FHA 203(k) Program Guidelines

Revised 5/23/2025 rev. 129

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Section 1 Program Summary

The FHA Section 203(k) Rehabilitation Mortgage Insurance Program enables borrowers to finance the purchase or refinance of a home and the cost of its rehabilitation through a single mortgage. Plaza offers the Limited 203(k) and the Standard 203(k) program.

The **FHA Single Family Housing Policy Handbook 4000.1** outlines FHA requirements. In cases where Plaza's Guidelines and FHA requirements differ, the more restrictive of the two will apply.

Section 2 Product Codes

Product Name	Product Code	Available Term in Months
FHA 203(k) Standard 30 Yr Fixed	FHA30K	360
FHA 203(k) Standard 30 Yr High Balance	FHA30HK	360
FHA 203(k) Limited 30 Yr Fixed	FHA30KS	360
FHA 203(k) Limited 30 Yr High Balance	FHA30HKS	360
FHA 203(k) Standard 30 Yr Fixed w/2-1 Buydown	FHA30KBD21	360
FHA 203(k) Standard 30 Yr Fixed w/1-0 Buydown	FHA30KBD10	360
FHA 203(k) Limited 30 Yr Fixed w/2-1 Buydown	FHA30KSBD21	360
FHA 203(k) Limited 30 Yr Fixed w/1-0 Buydown	FHA30KSBD10	360

Section 3 Program Matrix

Conforming Balance and High Balance[3] – Primary Residence					
Purpose	LTV	CLTV	Min Credit Score	Max DTI Underwriting Method	
				AUS	Manual
Purchase	96.5%	96.5%	620	55%	Per 4000.1[1]
Rate/Term Refinance	97.75%[2]	97.75%[2]	620	55%	Per 4000.1[1]

1. Manually underwritten loans with debt ratios exceeding 31/43 require compensating factors. Refer to the **FHA Single Family Housing Policy Handbook 4000.1** for requirements.
2. Maximum LTV is 85% if the borrower has not owned and occupied the property for the last 12 months. If the property has been owned less than 12 months and has been owner occupied since acquisition then the LTV is not restricted to 85%. Seasoning is based on case number assignment date.
3. Manufactured Housing not eligible for High Balance loan amounts.

See EEM, GNND and HUD REO sections for LTV/CLTV combinations that may exceed 100%.

Section 4 Loan Limits

For most single-family mortgage insurance programs, the maximum insurable amount is the lesser of:

- The **Nationwide Mortgage Limit** for the area, usually a county or metropolitan statistical area (MSA), **OR**
- The applicable LTV limit, determined by a fixed percentage of the lesser of the sales price or the as is appraised value plus cost improvements.
- Manufactured Housing not eligible for High Balance loan amounts.

Maximum Base Loan Amount				
Unit	Contiguous States		Hawaii[1]	
	Standard	High Balance	Standard	High Balance
1	$766,550	$1,149,825	$1,149,825	N/A
2	$981,500	$1,472,250	$1,472,250	N/A
3	$1,186,350	$1,779,525	$1,779,525	N/A
4	$1,474,400	$2,211,600	$2,211,600	N/A

1. 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.

- Any loan where the base loan amount exceeds the standard conforming limits will be considered under the High Balance program and may have additional requirements which are identified where applicable.
- Maximum loan limits are determined by geographic areas. A complete schedule of FHA mortgage limits for all areas is available on **HUD's website**.

Section 5 Transactions

- Purchase
- Rate/Term Refinance

Ineligible Transaction Types:

- Cash out Refinances
- Texas Section 50(a)(6) loans are not eligible
- Properties listed for sale at time of application are not eligible.
- Investment or Second Home Properties
- FHA Back to Work Program (RFHA30BTW)
- No builder spec foreclosures

Section 6 Occupancy

Primary Residence only

Section 7 Property Eligibility

Eligible Properties:

- Structure must be completed for at least one year
- Attached/detached SFRs
- Attached/detached PUDs
- FHA-approved Condos – with interior unit upgrades only
- 2-4 Units Primary Residence
- HUD REO Properties
- Manufactured Housing

Ineligible Properties:

- Investment properties and second homes
- Commercial properties
- Cooperatives
- Condotels
- Properties listed on the National Historical Register
- Geothermal homes
- Geodesic dome homes
- Mobile homes
- Mixed Use Properties in commercial zoning
- Non-FHA approved or warrantable condos
- Timeshares
- Working farms, ranches, orchards
- Homes that have not been completed for at least one year

Condominiums:

- The unit must be located in an FHA-approved Condominium Project and must comply with all other requirements for condominiums.
- The renovation work must be limited to the interior of the unit, except for firewalls in the attic of the unit
- No more than five units per condominium association, or 25% of the total number of units, whichever is less, can undergo rehabilitation at any time, and
- After rehabilitation is complete, the unit is located in a structure containing no more than four units. For townhouse style condominiums, each townhouse is considered as one structure, provided each unit is separated by a 1½ hour firewall from foundation to roof.

Manufactured Housing:

- Must be classified as Real Property
- Single-wide and multi-wide allowed
- Single-wide manufactured homes are limited to purchase and rate/term refinance transactions only
- Manufactured homes must have been built on or after June 15, 1976
- Manufactured homes must be at least 12 feet wide and have a minimum 400 square feet of gross living area
- Leasehold properties are ineligible
- Condo projects, including site condos, comprised of manufactured homes are ineligible
- The manufactured home may not have been previously installed or occupied at another location
- All manufactured housing must meet FHA guidelines, restrictions in these Program Guidelines, and **Plaza's Manufactured Housing Guidelines**
- Manufactured homes located within a Special Flood Hazard Area are not eligible unless a FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form 086-0-33) prepared by a licensed engineer or surveyor stating that the finished grade beneath the manufactured home is at or above the 100-year return frequency flood elevation is provided, and flood insurance under the NFIP is obtained
- Refinance transactions for properties listed for sale on or after the date of the application

3-4 Units: Underwriter to complete **FHA 3-4 Unit Self-Sufficiency Test**.

Section 8 Property Flips

Property eligibility is based upon the time that has elapsed between the date the seller acquired the property (based upon the date of settlement) and the date the buyer and seller execute the sales contract that will result in the FHA mortgage insurance (the re-sale date).

Resale Less Than or Equal to 90 Days:

If the re-sale date is 90 days or less following the date of acquisition by the seller, the property is not eligible for a mortgage to be insured by FHA.

Transactions involving one of the following exemptions are not subject to the restrictions above:

- FHA REO properties sold by FHA.
- Resale of properties purchased by an employer or relocation agency in connection with employee relocation. What FHA intends to exempt is bona fide relocation agencies that contract with employers to handle relocations of their employees. A relocation agency DOES NOT include individual real estate agents that advertise themselves as relocation experts and who purchase properties from persons who are relocating from the area.
- Property inherited by the property seller. The property seller will not be required to hold title to that property for 90 days before he/she can sell it with FHA insured financing. The property seller must still be the owner of record but the 90-day ownership period will not be required. Further, since there was no previous sale of the property

because it was inherited, there is no previous sales price that might trigger the second appraisal requirement set forth in the flipping rules. The underwriter must include the documentation evidencing the inheritance in the case binder when submitting the case for insurance.

