Loan Products for SF Properties Affected by Natural Disasters in Colorado

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June 1, 2022

Webinar Logistics

- **Audio is being recorded.**
  - The playback number along with the PowerPoint & a transcript will be available on the HUD Exchange.
  - The webinar will be posted in 7-10 days.
- Handouts were sent out prior to webinar. They are also available in **Handouts** section of the Control Panel.
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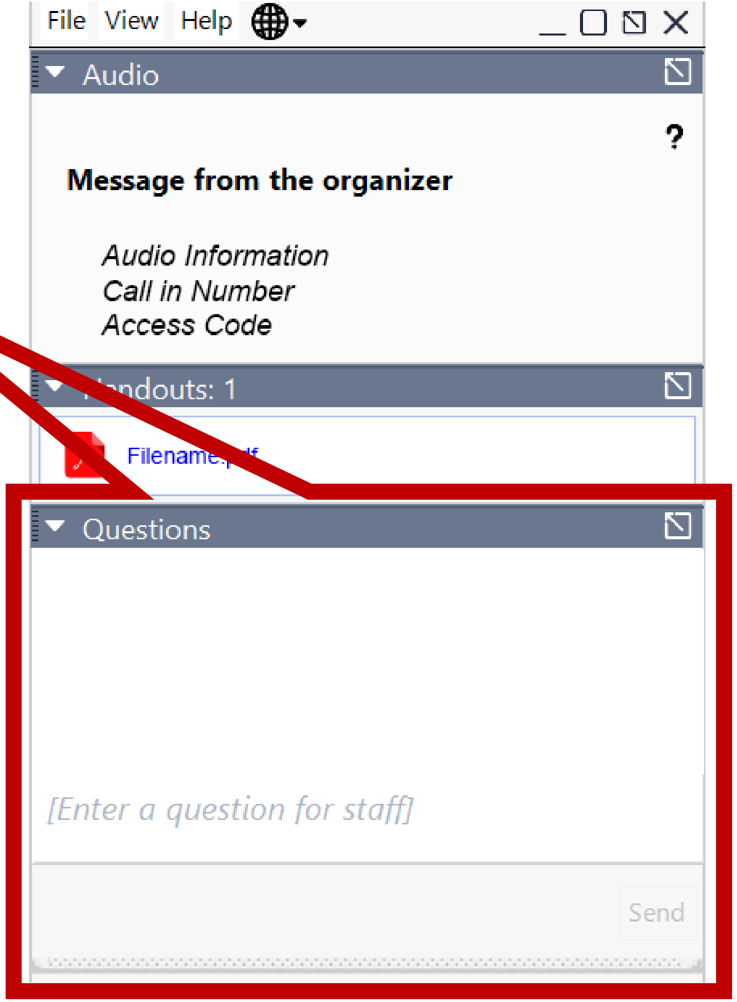
Questions & Comments

There may be Q&A periods, as well as discussions opportunities.

- If so, the operator will give you instructions on how to ask questions or make your comments.
- If your phone is unmuted during Q&A period, please do not use a speaker phone

Ways to Ask Questions

- Please submit your text questions & comments using the **Questions Panel**. We will answer some of them during the webinar.
- You can also send questions to: housing.counseling@hud.gov with the topic in the subject line.



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Housing Counseling Training Digest

- Visit the Training Digest on the HUD Exchange
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Office of Housing Counseling

Loan Products for Single Family Properties Affected by Natural Disasters in Colorado

June 1, 2022

Agenda

Welcome

Office of Housing Counseling

203(h) and 203(k) Overview

Fannie Mae HomeStyle® Renovation / Freddie Mac CHOICERenovation

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OFFICE OF SINGLE FAMILY HOUSING

FEDERAL HOUSING ADMINISTRATION

203(h) and 203(k) Overview

Boulder County Housing Counselors

June 1, 2022

Denver Homeownership Center

Processing and Underwriting Division

Agenda

203(h) Mortgage Insurance for Disaster Victims

203(k) Rehabilitation Mortgage Insurance Program

203(h) Mortgage Insurance for Disaster Victims

203(h) Mortgage Insurance for Disaster Victims

Section 203(h) of the National Housing Act authorizes the Federal Housing Administration (FHA) to insure Mortgages for the purchase or reconstruction of a Single Family Property for victims residing within a Presidentially-Declared Major Disaster Area (PDMDA).

