

## **American Financial Resources, Inc. 203ks Program Guidelines**

The Streamlined (k) program is intended to facilitate uncomplicated rehabilitation and/or improvements to a home for which plans, consultants, engineers and/or architects are not required. The total costs of repairs including the contingency reserve and costs are not to exceed \$35,000.

### **What repairs or improvements are eligible under the Streamlined (k) program?**

The Streamlined (k) program includes the discretionary improvements and/or repairs shown below:

- Repair/Replacement of roofs, gutters and downspouts
- Repair/Replacement/upgrade of existing HVAC systems
- Repair/Replacement/upgrade of plumbing and electrical systems
- Repair/Replacement of flooring
- Minor remodeling, such as kitchens, which does not involve structural repairs
- Painting, both exterior and interior
- Weatherization, including storm windows and doors, insulation, weather stripping, etc.
- Purchase and installation of appliances, including free-standing ranges, refrigerators, washers/dryers, dishwashers and microwave ovens
- Accessibility improvements for persons with disabilities
- Lead-based paint stabilization or abatement of lead-based paint hazards
- Repair/replace/add exterior decks, patios, porches
- Basement finishing and remodeling, which does not involve structural repairs
- Basement waterproofing
- Window and door replacements and exterior wall re-siding
- Septic system and/or well repair or replacement

### **What improvements are INELIGIBLE under the Streamlined (k) program?**

- Major rehabilitation or major remodeling, such as the relocation of a load-bearing wall;
- New construction (including room additions);
- Repair of structural damage;
- Repairs requiring detailed drawings or architectural exhibits;
- Landscaping or similar site amenity improvements;
- Any repair or improvement requiring a work schedule longer than three (3) months; or
- Rehabilitation activities that require more than two (2) payments per specialized contractor;
- Any repair or improvements to a pool

The Streamlined (k) program is not to be used to finance any required repairs arising from the appraisal that do not appear on the above list of Streamlined (k) Eligible Work Items or that would:

- Necessitate a “consultant” to develop a “Specification of Repairs/Work Write-Up”;

- Require plans or architectural exhibits;
- Require a plan reviewer;
- Require more than six months to complete;
- Result in work not starting within 30 days after loan closing; or
- Cause the mortgagor to be displaced from the property for more than 30 days during the time the rehabilitation work is being conducted. (FHA anticipates that, in a typical case, the mortgagor would be able to occupy the property after mortgage loan closing).

### **What are the minimum and maximum amounts for repair costs under this program?**

There are no minimum repair costs. The maximum total repair costs including the contingency reserve and costs are \$35,000 subject to a maximum loan to value as listed below.

### **Is there a maximum mortgage amount worksheet that must be used? -changed 06/27/2011**

Form HUD-92700, 203(k) Maximum Mortgage Worksheet must be used to calculate the mortgage amount. Also, the appraiser must provide an after-improved value since 110% of that amount is used in calculating the maximum mortgage. Architectural and consultant fees, line items 6 and 7 of Section B of the worksheet are not applicable to the Streamlined (k) program. For Item 3 of Section D, please refer to handbook HUD-4155.1 REV-5, paragraph 1-7 which provides the various maximum loan-to-value ratios.

Expenses that may be included in the total amount of the improvements, not to exceed the \$35,000 limit, are inspection fees, building and other permits, final inspection costs, and the amount of any contingency reserve required by AFR.

### **What is the maximum Loan to Value (LTV) for a Streamlined (k) loan? – changed 06/27/2011**

- The maximum LTV on a purchase transaction is 96.5% of the LESSER of 110% of the after improved value or the sum of the “as is” appraised value or sales price (whichever is less) plus the total cost of all rehabilitation/repairs. *Follow Box C of HUD form 92700.*
- The maximum LTV on a refinance transaction is 97.75% of the LESSER of the sum of the existing mortgage debt + total rehabilitation costs + borrower paid closing costs + Pre-paids + discount on total loan amount - discount on repair costs – FHA MIP refund **OR** the lesser of the sum of the “as is” value + the total rehabilitation/repairs costs or 110% of the after improved value. *Follow Box D of HUD form 92700.*

### **What are the appraisal requirements under the Streamlined (k) program?**

The Streamlined (k) program may be used for discretionary repairs and/or improvements that may not have been identified in the course of a pre-purchase inspection or appraisal. The appraiser must receive all cost estimates so that an after-improved value can be estimated. A description of the

proposed repairs and/or improvement must be included in the appraisal report as well as the contractor's cost estimate. The appraiser is to comment whether or not the cost of the work to be performed is in line with the cost of similar work performed in the subject's immediate area. In addition, the appraiser must indicate in the reconciliation section of the appraisal report an after-improved value subject to completion of the proposed repairs and/or improvements. The 3<sup>rd</sup> "subject to completion" box should be checked off by the appraiser.

