

SECTION 4 – REHABILITATION MORTGAGES

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Section 4 - Rehabilitation Mortgages

203(k) Standard & 203(k) Limited Programs

4.1 Program Descriptions

Overview

The FHA 203(k) Standard and 203(k) Limited Rehabilitation Mortgage Loan Programs offer first mortgage financing for prospective homebuyers interested in purchasing a home that needs repairs. These programs may be used to purchase and rehabilitate existing 1-4 unit dwellings (manufactured homes are not eligible) and include, as part of the acquisition cost, the cost of rehabilitating the property as a completed residential unit.

Homebuyers interested in purchasing and repairing a home under this program generally may not have owned a home in the last three years to qualify; but previous homeowners may qualify if they intend to purchase and occupy a home located in a federally targeted area.

The FHA 203(k) Standard and 203(k) Limited Rehabilitation Mortgage Loan Programs are available to FHA lenders that are approved by CHFA to originate under this program.

A HUD approved Consultants report is required with all 203(k) Standard Rehabilitation Mortgage Loan Program submissions.

4.2 Borrower Eligibility

Borrower(s) eligibility, including Income and Sales Price Limits, are the same as for CHFA Homebuyer Mortgage Program Loans, and are covered in Section 3 of this Manual.

There are no income limits for FHA 203(k) Standard and 203(k) Limited Rehabilitation Mortgage Loan Programs if purchasing in a federally targeted area, unless the applicant also borrows under the Downpayment Assistance Program.

FHA 203(k) Standard and 203(k) Limited Rehabilitation Mortgage Loan Programs utilize the Sales Price Limits as the limit for the total acquisition cost (purchase price plus total rehabilitation costs) and as a final value guide for program eligibility.

All other guidelines for FHA 203(k) Standard and 203(k) Limited Rehabilitation Mortgage Loan Programs are the same as for CHFA Homebuyer Mortgage Program Loans, except for specific items covered in this Section.

4.3 Property Eligibility

The FHA 203(k) Standard and 203(k) Limited require Borrower(s) to purchase homes that meet specific property and sales price guidelines. The property must meet one of the definitions listed below:

- a. Existing 1-4 Family Residential Property
- b. FHA approved condominium and PUD- (FHA restrictions apply)
- c. Existing dwelling conversions up to four units
- d. No Manufactured Housing, Mobile Homes or Co-Ops

In order to qualify for these programs, the Borrower(s) must use the loan to purchase and repair a home which they will occupy as their principal residence within six (6) months of loan closing including rehabilitation period.

The Borrower(s) may not use the loan to purchase recreational, vacation, investment, commercial or rental properties (unless the Borrower(s) is an owner-occupant of an eligible multi-family residence up to a maximum of 4 units).

A loan under this program will cover the cost of converting commercial property to residential property. No part of the purchased property may be designated for commercial purposes. Owner-occupant Borrower(s) only; no investors.

4.4 Principal Residence Requirement

In order to qualify for these programs, the Eligible Borrower(s) must use the loan to purchase and repair a home in which they will occupy as their principal residence.

Eligible Borrower(s) shall covenant to occupy the Eligible Dwelling as their principal residence within sixty (60) days of Loan closing.

Unless the residence can reasonably be expected to become the principal residence of the Eligible Borrower(s) within six (6) months, the residence will not be considered an Eligible Dwelling and therefore may not be financed with a FHA 203(k) Standard or 203(k) Limited Rehabilitation Mortgage Loan.

4.5 **Rehabilitation Loan Amounts and Eligible Repairs**

1. The **FHA 203(k) Standard Rehabilitation** Mortgage Loan Program, as listed in the U.S. Department of Housing and Urban Development (HUD) website, will allow Borrower(s) to purchase a house in need of full structural alterations or repairs and modernization that includes both the cost of acquisition and rehabilitation. The maximum mortgage amount cannot exceed the applicable loan-to-value ratio and maximum dollar amount limitation prescribed for the FHA Maximum Mortgage Limits as applicable for where the home is located.

