

FHA "Streamline K" Limited Repair Program (203K)

Overview

The Department of Housing and Urban Development has developed a limited repair program, designated as the Streamline(K) Limited Repair Program, to augment its existing 203(k) program. The 203(k) program has been the primary tool of the Federal Housing Administration (FHA) for providing insured mortgage financing for the purchase of single-family properties in need of rehabilitation. The Streamline(K) program is a modification of the 203(k) program to facilitate purchase transactions in which the property needs minor rehabilitation work, as identified in a pre-purchase home inspection or the FHA appraisal. The Streamline(K) program is intended to assist homeowners with basic repairs requiring costing a minimum of \$5,000 up to a maximum \$35,000. The mortgage amount will allow for acquisition of the property and up to \$35,000 in the loan proceeds to be applied toward repair/rehabilitation of the property as detailed below. Under the Streamlined 203(k) program, a minimum repair/improvement cost requirement is not applicable.

Required Forms

These forms are in addition to normal required FHA forms/disclosures

Origination Forms (Loan cannot be underwritten without these forms. The 203k forms and all 203k related exhibits (such as work plan estimates, bids, contractor approval documentation, etc. must be included with the credit package at the time of initial submission or loan will be suspended):

- Borrower's Identity of Interest Form
- Homeowner/Contractor Agreement
- Streamlined(k) Maximum Mortgage Worksheet – Form HUD-92700
- 203(k) Borrower's Acknowledgement – Form HUD-92700-A

Closing Forms

- Rehabilitation Loan Agreement
- Rehabilitation Loan Rider to the Mortgage/Deed of Trust

Post Closing/Funding Forms

- Draw Request Section 203(k) – Form HUD-9746-A (used after loan closing)
- Request for Acceptance of Changes in Approved Drawings & Specifications – Form HUD-92577 (required in the event of needed changes after closing/funding)

FHA 203k Maximum Mortgage Amount Calculation

Use the Streamlined(k) Maximum Mortgage Worksheet – Form HUD-92700 to calculate the mortgage amount. Expenses that may be included in the total amount of the improvements, with a minimum repair amount of \$5,000 and not to exceed the \$35,000 limit, are inspection fees, building and other permits, the supplemental origination fee, title update costs and the amount of any contingency reserve required.

Explanation of Fees:

- **Inspection Fee:** Two Compliance Inspections will be ordered. One inspection will be ordered with each draw request by the servicing lender. Two inspection fees are required to be included at \$100.00 each for a total of \$200.00

FHA Streamline K Limited Repair Program, continued

FHA 203k Maximum Mortgage Amount Calculation, continued

- **Supplemental Origination Fee:** For a Streamline (K) mortgage, a supplemental origination fee equal to the greater of \$350.00 or 2.5% of the cost of the improvement project not to exceed \$375.00 may be collected from the borrower and paid to the loan originator for the rehabilitation portion of the mortgage.
- **Title Update Fee:** One title update will be required and will be ordered by the servicing lender upon receipt of the final draw request to ensure title is clear of any liens. The cost of one title update to be included is \$50.00.
- **Contingency Reserves:** Contingency Reserves are additional reserves that are kept in the event of cost over runs. Contingency Reserves will be required as follows:
 1. Properties built in 1959 or prior will require 20%.
 2. Properties built between 1960-1978 will require 15%.
 3. Properties built in 1979 and forward will require 10%.
 4. Bank owned/HUD owned/Company owned (LLC, etc.) transactions will require a minimum 15%. If plumbing repairs are required and if the transaction is bank owned/HUD owned/Company owned (LLC, etc.) regardless of age of the property 20% will be required.

Eligibility Requirements

Maximum Loan Amount

Varies by County (check HUD website below)

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

Maximum Loan-To-Value

- The maximum loan-to-value is based on the lesser of:
 1. The sales price of "as is" appraised value plus the borrower paid repairs minus sales concessions; or
 2. 110% of the "as completed" appraised value
 3. For refinances: if the borrower has owned the property for less than a year, the acquisition cost must be used to determine the maximum mortgage amount

Note: see FHA Appraisal Requirements below.

Borrower's Minimum Cash Investment

- Purchase Transactions: 3.5% of the sales price which must be all down payment (with FHA Case number assignments on/after January 1, 2009 can no longer include down payment plus closing costs).
 - Refinance Transactions: 97.75% LTV
- Note: Mortgage amount based on after improved value.

