



FHA 203(k) Rehabilitation Mortgage

RESTRICTED-ELIGIBILITY PROGRAM

Customers must be Direct Endorsed Correspondents and must be specifically approved to participate in this program. Contact your Account Executive regarding participation in Flagstar Bank's 203(k) programs.

PRIMARY RESIDENCE – PURCHASE AND RATE/TERM REFINANCE			
Property type	Maximum LTV ¹	Minimum Credit Score ²	Underwriting Engine & Required Response
1 to 4-Unit PUD	110%	580	FHA Total Mortgage Scorecard DU – <i>Approve</i> or LPA – <i>Accept</i> <i>Refer</i> responses will be manually underwritten
Condo	100%		

1. The maximum LTV for each loan will be determined by the [203\(k\) Calculator](#) available on the HUD website.
2. Refer to Underwriting section for borrowers with no score.

PROGRAM SUMMARY

The FHA 203(k) program allows borrowers to obtain a single mortgage loan, at a long-term fixed or adjustable rate, to finance both the acquisition and rehabilitation (minimum \$5,000 of renovation work) of the property. To provide funds for the rehabilitation, the mortgage amount is based on the projected value of the property with the work completed, taking into account the cost of the work. All rehabilitation work must start within 30 days of closing and be completed within six months of closing.

PRODUCTS OFFERED

FIXED RATE MORTGAGES

Traditional and jumbo loan amounts are separated into distinct products:

- [FHA 203\(k\) 10-year](#)
- [FHA 203\(k\) 15-year](#)
- [FHA 203\(k\) 20-year](#)
- [FHA 203\(k\) 25-year](#)
- [FHA 203\(k\) 30-year](#)

ADJUSTABLE-RATE MORTGAGES

Traditional and jumbo loan amounts are combined into the same product:

- [FHA 203\(k\) 5/1 ARM](#)

ELIGIBLE BORROWERS

- U.S. citizens
- Permanent resident aliens
- Non-occupant co-borrowers

INELIGIBLE BORROWERS

- Non-permanent resident aliens
- Trusts
- Investors

ELIGIBLE PROPERTY TYPES

- 1 to 4-Unit property
 - Reconstructing a structure that has been or will be demolished is eligible provided the complete existing foundation system is not affected and will still be used
- Planned unit development
- Condominium
 - Refer to [Property Standards](#) section below.

INELIGIBLE PROPERTY

- Cooperative units
- Manufactured homes
- Homes never completed
- Homes where final Certificate of Occupancy was issued within the past 12 months
- Mixed-use properties

LOAN AMOUNTS

MINIMUM

None

MAXIMUM

Maximum loan amount is determined by the [203\(k\) Calculator](#) available on the HUD website.

INTERESTED PARTY CONTRIBUTIONS

Maximum 6%

TEMPORARY BUYDOWNS

Not eligible

SUBORDINATE FINANCING

Not eligible

CREDIT ALERT INTERACTIVE VOICE RESPONSE SYSTEM (CAIVRS)

All borrowers must be screened using the Credit Alert Interactive Voice Response System (CAIVRS). FHA will not insure a loan if the borrower is currently delinquent on any unpaid federal debt, or has had a claim paid within the previous three years. Prior to accessing CAIVRS you will need each applicant's Social Security Number. CAIVRS must be accessed through [FHA Connection](#). This is a web-based system that requires prior approval through HUD.

QUALIFYING RATE

Note Rate

QUALIFYING RATIOS

Refer to the Ratios section of our [FHA Underwriting Guidelines](#).

PROPERTY GUIDELINES

APPRAISAL STANDARDS

All loans must have an appraisal obtained from a Flagstar approved appraisal management company. Please refer to *Appraisal Management Companies*, [Doc. #4903](#), for more information.

- Full appraisal (Fannie Mae 1004/Freddie Mac 70 – or equivalent forms for condominiums or two-unit properties) is required.
- The appraiser must provide the after-improved value of the property (after all rehabilitation work is completed).
- The appraiser must also provide the “as-is” value of the property (prior to any rehabilitation work) when required by the HUD Handbook (e.g., certain refinance transactions and when necessary to comply with FHA’s property flipping guidelines).
- Program may be used for discretionary repairs and/or improvements that may not have been identified in course of pre-purchase inspection or appraisal. Appraiser must be provided with information regarding proposed rehabilitation or improvements and all cost estimates so that an after-improved value can be estimated. Description of proposed repairs and/or improvement must be included in appraisal report as well as contractor’s cost estimate.
- Appraiser to indicate in reconciliation section of appraisal report an after-improved value subject to completion of proposed repairs and/or improvements, based on Specification of Repairs.

