



## FHA 203(k) LIMITED RENOVATION

PROGRAM SPECIFICATIONS	
<b>Description</b>	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.
<b>Channels</b>	<ul style="list-style-type: none"> <li>• Broker</li> <li>• Correspondent <ul style="list-style-type: none"> <li>○ Non-Delegated UW</li> <li>○ Delegated UW <ul style="list-style-type: none"> <li>▪ Important: CDE clients <u>must</u> complete an interview with the AFR Renovation Department and be approved <u>prior</u> to submission on any FHA 203(k) transaction.</li> </ul> </li> </ul> </li> </ul>
<b>FICO</b>	<p>Minimum Qualifying Credit Scores:</p> <ul style="list-style-type: none"> <li>• 580 for all qualifying borrowers</li> <li>• 1 credit score required for all qualifying borrowers,</li> <li>• Use the middle score if 3 credit scores, or</li> <li>• The lower of the two if 2 credit scores,</li> <li>• Lowest representative score from all borrowers will be used for qualification purposes.</li> </ul>
<b>UW Method</b>	<ul style="list-style-type: none"> <li>• Total Scorecard: <ul style="list-style-type: none"> <li>○ Desktop Underwriter (DU)</li> <li>○ Loan Product Advisor (LPA)</li> </ul> </li> </ul>
<b>AUS Recommendation</b>	<ul style="list-style-type: none"> <li>• Approve/Eligible – DU</li> <li>• Refer/Eligible – DU</li> <li>• Risk Class Accept – LPA</li> <li>• Risk Class Refer – LPA</li> </ul>
<b>Eligible Terms</b>	<ul style="list-style-type: none"> <li>• 10Yr., 15Yr., 20Yr., 25Yr., 30Yr. Fixed</li> <li>• 5/1 Hybrid ARM - Suspended 7/14/2022 until further notice</li> </ul>
<b>Eligible Transaction Types</b>	<ul style="list-style-type: none"> <li>• Purchase</li> <li>• Rate/Term Refinance</li> </ul>
<b>Eligible Property Types</b>	<ul style="list-style-type: none"> <li>• 1-4 Unit Primary Residence</li> <li>• Manufactured Housing <ul style="list-style-type: none"> <li>○ 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</li> </ul> </li> <li>• FHA Approved Condominiums <ul style="list-style-type: none"> <li>○ Rehabilitation or improvements are limited to the interior of the unit, except for the installation of firewalls in the attic for the unit</li> <li>○ 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</li> <li>○ After rehabilitation is complete, the unit is located in a Structure containing no more than 4 units.</li> </ul> </li> <li>• Site Condominium</li> <li>• PUDs</li> <li>• HUD REO <ul style="list-style-type: none"> <li>○ 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.</li> </ul> </li> </ul> <p>Reminders:</p> <ul style="list-style-type: none"> <li>• Property must be an existing Property that has been completed for at least one year prior to the case number assignment date.</li> <li>• 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.</li> <li>• 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.</li> <li>• Cashback on Rate/Term Refinance transactions is not permitted.</li> </ul>
<b>Contingency Reserve</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<b>Amount of Repairs</b>	<ul style="list-style-type: none"> <li>• The total rehabilitation cost must not exceed \$75,000. There is no minimum rehabilitation cost.</li> </ul>



	<ul style="list-style-type: none"> <li>○ 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.</li> <li>○ 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.</li> </ul>
<b>Ineligible Repairs</b>	<ul style="list-style-type: none"> <li>• Structural Modifications</li> <li>• Any repair/removal/remediation of Oil Tanks</li> <li>• Any repair/installation for private water systems (wells)</li> <li>• Any repair/installation for private waste management systems (septic systems, lagoons, cesspools, pits, etc.).</li> <li>• Mold remediation</li> </ul>
<b>Maximum rehabilitation period</b>	<ul style="list-style-type: none"> <li>• 9 months</li> </ul>
<b>HUD Consultant and Fee</b>	<ul style="list-style-type: none"> <li>• A HUD Consultant is not required. If a consultant is part of the transaction the Fee maybe financed.</li> </ul>
<b>Maximum days of non-occupancy</b>	<ul style="list-style-type: none"> <li>• 30 days, If the Borrower is unable to occupy the property during the rehabilitation period.</li> </ul>
<b>Maximum DTI</b>	<ul style="list-style-type: none"> <li>• Approve/Eligible or Risk Class Accept - Follow AUS</li> <li>• Refer/Eligible or Manual – Follow FHA Guidelines</li> </ul>
<b>Can be combined with these programs</b>	<ul style="list-style-type: none"> <li>• FHA Good Neighbor Next Door Program (GNND)</li> <li>• \$100 Down Program</li> <li>• HUD REO Repair Escrow Program</li> </ul>
<b>Geographic Restrictions</b>	<ul style="list-style-type: none"> <li>• Hawaii <ul style="list-style-type: none"> <li>○ 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.</li> </ul> </li> <li>• AFR requires the use of AFR's Texas counsel on all Texas transactions with the exception of Correspondent Delegated loans. AFR utilizes this 3<sup>rd</sup> party for document preparation and require 48 hours for both title review and to generate a closing package.</li> </ul>
<b>4000.1</b>	<a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1_4000.1_II.A.8.8">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1_4000.1_II.A.8.8</a>
<b>Forms</b>	See FORMS Section in the Resource Center

## OVERLAYS

Follow all overlays outlined in the FHA 203(b) Program Matrix and:

- 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.
- AFR follows HUD requirements with permitting a maximum of 2 draws after closing and requires all draw requests to be performed in writing and executed by the Contractor and Borrower using the *FHA 203(k) Limited and FNMA HomeStyle Limited Interim Draw Request Form* which is available on our website.
- 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.
- Razing/demolition of home down to its foundation is not permitted
- Physical relocation of a home from another location is not permitted
- Self-Help is not permitted
- AFR permits for only 1 General Contractor; multiple Generals Contractors are not permitted
- AFR will require any loan that has a well and/or septic being replaced or installed to be processed as a FHA Standard 203(k) transaction.
- 2nd level review by AFR Management on any property that is identified to have a current "As-is" property condition rating of C5 or C6. Loan is subject to additional requirements/conditions. Note: "As Completed" Property Condition Rating as determined by the Appraiser must be C1-C4.
- AFR permits the renovation of an existing Accessory Dwelling Unit (A.D.U.).