The types of improvements that Borrower(s) may make using the **FHA 203(k) Standard Rehabilitation** Mortgage Loan Program include these examples:

- a. Structural alterations and repair of damage to the home including chimneys, walls, roofs, and ceilings, termite and water damage.
 - b. Installation of energy-efficient features to plumbing, heating and electrical devices.
 - c. Installation or replacement of wells, septic tanks, windows and hot water systems.
 - d. Repair of flooring, roofing, handrails, downspouts and exterior siding that improves the general livability of the home.
 - e. Alterations to enable handicap accessibility.
2. The **FHA 203(k) Limited Rehabilitation** Mortgage Loan Program, as listed in the U.S. Department of Housing and Urban Development (HUD) website, is a limited repair program that will allow Borrower(s) to obtain a mortgage loan that includes the cost of acquisition and up to an additional \$35,000 that can be used to complete moderate rehabilitation or modernization repairs to the property prior to moving in. The maximum mortgage amount cannot exceed the applicable loan-to-value ratio and maximum dollar amount limitation prescribed for the FHA Maximum Mortgage Limits as applicable for where the home is located.

The types of improvements that Borrower(s) may make using the **FHA 203(k) Limited Rehabilitation** Mortgage Loan Program include these examples:

- a. Basements, Decks, Patios, Floors
- b. Electrical, HVAC Systems, Weatherization
- c. Minor Remodel
- d. New Appliances (up to \$2,000)
- e. Replacement Windows, Painting, Plumbing, Roofs
- f. Septic & Well Repairs, Sewer Hook-up

Properties that require the following work items are not eligible for financing under the FHA 203(k) Limited Rehabilitation Mortgage Loan Program:

- a. Major rehabilitation or major remodeling, such as the relocation of a load-bearing wall;
- b. New construction (including room additions);
- c. Repair of structural damage;
- d. Repairs requiring detailed drawing or architectural exhibits;
- e. Landscaping or similar site amenity improvements;
- f. Any repair or improvement requiring a work schedule longer than six (6) months; or
- g. Rehabilitation activities that require more than two (2) payments per specialized contractor.

Borrower(s) may not use the FHA 203(k) Limited Rehabilitation Mortgage Loan Program to finance any required repairs arising from the appraisal that do not appear on FHA 203(k) Limited Rehabilitation eligible work items list or that would:

- a. Necessitate a “consultant” to develop a “Specification of Repairs Write-Up”;
- b. Require plans or architectural exhibits;
- c. Require a plan reviewer;
- d. Require more than six (6) months to complete;
- e. Result in work not starting within 30 days after loan closing; or
- f. Cause the Borrower(s) to be displaced from the property for more than fifteen (15) days during the time the rehabilitation work is being conducted. (FHA anticipates that, in a typical case, the Borrower(s) would be able to occupy the property after mortgage loan closing).

4.6 Builders and Contractors

The Borrower(s) are required to have a construction contract with the Builder or General Contractor. The Builder or General Contractor must be registered and / or licensed with The State of Connecticut Department of Consumer Protection and carry appropriate insurance. Builders and General Contractors should be reviewed by the Participating Lender to determine experience and expertise.

Borrower(s) may not be the General Contractor for rehabilitation work being completed on their owner-occupied, primary residence under this program.

4.7 Contracts and Rehabilitation Work Specifications

Borrower(s) are required to have a construction contract with the Builder or General Contractor. All contracts must be in writing, including any subsequent changes and modifications. Contracts must be specific for performance and materials and include a schedule for completion and payment terms.

- a. The FHA 203(k) Limited Rehabilitation Mortgage Loan Program does not mandate a contingency reserve be established. However, at the Participating Lenders discretion a contingency reserve account up to 20% may be set up for administering the Loan. Funds held back in contingency reserve must be used solely to pay for the proposed repairs or improvements and any unforeseen items related to these repair items. Any unspent funds remaining after the final work item payment(s) is made, must be applied to the mortgage principal.

A HUD approved Consultants report is required with all 203(k) Standard Rehabilitation Mortgage Loan Program submissions.

4.8 Completion of Work and Construction Period

The Participating Lender or its designee is responsible for monitoring the completion of the work and managing the release of funds to pay for completed work and must exercise all approval and oversight responsibilities that are customary and required to comply with State laws and to ensure that clear title to the property is maintained. If any action taken (or failed to be taken) in overseeing the rehabilitation work affects the ability to take clear title to the property, CHFA may require the Participating Lender to repurchase the mortgage.

