



Final Transcript

HUD US DEPT OF HOUSING AND URBAN DEVELOPMENT: Loan Products for Single Family Properties Affected by Natural Disasters - External

November 8, 2022/12:00 p.m. CST

SPEAKERS

Virginia Holman
Jerry Mayer
Laura Arundel - FHA

PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Loan Products for Single Family Properties Affected by Natural Disasters conference call. At this time all participants are in a listen only mode. Later, we will have a question and answer session. [Operator instructions]. As a reminder, this conference is being recorded.

I'd now like to turn the conference over to Laura—

Virginia Virginia.

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Moderator Okay. Sorry about that, Virginia. Please go ahead.

Virginia Okay. Good afternoon, everybody, and welcome to today's web webinar on single family rehab loan programs. This is to help housing counselors that are working with victims of the many disasters we're facing since we know that fixing their homes up is one of the top things on their list to do. And FHA does have products that help, and we wanted to let you know what they were.

But before we turn the program over to the experts on this, I do want to go over some logistics. As the operator said, the audio is being recorded. We'll be providing a playback number along with a PowerPoint and a written transcript that will be posted on HUD Exchange, and that usually takes about seven to 10 days.

Also, this morning, I did send out the PowerPoint and another handout to those who had registered. They're also available in the handout section of the Control Panel. That's the panel on the right-hand side of your screen. The handouts are down towards the end. You just click on the document name and you can download them.

We're going to have question and answers at the end of the session. At this point, we do not intend to open the lines for your personal questions, but if so, the operator will give you instructions. But we do want your questions, so again on the panel on the right-hand side of your screen, there is a box that's labeled Questions. And if you would just type your question in there, and we will try to answer as many as we can at the end of the webinar. Afterwards, if you have more questions or comments, you can send it to housing.counseling@hud.gov and just put the topic in the subject line so we give it to the right person.

If you logged on to the webinar, you're going to receive a certificate of training from GoToWebinar in about 48 hours. You're going to need to print that out and save it for your record. I do not get a copy of the certificates.

Also, we want you to get used to visiting the training digests on HUD Exchange, where there's a comprehensive list of all the training that's being hosted by HUD and by other partners.

And now let me turn it over to Jerry Mayer, the Director of Outreach and Capacity Building for OHC. Jerry?

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Jerry

Well, thank you, [indiscernible] everyone joining us today for our webinar on FHA loan products for single family properties affected by natural disasters. Often certified housing counselors play a vital role in helping consumers prepare for [audio distorted]. FHA has mortgages and loans [audio distorted] disasters. Today, you will learn from expert [audio distorted] FHA prospects so that you can [indiscernible] clients on the various [audio distorted] options that are available to them.

Without further ado, I'll hand this over to Laura [audio distorted].

Laura

Thank you, Jerry. My name is Laura Arundel, I'm in the Denver Homeownership Center of FHA. And I'm going to talk to you just a little bit this morning about the 203(h) disaster program and the 203(k) rehabilitation program. Both of these programs can be found in HUD Single Family Housing Policy Handbook 4000.1. So let's get started. Next slide. Next slide, please. And then next slide again. Thank you. And again, I guess we have a lot of title pages here today. One more. Oh, I think we went backward. Let's go forward if we can. And then forward one more. Thanks, Ginger.

If there is a presidentially declared major disaster area, section 203(h) of the National Housing Act authorizes FHA to ensure mortgages for the purchase or reconstruction of a single family property for victims of the disaster. Next slide.

When a presidentially declared major disaster area is declared, lenders have one year from the date the President signs the disaster declaration to obtain an FHA case number assignment. There are certain times when the presidentially declared major disaster area has to be extended. An example of that would be Hurricane Katrina. After a year there was still a need for recovery, so the disaster was extended. When the disaster is extended, the timeframe for applying for 203(h) mortgage is also extended. Next slide.

You do not have to have been a homeowner to qualify for the 203(h) program. If you were a homeowner or you rented and your home was located in the disaster area and was destroyed or damaged to the point where it needs to be reconstructed or replaced, you are eligible for this program. You can find the effective counties and cities on the Federal Emergency Management Agency, FEMA's website at [fema.gov](https://www.fema.gov). Next slide, please.