- Sales of properties by state and federally charted financial institutions and Government Sponsored Enterprises (e.g. Fannie Mae and Freddie Mac). **Note:** Mortgage Insurance companies are not considered a state or federally chartered financial institution and are not qualified as a GSE.
- Sales of properties by nonprofits approved to purchase HUD-owned single-family properties at a discount with resale restrictions.
- Sales of properties by local and state government agencies.
- Sales of properties within Presidentially-Declared Disaster Areas, upon FHA's announcement of eligibility in a mortgagee letter specific to said disaster.

Resale Greater Than 90 Days:

Loans with resale dates greater than 90 days and up to 180 days are generally eligible for a mortgage insured by FHA but may require supplemental documentation, including an additional appraisal.

- If the resale price is greater than or equal to 100% of the property seller's acquisition price, a second FHA appraisal from a new appraiser is required. The second appraisal cannot be provided by or paid for by the borrower. If the resale price is less than 100% of the property seller's acquisition price, then no additional appraisal documentation is required.

Unexpired Redemption Period:

Foreclosed properties that are located in a state where a redemption period is allowed, including Fannie Mae and Freddie Mac owned or HUD REO are not eligible until all of the following are met:

- The redemption period has expired. **AND**
- The foreclosure sale has been confirmed. **AND**
- Clear and marketable title is obtained.

Property Flipping Appraisal:

An as-is appraisal must be obtained if needed to comply with the Property Flipping guidelines. If an as-is appraisal is obtained, then the Adjusted As-Is Value is the lesser of the purchase price or the as-is appraised value.

If uncertain about property eligibility, check with the local Homeownership Center (HOC). Refer to the **FHA Single Family Housing Policy Handbook 4000.1**.

Section 9 Borrower Eligibility

Eligible Borrowers:

- U.S. Citizens
- Permanent resident aliens
- Non-occupant co-borrowers
- Inter Vivos (Living) Trusts
  - **Note:** A Power of Attorney is not allowed on properties held in a trust.

Ineligible Borrowers:

- Charitable organizations
- Non-profit agencies
- Non-permanent resident aliens
- Deferred Action for Childhood Arrivals (DACA) program recipients
- State or local government agencies
- Foreign Nationals
- Land Trusts

Section 10 Identity of Interest

Identity of Interest and Non-Arm's Length describe transactions that may pose increased risk and warrant additional precautions. Example: borrower has a relationship or business affiliation (any ownership interest, or employment) with any builder, contractor, or seller of the property.

- The borrower may be the current tenant purchasing the property from the owner/landlord.
  - The borrower must have rented the property for at least six months immediately predating the sales contract.
  - A lease or other written evidence to verify occupancy is required.
- Sales transactions between family members are permitted.
- Borrowers related to or having a business affiliation with the contractor are not allowed.
- No other instances of Identity of Interest or conflict of interest between parties are allowed

Conflicts of Interest:

Participants that have a direct impact on the mortgage approval decision are prohibited from having multiple roles or sources of compensation, either directly or indirectly, from a single FHA-insured transaction. These participants are:

- Underwriters
- Appraisers
- Inspectors
- Engineers

Indirect compensation includes any compensation resulting from the same FHA-insured transaction, other than for services performed in a direct role. Examples include, but are not limited to:

- Compensation resulting from an ownership interest in any other business that is a party to the same FHA-insured transaction; or
- Compensation earned by a spouse, domestic partner, or other Family Member that has a direct role in the same FHA-insured transaction.

Participants that do not have a direct impact on the mortgage approval decision may have multiple roles and/or sources of compensation for services actually performed and permitted by HUD, provided that the FHA-insured transaction complies with all applicable federal, state, and local laws, rules, and requirements.

Chain of Title:

To preclude any undisclosed identity-of-interest transactions and to discourage the flipping of properties, documents must be obtained verifying the ownership of property for the 24-month period prior to the application for the loan. Chain of Title does not apply to HUD owned and REO

Identity of Interest Certification Forms:

The Borrower and the 203(k) Consultant must each sign an Identity of Interest certification that is placed in the case binder. Refer to **Section 37 Renovation Forms**.

Section 11 Subordinate Financing

New or existing subordinate financing is allowed per FHA guidelines and subject to CLTV limits per the program matrix.

Properties with Property Assessed Clean Energy (PACE) obligations are ineligible.

Section 12 Underwriting Method

Automated Underwriting:

Loans must be decisioned through FHA TOTAL Scorecard. Provide a copy of the TOTAL Scorecard recommendation from DU or LPA. Loans not receiving an acceptable AUS result may be manually underwritten subject to eligibility.

Transaction Type	Underwriting Method	Acceptable AUS Results
Purchase or Rate/Term	DU, LPA, Manual	Approve/Eligible or Accept/Pass
Manufactured Housing	DU, LPA, Manual	Approve/Eligible or Accept/Pass

Regardless of the risk assessment made by DU or LPA, the DE underwriter remains accountable for compliance with FHA guidelines and eligibility requirements, as well as for any credit, capacity and documentation requirements covered herein. Additional information may be requested at the discretion of the Underwriter

Manual Underwriting:

For loans that receive an AUS Refer or that otherwise require a downgrade to manual underwriting, refer to the **FHA Single Family Housing Policy Handbook 4000.1**.

The following are not eligible for manual underwriting:

- High Balance transactions
- LTV/CLTV > 95%
- Loans where not all borrowers have a valid credit score

Credit Score: Refer to Program Matrix in **Section 3**

Pre-Purchase Housing Counseling: Counseling is required on purchase transactions when the qualifying FICO < 640 and qualifying DTI > 45% (when both exist).

- At least one borrower on the loan must complete counseling
- Counseling must be provided by a HUD-approved agency, GSE, or mortgage insurance company
- Counseling must be completed no more than six months prior to loan closing

Qualifying Credit Score:

- A tri-merge bureau is required on all loans
- Qualifying score:
    - Where three scores are reported, the middle score is the qualifying score
    - Where two scores are reported, the lowest score is the qualifying score
    - Where only one score is reported, that score is the qualifying score
- Where the Mortgage involves multiple Borrowers, the lowest qualifying score of all borrowers is used
- 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 Borrower(s) with credit score(s) is used
- At least one occupant borrower must have a credit score. Mortgages where one or more of the co-borrowers do not have a credit score are only eligible with AUS "Approve/Eligible" or "Accept/Eligible" recommendations. If a co-borrower does not have a credit score, feedback Certificates showing a Refer recommendation and requiring manual underwriting are not eligible.

Housing Payment History:

The mortgage payment history may be deemed satisfactory when the mortgage credit rating is disclosed on the credit report, is evaluated by the AUS, and the loan receives an "Approve/Eligible" or "Accept/Eligible". When the housing payment history is not evaluated by an AUS, or for Refer/manually underwritten loans:

- There may be no history of any 30-day late mortgage or rental payments within the last 12 months.
- There may be no more than two 30-day late mortgage or rental payments in the previous 24 months.
- The housing payment history must be documented by:
    - The credit report; or
    - VOR received directly from the landlord (for landlords with no Identity of Interest with the borrower); or
    - VOM received directly from an institutional mortgage servicer; or
    - Canceled checks that cover the most recent 12-month period.

