



PLAZA HOME MORTGAGE, INC.

## FHA Streamlined 203(k)

### **Program Description**

The FHA Section 203(k) insurance program enables borrowers to finance the purchase or refinance of a home and the cost of its rehabilitation through a single mortgage. Unless specifically addressed within this section, Streamlined FHA 203(k) loans follow the same FHA-required origination, underwriting and closing requirements as found in the standard [FHA Fixed & ARM Program Summary](#).

**Note:** The information contained in these guidelines is provided for informational purposes only. Direct Endorsement underwriters must refer to the HUD Handbook 4155.1 for details on underwriting FHA loans. <http://www.hud.gov/offices/adm/hudclips/handbooks/hsg/4155.1/index.cfm>

For 203(k) specific questions, refer to <http://www.hud.gov/offices/hsg/sfh/203k/faqs203k.cfm>

### **Loan Term & Program Codes**

The following program codes and loan terms are available:

Program Name	Program Code
FHA 30 Yr Fixed 203(k) Streamline	FHA30KS
FHA 30 Yr Fixed 203(k) Streamline Energy Efficient Mortgage (EEM)	FHA30KSEM
FHA 30 Yr Fixed 203(k) Streamline Good Neighbor Next Door (GNND)	FHA30KSGN
FHA 30 Yr Fixed 203(k) Streamline HUD-OWNED REO PROPERTY (HUD REO)	FHA30KSRE
FHA 30 Yr High Balance 203(k) Streamline	FHA30HKS
FHA 30 Yr Fixed 203(k) Streamline Energy Efficient Mortgage (EEM) High Balance	FHA30HKSEM
FHA 30 Yr Fixed 203(k) Streamline Good Neighbor Next Door (GNND) High Balance	FHA30HKSGN
FHA 30 Yr Fixed 203(k) Streamline HUD-OWNED REO PROPERTY High Balance	FHA30HKSRE

Brokers must attend a mandatory training class to be eligible for the 203K program. Contact your Account Executive for more information.



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**Loan Purpose**

- Rehabilitate an existing structure that has been completed for at least one year.
- Purchase and rehabilitate an existing structure that has been completed for at least one year.
- Rehabilitate a structure that has been completed for at least one year and refinance the outstanding indebtedness.

**Occupancy**

Owner occupied only.

**Eligible Borrowers**

- **U.S. citizens**
  - Military Personnel stationed elsewhere are considered occupant-borrowers and are eligible for maximum financing provided a member of the immediate family will occupy the property as a principal residence.
- **Permanent resident aliens**
- **Non-permanent resident aliens** are eligible provided they:
  - Occupy the property as a principal residence
  - Have a valid Social Security number
  - Are eligible to work in the United States

For all other borrower eligibility details, refer to the standard [FHA Fixed & ARM Program Summary](#).

**Ineligible Borrowers**

- Individuals with any of the following visa types: A-1, A-2, A-3, F-1, F-2, M-1
- Foreign Nationals
- Charitable organizations, Non-profit agencies, State or local government agencies

**Eligible Properties**

Attached/Detached SFRs	FHA-approved Condos
Attached /Detached PUDs	2-4 Units
Unpermitted Room Additions, Garage & Porch Conversions <sup>2</sup>	
REO properties. See the standard <a href="#">FHA Fixed &amp; ARM Program Summary</a> for restrictions.	



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### **2 Unpermitted Room Additions. Garage or Porch Conversions**

Single Family Properties with unpermitted room additions are acceptable as described below.  
All of the following must apply:

- The appraiser must comment that the addition or conversion was completed in a workmanlike manner and that there is not any impairment to the soundness, structural integrity or livability of the property.
- The room addition must conform to the rest of the property.
- The addition or garage conversion cannot cause the subject property to be in violation of zoning. The appraisal must indicate that the zoning is legal and may not include any comments that the zoning of the property has been jeopardized.
- The square footage of the addition may be included in the appraised value. A garage or porch conversion may be appraised as originally intended or as currently used, depending on the comparable sales. Example: If garage conversions are typical for the area as evidenced by comps, the conversion may be appraised as it is currently used. If garage conversions are not typical for the area the conversion should be appraised as a garage.
- The hazard insurance policy must clearly show that the entire square footage of the subject property, including the unpermitted addition, is included in the policy.

