Final Transcript

HUD – US HOUSING & URBAN DEVELOPMENT: Loan Products for Single Family Properties

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SPEAKERS

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PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Loan Products for Single Family Properties affected by natural disasters in Colorado conference call. At this time all participants are in a listen-only mode. [Operator instructions]. As a reminder, the conference is being recorded.

I'd now like to turn our conference over to our host, Hannah Robinson. Please go ahead.

Hannah

Hello, everyone. Thank you for joining us today. My name is Hannah Robinson. I'm a student intern in the Office of Housing Counseling OCB. I'll be starting you off with some logistics today. So, again, the audio is being recorded. The playback number, along with the PowerPoint and transcript, will be available on HUD Exchange within seven to ten days. Handouts were sent out prior to the webinar. They are also available in the Handout Section of the Control Panel. If you click on the document name, it should start the download.

For questions and comments, there may be a Q&A period throughout the webinar, as well as discussion opportunities. If so, the operator will give you instructions on how to ask your questions or make your comments. If your phone is unmuted during the Q&A period, please do not use a speakerphone.

Ways to ask questions. Please submit your text questions and comments using the questions panel, and we will answer some during the webinar. You can also send questions to housing.counseling@hud.gov, with the topic in the subject line.

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And lastly, to view upcoming training hosted by HUD and other partners, you can visit our Training Digest page on HUD Exchange.

I'll turn it over to Amy now.

Amy

All right. Good afternoon, everyone. My name is Amy Trujillo, and I'm the Director of the Denver Homeownership Center, which is part of single family. I want to welcome you to the Loan Products for Single Family Properties affected by natural disasters in Colorado presentation, which is a collaboration with single family and the Office of Housing Counseling.

I just want to let you know this time with you all is all near and dear to my heart, having been raised in Boulder, and currently living about a mile from the mandatory evacuation line north of Louisville. I've seen the devastation to these neighborhoods, and I feel for the homeowners and renters who have been affected. I hope that today's information will help you all with products that may be available to assist these individuals as they try to rebuild.

And now, I will go over the agenda real quick. We have Gerald Mayer from the Office of Housing Counseling who will say some words. We're going to do the presentation over the 203(h) in the 203(k) overview. We have an individual from the NBA, who will be presenting the Fannie Mae HomeStyle Renovation and the Freddie Mac Choice Renovation products. And then we will open it up for live questions. Since there are not too many attendees, we'll probably just do the live questions, as they might be a little bit easier than submitting through the chat box at that time.

So, with that, I would like to introduce Mr. Gerald Mayer, who is the Director of Outreach and Capacity Building with the Office of Housing Counseling.

Gerald Well, thank you, Amy, and welcome to everybody joining us today. Colorado has certainly seen its fair share of presidentially-declared disasters. And like many western states, fire and weather events have also affected communities in Colorado.

Today, we're going to learn about FHA and Fannie Mae and Freddie Mac resources and programs to help consumers recover from disasters. HUD also has resources for housing [audio muffled] clients for disasters, as well as tools for housing counselors that are assisting clients in the wake of disaster. Now, these can be found on our HUD Exchange website. Now, a link can be found to that website on the last slide of this presentation, the resources slide, and you can click over to that and explore all of the resources for housing counselors that are available on the website.

So, without any further delay, I'm going to turn the mic back over to Amy, who's going to take us through the rest of our presentation.

Amy — All right. Thank you, Jerry. With this, I'm going to turn it over to the staff from the Processing and Underwriting Division within the Denver Homeownership Center. Miss. Laura Arendell [ph] is the Senior Underwriter, and she will present on the 203(h) and 203(k) overview. We also have Mr. Jeff Seefeldt [ph], who is a Branch Chief within the Processing and Underwriting Division, to also help with some questions.

Laura?

Laura

Thanks, Amy. So, as Amy said, my name is Laura Arendell, and I'll be presenting an overview, high-level overview of the 203(h) and the 203(k) products that FHA offers. The requirements in today's trainings are in the single family housing policy handbook, the 4000.1. And the 4000.1 is the source for Federal Housing Administration Single Family Housing Policy.

So, let's get started. So, the agenda for today is simply an overview of the 203(h), which is the Mortgage Insurance Program for Disaster Victims, and the 203(k), which is FHA;s Rehabilitation Mortgage Insurance Program.

