

Product Type

15, 30 Year Fixed Rate Mortgage

Sales Focus

Section 203(k) insurance enables homebuyers and homeowners to finance either the purchase or a refinance of a house and the cost of its rehabilitation through a single mortgage. The extent of the rehabilitation covered by Section 203(k) insurance may range from relatively minor to virtual reconstruction provided the existing foundation systems remain in place. The loan is fully disbursed at closing, all monies for repairs are placed in escrow and the borrower pays full principal and interest throughout rehabilitation. High-balance loans are eligible with restrictions. Loans in which the borrower makes the repairs (aka “Self Help”) are **not** permitted. The Streamlined 203(k) option is also offered (see next page).

Eligible and Ineligible Borrowers

Refer to FHA Standard product.

Eligible and Ineligible Properties

Refer to FHA Standard product. Only owner-occupied properties are allowed. In addition, the following also applies:

- No condominiums
- No Non Occupant Co Borrowers
- For multi-family conversions are **not** eligible.
- Mixed-use properties under 203(k) Streamline program are **not** eligible.
- New construction is **not** allowed. The borrower must have a certificate of occupancy for a minimum of one year.

Eligible Improvements

Types of improvements the borrower may make using Section 203(k) financing include:

- Structural alterations and reconstruction.
- Modernization and improvements to the home’s function.
- Elimination of health and safety hazards.
- Changes that improve appearance and eliminate obsolescence.
- Reconditioning or replacing plumbing.
- Installing well and/or septic system.
- Adding or replacing floors and/or floor treatments.
- Major landscape work and site improvements.
- Enhancing accessibility for a disabled person.
- Making energy conservation improvements.

Program Option Eligibility Matrix

Parameter	FHA 203(k) - Standard	FHA 203(k) - Streamline
Eligible Properties	<ul style="list-style-type: none"> • 1-4 Family including HUD REO's • Mixed Use 	<ul style="list-style-type: none"> • 1 Family including HUD REO's • 2-4 Family
Repair Amounts	Minimum \$5,000; no maximum up to FHA max mortgage amount.	No minimum; maximum rehabilitation amount is \$35,000 including any fees not paid out-of-pocket as well as cash paid out of pocket. (Line B14 of the MMW cannot exceed \$35,000)
Repair Types	<ul style="list-style-type: none"> • Structural and non-structural. • Landscaping or site amenities. • No outbuildings. 	<ul style="list-style-type: none"> • Non-structural only. • No landscaping or site amenities. • No outbuildings.
Plan Review / Specification of Repairs	<ul style="list-style-type: none"> • Required by HUD Consultant. • The Consultant's work write-up must be detailed and include estimates for labor and materials. • The Underwriter must be satisfied that the estimates provided by the borrower are in-line with the Consultant's. The higher of the two should be used in calc'ing the max mortgage. 	<ul style="list-style-type: none"> • A feasibility study or home inspection is required. • A Consultant is permitted but not required. If a Consultant is utilized, the fee CANNOT be financed into the rehab amount. Refer to the Risk Management Vault for further details.
Contingency Reserve	<ul style="list-style-type: none"> • 20% required. • Underwriter has discretion to impose a lower figure. 	<ul style="list-style-type: none"> • 20% required. • Underwriter has discretion to impose a lower figure.
Draw Disbursements	<ul style="list-style-type: none"> • Consultant inspects property and identifies the percentage of work complete to date. • Maximum 5 draws. • 10% holdback on each disbursement. • Checks cut in contractor and borrower's names. 	<ul style="list-style-type: none"> • 1st draw limited to 50% of total repair costs, with labor. • No holdbacks. • Checks cut in contractor and borrower's names. • No more than 2 draws per contractor
Inspections and Title Updates	<ul style="list-style-type: none"> • Inspections are required prior to each disbursement. • Two bring downs performed: one at 50% of renovation dollars advanced and one at final draw 	<ul style="list-style-type: none"> • For inspections, case-by-case depending on the number of contractors • Certificates from municipalities are acceptable in lieu • Only 1 bring down at final draw
Homeowner-Contractor Agreements	Required for each contractor.	Required for each contractor.
Mortgage Payment Reserve	Up to 6 months of PITI can be financed, if the home is not habitable during renovation.	Borrower must move into property within 30 days of closing. Mortgage payments may not be escrowed.
Lowest Sales Price in the Last 12 Months	The lowest sales price regardless of entity, over the past 12 months, must be used when structuring a loan transaction	Not Applicable
Project Conversions	Projects which alter the number of units is NOT permitted. (Ex. 2 unit to 1-unit).	Projects which alter the number of units is NOT permitted. (Ex. 2 unit to 1-unit).
Partially Completed Projects	Properties in which prior owners started work but not completed or refinances with incomplete work-in-progress are considered on an exception basis only. CANNOT be used to finish a build.	Properties in which prior owners started work but not completed or refinances with incomplete work-in-progress are considered on an exception basis only. CANNOT be used to finish a build.