Room Addition Example: If the property was a 3 bedroom property and another bedroom has been added and the property is being appraised as a 4 bedroom property, the hazard insurance policy must clearly insure the total square footage of all living space, including the addition.

Garage Conversion Examples: If the property is being appraised with the garage conversion being valued as a bedroom, the hazard insurance policy must clearly insure the total square footage of all living space.

If the garage conversion is being valued as a garage, then the hazard insurance policy need only insure the area as a garage.

**Note:** The hazard insurance policy does not need to indicate that there is an unpermitted addition or garage conversion, but the square footage that we are lending on must be covered by the policy.

### **NOTES FOR GARAGE CONVERSIONS:**

**Zoning:** Local ordinances and/or municipality requirements may obligate a property to have covered garage storage. This is more common in PUDs and gated communities. It is the responsibility of the appraiser to check for this type of requirement; however, it is the underwriter's responsibility to thoroughly review the appraisal to ensure the property's zoning is compliant.

### **Ineligible Scenarios**

The following scenarios are not eligible under any circumstance:

- Room additions are not eligible on 2-4 unit properties. All properties must be single family properties and the addition may not result in the property converting to a multi-unit property, etc.
- Additions that result in extra living units, also known as accessory units or granny flats, etc. are not eligible.



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**Ineligible Properties**<sup>1</sup>

Cooperatives	Log Homes	Geothermal Homes	Timeshares
Condotels	Geodesic Dome Homes <sup>1</sup>	Commercial Property	Mixed Use
Manufactured Housing or Mobile Homes		Non-warrantable condos	
Working Farms, Ranches, Orchards		Homes that have never been completed.	
Homes that have been completely demolished, including the foundation.		Refinance transactions with properties listed for sale in the last 6 months from the application date.	
<sup>1</sup> Geodesic Dome Homes may be acceptable with supporting comparable sales that provide evidence that this type of home is common to the area.			

**Maximum LTV**

- **Purchase:** Maximum LTV is 96.50%.
- **Rate/Term Refinance:** Maximum LTV is 97.75%. Maximum CLTV is 100%.
- **Cash Out Refinance:** Not allowed

**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, loan-to-values may exceed those above in these scenarios. Refer to the Energy Efficient Mortgages section for more information. Use program code: FHA30KSEM or FHA30HKSEM

**Good Neighbor Next Door:** When a borrower is using the Good Neighbor Next Door (GNND) program to purchase a property, loan-to-values may exceed those above. Use program code: FHA30KSGN or FHA30HKSGN

**HUD REO:** When a borrower is using the HUD REO program to purchase a property, loan-to-values may exceed those above. Use program code: FHA30KSRE or FHA30HKSRE



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### **Maximum Loan Amount**

Maximum loan amounts vary by county or Metropolitan Statistical Area (MSA). Refer to the following website to determine the maximum loan amount. <https://entp.hud.gov/idapp/html/hicostlook.cfm>

The FHA 203(k) Streamlined Rehabilitation program is eligible for FHA High Balance loan amounts and may be subject to additional credit overlays. Refer to the standard [FHA Fixed & ARM Program Summary](#) for details.

**For all 203(k) High Balance loans, refer to the High Balance guidelines for requirements.**

**High Balance Program Codes: FHA30HKS, FHA30HKSEM, FHA30HKSGN & FHA30HKSRE.**

### **Calculating the Maximum Mortgage Amount**

[Form HUD-92700, 203\(k\) Maximum Mortgage Worksheet](#) must be used to calculate the mortgage amount. Contact Corporate Underwriting with questions.

Also, the appraiser must provide an after-improved value since 110% of that amount is used in calculating the maximum mortgage. Architectural and consultant fees, line items 6 and 7 of Section B of the worksheet are not applicable to the Streamlined (k) program.

Expenses that may be included in the total amount of the improvements, not to exceed the \$35,000 limit, are inspection fees, building and other permits, the supplemental origination fee and title update costs.