We'll talk first about the 203(h) Mortgage Insurance Program for Disaster Victims. So, next slide, please. Thank you.

If there is a presidentially-declared major disaster area, the section 203(h) of the National Housing Act authorizes FHA to insure mortgages for the purchase or reconstruction of a single-family property for victims of the disaster. When a presidentially-declared major disaster area is declared, that's declared by the president, mortgagees have one year from the date the president signs this disaster declaration to obtain an FHA case number assignment. There are certain times when the disaster has to be extended.

An example of that would be Hurricane Katrina. After a year, there was still need for recovery, so the presidentially-declared major disaster area was extended. When it is extended, the timeframe for applying for a 203(h) disaster loan is also extended.

You do not have to have been a homeowner to qualify for a 203(h) program. If you were a homeowner or you were a tenant, you rented a home, 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 a 203(h) disaster loan through FHA. You can find the effective counties and cities on the Federal Emergency Management Agency website fema.gov.

So, as far as the minimum required investment and maximum loan-to-value ratios for the 203(h), 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 on the 203(h) loan is 100% of the adjusted value.

Now, sometimes a borrower will use the 203(h) in conjunction with the 203(k) rehab mortgage. In that case, the 203(k) LTV limits apply, and those would be less than 100%. Again, you would refer to handbook 4000.1, Section 2A8A for instructions on the 203(k) and those LTV limitations.

In regards to property eligibility, the new home has to be either a single-family property, one to four unit, 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.

So, for example, we can go back to Katrina, because everybody knows about Katrina in New Orleans. So, let's say the borrower had a home in New Orleans that was destroyed by the disaster, and the borrower now wants to move to California. They can still utilize a 203(h) disaster loan to purchase a new home in California or anywhere else.

Regards to underwriting for the 203(h), the mortgagee may use alternative documentation subject to additional guidance from the handbook 4000.1 for the borrower's credit, income, liabilities, assets, and their housing payment history when traditional documentation is unavailable. So, there is lenders who have a little bit of leeway there to make those adjustments.

Next slide. Thank you. 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.

If the borrower's prior employment cannot be verified because records were destroyed by the disaster, and the borrower is in the same or similar field, FHA will accept W-2s and tax transcripts from the IRS to confirm prior employment and income. And, in addition, the lender can document short-term employment following the disaster for calculation of effective income.

The mortgagee may exclude the mortgage payment on the destroyed residence from the borrower's liability. The mortgagee must obtain information from the servicing mortgagee that states the borrower is working with that servicing lender to address their mortgage obligation, in order to exclude the mortgage payment from the liability.

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.

In regards to the borrower's assets, the mortgagee may use an account statement downloaded from the borrower's financial institution’s website to confirm sufficient assets to close the new mortgage if traditional asset documentation is not available. Guidance is still required to be met for electronic documentation, and those guides are also found in the 4000.1. We will not review those requirements in this training.

So, regarding housing payment history, if a property was destroyed or damaged in the disaster, the lender may disregard any late payments for the previous obligation on that property 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.

In order to qualify for the 203(h) disaster loan, the borrower must provide documentation proving the damage to the previous home. Included in the 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.

A borrower can refinance a property in a presidentially-declared major disaster area using the 203(h) program, in conjunction with the 203(k) program. To be eligible under Section 203(k), 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 conjunction with the 203(h).

And now we're going to move on, and just have a little bit of an overview of the 203(k) rehab mortgage that FHA offers. Next slide, please. Thank you.

So, if you have a home you love that needs repair, 203(k) might be just the thing for you.

Next slide please. So, if a borrower wants to purchase a home that needs significant repairs, or wants to finance repairs to their current home, FHA

Section 203(k), Rehabilitation Mortgage Insurance Program, may be the right choice. The 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, all the way up to foundation repairs, structural changes, or additions to the home. The Section 203(k) program is FHA's primary program for rehabilitation and repair of single-family properties. And again, they're provided through FHA-approved lenders nationwide and insured by FHA.

A borrower can obtain a 203(k) mortgage as a 15 or 30-year fixed rate mortgage, or as an adjustable rate mortgage. The total amount of the mortgage will be based on the projected value of the 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 the rehab is completed.