The Participating Lender must maintain a copy of all of the documentation that supports the rehabilitation work including but not limited to: plans and specifications; appraisals; rehabilitation or construction contracts; title insurance updates and endorsements; etc. in the individual mortgage file.

The following will also apply:

- a. The Borrower(s) will agree to occupy and use the residential property for a permanent principal residence. (FHA anticipates that, in a typical case, the Borrower(s) would be able to occupy the property after mortgage loan closing).

4.9 Post-Closing Inspection

- a. Within 60 days after the FHA 203(k) Standard and 203(k) Limited Rehabilitation Mortgage Loan escrow is totally disbursed but in no event later than 60 days after the end of the construction time period, the Participating Lender is required to inspect the eligible dwelling for:
 - 1. No trade or business;
 - 2. Owner-Occupancy as a permanent principal residence;
 - 3. No prohibited use of land; and
 - 4. Completion of rehabilitation.

- b. Based upon the above investigation, the Participating Lender shall either:
1. Certify to CHFA that based upon its subsequent investigation, the Participating Lender has no reasonable grounds for believing that the Borrower(s) did not meet the requirements of Sections 3.1D and the Rehabilitation has been completed; or
 2. Promptly notify CHFA in the event the Participating Lender determines that these requirements have not been complied with and take such action with respect to the FHA 203(k) Standard and 203 (k) Streamline Rehabilitation Mortgage Loan as CHFA shall thereafter request. CHFA may require the Participating Lender to repurchase the Rehabilitation Mortgage Loan pursuant to Section 7.2.C.

4.10 Rehabilitation Escrow Account

At loan closing, the Attorney and Participating Lender will deposit all of the rehabilitation costs into an interest-bearing escrow account. The Participating Lender or its designee will be responsible for administering this account ensuring that the rehabilitation is completed in a timely manner and in accordance with the plans and specifications and the Contractors estimated bids. Interest earned on the escrow account, less any administrative expenses involved in maintaining the account, must be paid or credited to the Borrower(s).

An Escrow Agreement furnished by the Participating Lender will be signed at the closing of the FHA 203(k) Standard and 203(k) Limited Rehabilitation Mortgage Loan whereby the Borrower(s) and Participating Lender will agree as follows:

1. The Participating Lender or its designee will be custodian of the escrow account and will treat these funds in the customary manner.
2. Funds from the escrow account will be disbursed by the Participating Lender or its designee in amounts coinciding with the approved drawdown schedule, based upon inspection of the construction.
3. Each progress payment will be disbursed to the Borrower(s) and made payable to both the Borrower(s) and General Contractor or Builder.
4. Progress payments and final disbursement will be made only after lien waivers have been obtained from the General Contractor and all subcontractors to whom payment remains to be made and all building permits have been signed off by appropriate authorities, when applicable.

4.11 Additional Documentation

Unless otherwise stated, all documentation normally required for a CHFA Homebuyer Mortgage Program Loan is required under the FHA 203(k) Standard and 203(k) Limited Rehabilitation Mortgage Programs. Additional documentation required is as follows:

Documentation must be submitted in the Loan Submission Package to CHFA:

- a. Copy of fully executed HUD Form 92700 203(k) Maximum Mortgage Worksheet
- b. Copy of valid Contractor Licenses
- c. Copy of current Contractor Liability Insurance Certificate
- d. Copy of fully executed Rehabilitation work proposal(s) and contracts

4.12 Origination Fee and Closing Costs

The maximum allowable amount CHFA will allow a Participating Lender to collect on the FHA 203(k) Standard and 203(k) Limited Rehabilitation Mortgage Loan Program first mortgage loan transaction are listed below:

- FHA 203(k) Standard Rehab Loan- Point fee = 2.50%
- FHA 203(k) Limited Rehab Loan - Point fee = 1.50%
- Supplemental Origination Fee – the greater of \$350.00 or 1.50% of the cost of the improvements. (see HUD Form 92700 for max.)
- CHFA Loan Processing Fee = \$395.00
- CHFA Loan Underwriting Fee = \$395.00

203(k) Loans with repair/upgrade costs \leq \$35,000.00 must be reserved under the 203(k) Limited Rehabilitation Program only; any exception will require prior approval from the CHFA Underwriting Manager. 203(k) Limited Rehabilitation Mortgage Loans may not be submitted as 203(k) Standard Rehabilitation Mortgage Loans to collect the higher origination fee.