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### **Geographic Restrictions**

State or geographic restrictions are identified here, however at this time Plaza may not be lending in all states listed. Properties are limited to those states where Plaza branches are currently authorized to originate loans.

**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.

**Maryland:** All loans must be documented with full/alt documentation.

**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:

- The Texas FHA 203(k) Rehabilitation Document Checklist must be completed and submitted to
- Corporate Underwriting for every loan.
- All improvements must be performed by a third-party builder. Self-Help is not allowed.
- Disclosures must be delivered to the borrower at least one day before closing.
- All closing documents must be delivered to the borrower not later than one 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 5<sup>th</sup> 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 three 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.

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### **Texas**

#### **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 Constructions 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

#### **The following states are not eligible:**

**Mississippi:** Not eligible.

**West Virginia:** Not eligible.

### **Transaction Types**

- **Purchase**
- **Rate & Term Refinance**

**Note:** Cash out is not allowed. The loan amount must not exceed the actual cost of construction, the purchase price or refinance of an existing lien and reasonable closing costs. Loan proceeds not advanced must be applied to principal.

Detailed information regarding FHA Rate/Term requirements may be found in HUD Handbook 4155.1.  
<http://www.hud.gov/offices/adm/hudclips/handbooks/hsg/4155.1/index.cfm>

#### **Identity of Interest Loans – Non-Arm's Length Transactions**

Identity-of-interest loans are not eligible on the 203(k) program. The borrower must also certify that they do not have a conflict-of-interest with any other party to the transaction, including the realtor, lender, contractor, consultant and/or appraiser.



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### **Eligible Improvements**

The Streamlined FHA 203(k) program is intended to facilitate uncomplicated & cosmetic rehabilitation and/or improvements to a home for which plans, consultants, engineers, and/or architects are not required. Due to the rehabilitation amount limitation of \$35,000, eligible improvements are limited and can not include any major rehabilitation or remodeling, new construction such as room addition, repairs to structural damage, or site amenity improvements. Repairs of this nature would be considered under the standard FHA 203(k) program which Plaza is not offering at this time.

Examples of eligible improvements are listed below, however, this is not an all-inclusive list:

- Repair/replacement of roofs, gutters and downspouts.
- Repair/replacement/upgrade of existing heating, ventilation & air conditioning systems.
- Repair/replacement of plumbing and electrical systems.
- Repair/replacement of flooring.
- Minor remodeling that does not involve structural repairs, such as kitchens
- Exterior and interior painting.
- Weatherization, including storm windows and doors, insulation, weather stripping, etc.
- Purchase and installation of appliances, including free-standing ranges, refrigerators, washers and dryers, dishwashers and microwaves.
- Improvements for accessibility for persons with disabilities.
- Lead-based paint stabilization or abatement of lead-based paint hazards.
- Repair/replacement/addition of exterior decks, patios, porches.
- Basement waterproofing.
- Replacement of window and doors and exterior wall re-siding.
- Pool repairs up to \$1,500 total for minimum health and safety items.

Most improvements are eligible provided they add value and are permanently affixed to the foundation. Installation and repair of luxury items such as swimming pools (except as noted above), hot tubs, tennis courts, gazebos, barbecue pits, etc., is not allowed.

### **Eligible Expenses**

Expenses eligible to be included in the cost of rehabilitation are material, labor, overhead and construction profit (noted in each work item), plus expenses related to the rehabilitation such as permits, fees, inspection fees by a qualified home inspector (for example, a member of the American Society of Home Inspectors), licenses, inspection fees during construction by a HUD accepted inspector, lien protection fees and title update fees. The cost of rehabilitation may also include the supplemental origination fee and the discounts which the borrower will pay on that portion of the mortgage proceeds allocated to the rehabilitation.





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### **Contractor(s) Requirements**

All loans require that all borrower-selected contractors sign the [Homeowner/Contractor Agreement](#) before closing. All contractors must be licensed if required by state or county. The underwriter must review the following items pursuant to the proposed contractor:

- Credentials
- Work experience
- Client references from contractor's prior work
- Borrower must sign the [FHA Rehabilitation Agreement](#) prior to closing.

### **Rehabilitation Period**

Rehabilitation construction must begin within 30 days of closing, must not cease for more than a 30 day period, and all work must be completed within six months of closing.