NOTE: A structural repair is defined as any change to the foundational footprint of the home, any foundation repairs requiring excavating work, any alteration of the sizes of windows or doors, or changes to the home's interior layout. While the foundation may be added to, the original foundation must stay intact.

Building Permits

Proper building permits are required prior to any monies being advanced for a particular repair type. The requirements of the municipality in which the property is located must be adhered to. A lender's permit certification must be signed by an official of the municipality for all 203(k) transaction types identifying all required permits.

Contractor Acceptance

Contractor acceptance is required for all transactions, both Standard and Streamlines. All rehab work must be performed by a qualified and experienced contractor chosen by the borrower and completed in a workmanlike manner.

- Borrowers may not use relatives/employers as their contactors; review Identity of Interest disclosure for details on other restrictions.
- Borrower is limited to a total of 3 sub-contractors or a General Contractor will be required.
- The borrower may **not** act as the General Contractor. "Self-Help" loans are **not** permitted.
- Contractor's Resume, should be completed by all contractors.
- The Underwriter must validate the Contractor(s) selected by the borrowers are acceptable to lender.
- A Homeowner-Contractor Agreement is required for each contractor (Form 2420).

Renovation Term

6 months.

Repair Estimates

Borrowers must provide written contractor estimates for all work being included in their repair escrow.

- Estimates should include the cost for labor & materials.
- Estimates must itemize all work being included.
- All estimate amounts must match the Homeowner/Contractor Agreement(s), Form 2420.

Materials or appliance estimates from "box stores" (i.e. Home Depot, Lowe's, etc.) must be accompanied by labor estimates from the installing contractor who will install the materials.

- Whether the installing contractor is independent OR a sub-contractor for a store, they must still provide an executed Homeowner/Contractor agreement, and be "Accepted" by lender.
- Exception: free-standing appliances (or items that do not require installation or labor to install) may be presented as stand-alone estimates (i.e. free-standing stove, washer, dryer).
- Paint must always be accompanied by a labor estimate.

Maximum Loan Amount

FHA Maximum Mortgage Limits vary per county. County limits may be found at the HUD Website

<https://entp.hud.gov/idapp/html/hicostlook.cfm>. The maximum mortgage amounts for any county under this program are:

- 1 Unit - \$417,000
- 2 Unit - \$533,850
- 3 Unit - \$645,300
- 4 Unit - \$801,950

For loan amounts higher than the above maximums, the FHA High Balance 203(k) Program is available subject to the following:

- Fixed Rate only;
- Streamline Refinances not eligible;
- Refer to <https://entp.hud.gov/idapp/html/hicostlook.cfm> for maximum mortgage limits.

Maximum Loan to Value

Property Type	Purchase		Rate and Term Refinance	
	Max LTV	Max CLTV	Max LTV	Max CLTV
1-4 Unit Primary	110.00% ❶	110.00% ❷	110.00% ❶	110.00% ❶

❶Restrictions may apply. Refer to the FHA Underwriting & Eligibility Standards for further details

To calculate Loan to Value:

For PURCHASES, divide the base mortgage amount by the LESSER of:

- The sum of the sales price plus the total rehabilitation cost; OR
- The after-improved appraised value.

For REFINANCES, divide the base mortgage amount by the LESSER of:

- The unpaid principal balance plus the total rehabilitation cost (Line B14 from the HUD-92700); note that B-14 does not include prepaids/closing costs; OR
- The as-is value of the property as determined by the appraiser plus the total rehabilitation (Line B14 from the HUD-92700); note that B-14 does not include prepaids/closing costs; OR
- The after-improved appraised value.

Maximum Mortgage Calculation

Execution of the FHA 203(k) Maximum Mortgage Worksheet (Form HUD-92700) is required.

For PURCHASES, the base mortgage amount is calculated by multiplying 96.50% times the LESSER of:

- The sum of the Sales Price plus the Total Rehabilitation Cost; OR
- 110% of After-Improved Value.

For REFINANCES, the base mortgage amount is calculated by the LESSER of:

- Sum of existing liens, the total rehabilitation cost, borrower-paid closing costs, prepaids, the discount points of the prepaid costs minus any MIP refund; OR
- The lesser of the sum of the as-is value plus total rehabilitation cost or 110% of After-improved value multiplied by the 97.75% LTV factor.

Other considerations:

- For Refinances, the “as is” value of the property must be stated by the appraiser; purchase appraisals should NOT include an as-is value statement; the purchase price is considered as-is value on purchase transactions.
- The amount of allowable energy improvements may be added to the base loan amounts in the above calculations for an Energy Efficient Mortgage (EEM).
- The maximum mortgage calculation must be based on the lowest price paid to transfer title, in the past 12 months.
 - A title transfer is any change in ownership including but not limited to; a bona fide sale, an inter-family transfer, an auction acquisition, a quit claim deed, etc.
 - The lowest transfer amount must be used regardless of the entity conducting the transfer (ex. Government entities or federal charter lenders).
 - To calculate the maximum mortgage amount on purchase transactions where the sales price was re-negotiated and subsequently increased after the original appraisal was completed, lender shall use the lower of:
 - The original price on the original sales contract (or binder);
 - The price on a renegotiated sales contract.
- Only credit-qualifying “no cash out” refinance transactions with an appraisal are eligible.
- Unused funds must be applied to reduce the balance of the mortgage OR the borrower may elect to pay for any additional elective repairs or improvements to the property.
- Cash Out Refinances are not permitted.