The 203(h) program is one of the only programs that FHA insures where the borrower is not required to make the minimum required investment of 3.5%. The maximum LTV ratio limit on this loan is 100% of the adjusted value. If a borrower is using the 203(h) in conjunction with the 203(k) program, the 203(k) LTV limits apply. It is important that you refer to the handbook 4000.1 Section 288A for instructions on the 203(k) and those LTV limitations. Next slide, please.

In regards to property eligibility, the new home has to be either a single family property or a unit in an FHA approved condominium project. The house does not need to be located where the previous house was located. And a borrower is not required to purchase a property in the presidentially declared major disaster area. If we go back to Hurricane Katrina and a borrower had a home in New Orleans and they decided they wanted to relocate to California, they could you could have used this program, the 203(h) to purchase a home in California. Next slide, please.

The mortgagee may use alternative documentation subject to additional guidance from the handbook 4000.1, so the borrower's credit, income, liabilities, assets and their housing payment history when traditional documentation may be unavailable. Next slide, please.

The mortgagee may consider the borrower a satisfactory credit risk if the credit report indicates satisfactory credit prior to the disaster, and any derogatory credit is related to the effects of the disaster. Next slide, please.

If prior employment cannot be verified because records were destroyed by the disaster, and the borrower is in the same or similar line of work, then FHA will accept W-2s and tax transcripts from the IRS and may accept documented short term employment obtained following the disaster for the calculation of effective income. Next slide, please.

The mortgagee may exclude the mortgage payment on the destroyed residence from the borrower's liability. The mortgagee must obtain information from the servicing lender that states the borrower is working with that servicing lender to address their mortgage obligation in order to exclude the mortgage payment from their debt liabilities. In addition, the mortgagee must obtain information that the borrower is working with the servicing lender to apply any property insurance proceeds to the mortgage of the damaged home. Next slide, please.

In regards to the borrower's assets, the mortgagee may use an account statement downloaded from the borrower's financial institutions website to

confirm sufficient assets to close the mortgage if traditional asset documentation is not available. Guidance required for electronic documentation is also included in the handbook 4000.1. We will not review that portion of the guide today. Next slide, please.

Regarding housing payment history, if a property was destroyed or damaged in the disaster, the mortgagee may disregard any late payments for that previous obligation on the property that was destroyed when late payments were a result of the disaster. Late payments, as long as they were not three or more months' delinquent on their mortgage at the time of the disaster, can be disregarded. If extenuating circumstances are documented by the lender, the lender may justify approval when the borrower was three or more months' delinquent. Next slide, please.

In order to qualify for the 203(h) disaster loan, the borrower must provide documentation proving the damage to the previous home. Included in that proof should be documentation that identifies the property as being in the disaster area, and proof that the property was damaged or destroyed to the point that it needs to be reconstructed or replaced. Next slide, please.

A borrower can refinance a property in a presidentially declared major disaster area using the 203(h) program, the disaster program, in conjunction with the 203(k) rehabilitation program. To be eligible under the 203(k) rehabilitation program, the property must have been completed and ready for occupancy at the time of the disaster. The 203(k) LTV applies if the 203(k) is used in connection with the 203(h) program. Next slide.

And so now we're going to talk about the 203(k) rehabilitation mortgage program. So if you have a home that you love that needs repair, an FHA insured the 203(k) rehabilitation mortgage might be just the program for you. So if you want to buy a home that needs repairs, or finance repairs to a home that you currently own, the 203(k) rehabilitation mortgage might be the right choice. This program is available through FHA approved lenders, allows you to finance the purchase of a home or refinance your current mortgage, and include the cost of repairs to a single mortgage. The eligible improvements range from smaller renovation projects, all the way up to foundation repair, structural changes or even additions to the home. The section 203(k) program is FHA's primary program for rehabilitation, and is provided through FHA approved lenders nationwide. Next slide, please.

You can obtain a 203(k) mortgage either as a 15-year or 30-year fixed rate or adjustable rate mortgage. The total amount of your mortgage will be based on the projected value of your home after the renovation is complete, taking into account the cost of the renovation. Like all FHA insured mortgages your down payment may be as low, if not lower than other conventional mortgages. But remember, the 203(k) still requires, usually on a purchase, a minimum required investment of 3.5%. A portion of your total mortgage amount is used to pay for the purchase of the home, or in the case of a refinance to pay off your existing mortgage. The remainder of your total mortgage amount is placed in an interest-bearing account on your behalf and released in stages as the rehab work is completed. Next slide, please.