### **Self-Help Requirements**

Self-help arrangements in which the borrower is performing some or all of the work items are strongly discouraged unless the borrower's ability to perform the work in a competent, timely, and workmanlike manner is self-evident and easily documented. The self-help option is not allowed for any project for which permits will be required, unless the borrower is a licensed contractor working in the specific field necessary for the rehabilitation.

Self-help arrangements must also meet the following requirements:

- Borrowers doing their own work must sign a [Self Help Agreement](#) and fully understand that construction must be completed within six months of loan closing or a shorter period, as determined by Plaza Corporate Underwriting.
- Maintain records documenting actual costs and lien waivers in the same way that a general contractor would.
- Bids from licensed contractors must also be supplied as back-up.
- Provide cash reserves sufficient to fund rehab costs until the final disbursement is processed.
- The borrower must understand the 203(k) program at the construction stage and the risks inherent in rehabilitation projects. The borrower must sign the [FHA 203 \(k\) Rehabilitation Agreement](#) prior to closing.
- The Self-Help option is not allowed for properties in the State of Texas.



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### **Properties that require the following work items are not eligible for financing:**

- 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 exhibits;
- Landscaping or similar site amenity improvements; including driveways and sidewalks;
- 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.

The Streamlined 203(k) program may not be used 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:

- Necessitate a "consultant" to develop a "Specification of Repairs/Work Write-Up";
- Require plans or architectural exhibits;
- Require a plan reviewer;
- Require more than six months to complete;
- Result in work not starting within 30 days after loan closing; **OR**
- Cause the borrower 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).

### **Appraisal Requirements**

All appraisals for FHA loans must be completed by a HUD-approved appraiser.

The loan-to-value is based on the lesser of:

- The sales price or "as is" appraised value plus borrower paid repairs minus sales concessions, **OR**
- 110% of "as completed" appraised value.

The appraisal report must provide an "as completed" appraised value that estimates the value of the property after completion of the rehabilitation work. The contractor's bid or borrower's work write-up must be available for the appraiser to use in order to determine the "as completed" value.

In order to determine the maximum mortgage amount, the FHA 203(k) valuation analysis consists of two separate determinations of value.

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### As-Is Value

A separate appraisal may be required to determine the “as is” value. However, the underwriter may determine that an “as is” appraisal is not feasible or necessary. In this instance, the lender may use the contract sales price on a purchase transaction, or the existing debt on a refinance transaction, as the “as is” value, when this does not exceed a reasonable estimate of value.

On refinance transactions, when a large amount of existing debt, for instance, first and second mortgages, suggest that the borrower has little or no equity in the property, the underwriter must obtain a current “as is” appraisal on which to base the estimated “as is” value.

On a refinance, the borrower may have substantial equity in the property to assure that no further down payment is required on the new loan amount. In some cases, the borrower will not have an existing mortgage on the property. In this case, the underwriter should obtain some comparables from a real estate agent/broker/appraiser to estimate an approximate “as is” value of the property.

Another way of establishing the “as is” value is to obtain a copy of the local jurisdiction tax valuation on the property.

For HUD-owned property, an “as is” appraisal is not required and the underwriter may request the HUD field office to release the outstanding HUD property disposition appraisal on the property to the underwriter to establish the maximum mortgage for the property. The HUD appraisal will be considered acceptable for use it:

- It is not over one year old prior to bid acceptance from HUD, **AND**
- The sales contract price plus the cost of rehabilitation does not exceed 110% of the “as repaired value” shown on the HUD appraisal.

If the HUD appraisal is insufficient, the underwriter may order another appraisal to assure the market value of the property will be adequate to make the purchase of the property feasible. For a HUD-property, the down payment is 3% of the accepted bid price of the property and 100% financing on all other costs.

### As Completed/After Rehabilitation Value

The expected market value of the property based on the proposed rehabilitation and/or improvements.

### Reinspection

Plaza will order an inspection by the original appraiser. The appraisal management company will coordinate the inspection directly with the borrower.