Underwriting Considerations

All loans must conform to Wolfe Financial FHA Underwriting & Eligibility Standards, Wolfe Financial FHA Standard product description, and, where silent, applicable HUD Handbooks and Mortgagee Letters.

- Appraisal Requirements:
 - Appraisal must be assigned to a state certified FHA approved appraiser.
 - Appraisals are good for 120 days. If a borrower signs a valid contract or is approved for a loan prior to the expiration date of the appraisal, the term of the appraisal may be extended for 30 days to allow for the approval of the borrower and the closing of the loan.
 - Expired appraisals (beyond 120 plus 30 day extension) will require a new 1004 appraisal. Re-certifications of value (FNMA 1004D) are not acceptable.
 - For Refinances, the “as is” value of the property must be stated by the appraiser; purchase appraisals should NOT include an as-is value statement; the purchase price is considered as-is value on purchase transactions
 - For subject properties in declining markets, refer to Section 307 of the FHA Underwriting & Eligibility Standards

- Debt-to-Income Ratio Guidelines: The following applies for loans that have DTI ratios above the prescribed 43% maximum, even when FHA Total Scorecard approval has been obtained.

DTI Range	Minimum FICO	Total Scorecard Approved	Compensating Factors
<43%	620-640***	REQUIRED	2 required (from below list)
> 43% and <=50%	640	Required	2 required (from list below)
>=50%	Not permitted.		
Compensating Factors	1. Reserves (liquid or non-liquid) of at least two (2) months PITI (Gift funds may not be considered) 2. LTV <= 90% 3. Residual income >= 1.5 months PITI * 4. Payment shock of less than 25% ** 5. Documented additional income not being used to quality		

* Residual Income = Gross income less sum of housing payment and all debts.

** Payment shock = Take the amount of the new payment, minus the amount of the old payment, and then divide that number by the old payment. Example: Currently paying \$650. New payment is \$1,015. Payment shock = 56.15%.

***620-640 FICO score approval on a case by case basis

- Identity-of-Interest Transactions: Are not permitted with 203(k) programs. FHA Identity of Interest Certifications (Form 2473) is required on all loans.

At Closing

For 203(K) Streamlines only, up to 50% of the rehabilitation may be disbursed within 5 days of closing. Listed below are the requirements:

- No disbursements can be made without all required permits being received
- Amount disbursed at closing cannot exceed 50% of line item B1 of the Maximum Mortgage Worksheet. The amount can NEVER exceed \$17,500.
- All disbursements must be reflected on the HUD-1 Settlement Statement (1300 Series on the HUD-1). This must include the amount, the contractor name and borrower’s name.
- No advances can be made for any areas containing lead based paint or mold
- Settlement Agent to provide a copy of the Draw Disbursement Check (2-party payable to borrower and contractor) issued at closing
- For each contractor, receipt of a fully executed Form 7202 (Correspondent) FHA 203(k) Streamline Authorization of Release.

Escrow Requirements

- Impound escrows are required.

Mortgage Insurance Premium

- Required. Refer to FHA Standard product.

Index of Required 203(k) Documents

Contractor's Resume & Lender's due diligence in performing Contractor review

FHA 203(k) Borrower's Acknowledgement (HUD-92700-A).

FHA Identity of Interest Certifications

Homeowner/Contractor Agreement (for each Contractor)

Lender's 203(k) Permit Certification – confirming which permits are required for the project

Plan Review / Specification of Repairs signed by Consultant (not required for 203(k) Streamlines).

Rehabilitation Loan Agreement.

Rehabilitation Loan Rider (to Mortgage)

Compliance Inspection Report (Form HUD-92051), as applicable

Lender's Contingency Release Letter, if applicable

FHA Draw Request (Form HUD-9746-A) – not required for 203(k) Streamline.

Request for Acceptance of Changes in Approved Drawings and Specifications (HUD-92577), if applicable

Exhibit 02-408 Allowable Costs Released at Closing & Draw Request Funds to be Disbursed at Loan Purchase

Prepayment Penalty

If loan is paid off on any date other than a scheduled payment date, interest may be charged through the last day for the month the payoff is made.

Pricing and Rate Locks

- Refer to daily rate sheets.
- For Supplemental Origination Fee, greater of \$350 or 1.5% of the cost of repairs.

Temporary Buydowns

- Not Permitted

Title Insurance

- A standard ALTA title insurance policy is required to be obtained and paid for by the borrower. This base premium must be quoted in Box 4 of the GFE.
- In addition, a title bring down prior to each advance is required. These bring downs are also funded by the borrower and must be quoted in Box 1 of the GFE.
 - If a Building Loan Policy is obtained, then the cost of the bring downs are factored in the base premium rate and charges for them are not quoted in Box 1 of the GFE. The premium rate should always be quoted in box 4 of the GFE.