203(h): Borrower Eligibility

The FHA case number must be assigned within one year of the date the PDMDA is declared.

- The date of the President's signature on the declaration is used; unless
- An additional period of eligibility is provided and signed by the President.

203(h): Previous Property Eligibility

The previous residence (owned or rented) must have been located in a PDMDA and destroyed or damaged to such an extent that reconstruction or replacement is necessary.

A list of the specified affected counties and cities, and corresponding disaster declarations are provided by the Federal Emergency Management Agency (FEMA) at www.fema.gov.

203(h): Minimum Required Investment/Maximum Loan-to-Value Ratio

- The Borrower is not required to make the Minimum Required Investment (MRI).

- The maximum loan-to-value (LTV) ratio limit is 100 percent of the Adjusted Value.

- When a 203(k) is used in conjunction with the 203(h), the 203(k) LTV limits apply.
  - Refer to *Single Family Housing Policy Handbook* 4000.1 (Handbook 4000.1), Section II.A.8.a.

203(h): Subject Property Eligibility

The purchased or reconstructed Property must be a Single Family Property or a unit in an FHA-approved Condominium Project.

If the transaction is a purchase, the house need not be located in the area where the previous house was located.

Disaster victims are not required to purchase the new Property in the PDMDA area.

203(h): Underwriting

Where traditional documentation is unavailable, the Mortgagee may use alternative documentation, subject to additional guidelines for:

- Credit
- Income
- Liabilities
- Assets, and
- Housing payment history

203(h): Credit

For Borrowers with derogatory credit, the Mortgagee may consider the Borrower a satisfactory credit risk if:

The credit report indicates satisfactory credit prior to a disaster.

+

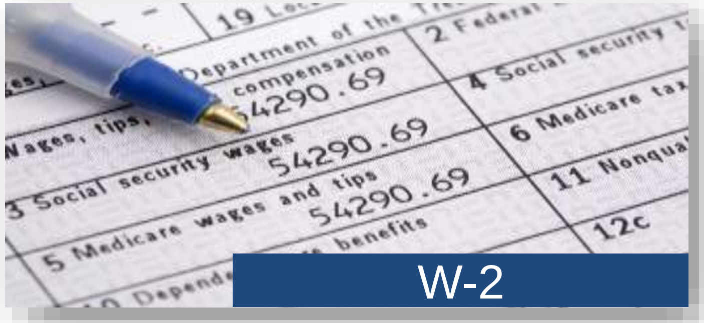
Any derogatory credit subsequent to the date of the disaster is related to the effects of the disaster.

203(h): Income

If prior employment cannot be verified because records were destroyed by the disaster, and the Borrower is in the same/similar field, then FHA will accept:

- W-2's and tax transcripts from the Internal Revenue Service (IRS) to confirm prior employment and income.

- Documented short-term employment obtained following the disaster for the calculation of Effective Income.



203(h): Liabilities

When a Borrower is purchasing a new home, the Mortgagee may exclude the Mortgage Payment on the destroyed residence located in a PDMDA from the Borrower's liabilities.

To exclude this payment, the Mortgagee must:
• Obtain information that the Borrower is working with the servicing Mortgagee to appropriately address their Mortgage obligation; and • Apply any Property insurance proceeds to the Mortgage of the damaged home.

203(h): Assets

If traditional asset documentation is not available, the Mortgagee may use account statements downloaded from the Borrower's financial institution's website to confirm the Borrower has sufficient assets to close the Mortgage.

See Handbook 4000.1, Section II.A.8.b.

203(h): Housing Payment History

- The Mortgagee may disregard any late payments for a previous obligation on a Property that was destroyed or damaged in the disaster:

  - Where the late payments were a result of the disaster; and
  - The Borrower was not three or more months delinquent on their Mortgage at the time of the disaster.

- The Mortgagee may justify approval when the Borrower is three or more months delinquent if extenuating circumstances are documented by the Mortgagee.

