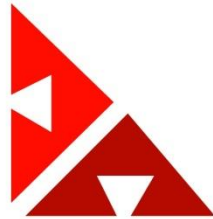


↘ FHA 203(k) Streamline Program Presentation



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Agenda

- Introduction
- Housekeeping
- FHA 203(k) Overview
- FHA 203(k) Streamline Draw Process



Why FHA 203(k)

- Through the Federal Housing Administration (FHA) 203(k) program, borrowers can purchase or refinance their home and include rehabilitation and repair costs in the same loan. This program can help you expand homeownership opportunities by offering a renovation program to people who want to revitalize the communities they serve.

- FHA 203(k) can help you:
 - Expand your market reach
 - Help borrowers find affordable financing



Opportunity

- There are borrowers who
 - Are interested in purchasing a property that needs repairs
 - Are existing homeowners who need funds to rehabilitate their property
 - Want to save time and money by financing the purchase or refinance with the cost of the repairs
 - May not qualify for a conventional loan
 - Have low-to-moderate incomes
 - Are first-time homebuyers
 - Live in disadvantaged neighborhoods
 - Have limited cash for down payment or closing costs
 - Want to improve their home and neighborhood



Solution

- Provide borrowers an affordable, stable financing solution that combines the purchase or refinance of the home along with the costs of the improvements into a single loan
 - FHA guidelines apply
 - Opportunity to borrow against the value of the home after improvements
 - Owner-occupied 1-4 unit properties, PUDs, condos and REO properties
 - The new servicer handles all draws
 - Work can be completed by contractor or borrower



Target Markets

- Borrowers purchasing a home in need of rehabilitation
 - May be REOs, foreclosures, and short sales
 - Incomplete renovations
 - Out-dated kitchen, bathrooms, etc.
- Borrowers refinancing existing home and making improvements
 - Improve instead of move
 - Out-dated kitchen, bathrooms, etc.
 - Expand to accommodate a growing family



Program Eligibility

- Types of mortgages
 - 30-year fixed-rate mortgages
- Interested party contributions allowed up to 6%
- Standard FHA investment required – max 96.50% LTV for purchase transactions and max 97.75% LTV for rate/term.
- Purchase and refinance of owner-occupied, primary residence
 - Attached and detached single family residences, condos and PUDs
 - 2-4 unit properties
 - REO-owned properties



Credit and Income

- FHA guidelines apply
- All loans must be run through Desktop Underwriter[®] (DU[®]) or Loan Prospector[®] (LP). Manual underwriting is not allowed. Non-traditional tradelines are not allowed. See Plaza Standard FHA guidelines.
 - Minimum 620 credit score required on all government loan transactions.
- Full documentation only
- 31%/43% qualifying ratios – may be exceeded with AUS approval. See Plaza Standard FHA guidelines.
- Cash reserves are not required on 1-2 unit properties
 - 3-4 unit purchase transactions require 3-month reserves



Eligible Improvements

▪ Example of Eligible Improvements

- Repair/replacement of roofs, gutters and downspouts.
- Repair/replacement/upgrade of existing heating, ventilation and air conditioning systems.
- Repair/replacement of plumbing and electrical systems.
- Repair/replacement of flooring.
- Minor remodeling that does not involve structural repairs, such as kitchens.
- Exterior and interior painting.
- Weatherization, including storm windows and doors, insulation, weather stripping, etc.
- Purchase and installation of appliances, including free-standing ranges, refrigerators, washers and dryers, dishwashers and microwaves.
- Improvements for accessibility for persons with disabilities.
- Lead-based paint stabilization or abatement of lead-based paint hazards.
- Repair/replacement/addition of exterior decks, patios, porches.
- Basement waterproofing.
- Replacement of window and doors and exterior wall re-siding.

Most improvements are eligible provided they add value and are permanently affixed to the foundation.

▪ Luxury items are not eligible

- Swimming pools, hot tubs, tennis courts, gazebos, barbecue pits, saunas or alterations to support commercial use

* Please contact your local HOC for detailed eligibility requirements.