So, the property for these 203(k) rehab mortgages must be a principal or a primary residence. It must be a one to four-unit residence that has been completed for at least one year. That can include detached homes, townhomes. Another eligible property type is a condominium unit in an FHA-approved project. The improvements on a condo would be limited to the interior of the unit. Manufactured homes are allowed, as long as they're titled as real estate. And mixed-use properties that include commercial space are allowed, as long as they are primarily residential.

There's two types of 203(k) mortgages. One is the standard, and we'll talk in a minute about the limited. The standard allows for structural repairs, or repairs and remodeling that cost at least $5,000. There's no maximum limit to the amount of those repairs. The use of a 203(k) consultant is required on the standard 203(k). 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 for the monthly mortgage payments, including property taxes and insurance for up to six months. That way, the borrower will not be burdened with both a house payment and a rental payment during renovation if they can't live in the property. This option is for major rehabilitation projects, including foundation work, adding rooms, a garage, or altering basic systems.

The other type of 203(k) mortgage is a limited 203(k). This is for a home that only needs minor nonstructural repairs, and these repairs may not cost more than $35,000. So, there's no minimum amount for the limited, but the maximum amount of cost is $35,000. The use of a 203(k) consultant is not required, but it is allowed if the borrower chooses. All repairs must be completed again within six months of closing. And this option is suitable for remodeling, home improvements, energy-efficient improvements, or new appliances.

The standard 203(k) improvements can include converting a one-family structure to a two, three, or four-family, or reducing an existing multiunit structure to a one to four-family structure. The standard 203(k) is used for reconstructing a demolished structure, providing the complete existing foundation system is not affected and will be used. The standard 203(k) can be used to repair, reconstruct, or elevate an existing foundation where the structure will not be demolished. And it can be used to purchase an existing structure on another site, moving that structure on to a new foundation and repairing or renovating it.

The standard can also be used for structural alterations, such as repair or replacement of structural damage, additions to the structure, finishing attics, and finishing basements, rehabbing, improving, or constructing a garage. These are just a small list. This is not an exhaustive list of what can be done, but this is just a sample.

So, the standard or the limited can be used to repair wells on septic systems, connect to public utilities, repair or replace plumbing, heating, air conditioning and electrical systems, make changes for improved functions and modernization, including aesthetic appeal, repair or add roofing gutters, downspouts, creating accessibility for persons with disabilities, and installing or repairing fences, walkways, and driveways.

The standard are limited 203(k) can also be used to install new appliances, repair or remove an in-ground swimming pool, install smoke detectors, make site improvements, landscaping, installing or rebuilding exterior decks, patios, porches, or lead-based paint stabilization if the home was built prior to 1978.

So, there are some items that would not be allowed, or would be ineligible under the 203(k) program per FHA. Those improvements would include any commercial use or luxury items, such as tennis courts, gazebos, or new swimming pools. So, you can repair or you can remove a swimming pool with a 203(k), but you may not build a new swimming pool with a 203(k). The borrower may not be compensated for their labor, but they may be reimbursed for purchased material.

And then, this slide just has some helpful resources and links. So, there's a 203 calculator through FHA Connection that can be accessed. So, you can actually put in the numbers and see what your loan amount would be. You can find an FHA-approved lender through that link. There's a link for 203(k)-approved consultants. Our single-family housing handbook, the 4000.1, there's a link provided there. There’s a link there for upcoming single-family housing events and training.

And if you have not already done so, you can subscribe to the FHA Info. There's a link there. All you do is click on subscribe and enter your email address and hit submit. And that will provide you, FHA Info notices come out just to alert people of new mortgagee letters, new handbook updates, and new and upcoming things through FHA.

And then, the last slide I have is the FHA Resource Center slide. You can reach FHA and ask questions through the Resource Center at 1-800-CallFHA. That line is open from 8 a.m. to 8 p.m. Eastern Time, Monday through Friday. You can email questions to answers@hud.gov. That's 24/7. And then there's an FHA knowledge base FAQ site at hud.gov/answers, that you can maybe search for your answers that way as well.

And that's all I have for you today. I'm going to turn it back over to Amy. Thank you.

Amy — Thank you very much, Laura. Great presentation. I think we're going to go right into the next presentation by Mr. Dan Sickler, who is the Associate Vice President Housing Finance Policy with the Mortgage Bankers Association. And he's going to cover two other programs.

Dan — Dan?