**See the Appraisal Requirements section in the standard [FHA Fixed & ARM Program Summary](#) for information on Declining Markets and second appraisal requirements.**



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### **Energy Efficient Mortgages – Program Code: FHA30KSEM or FHA30HKSEM**

Energy Efficient Mortgages are eligible as purchase or refinance of a principal residence to incorporate the cost of energy-efficient improvements into the mortgage.

This program allows a borrower to finance up to 100% of the cost-effective energy package as long as the present value of the energy saved over the useful life of the improvements is demonstrated.

In addition to the base FHA maximum mortgage amount limit, which is calculated on the value of the home, the mortgage loan amount for an EEM can be increased by the cost of effective energy improvements. The maximum amount of the cost of the energy efficient improvements is set out below.

The maximum amount of the portion of the EEM for energy improvements is the lesser of the actual cost of the improvements or 5% of the lesser of:

- FHA appraised value of the property as indicated on the DE Statement of Appraised value, **OR**
- 150% of the conforming Freddie Mac loan limit, **OR**
- 115% of the median area price of a single family dwelling as provided by FHA Connection. See <http://www.hud.gov/offices/hsg/sfh/eem/eemhome.cfm> for more information.

The EEM program, as described in Mortgagee Letter 05-21, may be used in conjunction with the 203(k) Streamlined program. The amounts permissible under the EEM program as described above are in addition to those available under the 203(k) Streamlined program and, thus, combined may exceed the \$35,000 Streamlined (k) repair cost limit. Both the cost of EEM improvements as well as weatherization items (not to exceed \$2,000) may be added to the total FHA loan amount. This is subject to specific HUD requirements. Refer to the standard [FHA Fixed & ARM Program Summary](http://www.hud.gov/offices/adm/hudclips/handbooks/hsg/4155.1/index.cfm) and <http://www.hud.gov/offices/adm/hudclips/handbooks/hsg/4155.1/index.cfm> section 6 2-20 for additional requirements and restrictions.

### **Good Neighbor Next Door – Program Code: FHA30KSGN or FHA30HKSGN**

Revitalize neighborhoods by encouraging borrowers in selected professions to purchase and live in HUD-acquired single-family properties.

#### **Eligible borrowers**

- Law enforcement officers
- Firefighters
- Emergency medical technicians (EMTs)
- Private and public school teachers

Refer to the standard [FHA Fixed & ARM Program Summary](http://www.hud.gov/offices/adm/hudclips/handbooks/hsg/4155.1/index.cfm) for additional requirements and restrictions.



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### **HUD REOs – Program Code: FHA30KSRE or FHA30HKSRE**

#### **Overview**

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 Minimum Property Standards (MPS) for new construction to be eligible for this program.

#### **Eligible Property Types**

- Single-family dwellings
- Planned Unit Developments (PUDs)
- Condominiums (must be prior approved by FHA or by the spot approval process)
- 2-4 units

Refer to the standard [FHA Fixed & ARM Program Summary](#) for additional requirements and restrictions.

### **Underwriting Method and Credit Score Table**

All Streamlined 203(k) loans must be underwritten and approved at the branch level and then submitted to Plaza's Corporate Underwriting department for final approval. Additionally, all loans must be decisioned through FHA TOTAL Scorecard. Please refer to the [FHA 203\(k\) Streamline Underwriter Checklist](#).

- Loans may be approved through DU or LP with the following results:

<b>Underwriting Method</b>	<b>Transaction Type</b>	<b>Eligible</b>	<b>Acceptable AUS Results</b>	<b>Minimum Credit Score</b>
Manual	Not eligible	No	N/A	N/A
DU or LP	Purchase & R/T Refinance	Yes	Approve/Eligible or Accept	640

Regardless of the risk assessment made by DU or LP, the DE underwriter remains accountable for compliance with FHA guidelines and eligibility requirements, as well as for any credit, capacity and documentation requirements not covered herein.

The DE underwriter must underwrite the appraisal according to standard FHA guidelines. FHA has not approved the use of automated underwriting systems to review appraisals.

**Manual Underwriting and the use of non-traditional credit are not allowed on the 203(k) program.**

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### **Credit**

#### **Credit Scores**

The minimum credit score may not be lower than **640** regardless of AUS approval.