203(h): Eligibility Documentation Requirements

- Documentation attesting to the damage to the previous home must accompany the Mortgage application.

- The Mortgagee must document and verify that the Borrower's previous residence was:
  - In the disaster area; and
  - Destroyed or damaged to such an extent that reconstruction or replacement is necessary.

203(h): Refinancing Using 203(k)

Refinancing is permitted in conjunction with rehabilitation under the 203(k) Program.

Damaged residences located in the PDMDA are eligible for Section 203(k) Mortgage regardless of the age of the Property.

The residence only needs to have been completed and ready for occupancy for eligibility under Section 203(k).

If a 203(k) is used in conjunction with a 203(h), the 203(k) LTV applies.

203(k) Rehabilitation Mortgage Insurance Program

Do You Have a Home You Love That Needs Repair?

FHA-Insured Rehabilitation mortgages can help!

Renovating Your Existing Home?

- If you want to buy a home that needs significant repairs, or to finance repairs to your current home, the FHA Section 203(k) Rehabilitation Mortgage Insurance Program may be the right choice for you.
  - This program, 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 through a single mortgage.
  - The eligible improvements range from smaller renovation projects to foundation repair, structural changes, or additions.
- The Section 203(k) Program is FHA's primary program for the rehabilitation and repair of single family properties.
  - Section 203(k) mortgages are provided through FHA-approved lenders nationwide and insured by FHA.

Advantages of a 203(k) Rehabilitation Mortgage

You can obtain a Section 203(k) mortgage as a 15- or 30-year fixed-rate mortgage or an Adjustable Rate Mortgage (ARM):

- 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 work.

- Like all FHA-insured mortgages, your down payment may be as low, if not lower, than other conventional mortgages.

- 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 rehabilitation is completed.

Eligible Homes

The property must be used as your principal residence. You may use an FHA-insured 203(k) mortgage to finance the rehabilitation of the following types of properties:

- A one-to-four unit residence that has been completed for at least one year, such as detached homes and townhouses;
- Condominium unit in a FHA-approved project. Note that improvements are limited to the interior of the unit;
- Manufactured homes titled as Real Estate; and
- Mixed-use properties that include commercial space, which are primarily residential.

Two Types of 203(k) Rehabilitation Mortgages

STANDARD 203(k)

- Suitable for a home that requires structural repairs or requires repairs and remodeling costing at least $5,000.
- The use of a 203(k) Consultant is required.
- All repairs must be completed within six months.
- If the home will not be habitable during 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 you will not be burdened with a house payment and rent during renovation.
- This option is suitable for major rehabilitation projects, including foundation work, adding rooms or a garage, or altering basic systems.

Two Types of 203(k) Rehabilitation Mortgages (continued)

LIMITED 203(k)

- Suitable for a home that needs minor non-structural repairs or renovations costing no more than $35,000.
- There is no minimum rehabilitation cost.
- The use of a 203(k) Consultant is not required.
- All repairs must be completed within six months of closing.
- This option is suitable for remodeling, home improvements, energy efficient improvements, new appliances, or replacing dated carpeting.

Eligible Improvements

STANDARD 203(k) IMPROVEMENTS

- Converting a one-family structure to a two-, three-, or four-family structure; or reducing an existing multi-unit structure to a one- to four-family structure;
- Reconstructing a demolished structure, provided the complete existing foundation system is not affected and will still be used;
- Repairing, reconstructing, or elevating an existing foundation where the structure will not be demolished;
- Purchasing an existing structure on another site, moving it onto a new foundation, and repairing or renovating it;
- Structural alterations, such as the repair or replacement of structural damage, additions to the structure, and finishing attics and basements; and
- Rehabilitating, improving, or constructing a garage.

Eligible Improvements (cont'd.)

STANDARD OR LIMITED 203(k) IMPROVEMENTS

- Installing or repairing wells and septic systems;
- Connecting to public water and sewage systems;
- Repairing or replacing plumbing, heating, air conditioning, and electrical systems;
- Making changes for improved functions and modernization;
- Making changes for aesthetic appeal;
- Repairing or adding roofing, gutters, and downspouts;
- Creating accessibility for persons with disabilities;
- Installing or repairing fences, walkways, and driveways;

Eligible Improvements (cont'd.)