The property must be used as your primary residence. You may use the 203(k) mortgage to finance the rehab of the following types of properties, a one- to four-unit residence that's been completed for at least one year, a condominium in an FHA approved condominium project, manufactured homes that are titled as real estate, and mixed use properties that include commercial space, but which are primarily residential in nature. Next slide, please.

There are two types of 203(k) rehab mortgages. The first one is the standard 203(k). This would be for a home that requires structural repairs or remodeling and repair that costs at least \$5,000 or more. You must use a 203(k) consultant. All repairs must be completed within six months. And if the home will not be habitable during the renovation, the lender can include sufficient funds in the mortgage amount to pay the monthly mortgage payment, property taxes and insurance for up to six months so that the borrower is not burdened with both a house payment and a rent payment. This option is also suitable for major rehabilitation projects, including foundation work, adding rooms, a garage, altering basic systems and the like. Next slide, please.

The second type of 203(k) mortgage is the limited 203(k). This is for a home that may needs minor non-structural repairs or renovations costing no more than \$35,000. There is no minimum cost on the limited 203(k). The use of a 203(k) consultant is not required. Again, as with the standard 203(k), all repairs must be completed within six months of closing. And this option is more for remodeling, home improvement, energy efficient improvements, new appliances and the like. Next slide, please.

So eligible improvements. This is not an all-inclusive, non-exhaustive list, if you will, but these are some of the things that you can do. You can convert a one family structure to a two, three or four family or reduce an existing multi-unit property to a one family. You can reconstruct a demolished structure, provided that the complete existing foundation system is not affected. You can repair, reconstruct or elevate an existing foundation where the structure will not be demolished. You can purchase an existing structure on another site, move it to a new foundation and repair or renovate it. You can perform structural alterations such as the repair or replacement of structural damage, additions to the structure and finishing attics and basements and rehab, improve or construct a garage. Next slide, please.

You can install or repair wells and septic systems. You can connect to public water and sewage systems. You can repair or replace plumbing, heating, air conditioning and electrical. You can make changes for improved function, modernization and aesthetic appeal. You can repair or add roofing, gutters and downspouts, create accessibility for persons with disabilities and install or repair fences, walkways, driveways, and the list goes on. You can install new appliances, repair or remove a swimming pool. You cannot build a new swimming pool. That's considered a luxury

item, but you can repair or remove one, install smoke detectors, site improvements, landscaping, decks, patios, porches, construct a windstorm shelter and perform lead based paint stabilization if the property was built prior to 1978. Next slide, please.

Again, as I said, luxury items or commercial use items would not be eligible, such as tennis courts, gazebos, or new swimming pools. And the borrower may not be compensated for labor, but they might be reimbursed for purchased materials. Next slide, please.

So here's some helpful links. There is a 203(k) calculator in hud.gov at that link that will help you determine what the maximum mortgage amount is based on rehab costs and closing costs and the value of the property. You can find an FHA approved lender at hud.gov. You can find a 203(k) approved consultant at hud.gov. Typically, the lender who is processing the loan will choose the approved 203(k) consultant. The Single Family Housing Handbook, the 4000.1, is found at hud.gov. You can find upcoming single family housing events and trainings also at hud.gov at the link there. And you can subscribe to FHA info. If you have not already subscribed to this, it's probably a good thing to do. This is the way that FHA communicates policy changes and updates, either through

mortgagee letters or handbook updates. They also put out information about upcoming trainings and the like. So if you click on that link, it will take you through the steps to subscribe to FHA info. Next slide, please.

And then we're also happy to answer questions. You can either put your question in an email to answers@hud.gov, that system is available 24/7.

It'll go through the resource center and then you'll be given an answer.

You can reach us by telephone at 1-800-CallFHA. And that's 8am to 8pm Eastern Monday through Friday. If you reach the Resource Center after hours, there's a voicemail available. And you can also look up a bunch of answers through the knowledge base at [faqs@hud.gov/answers](https://www.fha.gov/answers). And that's available 24/7 as well.

And I think that's all I have for you today, so I'm going to turn it back to Virginia.