A tri-merge bureau is required on all loans; the lowest qualifying score of all applicants is used to qualify and each borrower must have at least two credit scores. The qualifying score is the lower of 2 or the middle of 3 scores and must be reviewed for each borrower.

**Valid Credit Score:** For a credit score to be considered valid, the score must be generated from a minimum of (3) trade lines that have been evaluated for at least 12 months. The trade lines do not need to be currently active but require some activity within the last 24 months.

**For borrowers with credit scores of 640 or higher that do not have at least 3 trade lines each with a 12 month history, the credit score will not be considered valid and the loan is ineligible for the 203(k) program.**

#### **Credit Profile**

If the borrower's credit profile consists of only collection accounts, judgments or other adverse credit, the borrower is not eligible. This applies regardless of credit score or AUS approval.

#### **Housing Payment History**

- **Mortgage Payment History:** 0 x 30 in the last 12 months. For borrowers with mortgage delinquency beyond the most previous 12 months, it is the underwriter's responsibility to carefully review and determine the borrower's credit worthiness.
- **Rental Payment History:** Rental payment history is required per the AUS findings.

**The mortgage payment history may be documented by a VOM or provide the rating per the credit report.**

Refer to the standard [FHA Fixed & ARM Program Summary](#) for additional credit requirements not referenced here.



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### Qualifying Ratios

FHA uses the Effective Gross Income instead of Net Effective Income to qualify loans. The ratios of 31%/43% may be exceeded on AUS-approved transactions per the grid below. For loans that exceed 31%/43%, significant compensating factors must be present as set forth in the HUD Handbook and may not exceed the ratios per the grid below.

When ratios exceed 31%/43% ratios, the underwriter must use Form 92900 LT to explain the reason and list the compensating factors.

Debt-to-Income Ratio Matrix			
Program	Base Loan Amount*	Underwriting Method	Maximum DTI
Conforming Balance FHA	≤ \$417,000 (The lesser of the conforming limit or the maximum county limit.)	AUS	50%
FHA High Balance	> \$417,000 (Greater than the conforming limit and less than or equal to the maximum county limit)	AUS	50%

\* FHA High Balance loans are defined as loans where the BASE loan amounts are GREATER than:

- \$417,000 for one unit properties (\$625,500 in Alaska & Hawaii)
- \$533,850 for two unit properties (\$800,775 in Alaska & Hawaii)
- \$645,300 for three unit properties (\$967,950 in Alaska & Hawaii)
- \$801,950 for four unit properties (\$1,202,925 in Alaska & Hawaii)

Refer to the standard [FHA Fixed & ARM Program Summary](#) for additional requirements & restrictions.

### Closing Costs

Originators may charge and collect from borrowers those customary and reasonable costs necessary to close the mortgage. Except for discount points, these fees may also be used to meet the borrower's minimum investment requirement.

Borrowers may not pay a tax service fee and aggregate charges may not violate FHA's tiered pricing rules.

The following additional guidelines are specific to the 203(k) program:

- Supplemental origination fee: When the mortgage involves insurance of advances which is the case with all 203(k) loans, the borrower will be charged a supplemental origination fee. The fee is calculated at the greater of, 1.5% of the portion of the mortgage allocated to rehabilitation, or \$350, and is in addition to any origination fee being charged.
- As of 4/26/2011, loan origination fees are no longer capped at 1%. Any fees charged to the borrower must be fair, reasonable and customary charges for all origination services.
- Discount points: Discount points may be financed on the rehabilitation portion only (except in Texas) and they may not exceed the amount of discount on the non-rehabilitation portion. On a purchase transaction, discount points above the rehabilitation portion may be charged but not financed.

If you have questions about closing costs, contact your local FHA Homeownership Center (HOC). Also see [Down Payment Assistance](#).



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### **Minimum Cash Investment**

The borrower must make a minimum cash investment of 3.5% of the lesser of the appraised or sales value. This amount is in addition to any borrower closing costs.

**Note:** For borrowers qualifying under the Energy Efficient Mortgage (EEM), Good Neighbor Next Door (GNND) or HUD REO program, the borrower's minimum cash investment may vary.

