



# FHA 203(h) Program Guidelines

## Correspondent

Revised 1/2/2024 rev. 120

<b>Summary</b>	FHA Section 203(h) conforming and high Balance Fixed Rate and 5/1 ARM. The program may be used in conjunction with a 203(b) or a 203(k) mortgage. All loans must be eligible for FHA Insurance Endorsement.																																																																		
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<b>4506-C / Tax Transcripts</b>	<ul style="list-style-type: none"> <li>A signed 4506-C for all years in which income was used in the underwriting decision are required</li> <li>Refer to Plaza's <b>Delegated Correspondent Credit Overlay Matrix</b> for tax transcript requirements</li> </ul>																																																																		
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		ARM interest rate change dates.
		After the initial fixed period, the interest rate may adjust annually.
Payment Adjustment Date	The payment adjustment date is the first of the month following the interest rate adjustment and every 12 months thereafter.	
Conversion Option	Not allowed.	
Temporary Buydowns	Not allowed.	
<b>Borrower Eligibility</b>	<p>Documentation must be provided to verify that the borrower's previous residence (owned or rented) was in the disaster area, and was destroyed or damaged to such an extent that reconstruction or replacement is necessary. If purchasing a new house, the house need not be located in the area where the previous house was located.</p> <p><b>Application Deadline:</b> The FHA case number must be assigned within one year of the date the PDMDA is declared unless an additional period of eligibility is explicitly provided.</p> <p><b>Ineligible Borrowers:</b></p> <ul style="list-style-type: none"> <li>• Partnerships</li> <li>• Corporations</li> <li>• Guardianships</li> <li>• Life Estates</li> <li>• LLCs</li> <li>• Non-revocable Inter Vivos Trusts</li> <li>• Borrowers with diplomatic immunity</li> <li>• Charitable organizations</li> <li>• Non-profit agencies</li> <li>• State or local government agencies</li> <li>• Foreign Nationals</li> </ul> <p><b>Note:</b> Deferred Action for Childhood Arrivals (DACA) program recipients are eligible for FHA programs.</p> <p><b>Deferred Action for Childhood Arrivals (DACA) program recipients:</b></p> <ul style="list-style-type: none"> <li>• Must be borrower's principal residence;</li> <li>• Borrower must have a valid Social Security Number (SSN), except for those employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD;</li> <li>• Borrower must be eligible to work in the U.S. as evidenced by the Employment Authorization Document issued by USCIS, and</li> <li>• The borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.</li> </ul> <p>The Employment Authorization Document is required to substantiate work status. If the Employment Authorization Document will expire within one year and a prior history of residency status renewals exists, the lender may assume that continuation will be granted. If there are no prior renewals, the lender must determine the likelihood of renewal based on information from the USCIS.</p> <p>A borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS is automatically eligible to work in this country. The Employment Authorization Document is not required, but documentation substantiating the refugee or asylee status must be obtained.</p> <p><b>Social Security Number:</b></p> <ul style="list-style-type: none"> <li>• Each borrower on the loan transaction must have a valid Social Security number.</li> <li>• ITIN (IRS Tax Identification Numbers) are not allowed.</li> </ul>	
<b>Credit</b>	<p><b>Qualifying Credit Score:</b></p> <ul style="list-style-type: none"> <li>• A tri-merge credit report is required on all loans</li> <li>• Qualifying score: <ul style="list-style-type: none"> <li>○ Where three scores are reported, the middle score is the qualifying score</li> <li>○ Where two scores are reported, the lowest score is the qualifying score</li> <li>○ Where only one score is reported, that score is the qualifying score</li> </ul> </li> <li>• Where the Mortgage involves multiple Borrowers, the lowest qualifying score of all borrowers is used</li> <li>• Where the Mortgage involves multiple Borrowers and one or more of the Borrowers do not have a credit score (non-traditional or insufficient credit), the lowest qualifying score of the</li> </ul>	

