eLEND

FHA 203(k) LIMITED RENOVATION

PROGRAM SPECIFICATIONS	
Description	The Limited FHA 203(k) Mortgage may only be used for minor remodeling and non-structural repairs. The Limited 203(k) does not require the use of a 203(k) Consultant. The total rehabilitation cost must not exceed $75,000. There is no minimum rehabilitation cost.
Channels	• Broker • Correspondent ○ Non-Delegated UW
FICO	Minimum Qualifying Credit Scores: • 580 for all qualifying borrowers • 1 credit score required for all qualifying borrowers, • Use the middle score if 3 credit scores, or • The lower of the two if 2 credit scores. • Lowest representative score from all borrowers will be used for qualification purposes.

UW Method	• Total Scorecard:
	    ○ Desktop Underwriter (DU)
	    ○ Loan Product Advisor (LPA)

AUS Recommendation	• Approve/Eligible – DU • Refer/Eligible – DU • Risk Class Accept – LPA • Risk Class Refer – LPA
Eligible Terms	• 10Yr., 15Yr., 20Yr., 25Yr., 30Yr. Fixed • 5/1 Hybrid ARM - Suspended 7/14/2022 until further notice
Eligible Transaction Types	• Purchase • Rate/Term Refinance

Eligible Property Types	• 1-4 Unit Primary Residence
	• Manufactured Housing
	    ○ Where the rehabilitation does not affect the structural components of the Structure that were designed and constructed in conformance with the FMHCSS and must comply with all other requirements for Manufactured Housing
	• FHA Approved Condominiums
	    ○ Rehabilitation or improvements are limited to the interior of the unit, except for the installation of firewalls in the attic for the unit
	    ○ No more than 5 units per condominium association, or 25% of the total number of units, whichever is less, can undergo rehabilitation at any time
	    ○ After rehabilitation is complete, the unit is located in a Structure containing no more than 4 units.
	• Site Condominium
	• PUDs
	• HUD REO
	    ○ The Property is identified as eligible for 203(k) financing as evidenced in the sales contract or addendum. Investor purchases of HUD REO Properties are not eligible for 203(k) financing.
	Reminders:
	• Property must be an existing Property that has been completed for at least one year prior to the case number assignment date.
	• A Property that is not eligible for a 203(b) Mortgage due to health and safety or security issues may be eligible under 203(k) if the rehabilitation or repair work performed will correct such issues.
	• A Property with an existing 203(k) Mortgage is not eligible to be refinanced until all repairs are completed and the case has been electronically closed out.
	• Cashback on Rate/Term Refinance transactions is not permitted.

Appraisal Requirements	• The appraisal report must provide an "as completed/after improved" appraised value that estimates the value of the property after completion of the renovation work. • Appraisal order must include the Bid – Work Proposal Note: "As Completed/After Improved" Property Condition Rating as determined by the Appraiser must be C1-C4.
Contingency Reserve	• AFR requires a minimum 10% contingency reserve on all FHA Limited 203(k) Rehabilitation Mortgage transactions. The amount may be increased to a maximum of 20% at the discretion of the Underwriter.
Amount of Repairs	• The total rehabilitation cost must not exceed $75,000. There is no minimum rehabilitation cost.

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EQUAL HOUSING LENDER

	○ The total cost of rehabilitation for $75,000 maximum is the total sum of the contractor bid + contingency amount + reinspection fees + permit costs, as applicable + supplemental origination fee, + HUD Consultant fee (if utilized and financed), as applicable. ○ Important: A supplemental origination fee is only permitted to be charged on Non-Delegated and Delegated Correspondent files, provided the fee is disclosed to the borrower and accurately reflected.
Ineligible Repairs	**Structural Work:** • Any structure repairs or alterations • Foundation reconstruction or elevation • Room additions or new construction • Converting or reducing multi-unit structures • Moving structures to new foundations **Complex or extended Projects:** • Projects requiring more than 6 months to complete • More than two payments per specialized contractor • No more than two specialized contractors are allowed: ○ Both the GC and specialized contractors must complete all required paperwork for approval ○ Two final inspections must be collected ○ Additional contractors would require a General Contractor • Repairs requiring architectural plans or consultant work write-up • Projects that prevent occupancy ○ Home must be habitable at the time of closing • No projects where construction has already commenced **New installations:** • New private wells or septic systems • Windstorm Shelters • Commercial-use conversions or refurbishments • No additions of an ADU's **Luxury & Recreational Additions**: • New swimming pools, hot tubs, spas, saunas • Barbecue pits, outdoor fireplaces, bath houses • Tennis courts, satellite dishes, photo murals, or gazebos **Other Restrictions**: • Oil tank removal or remediation • Extensive mold remediation • Extensive landscaping and site improvements • Flood or fire damage repairs • Self-help or DIY projects • Renovations in historic areas designated by state, county, federal, or third-party authorities • Any properties zoned for mixed use or have commercial spaces • Any repair or update that AFR Credit Committee deems out of scope or excessive
Maximum rehabilitation period	• 9 months
HUD Consultant and Fee	• A HUD Consultant is not required. If a consultant is part of the transaction the Fee maybe financed.
Resource Links	**Links**: • HUD Consultants look up tool ○ Not required but may be used • PHI Home Inspections ○ Resource • AFR's Exclusionary List ○ Participants on this list are not eligible
Maximum days of non-occupancy	• 30 days, If the Borrower is unable to occupy the property during the rehabilitation period.
Maximum DTI	• Approve/Eligible or Risk Class Accept - Follow AUS • Refer/Eligible or Manual – Follow FHA Guidelines
Can be combined with these programs	• FHA Good Neighbor Next Door Program (GNND) • $100 Down Program • HUD REO Repair Escrow Program
Geographic Restrictions	• Hawaii ○ AFR does not operate in the state of Hawaii and does not permit loans with a subject property in Hawaii for all programs in all channels with the exception of Correspondent Delegated UW transactions. • AFR requires the use of AFR's Texas counsel on all Texas transactions. AFR utilizes this 3rd party for document preparation and require 48 hours for both title review and to generate a closing package.

4000.1	http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1 4000.1 II.A.8.8
Forms	See FORMS Section in the Resource Center

OVERLAYS

Follow all overlays outlined in the FHA 203(b) Program Matrix <u>and</u>:

- AFR requires a minimum 10% contingency reserve on all FHA Limited 203(k) Rehabilitation Mortgage transactions. The amount may be increased to a maximum of 20% at the discretion of the Underwriter.
- AFR will permit a 50% initial advancement in relation to estimated materials and labor costs before beginning construction to the Contractor (which includes but is not limited to materials labor and permits) at the time of closing only when the contractor is not willing or able to defer receipt of payment until completion of work, of payment represents the cost of materials incurred prior to construction.
- AFR follows HUD requirements permitting a maximum of 2 draws after closing **not to include the initial advance as noted above** and requires all draw requests to be performed in writing and executed by the Contractor and Borrower.
- AFR does not permit identities/conflicts of interest between the borrower and contractor. The borrower and contractor may not be related nor can there by an employee/employer relationship.
- AFR permits for only 1 General Contractor; multiple Generals Contractors are not permitted with exception to well and septic contractors where outside the general contractor's scope.
- "As Completed/After Improved" Property Condition Rating as determined by the Appraiser must be C1-C4.