Refer to the standard [FHA Fixed & ARM Program Summary](#) for additional information as well as the HUD Handbook, paragraph 1-9 A for more information:

<http://www.hud.gov/offices/adm/hudclips/handbooks/hsg/4155.1/index.cfm>

### **Sales and Financing Contributions**

Sellers, or other interested parties such as real estate agents, builders, developers, etc., or a combination of parties are permitted to contribute up to 6% of the property sales price toward the buyer's actual closing costs, prepaid expenses, discount points and other financing concessions. Closing costs normally paid by the borrower are considered contributions if paid by the seller.

Each dollar exceeding FHA's 6% limit must be subtracted from the property's sales price before applying the appropriate loan-to-value ratio.

### **Cash Reserves**

Cash reserves are not a requirement for FHA loans except in the scenarios described below. Generally cash reserves are used as a Compensating Factor when approving an FHA loan with a debt ratio that exceeds guidelines. In this case, a minimum of 3 months PITI will be considered as a Compensating Factor. Gift funds, cash proceeds from the refinance and equity in another property are not acceptable sources for documenting cash reserves.

#### **Scenarios with Reserve Requirements:**

**3-4 unit properties:** 3 months PITI after closing are required. Gifts are not an acceptable source.

**Projected Income:** When qualifying a borrower with projected income, the borrower must have sufficient cash reserves to support the mortgage payments and all other obligations during the interim period between loan closing and the start of employment. See the HUD Handbook 4155.1 section 2 for Projected Income.

### **Temporary Buydowns**

Temporary buydowns are not eligible on the 203(k) program.





PLAZA HOME MORTGAGE, INC.

## FHA Streamlined 203(k)

### **Funding the Loan, Including Initial Draw**

The full loan amount must be funded at closing. The first draw of the rehab funds will be made at closing and will be disbursed to the homeowner and the contractor and will be handled through escrow/title.

The first draw will be 50% of the total cost of the repairs on line B1 on the Maximum Mortgage worksheet. If there are multiple contractors being used, 50% of the cost of the repairs for each contractor will be disbursed at closing. Plaza will set up an interest-bearing repair escrow account which is insured by the Federal

Deposit Insurance Corporation (FDIC), to fund the remaining disbursements for improvements.

Any interest earned is applied as a principal reduction to the loan, along with any other unused funds. Plaza will handle all project inspections and all remaining rehabilitation disbursements.

For all underwriting items not addressed here, refer to the standard FHA Fixed & ARM Program Summary.

### **Remaining Draw Process**

After the loan is set up in the servicing system:

- The borrower will receive a "Welcome" package that will explain how the final disbursement works and will provide them with contact information.
- A final invoice from the contractor/vendor must be submitted in order to disburse final funds. If the invoice shows the payment has been received in full, the funds go to the borrower. If the invoice shows a balance due, a two-party check will be disbursed.
- For borrowers doing the work themselves, a self-help agreement must be in the file before the funds are disbursed and the check is made out directly to the borrower.
- For borrowers working with a contractor, a W-9 must be provided to set up the contractor in the system. A two-party check is made out to the borrower and the contractor and sent to the borrower.
- The balance of rehabilitation funds will only be disbursed upon completion of ALL work.
- Plaza will order an inspection by the original appraiser. The appraisal management company coordinates the inspection directly with the borrower.

Link to [Welcome Package Disbursement Guide](#)

Link to [Welcome Package Letters](#)

**Borrowers with questions on their funded 203k loan may contact Plaza Customer Service as follows:**

**Phone:** 1-888-807-2620

**Fax:** 1-858-677-6741

**Email:** [Customerservice@PlazaHomeMortgage.com](mailto:Customerservice@PlazaHomeMortgage.com)



PLAZA HOME MORTGAGE, INC.

## FHA Streamlined 203(k)

### **Common Missing Items That Will Cause Draw Delays**

- Missing W-9s. These must be completed and signed by every contractor working on the project.
- Missing or incomplete Homeowner/Contractor Agreement.
- A fully executed Self-Help Agreement.
- 203(k) Streamline Maximum Mortgage Worksheet is missing applicable signatures.
- 203(k) Borrower acknowledgement is missing.