FHA Streamline K Limited Repair Program, continued

Eligibility Requirements, continued

Loan Terms

30 year Fixed Rate term only

Mortgage Insurance

Refer to FHA Mortgage Insurance Chart (see FHA Guidelines)

Qualifying Ratios

31%/43% However, qualifying ratios may exceed guidelines with DU Approve/Eligible recommendation or with compensating factors

Property Types (see MMI FHA Underwriting Guidelines for a complete list of Ineligible property types)

Eligible:

- Single-family dwellings
- 2 units
- Planned Unit Developments (PUDs)
- Site Condominiums
- Townhome/Rowhome
- Modular Homes
- Log; Dome; Berm Homes; Pier Foundations; Auxiliary/Accessory Dwelling Units; Homes with extreme functional obsolescence (i.e. one bedroom) – Must be common and typical for the area and have like comparables.
- HUD REO (Real Estate Owned/Property Disposition Sales) are eligible provided the repairs qualify as eligible work items outlined in these guidelines.

Ineligible:

- 3-4 units
- Condominiums (other than site condos)

Eligible Borrowers

Individuals only

Note: Nonprofit organizations and government agencies are **not** eligible. Also, an identity of interest transaction is not allowed. There cannot be a relationship in any manner between parties: lender, broker, loan officer, realtor, seller, borrower, builder, contractor and employee loans are not eligible.

Occupancy

Owner-occupied only

Non-occupying co-borrowers not allowed

Investors not allowed

FHA Streamline K Limited Repair Program, continued

Underwriting

All "Streamline K" loans will be underwritten according to standard FHA guidelines. Loans must be run through Total Scorecard using Fannie Mae's Desktop Originator/Underwriter. **[Click here for the MMI FHA Underwriting Guidelines.](#)** The loan must be run through with the after repaired/improved value and the adjusted sales price (sales price plus borrower paid repairs minus sales concessions).

Streamline 203(K) eligible Work Items

Use of the Streamline(K) Program is limited to properties with the following work category items:

- Repair/Replacement roofs, gutters and downspouts;
- Repair/Replacement/upgrade of existing HVAC systems;
- Repair/Replacement/upgrade of plumbing and electrical systems;
- Repair/Replacement of flooring;
- Minor remodeling, such as kitchens/baths, which **does not** involve structural repairs;
- Painting, both exterior and interior;
- Weatherization, including storm windows and doors, insulation, weather stripping, etc.;
- Purchase and installation of appliances, including free-standing ranges, refrigerators, washers/dryers, dishwashers and microwave ovens;
- Accessibility improvements for persons with disabilities;
- Lead-based paint stabilization or abatement of lead-based paint hazards (including the availability to pay for lead-based paint stabilization costs above and beyond that paid for by HUD when it sells real estate owned property HUD REO);
- Repair exterior decks, patios, porches (cannot add new since considered a luxury item);
- Basement finishing and remodeling, which does not involve structural repairs;
- Basement waterproofing;
- Window and door replacements and exterior wall re-siding;
- Septic system and/or well repair or replacement.

Repairs must comply with all local codes and ordinances. The borrower and/or contractor must obtain all required permits prior to the commencement of work. Once the mortgage is approved and closed, the list of repair items cannot be changed unless the servicing lender approves a written change order. Change orders are limited to unforeseen conditions that are discovered during the course of the rehabilitation process (such as hidden damage caused by termites, mold or water damage, etc.). Costs related to change orders cannot be used to increase the mortgage amount. Change orders may result in the reallocation of mortgage proceeds among cost categories or in the substitution of work items covered by the proceeds. Therefore, any change order permitting additional work must also delete a corresponding dollar amount of previously approved rehabilitation work. If change orders result in a net cost increase, the borrower is responsible for the additional costs. If change orders result in a net cost decrease, the excess mortgage proceeds must be used to reduce the principle balance of the mortgage. If, for any reason, the costs incurred during the rehabilitation exceed the mortgage amount, the borrower is responsible for the additional costs.

FHA Streamline K Limited Repair Program, continued

Streamline 203(K) Ineligible Work Items

Properties that require the following work items are not eligible for financing under the Streamline(K):

- Major rehabilitation or major remodeling, such as the tear down/relocation of a wall;
- New construction (including room additions);
- Repair of structural damage;
- Repairs requiring detailed drawings or architectural exhibits;
- Landscaping or similar site amenity improvements;
- Any repair or improvement requiring a work schedule longer than six (6) months;
- Rehabilitation activities that require more than two (2) payments per specialized contractor;
- Luxury items are not eligible (such as hot tubs, swimming pools, fountains, decks, patios, etc).

The Streamline(K) program may not be used to finance any required repairs arising from the appraisal that do not appear on the list of **Streamline 203(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 (HUD will not grant extensions);
- Result in work not starting within 30 days after loan closing; or
- Any repairs that would cause the mortgagor to be displaced from the property for more than 30 days during the time the rehabilitation work is being conducted. (FHA anticipates that, in a typical case, the mortgagor would be able to occupy the property after mortgage loan closing).