Dan — Yes. Thank you very much, and appreciate you having me. Yes, and while we've been talking about FHA 203(h) and 203(k). As was just mentioned, there are a few other products out there in the market on the conventional side of things that have certainly some overlap, quite a bit of overlap actually, and may also be good options for some of the homeowners who have been impacted by these disasters.

And so, on the next slide, you'll see a high-level overview of options, an option each from Fannie Mae and Freddie Mac. Fannie Mae, with its HomeStyle Renovation offering, and Freddie Mac with its Choice Renovation offering. These are probably, I would say, the corollaries to the FHA 203(k). You'll certainly see some overlap here.

I'm going to walk through some of the basics of these offerings. I will always give the caveat that if folks want to know more, or dive into the details, certainly the best resource is either your Fannie Mae or Freddie Mac representative, or the selling guides for those respective institutions. I have links where you can see more information a little later on in the deck.

But just a high level, much like you heard earlier with the FHA offerings, these products from the GSEs are meant to provide the GSEs lender customers with an offering that allows borrowers to renovate the home, make home repairs with a conventional first mortgage. So, again, it's one loan with one closing, as opposed to other options outside of the GSE or

FHA space, like going for a HELOC, or a second loan, or something like that.

In the GSE offerings, you can get these through purchase loans or no-cash out refi’s. They're not eligible for cash out refi’s. And you have a little bit of flexibility on the property type. There's one to four-unit primary residences. And then, in addition to what was available for 203(k) on the primary residence side, you're also able to use these offerings with a one-unit investment property, or with a second home, and how many units a second home depends on which offering you're talking about.

But one of the benefits is that you can, at least potentially as the borrower, go up to a fairly high LTV. So, the maximum for both HomeStyle Renovation and Choice Renovation is 97% for one unit owner-occupied properties. I should note that that 97% LTV, much like the GSEs other offerings, that's typically if the borrower is combining this offering with home-ready or home-possible, which are the 97% LTV products from the GSEs.

Generally speaking, in looking at what the maximum LTV would be for any particular borrower, the GSEs provide a grid that shows you where it would be, but in a lot of ways it mirrors kind of the maximum LTVs for traditional offerings, even if you weren't in the renovation space.

One of the things we're asked about most is, obviously, the maximum financing that you can get for the renovation project. And it depends on what type of loan you're looking at. So, on the purchase side, you're going to look at either the lesser of the purchase price plus the renovation costs, or the as-completed appraised value. And you can finance up to 75% of the lesser of those two. For a refi—and again, this can't be a cash-out refi. It has to be a no cash our refi—that maximum financing is 75% of the as-completed appraised value.

And then another question we get very frequently is whether or not these products could be used for manufactured housing, and the answer is yes, yes, they can. But again, the maximum financing differs a little bit if you're talking about a manufactured housing option. There, it’s the lesser of either $50,000, or the as-completed appraised value

A couple other things that are noteworthy about HomeStyle Renovation and Choice Renovation. They do permit upfront drawers to cover some of the material costs at the onset of the construction or the renovation. The upfront directly up to 50% of the material costs.

Contractors. So, in the case of these projects, the borrower chooses the contractor, and the lender’s role is that of in an oversight position to make sure the contractor is qualified, and as the project is being undertaken, that they're completing the work on schedule and in a satisfactory manner.

ADUs, accessory dwelling units, those are permitted to be part of the renovation project. It's something that we hear about frequently, or with increasing frequency now, I guess I should say, given the interest in ADUs as a way to, not only renovate property, but help address some of the housing supply constraints in many markets. ADUs are permitted to be included in the renovation project with either HomeStyle Renovation or Choice Renovations, but what you can't do is a complete teardown. So, it cannot be used to entirely tear down the property and then reconstruct a new home.

So, those are some of the high-level features of both of these products. Again, they're very similar to each other. You, certainly, I'm sure see some similarities to the FHA 203(k) as well.

On the next slide I go through, just to give you a little infographic about what the process looks like. This is taken from Fannie Mae, though, the process is substantially similar on the Freddie Mac side, too. I think helpful to think of it in three phases. The first is sort of the prep work. So, borrower picks out his or her contractor. The contractor works with them to submit the renovation plans to the lender. You get that appraiser, that appraisal to review the plans, determine that as-appraised, or as-completed value, I should say. As we saw earlier, that dictates the maximum amount of financing that can be obtained.

Phase two is really the construction phase. Lender puts those funds in a custodial account. They're drawn as the construction or the renovation takes place.