↳ FHA 203(k) Streamlined

- Allows borrowers to finance up to an additional \$35,000 into their mortgage to make improvements
- There is no minimum repair cost.
- Available for purchase and refinance transactions
- Allowed on limited improvement types
 - Can be 100% cosmetic improvements
 - Can not be used for structural improvements or repairs
- Streamlined 203(k) is subject to the same guidelines as FHA 203(k) – it's the improvements that are “streamlined”



Borrower Self-Help

- Work can be completed by contractor or borrower
 - Borrower must be qualified and approved to do the work
 - Work must be completed within agreed upon timeframe (no more than six months after closing)
 - For borrowers doing the work themselves, a self-help agreement is required before any funds are disbursed - the check is made payable to the borrower
 - For borrowers working with a contractor, a W-9 must be provided to establish the contractor as approved - a two-party check is made payable to the borrower and the contractor, the check will be sent to the borrower
 - If using a home improvement store such as Home Depot[®] or Lowe's[®], Self Help guidelines would apply and a W-9 is not necessary as the check is made directly to the borrower who is technically acting as the General Contractor



Determining the Value

- The loan-to-value is based on the lesser of
 - The sales price or "as is" appraised value plus repair costs minus sales concessions, or
 - 110% of "as completed" appraised value

Example: Determining the Maximum Loan Amount

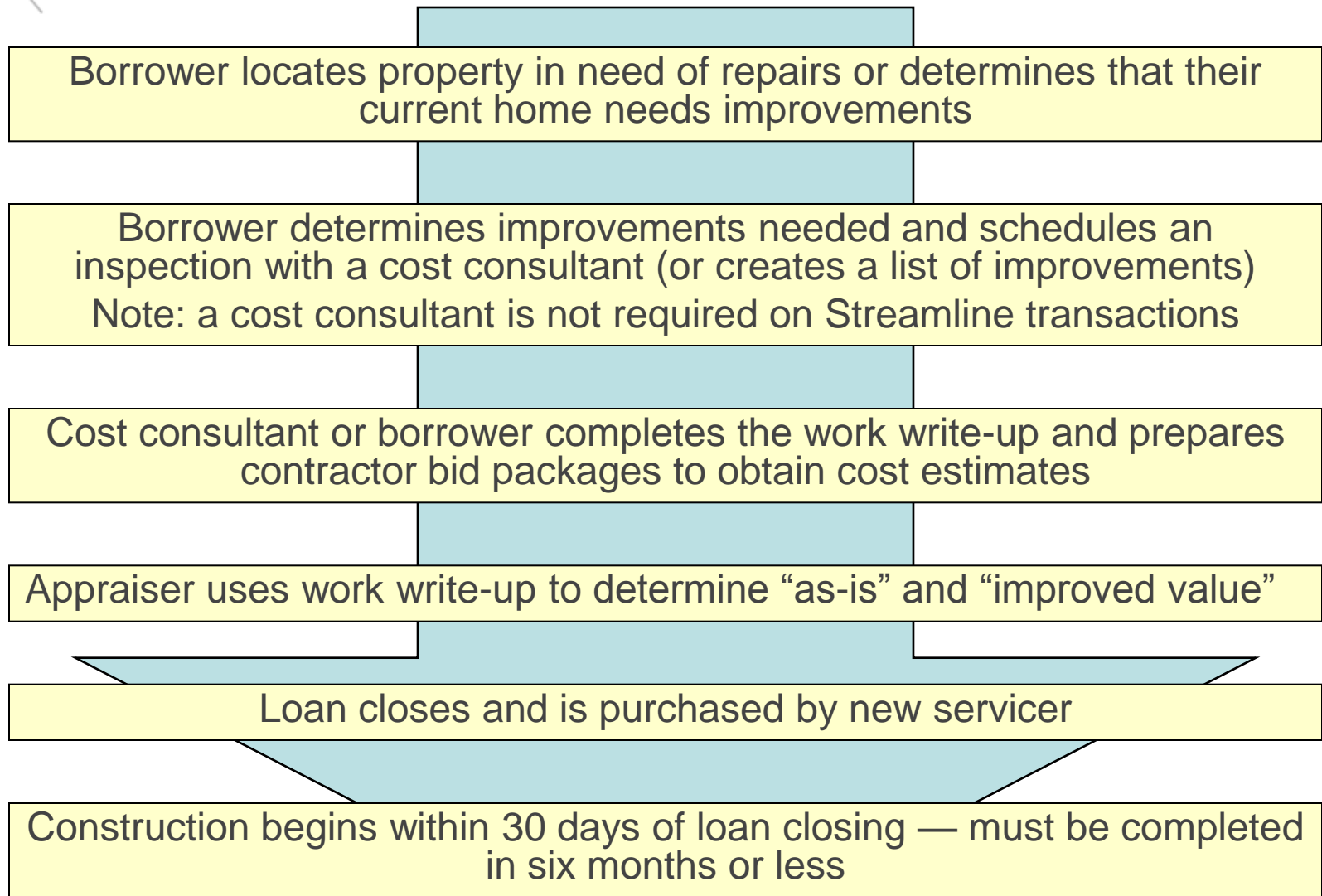
EXAMPLE: purchase of a 1-unit property with 96.50% LTV/CLTV	
Purchase and Renovation Costs	
Sales Price	\$ 120,000
Labor/Material	\$ 24,500
Soft Costs (permits, consultant fees, inspection fees, etc.)	\$ 2,420
Total for Purchase and Renovation	\$ 146,920
“As-completed” value (determined by appraiser)	\$ 160,000
<p>Value to use for determination of LTV must be the lesser of the total cost of renovation or the “as-completed” value. In this example, \$146,920 is less than \$160,000, therefore the value you must use when determining the maximum loan amount is \$146,920.</p>	
Maximum Loan Amount at 96.50%	\$ 141,777.80

