the Renovation Lending process, not just on Standard 203(k) loans but in all renovation loan programs. Planet Home Lending requires the use of construction cost estimators, field services representatives, or their equivalent for certain conventional renovation lending programs, such as the Fannie Mae HomeStyle® and Freddie Mac CHOICERenovation® programs. They also bring similar benefits and significant risk management enhancements to transactions.

In addition to FHA 203(k) Consultants, we allow for construction management companies such as Land Gorilla, Granite Management, Trinity Inspection Services, RLS Inspection Services, LLC, and others to provide cost estimates and field services like those provided by 203(k) Consultants. We find the addition of these entities to your renovation loan process to be a value-add, whose benefits far outweigh any additional expenses to you or your borrowers.

As always, please reach out to your Regional Sales Manager or the Renovation Lending Team if you have any questions or wish to learn more about 203(k) Consultants. Additionally, we would be happy to discuss any loan programs and how to make them a significant and profitable portion of your business.