- Borrowers who are living rent free are eligible provided the Mortgagee obtains verification directly from the property owner that the borrower has been living rent-free and the amount of time the borrower has been living rent free.

Revolving and Installment Accounts - Manually Underwritten Loans:

- Installment Accounts must be no more than 0 x 30 in the last 12 months and 2 x 30 in the last 24 months.
- Revolving Accounts must be no more than 2 x 60 or 0 x 90 in the last 12 months.

Non-traditional Credit - Manually Underwritten Loans:

- Manually underwritten loans require sufficient credit depth. To demonstrate sufficient credit depth, borrower credit on manually underwritten loans must fit into one of the following scenarios. Borrowers whose traditional credit does not meet one of the following scenarios must supplement their traditional credit with non-traditional credit.
    a. The borrower has three traditional trade lines that have been evaluated for at least 12 months. These trade lines do not need to be currently active but require some activity in the last 24 months.
    b. The borrower has two traditional trade lines that have been evaluated for at least 24 months and have had some activity in the last 24 months.
    c. The borrower has a traditional credit history of 5+ years and there are not any accounts with late payments or any collection accounts in the last 24 months.

Non-traditional trade lines may be considered in addition to traditional credit; however, it is not acceptable to base a credit decision solely off of non-traditional trade lines. Non-traditional trade lines can only be used to build on traditional credit.

Section 14 Income and Employment

Verbal Verification of Employment:

- Required on all loans
- VOE must cover the most recent 2-year period.
- Must be performed within 10 days of the loan closing.

The Verbal VOE for Self-Employed Borrowers:

- Must verify the existence of the borrower's business within 30 days prior to the funding date.
- Verify from a third party, such as a CPA, regulatory agency or the applicable licensing bureau and by verifying a phone listing and address for the borrower's business using a telephone book, the Internet or directory assistance.
- Verify and document the name and title of the person that confirmed the employment and the date of the call.
- The Telephone Verification of Employment form must also include the name and title of the Plaza associate that performed the verification.

IRS Form 4506-C:

- All transactions require a signed and dated IRS Form 4506-C for all borrowers completed prior to closing.
- Refer to Plaza's **Credit Guidelines** to determine if transcripts are required.
- Executed 1040 transcripts are required when grossing up non-taxable income for qualifying.
    - Self-employment and/or Capital Gains losses must be addressed per the **FHA Single Family Housing Policy Handbook 4000.1**.

Rental Income Received from a One-Unit with an Accessory Dwelling Unit:

- If the subject Property is a one-unit with an Accessory Dwelling Unit (ADU) and the Borrower does not have a history of Rental Income from the subject Property since the previous tax filing, to calculate the Effective Income the Mortgagee must use 50 percent of the lesser of:
    - fair market rent reported by the Appraiser; or
    - the rent reflected in the lease or other rental agreement.

Section 15 Qualifying Ratios

The maximum debt-to-income (DTI) ratio will be determined by the DU for Approve/Eligible findings.

Pre-Purchase Housing Counseling: Counseling is required on purchase transactions when the qualifying FICO < 640 and qualifying DTI > 45% (when both exist).

- At least one borrower on the loan must complete counseling
- Counseling must be provided by a HUD-approved agency, GSE, or mortgage insurance company
- Counseling must be completed no more than six months prior to loan closing

Manually underwritten loans with debt ratios exceeding 31/43 require compensating factors. Refer to the **FHA Single Family Housing Policy Handbook 4000.1**.

Section 16 Down Payment / Gifts

Down Payment:

On purchase transactions the borrower must make a Minimum Required Investment (MRI) of 3.5% of the lesser of the appraised value or sales price plus rehabilitation costs. Refer to the 203(k) Calculator or the **FHA Connect 203(k) Calculator** for details. This amount is in addition to any borrower closing costs.

Section 17 Interested Party Contributions

Sellers or other interested parties or combinations of parties are permitted to contribute up to 6% of the sales price towards the closing costs. The 6% is based on purchase price not after improved value. Closing costs normally paid by the Borrower are considered contributions if paid by seller. Each dollar exceeding FHA’s 6% limit must be subtracted from the property’s sales price before applying the appropriate loan-to-value (LTV) ratio.

Section 18 Reserves

Reserve Requirements:

- Cash reserves are not a requirement for 1-2 unit FHA loans approved through TOTAL Scorecard.
    - 1-month reserves are required for Manual Underwriting.
- 1-unit with ADU and rental income requires 2 months PITIA.
- 3-4 unit properties, 3 months PITIA are required.
- All assets submitted to TOTAL Scorecard must be verified.
- Gift funds not acceptable for reserves.

Section 19 Geographic Restrictions

Program specific geographic restrictions are identified below. Refer to Plaza's **Geographic State Restrictions** for general guidelines and restrictions.

Alaska: Properties built prior to June 1992 outside of the city limits of Fairbanks but within the surrounding communities require an engineering report or evidence that the property meets the Alaska Housing Finance Agency property inspections requirements.

Hawaii: Properties in Lava Flow Zones 1 or 2 are not allowed.

Iowa: 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.

Massachusetts: Title V requires dwellings with individual sewage disposal systems, new and existing, be inspected by a DEP approved inspector and, where repairs are indicated, be repaired prior to closing for all purchase transactions.

Montana: Lot size of the property may not exceed 40 acres.

Texas: For properties located in Texas, the following restrictions apply:

- TX (a)(6) loans are not eligible.
- The Self-Help option is not allowed for properties in the State of Texas.

For Texas purchase and rate/term refinances the following additional requirements apply for all 203(k) loans:

- All improvements must be performed by a third-party builder.
- Borrower provided materials are not allowed.
- Disclosures must be delivered to the borrower at least 1 day before closing.
- All closing documents must be delivered to the borrower not later than 1 business day before closing.
- The builder's contract must be signed by all owners and spouses.
- The builder's contract must be signed and closing must occur at the lender's office, a title company or an attorney's office.
- The builder's contract must not be signed before the 5th day after the written application.
- The builder's contract may be rescinded within 3 days after all parties have signed (purchase and refinance).
- No materials may be furnished or labor performed before the 3-day rescission period expires.
- A 10% statutory retainage must be withheld from each advance to cover any claim notices from subcontractors or suppliers. The entire retainage, representing 10% of construction costs, will be retained for 30 days after final completion. Subcontractors and suppliers have only 30 days after completion to notify the borrower of nonpayment claims.
- Additional monies requested for cost and upgrades are secured under the builder's contract only if they are evidenced by change orders signed by both parties. Any modification agreement to increase the loan amount must have original change orders attached.
- Subject property must be a Texas homestead.

Additional documents for Texas FHA 203(k):

- Texas Property Code 53.255 Disclosure
- Builder's Note
- Builder's Contract – signed by the builder and all owners and their spouses before any material is furnished or labor is performed.
- Texas Notice of Right to Cancel the Builder's Contract (3-day rescission) required on purchase and refinance, in addition to the Federal Notice of Right-to-Cancel in a refinance transaction.