Acceptance of Contractors and Rehabilitation Criteria

- No "Self-help" arrangements allowed (appliances are acceptable).
- Estimates for work to be done must be provided by contractor(s).
- MMI will approve contractor(s). References, licenses (each contractor must have a Certificate of Liability Insurance) and signed and dated W9 Form is required for all contractors (if more than one is used due to specialized repairs and/or improvements).
- Work plan/cost estimates will be reviewed and must be approved by MMI to ensure the planned work meets all program and repair requirements as noted by the appraiser/inspector. Cost estimates must clearly state the nature and type of repair and the cost for completion of the work item.
- General contractor is not required.
- Only "fixed price" contracts, which are subject to written change orders approved by the underwriter in the event of unforeseen conditions, are acceptable. "Cost plus" or "time and material" contracts are prohibited. The repair cost must be reasonable and customary for the area in which the property is located.

FHA Streamline K Limited Repair Program, continued

Acceptance of Contractors and Rehabilitation Criteria, continued

- Architectural exhibits do not apply.
- After review, the selected contractor(s) must agree in writing to complete the work for the amount of the cost estimate and within the allotted time frame. (See 203k Homeowner Contractor Agreement posted on our website.)
- The Rehabilitation Construction Period begins when the mortgage is closed.
- The contractor(s) must finish the work in accordance with the written estimate and the Homeowner/Contractor Agreement as well as any approved change order.

FHA Case Number Processing/Data Entry Requirements

- ADP Selector will be Improvements – (203k). For the Amortization type select Fixed. For Property Type Condominium if property is a Condominium or Not Condominium as appropriate (if property is a Site Condominium then Condominium must be selected).
- In the 203k Consultant ID you must enter "203KS".
- HUD REO's require additional information as follows:
 1. Processing type must indicate: "Real Estate Owned with Appraisal" since a new appraisal is required.
 2. If Purchase: Was this case previously sold as Real Estate Owned (previously sold by HUD)? **Always** check **YES**. Complete the "Previous Case Number" field with the 10 digit FHA Case Number.

FHA Appraisal Requirements

- If the borrower is applying for a Streamline(K) mortgage based on needed repairs identified by a pre-purchase home inspection, the AMC/Appraiser must be provided with the information regarding the borrower's planned repairs and a copy of the pre-purchase home inspection and the appraiser must confirm that the repairs may be accomplished without a fee consultant, work write-up, plans and/or specification. Additionally the appraiser must still note any health and safety deficiency items and/or FHA Minimum Property Requirements (MPR) that the proposed repairs/exhibits do not address.
- The appraisal must be ordered as a Streamline 203K and all bids/cost estimates, etc. must be provided to the AMC when the appraisal order is placed. The appraisal will be done with both the "as is value" and the estimated value "after repaired". For HUD REO properties the HUD appraisal must be obtained from the M&M contractor and an additional appraisal must be ordered. This second appraisal that is required for 203K as repaired value may be charged to the borrower.
- Properties considered in less than "average" condition by the appraiser are ineligible.

FHA Streamline K Limited Repair Program, continued

Disbursements/Payments to Contractors

MMI will not be responsible for disbursement of draws. The borrower(s) will receive an informational packet from the servicing lender, after loan closing, which will explain the following:

- Maximum two (2) disbursements will be made (an initial and a final). Additional disbursements will not be permitted. **Note: draws will not be disbursed at time of closing/funding.**
- First Disbursement will be made approximately 30 days after closing. Initial disbursement will be 50% of total cost of repairs from line 1 of the Streamlined K Maximum Mortgage Worksheet.
- Draw amounts can vary and are based on the cost of the work performed. If a Contingency Reserve is held then 10% reserve is held back on each draw. The holdback funds are disbursed upon completion of all work along with the final disbursement.
- The first payment is intended to defray material costs and shall not be more than 50% of the estimated costs of all repairs/improvements.
- Any contractual agreements and paid receipts for permits/fess must be submitted to the servicing lender with the initial and/or final draw request. All contractors and subcontractors must submit invoices on business letterhead, one invoice per contractor. This is mandatory in order to receive payment.
- Compliance Inspections are required prior to each disbursement and will be ordered/obtained by the servicing lender.
- Final disbursement will occur after it has been verified that the title is clear of any liens (typically 35 days after receipt of completed documentation/final draw request. A check will be issued within 5 business days of the verification. Checks will be sent via overnight carrier and will be made payable to both the borrower and the contractor.
- Any remaining amounts in the repair escrow account will be applied toward the principal balance of the loan. This includes any unused contingency funds or inspection fees remaining in the repair escrow account. These funds are interest bearing and interest is accounted for and distributed to the borrower based on the borrower's instructions outlined in the 203k Borrower's Acknowledgment Form HUD-92700-A.
- All repairs/home improvements must be completed within six months, in compliance with the Rehabilitation Loan Agreement.