

# 203k Advantages

- MIP can be financed
- Finance up to 6 months mortgage payments
- Special HUD down payment programs exist
- · Most closing costs can be financed
- Seller can pay up to 6% of the closing costs for the buyer
- An FHA loan is assumable



#### Streamlined (k)

- Too good to be true
- Not a cure all by any means
- Like the full 203k the Streamlined (k) has its place in the mix
- Some lenders ONLY want to the the "S"



## Streamlined (k)

- The Streamlined 203k is a newer product which was intended to save the borrower money by not requiring a 'consultant' for the bid specifications
- It allows a contractor to bid the project provided the work is relatively simple and is less than \$35,000 in scope of work. However, a plan review may be required
- If the work totals over \$15,000 a follow up inspection is required once the work is completed



## Streamlined (k) ineligible work

- 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 oxibits.
- Landscaping or similar site amenity improvements
- Any repair or improvement requiring a work schedule longer than six (6) months; or
- Rehabilitation activities that require more than two (2) payments per specialized contractor



#### Cannot use the Streamlined (k)

- Mortgagors may not use the Streamlined (k) program to finance any required repairs arising from the appraisal that do not appear on the list of Streamlined (k) Eligible Work Items or that would Necessitates a "consultant" to develop a "Specification of Repairs/Work Write-Up"
- Requires plans or architectural exhibits
- Requires 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).



#### Things You Can Do With The 203k

- Mixed Use properties You can renovate a mixed use property provided the commercial space represents less than one floor of the structure. The commercial uses cannot affect the health and safety of the occupants.
- Home buyers and non-profits that purchase HUD-Owned properties can refinance the property using the 203k within six (6) months of the purchase, the same as if the buyer purchased the property with a 203k insured loan to begin with.



#### Things You Can Do With The 203k

- · The borrower will be eligible as a first time home buyer without the three year waiting period if they are legally separated or divorced, even if they had an interest in a home with their spouse, provided the individual no longer has an interest in the home.
- Non-profits can purchase a property, rehabilitate it and sell it or keep it. If the non-profit intends to keep the property as a rental then they should keep the acquisition and rehab costs at the lowest possible number to increase the cash flow



#### Eligible Improvements 203k

 There is a minimum requirement of \$5,000 in eligible (necessary) improvements on the subject property. Improvements to a detached garage, a new detached garage, or the addition of an attached unit (if allowed by local zoning ordinances) can also be included in this first \$5,000. \* The look a likes have no minimum amount of rehab.



#### A Full 203k MUST include one or more of the following items

- · Structural repairs and alterations.
- · Items such as additions to the structure: repairing any and all structural damage
- · Improvement in the functionality or modernization
- Such items as remodeled kitchens and bathrooms
- · Changes for aesthetic appeal, and the elimination of obsolescence
- New exterior siding and/or new doors



- · Repair of replacement of plumbing, heating, air conditioning or electrical system. Installation of new plumbing fixtures are acceptable, including interior whirlpool bathtubs
- · Installation of Well and/or Septic System
- Must be installed or repaired prior to beginning any other repairs to the property. Properties less than one acre in size can be limited on this item
- · Replacement of flooring, carpeting or tiling



- · Energy conservation improvement
- New dual pane windows and doors, storm windows, insulation, and solar domestic hot water systems
- Major landscape work and site improvement
- Patios and terraces that improve the value of the property equal to the cost, or that are needed to preserve the property from erosion



- Improvements for easier accessibility to the handicapped
- Handicapped retrofitting can be included in the cost of rehab. This is particularly good to get this information into the hands of vocational rehab companies and companies that deal with disabilities. They may have a list of clients for you



# The following items can be included after the minimum \$5,000

- New cooking ranges, refrigerators and other stand alone appliances
- · Painting and other cosmetic repairs
- Fencing, new walks and driveways, and general landscape work trees, shrubs or seeding)
- Repair of an existing swimming pool, up to \$1,500. Any costs exceeding \$1,500 must be paid into the Contingency Reserve by the borrower.



# Eligible Improvements Streamlined (k)

 There is no minimum requirement for improvements on the subject property set by FHA. However some lenders adhere to a \$2,000 or \$5,000 minimum as a "supplemental requirement"



#### NOTE:

- Items that will not become a permanent part of the property are not eligible
- Luxury items are not eligible. These items include, but are not limited to <u>New</u> swimming pools, exterior hot tubs, saunas, spas, tennis courts, and barbecue pits



#### Which Properties are Eligible?

 Any one to four unit properties which have been completed (with a certificate of occupancy) for at least one year are acceptable according to the provisions of local zoning requirements



#### Which Properties are Eligible?

• Any one to four unit properties which have been completed (with a certificate of occupancy) for at least one year are acceptable according to the provisions of local zoning requirements. This rule was relaxed quite some time ago allowing any one year old property to be rehabbed into a 1-4 family residential property



#### Which Properties are Eligible?

 Homes that have been demolished or razed as a part of the rehabilitation process can be rehabbed as long as the existing foundation system is not affected and remains in tact.

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## Which Properties are Eligible?