- Texas Home Improvement Certification from originating lender
- Renewal and Extension Exhibit to the Deed of Trust, describing the lien created by the Builder's Contract.
- Borrower's Acknowledgement of Construction of Compliance Procedures
- List of subcontractors and suppliers
- Texas Disbursement Authorization
- Texas Disbursement Statement (Draw Request)
- Affidavit of Commencement
- Affidavit of Completion
- Lien Waiver
- Final Bills-Paid Affidavit

Section 20 Max Financed Properties

The maximum number of financed 1-4 unit properties, including the subject property and regardless of the lending source is limited. A maximum of four Plaza loans is permitted to one borrower

Section 21 Insurance: Property and Mortgage Insurance

Property Insurance:

Hazard insurance must cover the estimated as-completed value of the home after renovation.

At the completion of renovation work, the borrower must provide a certification from the insurance company regarding the adequacy of the property insurance. The certification must confirm that the coverage has been increased, if necessary, to comply with HUD's standard property and flood insurance requirements.

For additional Insurance requirements refer to Plaza's **Loan Closing Manual**.

Mortgage Insurance:

The LTV calculation for purposes of determining the Monthly MIP (MMIP) factor differs from the calculation of the LTV of the loan itself. For MMIP factor purposes, determine the LTV by dividing the base loan amount by the after improved value. The mortgagee is responsible for manually applying the correct MMIP factor.

Section 22 ARM Adjustments

Not applicable.

Section 23 Temporary Buydown

Temporary Buydowns are eligible subject to the following:

- 2-1 and 1-0 buydowns are offered
- Purchase transactions only
- Qualify at the note rate
- Funds may come from the seller or other eligible interested party
    - Interested Party Contribution (IPC) limits apply
    - Seller paid buydowns must be documented on the sales contract or applicable legally binding document. When a legally binding document other than the sales contract is used to document the Interested Party Contributions, a copy of this document must be provided to the assigned Appraiser.
    - The amount and source of all IPCs must be submitted to the AUS as applicable
- Buydown Agreement required and will print with Plaza loan docs
- **Plaza's Buydown Calculator** can be used to estimate the buydown payment and total contribution amount

Section 24 Repair Escrows

Weather related escrow holdbacks are not allowed

Section 25 Appraisal

Establishing Value:

- An After Improved Value and an Adjusted As-Is Value of the Property must be determined. If both an As-Is and After Improved Value are required, the case will require two separate appraisal reports.
- The appraisal must include a finalized copy of the plans, specs, contractor's bid and WWU. The WWU is required for Standard 203(k) only.
- Any appraiser required or recommended repairs must be added to the plans and specs.
- Following completion of the renovation work, the borrower must obtain a certification of completion stating that the renovation was completed in accordance with the submitted plans and specs. The certification must be documented on the Appraisal Update and/or Completion Report (Form 1004D).

After Improved Value is established using an appraisal of the property subject to the repairs and improvements and must include the following:

- **Standard 203(k):** The appraiser must be provided with a finalized copy of the Consultant's WWU and contractor's bid/specification of repairs.
- **Limited 203(k):** The appraiser must be provided a finalized work plan and contractor's bid/specification of repairs.

As-Is Value may be determined by alternate methods or by obtaining an as-is appraisal, depending on the transaction. Specific requirements for determining adjusted as-is value are listed in this section.

Adjusted As-Is Value - Purchases: Adjusted As-Is Value is based on the purchase price less any inducements to purchase. An as-is appraisal is not required.

Adjusted As-Is Value - Refinances of Properties Acquired Greater Than or Equal to 12 Months prior to the Case Assignment Date:

- Adjusted As-Is Value is based on existing debt when the After Improved Value is greater than the existing debt plus financeable items. An as-is appraisal is not required in this scenario.
- Adjusted As-Is Value is based on an as-is appraisal when the After Improved Value is less than the existing debt plus financeable items. In this case a separate as-is appraisal is required and the Adjusted As-Is Value is the as-is appraised value.

Adjusted As-Is Value - Refinances of Properties Acquired Less Than 12 Months Prior to the Case Assignment Date:

- As-is appraisal is required (separate as-is appraisal is required)
- Adjusted As-Is Value is the lesser of the existing debt plus fees associated with the new mortgage or the as-is appraised value.

Adjusted As-Is Value - Inherited Properties:

For properties acquired by the Borrower through inheritance or through a gift from a Family Member, regardless of when the property was acquired, the calculation of Adjusted As-Is Value for properties acquired greater than or equal to 12 months prior to the case assignment date may be used.

Underwriter Responsibilities:

The underwriter is responsible for the quality of the appraisal report and should request appraiser clarification and discuss components of the appraisal that influence its quality. The underwriter bears the primary responsibility for determining the eligibility of a property for FHA insurance.

- Ensure the FHA appraiser has conditioned for any FHA minimum property requirements that the proposed scope of work (WWU) does not address.
    - When an appraisal report identifies the need for health and safety repairs or additional required repairs that were not included in the WWU or contractors bid the underwriter must ensure repairs are included in the Consultant's final WWU and contractor's bid.

Section 26 Cost of Improvements and Fees

Cost of Improvements:

Standard 203(k):

- $5000 **minimum** in eligible repairs and improvements from the HUD 4000.1 Eligible Improvement list. Additional repairs are allowable after the initial minimum $5000 from the Eligible Improvement list.
- No **maximum** dollar amount, as long as the total base loan amount does not exceed HUD's county loan limit.
- Manufactured Housing repairs are limited to the lesser of 50% of the "as completed" value or $50,000

Limited 203(k):

- No **minimum**,
- $35,000 **maximum** including fees and contingency. Tip: use $30,935 for actual repairs (based on a 10% contingency)
- For case numbers assigned on or after 11/4/2024, the maximum rehabilitation cost may be up to $75,000 including fees and contingency.

Limited 203(k) QOZ:

- No **minimum**
- $50,000 **maximum** including fees and contingency for properties located in Qualified Opportunity Zones (QOZ). Tip: use $44,350 for actual repairs (based on a 10% contingency)

Eligible Fees and Costs:

- Labor and materials
- Property inspection fees
- Permits, fees and licenses
- Mortgage Payment Reserves (Standard 203(k) only - see **Section 27**)
- Contingency Reserve (see **Section 28**)
- Supplemental Origination Fee:
  - Limited 203(k): Greater of $350 or 1.5% of renovation cost, not to exceed $525.
  - Standard 203(k): N/A
- Title Update Fee:
  - Limited 203(k): $150 total.
  - Standard 203(k): $100 per draw.
- Draw Inspection Fee:
  - Limited 203(k): 2 x $150.
  - Standard 203(k): HUD Consultant will set the fee amount (disclosed in WWU) fee cannot exceed $350 per draw
- HUD Consultant Work Write Up Fee:
  - Limited 203(k): See schedule, max $1,200 based on $75K limit on Cost of Repairs for a Limited 203(k). Case numbers assigned on or after 11/4/2024.
  - Standard 203(k): See schedule.
- Architectural and structural engineering fees:
  - Limited 203(k): N/A
  - Standard 203(k): Reasonable and customary
- Feasibility Study Fee:
  - Limited 203(k): N/A
  - Standard 203(k): Not to exceed $200

HUD Consultant /Work Write-Up Fees:

HUD Consultant Fee Schedule		
Cost of Repairs	**Consultant Fee Case Number Prior to11/4/2024**	**Consultant Fee Case Number as of 11/4/2024**
$5,000 - $7,500	$400	$1,000
$7,501 - $15,000	$500	$1,000
$15,001 - $30,000	$600	$1,000
$30,001 - $50,000	$700	$1,000
$50,001 - $75,000	$800	$1,200
$75,001 - $85,000	$900	$1,200
$85,001 - $100,000	$900	$1,400
$100,001 - $140,000	$1,000 then $50 for each additional $25,000 in repairs over $100,000	$1,400
$140,001 +	$1,000 then $50 for each additional $25,000 in repairs over $100,000	Up to 1% of the repair cost or $2,000, whichever is less

HUD Consultant Fees:

- HUD nor the lender will be responsible to the HUD Consultant for fees owed by the borrower.
- HUD Consultant fees are based on the above HUD Consultant Fee Schedule.
- The fee(s) charged by the HUD Consultant can be included in the mortgage as a part of the cost of rehabilitation.
- For each draw request the lender is required to obtain a compliance inspection **(Form-92051)** stating that the work for that particular draw has been satisfactorily completed.
- Draw Inspection fees are subject to a HUD limit of $350 for case numbers assigned prior to 11/4/2024 and $375 for case numbers assigned on or after 11/4/2024.
- When travel exceeds 30 miles roundtrip, a mileage charge (established by the HUD Field Office) may be added.

Discount Points:

The discount is determined between the lender and the borrower on each loan and is not regulated by HUD. A portion of the total discount paid by the borrower can be financed and is included as part of the Total Rehabilitation costs. The discount that may be financed (Discount Points on the Repair Costs) is equal to the number of discount points multiplied by the figure in Step 1. D.2.

Note: The number of discount points charged on the rehabilitation amount CANNOT be more than the number of discount points charged on the total loan and must be equal to or less than the points that will be paid in cash. The cash discount is the difference between the discount on the total loan, and the amount of discount being financed as discount on the rehabilitation. This is the cash that the borrower will bring to closing to pay for discount points. To calculate, multiply the number of discount points by the total loan amount and deduct the discount on the repairs where applicable.

The following example will help properly calculate and display discount points, if applicable, on 203(k) transactions.

Example: On a $100,000 loan with a sub total of $25,000 (including total cost of repairs, contingency reserve, inspections fees, title update fees, mortgage payments escrowed, architectural and engineering fees, consultant fee, permits and other fees if applicable), the discount on the total loan is $2,000 (2% of $100,000). The portion that can be financed is $500 or 2% of the sub total of $25,000. The firm commitment should reflect the total loan discount. Regardless of whether or not any discount is financed, if 2% is charged on this loan, the total discount points, whether paid in cash or financed, cannot exceed $2,000.

- When the seller has agreed to pay any portion of the total discount, multiply the amount of the discount on the loan times the Sales Contract Price.
- If the seller pays a financing concession to include discount points for both the sales price and rehabilitation costs of the dwelling, then the sales contract must be very clear and concise to assure that the seller completely understands the concession agreement.
- On HUD-owned properties, any amount HUD has agreed to pay towards the purchaser's closing and/or financing costs (Line 5 of the Sales Contract, form HUD-9548), applies only to the contract sales price and not to the total of the purchase price plus cost of rehabilitation.

Note:

- The discount points on the total loan (both financed and paid in cash) should be shown on the HUD Form 92900-A (HUD/VA Addendum to Loan Application), Pages 1 & 3.
- Any discount points paid in cash at closing should be shown on the FHA Loan Underwriting and Transmittal Summary (LT).

Section 27 Mortgage Payment Reserves

A payment reserve of up to six months PITI is permitted when the borrower must vacate the property during renovation. For case numbers assigned on or after 11/4/2024, up to 12-months payment reserve is permitted.

- The amount can be financed in the loan amount if the value will support such financing.
- The reserve is allowed only for the period in which the property is uninhabitable due to the renovations.
- Any remaining reserves will be used to pay down the principal balance on the loan.
- Not allowed for Limited 203(k).
- For multi-unit properties, if one or more units are occupied, the mortgage payment reserve may only include the portion of the Mortgage Payment attributable to the units that cannot be occupied.

Section 28 Contingency Reserve

The purpose of a contingency reserve is to cover required unforeseen repairs that are discovered during the renovation. The contingency reserve is a required renovation cost and is typically financed in the loan amount **(Financed Contingency)**. Alternately, the borrower may bring funds to closing to fund the contingency reserve; however, any assets required to fund the contingency must be documented and verified above the amount required for down payment and reserves **(Borrower Funded Contingency)**.

- The contingency is calculated as a percent of the cost of labor, materials, and soft costs.
- A minimum of a 10% and maximum 20% contingency reserve is required. 15% minimum is required if the utilities are off, the home has been without utilities for an extended period of time, is uninhabitable or if there is water, mold or fire damage.
- The contingency reserve may be released only if unforeseen required and necessary repairs are discovered during renovation.
- If contingency reserve funds remain at the completion of renovation, they may be used for making improvements or repairs that are permanently affixed to the real property. Funds may not be used to purchase personal property.
    - All work described in the plans and specifications have been completed and the contingency reserve funds has been reduced by any items that arose related to the repairs
    - Any work paid from contingency funds must be approved by Plaza in advance, documented as completed and having improved the real property.
    - Documentation for completed work must include paid receipts from the borrower's own funds, and inspections of the additional work by the appraiser.
- Unused Financed Contingency funds will be applied to the outstanding renovation mortgage balance once the renovation work has been completed and the certification of completion has been obtained.
- Unused Borrower Funded Contingency funds will be refunded to the borrowers once the renovation work has been completed and the certification of completion has been obtained.

Purchase:

- The LTV is based on the lesser of the purchase price plus cost of renovation, minus any sales concessions or up to 110% (100% for condos) of the "As-Completed" value.
  Note: The loan amount may not exceed the sales price plus the actual cost of rehabilitation repairs and reasonable customary closing costs including the fees associated with the 203(k

Rate/Term Refinance:

- The LTV is determined by using the existing debt plus cost of renovation or the adjusted As-Is Value when the existing debt plus cost of renovation does not exceed the After Improved Value appraised value of the property.
- Cash back to the borrower is not allowed, including zero incidental cash back. Principal curtailments are not allowed.

Existing Debt consists of:

- The unpaid principal balance of the first Mortgage as of the month prior to mortgage Disbursement.
- The unpaid principal balance of any purchase money junior Mortgage as of the month prior to mortgage Disbursement.
- The unpaid principal balance of any junior liens over 12 months old as of the date of mortgage Disbursement. If the balance or any portion of an equity line of credit in excess of $1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the Property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new Mortgage.
- Interest due on the existing Mortgage(s).
- Mortgage Insurance Premium (MIP) due on existing Mortgage.
- Any prepayment penalties assessed
- Late charges, and
- Escrow shortages

203(k) Calculator:

- The 203(k) Calculator within FHAC is used to calculate the Maximum Mortgage amount, LTV for MIP and the amount to establish the repair escrow.
- A copy of the final 203(k) calculator worksheet is to be printed and retained in the loan file.
- Information from the 203(k) Calculator is transferred to the HUD 92900-A.
- The 92700 Maximum Mortgage Worksheet is required by the client to estimate loan amount and fees when submitting the file to Plaza. Plaza will transfer and finalize the figures from the 92700 to the 203(k) Calculator. Any subsequent changes must be reflected in the 203(k) Calculator in FHA Connection.