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	<p>Borrower(s) with credit score(s) is used</p> <ul style="list-style-type: none"> <li>At least one occupant borrower must have a credit score. Manual underwriting guidelines apply for loans that receive a “Refer” recommendation where the co-borrower does not have a credit score. Non-traditional credit must be established per FHA guideline requirements.</li> </ul> <p><b>Housing Payment History:</b> Late payments may be disregarded on a property that was destroyed or damaged in the disaster, where the late payments were a result of the disaster, and the Borrower was not delinquent on their Mortgage at the time of the disaster.</p> <p><b>Disaster Related Derogatory Credit:</b> Borrowers may be considered a satisfactory credit risk if the credit report indicates satisfactory credit prior to the disaster and any derogatory credit subsequent to the date of the disaster is directly related to the effects of the disaster.</p>																			
<b>Disaster Policy</b>	Refer to Plaza’s <b>Natural Disaster Policy</b> for requirements.																			
<b>Down Payment / Gifts</b>	<p>Per FHA requirements:</p> <ul style="list-style-type: none"> <li>The Borrower is not required to make the Minimum Required Investment (MRI). The maximum LTV is 100% percent of the Adjusted Value.</li> <li>If a 203(k) is used in conjunction with a 203(h), the 203(k) LTV applies.</li> </ul> <p>If traditional asset documentation is not available, statements downloaded from the borrower’s financial institution website to may be used to confirm the borrower has sufficient assets to close the Mortgage.</p>																			
<b>Energy Efficient Mortgages</b>	Allowed per <b>FHA Guidelines</b> .																			
<b>Escrow Accounts</b>	An Escrow/impound account is required for property taxes and insurance on all FHA loans.																			
<b>Geographic Restrictions</b>	<p>The borrower’s previous residence must have been in a PDMDA and have been destroyed or damaged to such an extent that reconstruction or replacement is necessary. If purchasing a new house, the house need not be located in the area where the previous house was located.</p> <p><b>Hawaii:</b> Properties in Lava Flow Zones 1 or 2 are not allowed.</p> <p><b>Iowa:</b> An attorney’s opinion of title is acceptable in lieu of a title policy, or a title policy may be ordered through the Title Guaranty Division (TGD) of the Iowa Financial Authority.</p> <p><b>Massachusetts:</b> Septic system inspection required when a property is transferred to a different owner (purchase money). All systems must be inspected within 2 years prior to the transfer of title to the property served by the system. Inspections conducted up to 3 years before the purchase may be eligible when accompanied by records demonstrating that the system was pumped at least once a year during that time.</p> <p><b>Montana:</b> Lot size of the property may not exceed 40 acres.</p> <p><b>West Virginia:</b> Delegated deliveries only.</p>																			
<b>Good Neighbor Next Door</b>	Allowed per <b>FHA Guidelines</b> .																			
<b>HUD REO</b>	Allowed per <b>FHA Guidelines</b> .																			
<b>Ineligible</b>	<ul style="list-style-type: none"> <li>One-time close construction</li> <li>Borrower may not act as an interested party to a sales transaction for the subject if the builder and/or property seller is a company owned by the borrower or where the borrower is a principal agent, sales agent, loan originator, mortgage broker or partner for the builder or property seller.</li> <li>Realtor/loan broker acting as the listing agent as well as the mortgage originator/broker.</li> <li>Borrower is a principal of the title company and/or settlement agent for the subject transaction.</li> </ul>																			
<b>Loan Limits</b>	<table border="1"> <thead> <tr> <th colspan="5">Maximum Base Loan Amount</th> </tr> <tr> <th rowspan="2">Unit</th> <th colspan="2">Contiguous States</th> <th colspan="2">Hawaii<sup>1</sup></th> </tr> <tr> <th>Standard</th> <th>High Balance</th> <th>Standard</th> <th>High Balance</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>\$766,550</td> <td>\$1,149,825</td> <td>\$1,149,825</td> <td>N/A</td> </tr> </tbody> </table> <p><sup>1</sup>. There are no properties in Hawaii with loan limits higher than the applicable base conforming limits for 2024. As a result, there are no High Balance limits specific for this state.</p> <p>Maximum base loan amounts are county specific and may be lower in a particular county.</p>	Maximum Base Loan Amount					Unit	Contiguous States		Hawaii <sup>1</sup>		Standard	High Balance	Standard	High Balance	1	\$766,550	\$1,149,825	\$1,149,825	N/A