↳ Loan Purchase Process

\$200,000 Total Loan Amount (\$175,000 purchase or refinance plus \$25,000 rehabilitation cost)*	
Item	Amount
Amount for purchase or refinance	\$175,000
Rehabilitation amount	\$25,000
Total loan amount	\$200,000
New servicer purchases loan	\$200,000
New servicer wires Plaza	\$175,000
Rehab amount transferred to new servicer's Loan Disbursement Dept.	\$25,000

*This simplified example is for illustrative purposes only and does not include any fees associated with the transaction.

Application Process





Streamlined Draw Process

- After the loan is purchased and set up in the new servicer's system
 - 50% of the rehabilitation funds are disbursed within 20 days
 - Included with the disbursement is an instruction letter that explains how the final disbursement works
 - The balance is disbursed upon completion of all work
 - If the cost of the renovation is over \$15,000, an inspection by the original appraiser is required
- Two disbursements are made
 - One within 20 days of the loan purchase by the new servicer.
 - Second and final disbursement once all work has been completed



FHA 203(k) Resources

- For details on Plaza's standard FHA guidelines, refer to the broker website.
- For area median home prices: <https://entp.hud.gov/idapp/html/hicostlook.cfm>
- Cost consultants can be found on HUD's Web site: <https://entp.hud.gov/idapp/html/f17cnsldata.cfm>
- To transfer the loan, access FHA Connection located on the HUD website at: <https://entp.hud.gov/clas/index.cfm>
 - Under "Single Family Servicing", select "Mortgage Record Changes" and then "Servicing/Holder Transfer". Then input the new servicer's lender ID **76514-0000-4** under "New Holding Mortgagee" and "New Servicer Mortgagee"
- For information on FHA mortgage insurance programs, visit: <http://www.fha.gov/>
- For information on U.S. Department of Housing and Urban Development, visit: <https://www.hud.gov/>
- For information on FHA mortgage program questions, e-mail: info@fhaoutreach.com

↳ Tips and Tools

- Let the new servicer handle all draws
- Make sure all impacted parties understand the draw process
 - How many draws are allowed:
 - Two for Streamlined 203(K)
- Title must be clear before final payment is made
- The most common causes for a delay in draw are:
 - Missing W-9
 - Missing Homeowner's Contractor and/or Self Help Agreement
 - Missing Lender Signature on the Rehabilitation Loan Agreement
- Cost consultants can make the process easier – they are listed by location (search neighboring towns to locate additional cost consultants)
- Supplemental Origination Fee is charged for handling the rehabilitation process on the FHA 203(k) program (\$350.00 or 1.5% whichever is greater)
- The underwriter is responsible for performing contractor due diligence (i.e. contractor licensing, reference checks, and permits if applicable.)
- Required forms can be found in the FHA 203(k) guidelines as well as the FHA 203(k) folder on the intranet.
- Construction must begin within 30 days on FHA 203(k) Streamlined loans. (Weather related and/or other delays are not normally allowed.)



[For More Information](#)



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For More Detail Information

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