Section 30 Eligible Improvements

Eligible Improvements:

- All repairs must be permanently affixed to the property (dwelling or land) and allowable by HUD
- Repairs that are required to meet **HUD's Minimum Property Standards** must be completed
- All appraiser notated deficiencies and required repairs must be completed

Standard 203(k):

- $5000 minimum in eligible repairs and improvements from the HUD 4000.1 Eligible Improvement list, Additional repairs are allowable after the initial minimum $5000 from the Eligible Improvement list.

Limited 203(k):

- Non-structural repairs only

Eligible Improvements - Manufactured Housing:

- FHA 203(k) improvements cannot involve structural changes
- Renovation funds are limited to the lesser of 50% of the "as completed" appraised value or $50,000
- Eligible improvements include but are not limited to:
  - Improvements to kitchens and baths, or
  - Installation of energy efficient heating and cooling, or
  - Changes to address mobility and aging in place are allowed, or
  - Installation of new windows, doors, siding, or roofing provided these changes do not alter the structure of the unit.

Eligible Improvements – Accessory Dwelling Units (ADU):

- A one-family Structure may be converted to a one-family structure with an ADU.
- An ADU that will be attached to an existing structure may be constructed. Construction of a new detached ADU is not eligible.
- Renovating an existing ADU that is attached or unattached to an existing structure is eligible.
- An Accessory Dwelling Unit (ADU) refers to a single habitable living unit with means of separate ingress and egress that meets the minimum requirements for a living unit (II.A.3.a.ii(F)).
- An ADU is a private space that is subordinate in size and can be added to, created within, or detached from a primary one-unit Single Family dwelling, which together constitute a single interest in real estate.
- A Single Family residential one-unit Property with a single ADU remains a one-unit Property.
- For any Single Family residential Property with two or more units, a separate additional Dwelling Unit must be considered as an additional unit.
- The ADU must comport with zoning requirements, which may include a legal nonconforming use.

Ineligible Improvements:

Standard 203(k)	Limited 203(k)
• Tear Downs, razed or homes that will be demolished including the part of or all of the foundation as part of the rehabilitation. • Foundation up construction. Moving a house from another location onto the subject property. • Improvements or changes that were not approved prior to the start of the work. • Materials or work performed prior to the first draw disbursement • Completion of an already underway construction project. • Improvements that result in commercial use or are commercial in nature. • Changes to the number of dwelling units • Tree surgery unless it is to eliminate endangerment to the existing improvements. • Oil Tanks, repairs or replacement • Construction of outbuildings (garages can be constructed if one does not exist, it is common and typical and not a property over improvement) • Repairs that cannot be completed within 12 months • Recreational & Luxury Items.	• Any type of structural repairs including but not limited to: load bearing walls, construction of, adding egress windows or repairs to foundation, structural roof elements and trusses, enlarging windows or doors, post and pier or flooring support joists. • Tear Downs, razed or homes that will be demolished including the part of or all of the foundation as part of the rehabilitation. • Moving a house from another location onto the subject property. Improvements or changes that were not approved prior to the start of the work. • Materials or work performed prior to the first draw disbursement. • Completion of an already underway construction project. • The repair prevents the borrower from occupying the property for more than a total of 30-days during the rehabilitation period. • Improvements that result in commercial use or are commercial in nature. • Changes to the number of dwelling units • Demolishing outbuildings • Landscaping • Tree surgery unless it is to eliminate endangerment to the existing improvements • Oil Tanks, repairs or replacement • Repairs that cannot be completed within 9 months • Recreational & Luxury Items

Recreational & Luxury Items include (but are not limited to):

- BBQ Pits
- Outdoor Spas
- Bath House
- Tennis Court
- Satellite Dish
- TV Antenna
- Outdoor Fireplace or Hearth
- Gazebo
- Dumbwaiters
- Swimming pool enhancements or new swimming pool (above or below ground) installed. Repairs to existing pools are allowed.

Section 30(a) Eligible Improvements – EEM

Energy Efficient Mortgage:

When a Purchase or Rate/Term Refinance transactions is coupled with an energy efficient mortgage (EEM), the base loan amount may exceed the county maximum. Therefore, LTV's may exceed those above in these scenarios.

The Energy Efficient Mortgage (EEM) program, as described in the **FHA Single Family Housing Policy Handbook 4000.1**, may be used in conjunction with both the Standard and Limited 203(k) program. The amounts permissible under the EEM program are in addition to those available under the 203(k) program and, thus, combined may exceed the $35,000 ($50,000 in QOZ) Limited(k) repair cost limit. The cost of EEM improvements may be added to the total FHA loan amount. Any costs for EEM are accounted for separately and must not be included in the financeable repair and improvement costs.

Section 30(b) Eligible Improvements - GNND and HUD REO

Good Neighbor Next Door:

When a borrower is using the Good Neighbor Next Door (GNND) program to purchase a property, LTV's may exceed those above. Refer to the **FHA Single Family Housing Policy Handbook 4000.1**. This program aims to revitalize neighborhoods by encouraging borrowers in selected professions to purchase and live in HUD-acquired single-family properties.

HUD REO:

When a borrower is using the HUD REO program to purchase a property, LTVs may exceed those above. Refer to the **FHA Single Family Housing Policy Handbook 4000.1**.

Through the Property Disposition Insured Sales Program, HUD offers its Real Estate Owned (REO) properties for sale with FHA insured financing available. Properties must meet the intent of the FHA's Minimum Property Standards (MPS) for existing properties and MPS for new construction to be eligible for this program.

Section 31 Materials Draw and Borrower Provided Materials

Materials Draw (Standard 203(k) only) may be disbursed at closing in the following circumstances:

- Materials costs for:
  - items prepaid by the borrower in cash (must document), or
  - up to 50% of materials costs for items not yet paid for by the Borrower or contractor where a contract is established with the supplier (must document) and an order is placed with the manufacturer for delivery at a later date.
- Draw not to exceed the lessor of 50% of the documented materials cost or $37,500.
- The specification of repairs/contractors bid must clearly document the exact materials and costs for which materials draw funds are to be advanced.
- Checks will be made payable to the borrower and contractor.
- A materials draw is not included in the allowable number of draws (max 5 draws).

Borrower Provided Materials:

- Materials provided by the borrower may be allowed but cannot be financed in the loan amount.
- All materials provided by the borrower must be new from the manufacturer and be documented with paid invoices
- Source of funds to acquire the materials must be documented
- Standard 203(k) the HUD Consultant must provide photos of the borrower provided materials.

Section 32 HUD Consultant, WWU and Feasibility

HUD Consultant:

Standard 203(k) requires the use of a HUD approved HUD Consultant. The HUD Consultant must visit the site prior to the appraisal to ensure compliance with program requirements. A borrower may use a HUD Consultant on a Limited 203(k); however, it is not required. HUD Consultant fees may be financed on a Limited 203(k) for case numbers assigned on or after 11/4/2024. Note: While not an FHA requirement, Plaza reserves the right to require a HUD Consultant on a Limited 203(k) depending on the scope of the project.