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<b>Maximum Loans</b>	Borrowers are generally limited to one FHA Insured mortgage. If a borrower's home was destroyed and qualifies for the 203(h) program then it may be acceptable for a multiple FHA loan exception.  A maximum of four Plaza loans is permitted to one borrower.
<b>Property Eligibility</b>	Documentation must be provided to verify that the borrower's residence (owned or rented) was in the disaster area, and was destroyed or damaged to such an extent that reconstruction or replacement is necessary. If purchasing a new house, the house need not be located in the area where the previous house was located. A list of affected areas and corresponding disaster declarations are provided by the Federal Emergency Management Agency on the FEMA website: <a href="https://www.fema.gov/disasters">https://www.fema.gov/disasters</a>  <b>Ineligible Properties:</b> <ul style="list-style-type: none"> <li>• 2-4 units</li> <li>• Manufactured Housing</li> <li>• Commercial property</li> <li>• Cooperatives</li> <li>• Condotels</li> <li>• Geothermal homes</li> <li>• Geodesic Domes</li> <li>• Mobile homes</li> <li>• Non-warrantable condos</li> <li>• Timeshares</li> <li>• Working farms, ranches, orchards</li> <li>• Properties with C6 quality rating</li> <li>• Properties with C5 or C6 condition rating</li> <li>• Properties secured with PACE obligations or PACE like assessments</li> </ul>
<b>Qualifying Ratios</b>	<b>Mortgage Payment on Destroyed Residence:</b> When a Borrower is purchasing a new house, the mortgage payment on the destroyed residence may be excluded from the borrower's liabilities if: <ul style="list-style-type: none"> <li>• Documentation is provided that verifies the borrower is working with the servicing lender to appropriately address their mortgage obligation on the destroyed residence. Plaza also requires evidence that an insurance claim has been filed; and</li> <li>• Any property insurance proceeds must be applied to the mortgage of the destroyed house.</li> </ul>
<b>Repair Escrows</b>	Per FHA guidelines.
<b>Subordinate Financing</b>	New or existing subordinate financing is allowed per the LTV/CLTV limits.  Properties with Property Assessed Clean Energy (PACE) obligations are ineligible. <ul style="list-style-type: none"> <li>• Any PACE obligations or liens must be paid and satisfied at or prior to closing.</li> <li>• PACE liens may not be subordinated.</li> </ul>
<b>Transactions</b>	<b>Purchase:</b> <ul style="list-style-type: none"> <li>• To acquire an existing property in need of no repairs (203-b)</li> <li>• To acquire and rehabilitate an existing structure (203-k) <ul style="list-style-type: none"> <li>○ Existing structures not located in a PDMDA must have been completed (certificate of occupancy has been issued over 12 months) for at least 1 year</li> <li>○ Existing structures located in a PDMDA regardless of the age of the property are eligible. The residence only needs to have been completed and ready for occupancy to be eligible.</li> </ul> </li> </ul> <b>Rate/Term Refinance:</b> Only allowed in conjunction with a Standard 203(k) to rehabilitate an existing structure that has been destroyed or damaged to such an extent that reconstruction is necessary.  <b>203(h) with 203(k):</b> Damaged residences located in a PDMDA are eligible for Section 203(k) mortgage insurance regardless of the age of the property. The residence only needs to have been completed and ready for occupancy to be eligible under Section 203(k). All other Section 203(k) policy must be followed.
<b>Underwriting Method</b>	All loans must be decisioned through FHA TOTAL Scorecard as submitted to DU, LPA, or LoanScoreCard. With the exception of manufactured housing, which requires an AUS approval, loans not receiving an acceptable AUS result must be manually underwritten subject to eligibility.

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