FHA 203(k) RENOVATION

PROGRAM SPECIFICATIONS	
Description	The Standard FHA 203(k) Mortgage may be used for remodeling and major repairs. There is a minimum repair cost of $5000 and the use of a 203(k) Consultant is required.
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.

Maximum LTV/CLTV/HCLTV	• Purchase 96.50% • Rate/Term Refinance 97.75%
Maximum DTI	• Approve/Eligible or Risk Class Accept - Follow AUS • Refer/Eligible or Manual Underwriting – Follow FHA Guidelines
Ineligible Repairs	**Health, Safety and Environmental Restrictions:** • Excessive Mold remediation • Old tank repair, removal, or remediation • Flood or fire damage repairs

	Structural and Foundation limitations:
	• Full teardown and rebuilds, including gut renovations
	• Repairing, reconstructing a structure that has been or will be demolished
	• Purchasing a structure from another site and moving it onto a new foundation
	Unit Conversions and Additions:
	• Converting a one-family structure to a multi-family structure (2-4 units)
	• Decreasing a multi-unit structure to a 1-4 family structure
	• Purchase Transactions
	  ○ Addition of an ADU
	  ○ Additions that increase the gross living area
	Luxury and Recreational Additions:
	• New swimming pools
	• Exterior hot tubs, spas, whirlpool baths, or saunas
	• Barbecue pits, outdoor fireplaces or hearts
	• Bath houses, tennis courts, satellite dishes
	• tree surgery (unless removing endangerments)
	• Photo murals, and gazebos
	Other Restrictions:
	• Self-help or DIY projects
	• One General Contractor required:
	  ○ With exception of a well and septic contractors where outside of the general contractor's scope
	  ○ Both the GC and specialized contractors must complete all required paperwork for approval
	• Mixed use properties
	• Projects where construction has already commenced
	• any repair or update that AFR Credit Committee deems out of scope or excessive
	Exceptions for Refinance Transactions:
	• Additions to increase the gross living area where permits can be obtained prior to closing
	  ○ Example: any expansion of existing footprint, adding a level or adding a detached garage, or
	  ○ Addition of an attached ADU.

Amount of Repairs	• Minimum repair cost $5000
Maximum Rehabilitation Period	• 12 Months
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
Mortgage Payment Reserve	• Designated by the HUD Consultant • Maximum of 12 months

Resource Links	**Links**:
	• HUD Consultants look up tool
	  ○ Required
	• PHI Home Inspections
	  ○ Resource
	• AFR’s Exclusionary List
	  ○ Participants on this list are not eligible

Can be combined with these programs	• FHA Good Neighbor Next Door Program (GNND) • $100 Down Program • 203(h)
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>**:

- If the contractor bid exceeds the consultant's write up the overage must be within the contingency percentage.
- AFR does not permit identities/conflicts of interest between the borrower and contractor. The borrower and contractor may not be related nor can there be an employee/employer relationship.
- AFR permits for only 1 General Contractor; multiple General Contractors are not permitted with exception to well and septic contractors where outside the general contractor's scope.
- AFR will require stamped and sealed line drawings by a licensed engineer or architect with a statement provided stating that permits can be obtained when any type of addition is being done or a zoning modification is going to be needed.
- "As Completed/After Improved" Property Condition Rating as determined by the Appraiser must be C1-C4.