- Utilities must be turned on for this site review to be completed or a minimum 15-20% contingency reserve will be required.
- A written agreement must be obtained between the HUD Consultant and the Borrower that fully explains the services to be performed and the fees to be charged for each service. The written agreement must disclose to the Borrower that any inspection performed by the Consultant is not a “Home Inspection,” as detailed in the disclosure **form HUD-92564-CN, *For Your Protection Get a Home Inspection***.
- All HUD Consultants must be HUD approved. Refer to HUDs website for a list of **approved HUD Consultants**.
- Prior to the appraisal, a HUD approved HUD Consultant must visit the site to ensure compliance with program requirements.
- The HUD Consultant must also perform each inspection prior to the draw and prepare the Draw Request and Inspection form HUD-9746-A.
- The HUD Consultant must also perform a final close out inspection.

Work Write Up “WWU”- required Standard 203(k) only:

- The WWU must be provided in standardized HUD format with required categories and summary in addition to the Contractors specification of repairs/bid.
- The WWU and bid must match in the scope of work for the project confirming that all improvements and repairs have been addressed and costs are aligned to current market costs.
- The WWU and bid/scope of work must match exactly in repairs/renovations to be completed.
- The WWU and bid/scope of work must match exactly in total cost of work or no greater than a $500 variance

HUD Consultant Feasibility Study:

- At the request of the borrower a HUD Consultant may provide a Feasibility Study.
- Plaza does not require a Feasibility Study unless the borrower has requested one. If a Feasibility Study was performed to determine if the project is financially feasible, a copy of the study must be provided in the loan file regardless if the cost was financed.
- Consultants may charge up to $200 for a Feasibility Study. For case assignments on or after 11/4/2024, the Feasibility Study fee may be up to $375. This fee is in addition to the WWU.
- A feasibility study is allowed with a Limited 203(k) however, the cost may not be financed.
- A buyer/borrower may request a Feasibility Study prior to submitting an offer to a seller.

Section 33 Contractor Requirements

Contractor:

The contractor is chosen by the borrower. However, Plaza must be able to determine that the contractor is qualified, properly registered (with local issuing authority) and experienced for the work being performed. HUD does not certify 203(k) contractors for home rehabilitation projects that are being financed with an FHA 203(k) loan.

Plaza will verify the following required documentation to assist in making the determination that the contractor is qualified:

- License, bond, insurance ($1MM min) (or local issuing authority requirements), and a current W9.
- **FHA Standard 203(k) or FHA Limited 203(k) Contractor Profile Report**. Including demonstrated experience in renovation lending and a minimum of three references of similar work in cost and nature completed within the last 12 months. The Originator must also sign the Contractor Profile report stating the contractor's references have been verified.
- Document a demonstrated financial ability to sustain projects
- Plaza reserves the right to pull a background report on contractors
- If mold abatement, lead-based paint abatement, or radon abatement, the contractor must be licensed under those specific trades.
- The borrower is allowed up to three (3) sub-contractors on a Limited 203(k) and one General contractor on the Standard 203(k).
- The borrower may not act as the General Contractor. "Self-Help" loans are not permitted for Standard 203(k) transactions.

Renovation Contract:

Borrowers must have a renovation contract with their contractor and the contractor must agree to indemnify the borrower for all property losses or damages caused by its employees or sub-contractors **FHA 203(k) Homeowner/Contractor Agreement** is a required form.

Note: Specific federal requirements exist for contractors working on housing or child-occupied facilities built before 1978. Under these requirements, contractors need to complete training and obtain a Lead Based Paint Renovation license before they can bid on renovation projects involving pre-1978 housing and child-occupied facilities.

Section 34 Self-Help Requirements

Limited 203(k) only and maximum project size of $35,000.

"Self-help" is defined as the borrower performing some or all of the work items. Self-help, is only allowable as outlined below and is strongly discouraged unless the borrower's ability to perform the work in a competent, timely, and workmanlike manner is self-evident and documented. Borrower must sign **FHA Limited 203(k) Self Help Agreement** and construction must be completed within 6 months or less of loan closing.

Borrowers completing painting work:

- Borrowers providing interior/exterior painting labor are not required to be contractors.
- General Contractor must be employed for all other repairs.
- General Contractor to document rooms to be painted and supply materials only on specification of repairs/bid.
- Painting materials only will be reimbursed.
- Borrower must provide receipts for reimbursement

Home Depot or Lowes installation services:

- Borrowers may purchase appliances from Home Depot, Lowes, or other appliance stores.
- Construction work: Borrowers may use Home Deport or Lowes for renovations and may include the cost of labor, materials and installation.
- Bid/Specification of work and purchases must be provided directly from retailer. All materials and labor (installation) must be provided by retailer, documented on the retailer's bid and may be reimbursed
- Borrowers must maintain records documenting actual costs and lien waivers

Borrower employed as a contractor:

- Borrower must be a currently qualified contractor and meet all Plaza's contractor requirements, see section 33.
- Borrower must submit a work plan and bid/specification of repairs (**materials only costs**) detailing the exact work items to be performed by the Borrower.
- Borrower will not be reimbursed for labor costs.
- Borrower must submit a bid from a contractor (other than the Borrower) that provides a breakdown of the cost for **materials and labor** for each work item. **The amount of this bid, (labor and materials) will be used for the loan financing.** Any remaining funds will be used towards principal reduction
- If permits are required the borrower must be a licensed contractor working in the specific field necessary for the rehabilitation.
- If mold abatement, lead based abatement, HVAC, electrical or plumbing work is necessary for rehabilitation, the borrower must be licensed under those specific trades.
- Contractor/Borrower must maintain complete records documenting actual cost of rehabilitation, including paid receipts for materials, permits and lien waivers.
- Borrower must provide an LOE addressing experience with self-help projects and how the work will be completed within the required 6 months' time period and all levels of current contracting business will remain
- The borrower must perform the self-help work themselves, subcontractors are not allowed on this program.
- Contingency reserve of 20% required.

Self-help is not allowed for properties in the State of Texas.

Section 35 Plans and Specifications of Repairs/Contractors Bid

Plans and Specifications / Contractor Bid requirements:

- Must be prepared by a registered, licensed, or certified general contractor or renovation consultant.
- Must be provided on contractor's letterhead or on Plaza's bid template form
- Fully describe, detail and itemize the specific work that the contractor agrees to perform for the borrower.
- Include quality and quantity of materials, exact location of work and labor and materials cost separated for each of the repairs.
- Include an itemized listing of all permits and corresponding costs.
- Include an itemized description (aka Draw Schedule) establishing the schedule for completing each stage of work and corresponding payments (including both the start and job completion dates).
- Itemize the specific work that the contractor agrees to perform for the borrower.
- Identify all subcontractors and suppliers.
- Include all contractors and borrower's information, address, phone and email.
- Executed by both the contractor and the borrower.

Plaza's Contractors Bid Template FM-433 is recommended.

Standard 203(k) only:

Architectural exhibits and or a structural engineer reports (Plaza to determine at time of project review) will also be required if an addition, structural reconfiguration, load bearing changes, major structural or foundation work are part of the proposed renovation and will be required to be provided in the loan file.

Limited 203(k) only:

A Work Plan is required as per HUD 4000.1 in addition to the specification of repairs/contractors bid. The Borrower must provide the Work Plan detailing the proposed repairs or improvements. There is no required format for the work plan.