**Will AFR close if a Temporary Certificate of Occupancy (T/C/O) has been issued from the local authority?**

If a Certificate of Occupancy (C/O) is required from the local building department, AFR will require the C/O be issued prior to closing. If the local building department has issued a Temporary Certificate of Occupancy (T/C/O), AFR will close the loan with the following:

- The requirements from the town may not be a safety concern of AFR's underwriter.
- All town requirements must be addressed in the final contract between the mortgagor and their contractor (Contract)
- All items on the Contract must be completed, including all town requirements for the C/O AND a final C/O must be issued before the final payment to the contractor is made.
- In the underwriter's opinion, all items must be able to be completed within 30 days of closing

**Is there a final inspection required to be done once all work is completed?**

Yes, an inspection to determine that all listed repairs and or renovations were satisfactorily completed is required regardless of the amount borrowed for the repairs or rehabilitation.

**Can the Streamline (k) program be used for refinancing the mortgage?**

Yes, the Streamlined (k) program is also available for mortgage refinance transactions including those where the property is owned free-and clear. Only credit-qualifying "no cash out" refinance transactions with an appraisal are eligible for the Streamlined (k) program.

If the borrower has owned the property for less than a year, the acquisition cost must be used to determine the maximum mortgage amount.

**Can this program be used for repairs and improvements on purchases of HUD Homes?**

Yes. The Streamlined 203k program may be used for single-family housing sold by HUD. HUD REO (Real Estate Owned) properties that have been designated by FHA's Management and Marketing contractor (M&M) as "insurable" with repair escrow (\$5,000 or less in required repairs) or "uninsurable" (with more than \$5,000 but no more than \$35,000 in required repairs) are eligible

for the Streamlined 203k program provided that the repairs qualify as eligible work items outlined above.

Appraisals marked insurable with repair escrow of \$5,000 or less may not need to be done as a Streamlined 203k. See Repair Escrow program guidelines in one of AFR's websites.

### **What if the REO property requires lead-based paint stabilization?**

The Streamlined (k) program may be used for the financing of REO purchases where a pre-1978 property has been determined to contain lead-based paint and the M&M Contractor (FHA's Management and Marketing contractor (M&M)) has completed a stabilization plan and cost estimate to stabilize (mitigate) the deteriorated paint. The purchaser must sign a 203(k) rehabilitation financing lead agreement requiring that a clearance examination and report be included in the work write-up and conducted before release of the final construction disbursement and before occupancy. The credit from HUD, received at sales closing by the purchaser, associated with the lead-based paint stabilization plan is not included in the \$35,000 Streamlined (k) limit. The Streamlined (k) program may be used for all eligible repair items as shown above, including the cost of lead-based paint stabilization *not* paid for by HUD when it sells a property requiring lead-based paint stabilization. **A state- or Environmental Protection Agency (EPA) certified lead-based paint inspector, certified risk assessor or sampling technician, must perform the clearance examination.**

When HUD sells a single-family REO property, the M&M Contractor determines whether repairs are necessary to stabilize any lead-based paint. HUD's regulations for pre-1978 housing require the stabilization of paint except for paint determined not to be lead-based paint. HUD may reduce the sales price by the amount of a *credit* equal to the Department's contribution toward the cost of lead-based paint stabilization. Any lead-based paint stabilization costs in excess of this credit become the responsibility of the purchaser.

### **What are the mortgagor's requirements for selecting the contractor?**

### **What are AFR's requirements for reviewing the contractor and the rehabilitation proposal?**

If the repairs require more than one contractor, the mortgagor must utilize the services of a duly licensed and bonded general contractor. The general contractor will be under contractual obligation for the entire work to be performed from start to finish. The general contractor is responsible for hiring the different trades required to complete all of the work. "Self-help" arrangements, in which the mortgagor performs the work, will not be approved.