STANDARD OR LIMITED 203(k) IMPROVEMENTS (cont'd.)

- Installing new appliances;
- Repairing or removing an in-ground swimming pool;
- Installing smoke detectors;
- Making site improvements;
- Landscaping;
- Installing or repairing exterior decks, patios, and porches;
- Constructing a windstorm shelter; and
- Lead-based paint stabilization if the structure was built before 1978.

Ineligible Purposes

- Improvements cannot include commercial use or luxury items, such as tennis courts, gazebos, or new swimming pools.
- The borrower may not be compensated for their labor, but may be reimbursed for purchased materials.

Resources

Helpful Links

- 203(K) Calculator:
  - https://entp.hud.gov/idapp/html/f17203k-look.cfm
- Find an FHA-Approved Lender:
  - https://go.usa.gov/xNwsp
- 203(K) Approved Consultants:
  - https://entp.hud.gov/idapp/html/f17cnsltdata.cfm
- Single Family Housing Handbook:
  - https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1
- Upcoming Single Family Housing Events and Training:
  - https://www.hud.gov/program_offices/housing/sfh/events
- Subscribe to FHA Info:
  - https://www.hud.gov/program_offices/housing/sfh/FHA_INFO_subscribe

FHA Resource Center

	Option	Point of Contact	Hours Available	Comments
1	FHA Knowledge Base – FAQs	www.hud.gov/answers	24/7/365	Knowledge Base web page includes option to email questions.
2	Email	answers@hud.gov	24/7/365	
3	Telephone	1-800-CALL-FHA (1-800-225-5342) Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.	8:00 AM to 8:00 PM Eastern M-F	Voicemail is available after hours or during extended wait periods.

FHA INFO emails: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at: https://www.hud.gov/program_offices/housing/sfh/FHA_INFO_subscribe

Dan Fichtler

Associate Vice President, Housing Finance Policy

Mortgage Bankers Association

Fannie Mae HomeStyle® Renovation / Freddie Mac CHOICERenovation®

Objective: Provide lenders with an offering that allows borrowers to renovate or make home repairs with a conventional first mortgage (one loan, one closing)

Loan Purpose: Purchase or No-Cash-Out Refinance

Property Types: 1-4-unit primary residence, 1-unit investment property, second home (1-unit for Fannie Mae)

Maximum LTV: 97% for 1-unit, owner-occupied (though varies by transaction terms)

Maximum Financed Renovation Costs:

- Purchase: 75% of the lesser of the purchase price + renovation costs or the “as completed” appraised value
- Refinance: 75% of the “as completed” appraised value
- Manufactured Housing: Lesser of $50,000 or the “as completed” appraised value

Upfront Draws: Up to 50% of the material costs

Contractors: Borrower chooses the contractor(s); Lender reviews to ensure contractor(s) are qualified

Accessory Dwelling Units: Permitted to be included in the renovation project

“Tear Downs”: Cannot be used to tear down and reconstruct a home

The Process

PHASE 1

Review Plans and Prep Loan

- Borrower works with contractor to submit renovation plans to lender.
- Appraiser reviews plans and determines "as-completed" value.
- Lender uses Maximum Mortgage Worksheet (form 1035) to determine mortgage amount.

PHASE 2

Manage Funds Through Renovation

- Lender sells loan to Fannie Mae*.
- Lender places funds in a custodial account.
- Contractor begins work and submits requests for funds.
- Lender manages draws based on inspections.

PHASE 3

Finalize Loan Completion

- Lender orders final inspection and re-appraisal.
- Title company updates title policy (completion materials).
- Lender finalizes and submits completion materials and certificate of occupancy to Fannie Mae.
- Lender removes recourse (if sold prior to construction completion) or sells loan to Fannie Mae.

*Must be an approved HomeStyle Renovation Lender to sell loan prior to project completion

More Information

Fannie Mae HomeStyle® Renovation:

- Homepage
- Fact Sheet
- Product Matrix
- FAQs

Freddie Mac CHOICERenovation®:

- Homepage
- Fact Sheet
- Bulletin
- FAQs

Questions

Thanks for attending!