Section 36 Rehabilitation Period

- Case Numbers assigned before 11/4/2024: Renovation work must be completed within 6 months after closing.
- Case Numbers assigned on or after 11/4/2024:
    - Limited 203(k): 9 months
    - Standard 203(k): 12 months
- Consideration should be given to cold climate and weather-related delays that could impact the rehabilitation period. Borrower must provide adequate documentation to request rehabilitation extensions
- Renovation work must begin within 30 days of closing. If work has not started within 30 days, stops for more than 30 consecutive days, or has not been completed within the established time frame or extended Plaza approved time frame, Plaza may consider the loan to be in default.
- Renovation work extensions can be granted within the 6-month window; however, the extension can only be granted if the loan payments are current.
- Plaza to approve in advance any work/project extensions.

Section 37 Renovation Forms and Closing Documents

HUD standard loan instruments are used in addition to the required Renovation forms listed below. Models can be found on Plaza's and HUD's website.

Required forms Standard 203(k) and Limited 203(k):

- **FHA Connect 203(k) Calculator**
- **FHA Maximum Mortgage Worksheet** or copy of **FHA Connect 203(k) Calculator** used at time of submission (to identify loan amount and fees)
- **FHA 203(k) Borrower's Acknowledgement HUD-92700-A**
- **FHA 203(k) Borrower's Identity-of-Interest Certification**
- Contractors bid/specification of repairs
- Contractor **W-9** Form – completed by contractor(s)
- **FHA 203(k) Rehabilitation Loan Agreement** *provided and signed at closing
- Sales Contract. The sales contract must include a provision that the Borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by the Mortgagee. An addendum to the contract is acceptable.

Standard 203(k) specific in addition to those listed above:

- **FHA Standard 203(k) Homeowner/Contractor Agreement(s)**
- **FHA Standard 203(k) Contractor Profile Report**
- **FHA Standard 203(k) Draw Request HUD-9746-A**
- **FHA 203(k) HUD Consultant's Identity-of-Interest Certification**
- HUD Consultant **W-9** Form – completed by consultant
- HUD Consultant Write-up (WWU)
- **Materials Draw Request FM-580**

Limited 203(k) specific in addition to those listed above:

- **FHA Limited 203(k) Borrower Acknowledgement HUD- 92700-A**
- **FHA Limited 203(k) Contractor Profile Report**
- **FHA Limited 203(k) Self Help Agreement** if applicable
- Work Plan. See **Section 35**

Closing Forms:

- FHA 203(k) Rehabilitation Loan Agreement
- Notice to Borrower Regarding 203(k) Loan Program
- 203(k) Security Instrument modifications
    - Modifications to the security instrument are necessary for mortgages that involve releases from the rehabilitation escrow account. For these, the following language should be typed in the form: "Provisions pertaining to releases are contained in the Rehabilitation Rider which is attached to this mortgage, and made a part hereof." A Rehabilitation Rider is a required modification to the security instrument.
- Rehabilitation Loan Rider

Section 38 Draw Process & Lien Waivers

The following may be disbursed at closing:

Standard 203(k):

- Permit fees (permits must be obtained prior to closing on refinances);
- Prepaid architectural or engineering fees;
- Prepaid Consultant fees;
- Materials draw, see section 31

Limited 203(k):

- Permit fees (permits must be obtained prior to closing on refinances);
- 50% of the total cost of the repairs, handled through escrow/title (step 1:A.1 in the 203(k) Calculator. B1 on Maximum Mortgage Worksheet).

Remaining Draw Process:

- Draws will not be approved for work that is not yet complete, including not yet installed materials.
- Plaza will set up an interest-bearing repair escrow account which is insured by the FDIC, to fund the remaining disbursement. Any interest earned is applied as a principal reduction to the loan.
- Plaza will handle all project inspections and all remaining rehabilitation disbursement.
- Lien Waivers must be provided at the time of each draw
- The borrower must provide a FHA 203(k) Homeowner's Notice of Work Completion to Plaza, requesting final inspection and indicating that the work is satisfactorily complete
- If an occupancy certification is required, this must be provided prior to the issuance of the Final Release Notice
- A 10% percent holdback is required on each draw release. The total of all holdbacks may be released only after the final inspection and issuance of the Final Release Notice is received from borrower, HUD Consultant, and inspector as applicable
- Plaza will order a final inspection by the original appraiser
- Title must be cleared before the final draw.
- Funds will be made available via a two-party check payable to the borrower and contractor

Standard 203(k):

- Up to 5 draws are allowed.
- The HUD Consultant will perform an inspection prior to every draw and prepare **FHA Standard 203(k) Draw Request HUD-9746-A**.
- The HUD Consultant must also perform the final close out inspections

Limited 203(k):

- The final 50% will be released after all work has been completed and a final invoice from the contractor has been provided

Borrowers are strongly encouraged to be working directly and closely with our Reno Servicing department with questions, change orders and draw requests on their funded 203(k)

Customer Service / Loan Servicing
Phone: 1-888-807-2620, option 3
Fax: 1-858-332-1861
Email: **renoservicing@plazahomemortgage.com**

Section 39 Change Orders

The following must be pre-approved by Plaza:

- Changes made to the project, contractor or HUD Consultant.
- Rehabilitation period extensions.
- Use of the Contingency fund.
- Change Orders may not be accepted until a majority percentage of the project is complete.
- For case numbers assigned on or after 11/4/2024, the consultant may charge $120 per change order request and $225 for re-inspection.

The borrower must pay for out of pocket any changes not covered by the financing or pre-approved. To request a change, submit to Plaza Customer Service/ Loan Servicing the **Request for Acceptance of Changes in Approved Drawings and Specifications HUD-92577** for approval.

Section 40 Final Release Notice

Final Release Notice:

- Final Release Notice is issued by Plaza after reviewing the case file to ensure that all work has been satisfactorily completed.
- Acceptance of the final inspection report will authorize the release of all monies remaining in the Rehabilitation Escrow Account, including all holdbacks from previous draws.
- However, if required to protect the priority of the security instrument, Plaza may retain the holdback, for a period not to exceed 35 days (or the time period required by law to file a lien, whichever is longer), to ensure compliance with state lien waiver laws or other state requirements.
- A copy of the final inspection report and Final Release Notice will be provided to the borrower.

Title Update and Lien Release at Final Disbursement:

When the property is located in a state in which contractors', subcontractors', or materialmen's liens have priority over mortgage liens, Plaza will require all necessary lien releases or take any other action that may be required to ensure that the title to the property is clear of all liens and encumbrances

FHA Connection Escrow Close Out:

After final distribution of all escrow monies, Plaza will review the file for completion and provide an escrow close-out via HUD's FHA Connection.

Section 41 Qualified Opportunity Zones (QOZ)

Qualified Opportunity Zones (QOZ)

Limited 203(k) mortgages of properties located in QOZs are eligible for increased rehabilitation costs, up to $50,000 total, for the first 15,000 mortgages endorsed each year. All other Limited 203(k) guidelines and requirements apply.

The case number assignment must identify the property is in an eligible QOZ and that the loan is eligible for increased rehabilitation cost.

A list of QOZs is available through the Treasury Department's Community Development Financial Institutions Fund webpage.

FHA Mortgagee Letter 2019-18 – Maximum Rehabilitation Costs in Qualified Opportunity Zones (QOZs) for Limited 203(k) Mortgages.