Virginia

Oh, thank you. That's a whole lot of really excellent information. These programs have been beneficial for many, many years, so learn about them. If you need more training, we can certainly do that. There is one product that we did not discuss. It's called the Energy Efficient mortgage, which you need to do some research on, but it allows for the installation of

energy improvements that are going to reduce the cost of energy to a homeowner. And it can be used in conjunction with the products that Laura was talking about.

Remember, we're not at this point going to take questions over the phone, but if you have a question, please go to the question box and type it in, and while you have the expert here, we will get them answered. Daniel, do we have any questions?

Daniel No, we do not Virginia.

Virginia Okay. Stacy, why don't you open the lines and let's see if we can get a couple questions that way, since we do have time.

Moderator Sure. [Operator instructions].

Virginia While we're waiting, one of the handouts, in addition to the PowerPoint that I sent out this morning, was a comparison of the 203(k) rehab loan and the two loan products by Fannie and Freddie for rehab, which has a lot of very good information, so you probably want to make that part of your collection of papers.

Do we have anybody calling in?

Moderator And at this time, nobody has queued up. [Operator instructions].

Virginia Okay, it looks like we do have a question.

Moderator And nobody on the phone lines at this time.

Virginia This is a really basic question, "What is a 203(k) consultant?"

Laura The 203(k) consultant is a consultant that on the standard 203(k) program, in addition to the appraiser will go out and inspect the property and consider all the rehab work that the borrower wants to have completed. And they have it, I think it's like a 35-point checklist that they have to go through to verify that the property meets minimum property standards and requirements for FHA. So it's just a second look and inspection to verify that the property is acceptable and that the work and the rehab work that's going to be done is acceptable to for FHA standards. And it's only required on the standard 203(k), because that's usually the program that is requiring the most in depth renovation.

- Virginia And FHA approves the consultant, so it's not Joe Blow—
- Laura Absolutely. It's kind of like the appraisers, there's an approved appraiser list. There's also an approved 203(k) consultant list through FHA connections.
- Virginia And the other tasks they have is, one of the things that Laura mentioned is that the money is released as the work is done. So it's the consultants that will work to authorize those draws by certifying that the work has been completed and this much money should be released to the borrower or the mortgagee.
- Laura Right.
- Virginia So they're critical in the whole process. That was a very good question. Thank you.
- Laura Yes, thank you.
- Moderator And we do have one from the phone lines.

Virginia Oh, great.

Moderator And we'll go to Lois Healy. Please go ahead.

Lois Yes, hi, this is Lois Healy with Affordable Homeownership Foundation in Fort Myers, Florida. We're getting calls from Fort Myers Beach regarding whether or not they should do the 203(h) or do an SBA 1% loan. The reason why they're asking is the value of their property before the hurricane, some of them their properties were worth \$500,000 or below. Now, if they go ahead and rebuild, the property value will go up. So they're wondering which product they should go with. Should they go with the SBA if they're approved or should they do the 203(h)?

Laura So if they want to rebuild and not simply purchase, if they do the 203(h) they're probably going to have to use that in conjunction with the 203(k) because the 203(h) is not a construction loan, it's permanent financing. So it depends on how they're going to do it. If they want to construct the home first and then do the 203(h)—I don't know anything about the SBA program. So that is probably something that the housing counselor will have to help them make that determination, a decision because I don't know anything about the SBA loan. So I don't know they compare.

Lois Yes, it's a 1% interest rate. What is the 203(h) financing rate? Is it market rate—

Laura It would be whatever the lender's market rate is.

Lois Okay. Yes. I kind of advised him to compare the two, but looking from that point of view, it's 1% interest as opposed to market rates? So probably to go with the SBA.

Laura Right, right.

Lois Okay. That answers my question.

Virginia Yes, that's a really good question. And I will see what we can do about getting something that compares those loans, because obviously the interest rate is a critical thing, but there may be some other aspects of it. And so we'll see if we can get something available as an answer to you as well.

Lois All right, I appreciate that. Thank you.

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Virginia Okay. And why don't you, just to make sure that [audio distorted], send your question to housing.counseling@hud.gov. And just ask your question and ask that it be sent to me, Virginia Holman.

Lois Okay.

Virginia Let's see, I have a question about how this information on these loans can be useful to housing counselors during the housing counseling session? Well, I think it's important because during the counseling session, if they've lost their house or [indiscernible], they're going to know want to know what their options are to get their house back. So the more you know about what their options are, the better you can help them. Obviously, you're still going to have to refer them to a lender on these. But you just want to make sure you know what their options are and how they could be useful.