 Homes that have been demolished or razed as a part of the rehabilitation process can be rehabbed as long as the existing foundation system is not affected and remains in fact. This rule was also relaxed to allow "as long as there is a portion of the original foundation"



- A home can be moved onto a foundation on the mortgaged property, provided the proceeds from the sale of the previous location are not released until the foundation is properly inspected and the home is satisfactorily attached to the new foundation
- Any property the buyer wishes to convert either from single family into a two to four family or from a two to four family dwelling into a single family unit

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- A manufactured home that was built AFTER June 15, 1976, and has been on a permanent foundation for over one year is eligible, provided the unit must have been delivered to the site when it was new, prior to being occupied
- 203 OnLine.com

- A 203k can be used on a "mixed use residential property" provided it meets the following requirements:
- The floor space used for commercial purposes does not exceed...
  - 25% for a one story building
  - 33% for a three story building
  - 49% for a two-story building



#### 203k Procedure

- There is an orderly way to proceed with your 203k or your Streamlined (k)
- Regardless of where you come into the process you should make every effort to go to square one and get on track ASAP



#### 203k Procedure

Find a lender and get pre-qualified... This
is the first step as we need to accertain the
maximum loan amount for the borrower



#### 203k Procedure

- Get with one of a real estate professional who is familiar with the 203k. They will assist the borrower in finding a property suitable for this borrower, or as an alternate...
- A borrower may refinance an existing loan and get the money for the renovation all in the same loan without a realtor.



#### 203k Procedure

- The real estate professional should NOT attempt to circumvent the 203k process but rather provide properties for exhibit that require some amount of repair(s)
- A pro might show similar homes that he/she has found that resemble the subject property but have already been fixed up asking "can you picture yourself living in a home like this one?"



#### What do we do to consult?

• The following slides walk you through just what you do as a consultant



#### 203k Procedure

- Set up an appointment with a 203k Consultant.
  The consultant will meet the borrower at the site,
  go over the contracts and agreements that will
  be signed at the close of escrow. They should
  be given copies that they can read at their
  leisure. [These contracts are required to be
  provided to the borrower by the lender] A good
  consultant will provide that service
- We encourage the borrower to mark them up and if you have any questions call your lender or our staff



# 203k Procedure

 Make your inspection of the premises at this time. An inspection report will be created which is the "cornerstone" of a good 203k loan project. We need to analyze what it will take to bring this property up to the FHA Minimum Property Standards...in addition the borrower may add any other work to the list of repair items within the guideline.

#### 203 OnLine.com

## 203k Procedure

- Now you create a "Job Specification & Bid Request". This is a list of the repair items needed to complete the project
- This "specification" is what will allow all of the contractors bid the same list



#### 203k Procedure

Request". This is a list of the repair items that we intend to complete. This "specification" is what will allow all of the contractors who bid this project to bid on

need for a contractor to have been to the site because we didn't know what work was to be completed





#### 203k Procedure

- Once the "Job Specification & Bid Request" has been created a copy will be given to the borrower.
- It is technically the borrower's responsibility to see that the bid specs get out to several contractors for bid purposes...in reality the borrower typically will sit on this report and procrastinate and you'll loose precious time
- Contractor should provide their numbers in a "blind bid"

# <sup>203</sup> Online.com

#### 203k Procedure

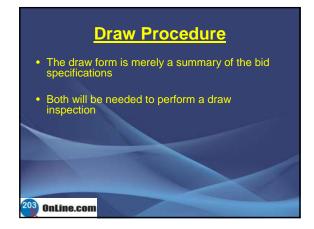
- When the bids come back the borrower will choose the contractor. This can be done with the aid of the consultant.
- The lowest bid isn't always the best choice. The lender can close the loan
- Once the loan is closed the work may begin

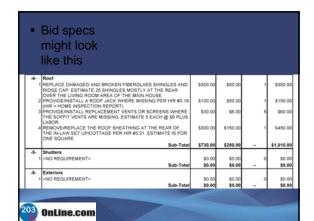


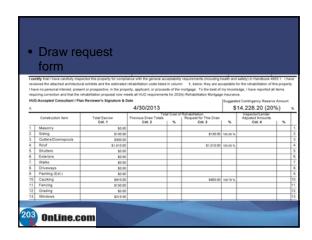


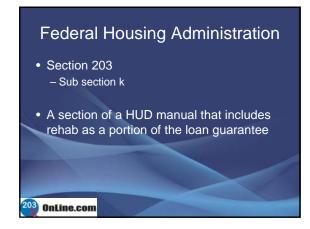
 In the event there are no draws for 30 days after the close of escrow a lender may initiate a draw request

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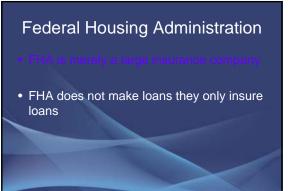






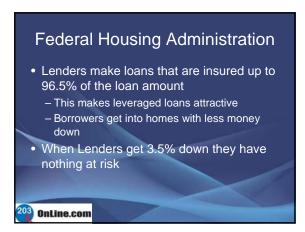






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# Federal Housing Administration FHA is merely a large insurance company FHA does not make loans they only insure loans Lenders make loans that are insured up to 96.5% of the loan amount





































































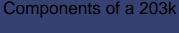


 Part of this includes identifying the deficiencies and listing them separately

– You already do that as well?







- That only leaves two things that you don't do now
- 1) Create a "Repair Specification"
- 2) Create a "Work Write Up"



# **Property Inspection**

- 1-4 units
  - Fee for Unit 1
  - Fee for Units 2-4
- Description of the property "as is"
- Deficiency report
- Outline what needs to be repaired
- Quantify the repairs



# Home Inspector vs Consultant

- Both inspect the property
- Both find the deficiencies
- HI recommends
  - Recommend further inspection
  - Recommend something be repaired/replaced
- Consultant specifies a correction
  - Matter of fact replace this with that
  - Be specific so many LF or SF @ \$



#### Home Inspector vs Consultant

- Home inspector goes to next project
- Consultant monitors the construction for another fee
  - Draw inspections
  - Final inspection





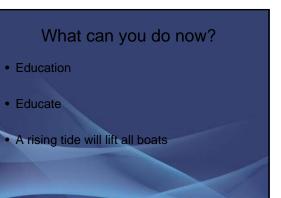












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