AFR will review the mortgagor's proposed work plan and cost estimates to ensure the planned work meets all program and repair recommendations as noted on the appraisal report. The mortgagor must provide AFR with a written cost estimate. All repairs and improvements must meet any and all local codes and ordinances as evidenced by a permit issued by the local authority (if applicable). The

mortgagor and/or contractor must obtain all required permits prior to closing (if applicable).

The submitted cost estimate(s) must clearly state the type of repair and the cost for completion of the work item. AFR will review and verify the contractor's credentials and work experience and may require the mortgagor to provide additional cost estimates from other licensed and bonded contractors if necessary. AFR reserves the right to decline the use of a specific contractor at its sole discretion.

The selected contractor must agree in writing to complete the work for the amount of the cost estimate and must agree to complete all work in a professional and satisfactory manner within 90 days of closing. A copy of the contractor's cost estimate(s) and the executed Homeowner/Contractor Agreement must be received by AFR prior to closing.

### **How much time is given to complete the work?**

The contractor must finish the work in accordance with the written estimate and Homeowner/Contractor Agreement within 90 days. If the work is not completed within 90 days of closing, a principal reduction will be made towards the remaining unpaid balance of the mortgage.

### **Disbursements made to contractors/borrowers?**

No more than two payments may be disbursed to the contractor. The first payment is made at the initial funding of the loan and is intended to defray material costs and shall not be more than 50% of the estimated costs of all repairs/improvements.

The final disbursement will be made following completion of all work and release of any and all liens arising out of the contract or submission of receipts or other evidence of payment covering all subcontractors or suppliers who could file a legal claim. Before a final disbursement is made, the borrower must sign a statement acknowledging that the work has been completed in a professional and satisfactory manner. In addition, prior to the release of the final disbursement, a final inspection from the appraiser must be received by AFR verifying that the work has been completed in accordance with the approved estimates and appraiser's requirements.

### **Additional costs charged to the mortgagor?**

AFR will hold back \$300.00 to be used towards final inspection fees. Unused inspection fees will be credited against the unpaid principal balance within 30 days of the projects completion.

### **Can the Streamlined 203k program be used for manufactured housing?**

Yes. The program can be used for a loan on a manufactured home however; it cannot be used to permanently affix the home to the foundation. The home must be completely secured to the foundation as evidenced by an engineer's certification and appraisal prior to closing.

### **How much is the contingency reserve?**

The contingency reserve is up to 10% of all repairs or rehabilitation expenses. The amount of reserve is at the underwriter's discretion. All funds remaining in the escrow account after final payment to the contractor is made, including any remaining reserve amount will be used as a principle reduction of the existing mortgage.

**Does AFR finance FHA 203(k)s on a property that has a commercial space?** I know that HUD allows it as long as the commercial space does not exceed 50% on a 2 unit, 33% on a 3 unit and 25% on a 4 unit.

No, we do not finance mixed use properties.

### **Is there a maximum origination fee for an FHA Streamlined 203k**

No. HUD removed the 1% origination fee cap on all 203k loans per Mortgagee letter 11-18.

### **Are grant funds allowed to be used in conjunction with a Streamlined 203k?**

In a purchase transaction where the buyer is receiving down payment assistance to be used towards their down payment and or closing costs, if the funds result in a **secured** second lien, a Streamlined 203k loan will **NOT** be allowed regardless of where the grant funds come from or the repayment terms. Grant funds **are** allowed if the grant is an AFR and FHA approved grant AND it will not result in a secured second lien on the subject property.

**Where can I go if I have questions or need additional information about the Streamlined 203k program?** [203k@afmortgage.com](mailto:203k@afmortgage.com) or [203k@afrwholesale.com](mailto:203k@afrwholesale.com)

### **Where can go to inform AFR once the work is completed or if my contractor has any questions?**

Send your questions or request for additional information or final funds to one of the following email addresses: [203k@afmortgage.com](mailto:203k@afmortgage.com) or [203k@afrwholesale.com](mailto:203k@afrwholesale.com).