Let's see, Tasha has another question. "What category of counseling does a rebuild from a disaster fall in, pre purchase or post purchase?" Well, actually, the new handbook that's going to come out shortly is going to define disaster counseling, and you can already report it on your 9902. So

there will be a category for you to report. It's just going to be disaster housing counseling.

And I have to say, the inclusion of disaster counseling as a major housing counseling component is a great win for housing counselors and for the Office of Housing Counseling. We know for a long time it was not a priority, but it is becoming a major priority and housing counselors are becoming a critical component of disaster counseling.

Okay. Do we have anybody else on the phone?

Moderator

At this time nobody else has queued up.

Virginia

Okay. Well, I guess unless anybody's got some more questions—let me see, I think I've got a couple more slides. Just again, because we really can't do a survey, all sorts of rules, but we like to get a feel for what you feel about the webinar. So just again, go into the question box and let us know what you thought. Was it useful? Are you going to share it? Anything else.

And again, thank you for attending. And as I said, in about a week, I'll post the PowerPoint, the audio replay number and a written transcript on HUD Exchange, and information will be posted.

Oh, it looks like we got another question. Oh, people are making positive remarks. Thank you.

All right. Well, thank you. For those people in Florida, we see that there's another hurricane barreling down on you, and we will keep our fingers crossed that it's not serious.

Moderator Actually, pardon me, we have another question from the phone.

Virginia Oh, okay.

Moderator All right. We'll go to Belinda Osborne [ph]. Please go ahead.

Belinda Yes, I was wondering, what if there is not a HUD certified, not an appraiser, what do you call it again?

Virginia Consultant.

Belinda Consultant in your area. Is there a way to get them on a list or what do you do in that instance?

Laura I would have to get back to you. I think that there's a way to ask to have people approved as a consultant. I think that's probably going to go through our appraisal or Tech Support Division. But I would have to ask specifically about that and get back to you.

Belinda Okay.

Laura That's a good question, though.

Belinda Thank you.

Virginia And again, the lender involved would help you find one, too. I mean, it may be that they've got a consultant that they work with that lives 100 miles away who's willing to come down. So just because there's not currently anybody in your area, as Laura said, find out about getting one approved or see whether your lender has somebody that would travel.

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Laura And yes, you're right, it would depend on how far away they are. If they're hundreds of miles away, that would be a problem. But yes, I could see someone traveling an hour or two, sure.

Virginia Laura had mentioned the faqs@hud.gov/answers, that would be a place to go and ask the question there. With all the questions that are in their FAQs, I'm sure that they've got the answer to, how does a consultant get approved.

Laura Or I don't know if she wants to put something in the chat box with her phone number and information, and I could call her back.

Virginia Oh that would be great.

Laura She doesn't have to say it out loud for everybody. But if she wanted to type it in the question box, then I'd have her information and I could find out and call her back.

Virginia Oh, thank you for that offer. So take Laura up on her offer. Do we have anybody else on the phone?

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Moderator Not at this time.

Virginia Okay, and I do not see any more written questions.

Daniel No more written questions.

Virginia Okay. And I see in the chat box, Dan has given the link to the FAQs.

Laura It does look like Belinda gave me her information, so let me write that down.

Virginia Laura, I will be giving you a copy of the questions tomorrow, and I see Belinda put it in the question box.

Laura Okay.

Virginia Tasha, I'll get you the information in the morning.

Laura Okay. And yes, Tasha, I'll get your email address as well. That'd be helpful. Thanks, Ginger.

Virginia

Well, we find it's important to get answers to the people that asked the question. Yes.

Well, thank you all for attending. Thank you for finally opening up with questions. That adds a lot to what we did. And again, Laura gave you the resources for FHA, where to ask questions. For the Office of Housing Counseling it's housing.counseling@hud.gov. So another place to ask for questions.

Well, thank you very much for attending, and getting prepared for disasters, which we hope never happens to anybody, but we'd like you to be prepared. So thank you again, and have a good day.

Moderator

Ladies and gentlemen, that does conclude your conference for today.

Thank you for your participation and for using AT&T teleconference service. You may now disconnect.