PROPERTY STANDARDS:

- Condominium projects are restricted, must have been approved by FHA and rehabilitation is subject to the following conditions:
 - Maximum mortgage cannot exceed 100% of after-improved value.
 - Rehabilitation is limited to the interior of unit only. Mortgage proceeds may not be used for rehabilitation of exteriors or other areas that are the responsibility of condominium association.
- Refer to HUD Handbook as well as the HUD website for additional information.

203(K) ELIGIBLE WORK ITEMS (ALLOWED PROPERTY REPAIRS)

The types of improvements using FHA 203(k) financing include:

- Structural alterations and reconstruction.
- Modernization and improvements to the home's function.
- Elimination of health and safety hazards.
- Changes that improve appearance and eliminate obsolescence.
- Reconditioning/replacing plumbing; installing well and/or septic system.
- Adding or replacing roofing, gutters, and downspouts.
- Adding or replacing floors and/or floor treatments.
- Major landscape work and site improvements.
- Enhancing accessibility for a disabled person.
- Making energy conservation improvements.
- An existing multi-unit dwelling could be decreased to a one-unit dwelling.
- An existing house on another site moved onto mortgaged property.
- HUD requires that property financed under this program meet certain basic energy efficiency and structural standards. However, luxury items and improvements that do not become a permanent part of the property are not eligible to be included in the 203(k) loan.



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CONSULTANT GUIDELINES

DE Correspondent must exercise due diligence with regard to the full scope of the 203(k) consultant's services. Consultant must enter into a written agreement with the borrower that completely explains what services will be rendered and the fees charged. Neither HUD nor Flagstar will be responsible to the consultant for fees owed by the borrower.

CONTRACTOR REQUIREMENTS

- Mortgagor self-help arrangements are not permitted.
- Requirements for selecting the contractor:
 - Contractors must have been licensed a minimum of three years. If state does not license contractors, then a minimum of three years comparable experience and references are necessary.
 - Cost estimate(s) must clearly state nature and type of repair and cost for completion of work item. Copy of contractor's cost estimate(s) and the Homeowner/Contractor Agreement must be placed in the insuring binder. Contractor must finish work in accordance with written estimate, Homeowner/Contractor Agreement and any approved change order. Rehabilitation Construction Period begins when loan is closed.

CONTINGENCY RESERVE

STRUCTURE < 30 YEARS OLD	MINIMUM	MAXIMUM
Required when evidence of termite damage	10%	20%
Discretionary	No Minimum	20%
STRUCTURE ≥ 30 YEARS OLD	MINIMUM	MAXIMUM
Required	10%	20%
Required when utilities are not operable as referenced in the Work Write-Up	15%	20%

CLOSE OUT OF REHABILITATION ESCROW ACCOUNT

All rehabilitation work must be completed within six months of closing. Any unspent funds remaining after final work-item payment is made must be applied to mortgage principal. An executed Mortgagor's Letter of Satisfactory Completion must be provided.

DRAWS

FHA 203(k) loans are eligible for up to five draws (four plus the final draw). Consultants selected from the FHA 203(k) Consultant Roster may perform inspections on DE Correspondent's behalf, but it remains DE Correspondent's responsibility to assure that inspections are completed in a quality and timely manner. Copies of all required permits must be submitted prior to the release of the first draw.

INITIAL & SUBSEQUENT DRAWS

- All draws must comply with FHA guidelines and procedures

UNDERWRITING

- All loan applications will be underwritten to FHA's Total Mortgage Scorecard and Flagstar current guidelines. Refer to the HUD Handbook and Flagstar's [FHA Underwriting Guidelines](#).
- Non-traditional, alternative credit and no credit score loans are now eligible and will follow the [FHA Handbook 4000.1](#)
- Loans for borrowers with non-traditional credit are permissible; a credit score of 999 should be entered for those borrowers.

- All work must be completed within six months of closing.
- No portion of the project may be completed by a relative of the borrower(s). Contractors/builders must be unrelated to the borrower(s).
- Required Documentation:
 - 203(k) Borrower’s Acknowledgement Form, [HUD-92700-A](#), must be completed prior to closing the 203(k) loan. This form notifies the borrower(s) of their responsibilities as they relate to the rehabilitation of the subject property.
 - Loan Underwriting and Transmittal Summary Form, [HUD-92900-LT](#), is used to qualify the borrower.
 - Rehabilitation Loan Agreement requires four pieces:
 - The loan amount
 - Total rehabilitation cost
 - Number of months to complete project from date of agreement
 - Completion date
 - The work write-up must show that, when property is completed, it will meet FHA's minimum property standards or, if more stringent, local codes
- The [203\(k\) Calculator](#) available on the HUD website must be used to calculate the mortgage amount. The appraiser must provide an after-improved and an as-is value since both of those amounts are used to calculate the maximum mortgage. If borrower has owned the property for less than a year, the *Original Acquisition Cost* must be used to determine the maximum mortgage amount. The *Original Acquisition Cost* is defined as the lowest sales price within the last year.
- ADP Codes and required FHA Connection screen information:

ADP Codes	Description
702	203(k) Improvements/First Lien Fixed Rate
730	203(k) Improvements/First Lien Adjustable Rate
804	203(k) Condominium Improvements/First Lien Fixed Rate
815	203(k) Condominium Improvements/First Lien Adjustable Rate

- If mortgagee had originally begun processing case as a purchase mortgage without repairs, mortgagee should update existing case data in Case Number Assignment screen, changing ADP Code to a valid 203(k) ADP Code and Construction Code to Substantial Rehabilitation.

MORTGAGE INSURANCE PREMIUM (MIP)

Upfront and monthly mortgage insurance premiums will be calculated according to the policies outlined in the HUD Handbook.

FEES

SUPPLEMENTAL ORIGINATION FEE

When mortgage involves advances and partial disbursements of rehab escrow account, lender may collect supplemental origination fee from borrower. This fee compensates lender for additional cost of disbursements and inspections of work. Fee is 1.5% of portion of mortgage allocated to rehabilitation or \$350, whichever is greater.

TITLE UPDATE FEE

To protect validity of mortgage position from mechanics liens on property, reasonable fees charged by the title company may be included as an allowable cost of rehabilitation. Where mortgage position is protected and is not in jeopardy, this fee may not apply. Borrowers may wish to obtain lien protection, but the Borrower must pay the fees where such lien protection is not required to ensure the validity of the security instrument.

INDEPENDENT CONSULTANT FEES

Consultant must enter into a written agreement with borrower that completely explains what services consultant will perform for borrower and the fees charged. Fees charged by the consultant can be included in the mortgage. Such fees include (refer to the HUD Handbook regarding the eligible amount of fees that may be charged):

- **Financeable fees:**
 - Feasibility study
 - Work write-up
 - Draw inspections
- **Non-financeable fees:**
 - Change order fee
 - Re-inspection fee
 - Mileage fee

STATE ELIGIBILITY

Available in the following states with geographic restrictions. States not listed are available without restrictions.

State	Restriction
Puerto Rico	Not eligible

ADJUSTABLE-RATE DETAILS

Interest Rate Adjustment Caps	Initial: 1% up/down; Periodic: 1% up/down; Lifetime: 5% up
Margin	See Price Indication Sheet
Index	1-Year Constant Maturity Treasury (CMT)
Interest Rate Floor	The interest rate floor is equal to the Margin
Change Dates	5/1 ARM: Initial interest rate change date will occur within 60 to 66 months, depending on the first payment date. See table below. Interest rate will adjust every 12 months thereafter.
Conversion Option	None
Assumption	Subject to conditions, fees and rate adjustment
Negative Amortization	None

Initial Interest Rate Change Dates ³	
First Payment Date	Initial Change Date ⁴
Jan. 1, Feb. 1, Mar. 1	April 1
Apr. 1, May 1, Jun. 1	July 1
Jul. 1, Aug. 1, Sep. 1	October 1



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Initial Interest Rate Change Dates ³	
Oct. 1, Nov. 1, Dec. 1	January 1

3. The initial interest rate change dates are also published on the daily Price Indication Sheet.
4. The change date is always the first day of the month.

CLOSING DOCUMENTATION

Closing documents must not be ordered through Flagstar's Web Based Closing Docs (WBCD) service. DE Correspondents must order 203(k) closing documents from their own source, and must not use WBCD. Document packages ordered through WBCD will be incomplete and will cause loans to be ineligible for purchase by Flagstar.

FHA CONNECTION CASE CLOSEOUT REQUIREMENTS

FHA Connection case closeout must occur within six months of the closing date. The DE Correspondent must electronically certify closeout via FHA Connection and is not required to forward closeout documents to FHA. As with all FHA case binders, the originator must retain the file, either in hard copy or electronic format, for two years following the endorsement of mortgage. Proper close-out means that the mortgagee has certified that it has reviewed and verified for accuracy the following without limitations: mortgagor's acknowledgement of satisfactory completion, evidence of release of lien(s), mortgagee's inspection report(s), change orders, mortgagee accounting of the escrow funds, and record of disbursements.