One thing I will note that’s kind of a bonus for many lenders, [audio muffled] reason why many lenders like to offer these products. The loans can be sold to Fannie and Freddie at this stage. They don't necessarily have to wait until the project construction is complete. The lender does need preapproval to be able to do that, but that is something that makes it an attractive offering for many lenders.

And then you have phase three, where the construction is complete. You get the inspection, appraisal, title company, and the like. And then, if the [audio drops] then sold to the point in time.

And so, in many ways, again, you'll hear often similarities with the 203(k) offering. You'll recognize, in some of these steps, certain sequencing that looks very similar, but this is generally how the process flows from start to finish for either of these GSE offerings.

On the next slide, I noted there's [audio drops] Fannie and Freddie both give a lot of great information on their websites. They have general pages where they talk about each of these offerings, fact sheets, FAQs, as well as the actual guidelines from their selling guides and their product matrices, and the like. If you're interested, and want to really dive into the details of what's permitted, what you can do, the parameters of HomeStyle Renovation and Choice Renovation, these are great places to go.

Couple other things I would note. As I mentioned briefly earlier, for both the Fannie side and the Freddie side, borrowers are able to combine these with certain other offerings from the GSEs. So, I mentioned home-ready and home-possible, which is a 97% LTV offerings. There's also, for example, on the Fannie Mae side, HomeStyle Energy, where there's energy improvement or energy-efficiency improvements being made to the home. So, there are lots of ways that you can kind of mix and match and combine some of the offerings of the GSEs into these renovation allowance [ph].

On the Freddie Mac side, and other interesting features, kind of like the 203(k) limited, they have what they call an express version of Choice Renovation. The main differences from the standard Choice Renovation are limits on, essentially, the cost of the renovation, how much can be financed, and the amount of time that you have to complete those renovations.

The express requires those renovations to be completed in 6 months, whereas with the traditional, it can be 12 to 15 months. So, again, the express may not be the most utilized option for properties that have had significant damage from wildfires or other natural disasters, but it is available if there are smaller renovation projects that are needed, due to damage or due to a borrower looking to make upgrades to the home.

So, again, I encourage folks to check out any of these resources that I've listed, because both GSEs really do an excellent job of providing you details about what these two offerings look like, and how they can be utilized.

So, with that, let me pause and turn it back to the team at HUD before we take any questions.

Amy Actually, I think that's what we'll go right into is, we'd probably prefer some live questions, but feel free to use the chat if you're really not comfortable, if you want to just open up your mic.

Moderator [Operator instructions]. We'll go to our first question from the line of Samantha Colin. Your line is open. Please go ahead.

Samantha Hi, I just wanted to clarify that anyone's eligible for the 203(k) loans, and that those are not limited to the disaster-declared areas. And then, I'd also like to get some clarification on what the role of the two or three consultant does, and what borrowers could expect from that role.

Laura Amy, do you want me to answer that?

Amy Yes, if you could, please.

Laura Okay, the 203(k), you're right. You don't have to be in a disaster. That's FHA's rehabilitation mortgage loan, and anyone can use that, as long as they're going to occupy the subject property as their primary residence.

And then, as far as the consultant's role, usually the lender, or I guess it's the borrower, will choose the consultant, as long as they're FHA-approved. The consultant kind of works hand-in-hand with the borrower, and with the borrower's contractor, to do a work write-up, and figure out what it is the borrower wants to accomplish. And they verify that the bids are appropriate, the costs are calculated appropriately, and that sort of thing. And then they kind of oversee the contractor and the borrower as the renovation is taking place.

So, in a nutshell, that's what the consultant does. It's just a level of another additional level of security that everything is going according to plan. Does that answer your question?

Samantha Yes. Thank you.

Laura You're welcome.

Moderator [Operator instructions]. We have no additional questions at this time.

Amy All right. So, on behalf of the Office of Housing Counseling, the Office of Single Family, Regional Administrator Dominique Jackson, and the Colorado Field Office Director, Mercedes Maestas, we'd like to thank you for your attendance this afternoon. I hope you all gained some knowledge into some products available to these homeowners and renters who have been affected by this recent disaster.

As provided in this presentation, we have various means for you to ask further questions about these products, and we all have similar goals in assisting these individuals through this challenging time.

And with that, I will turn it over to Hannah Robinson, who will have a few final things.

Hannah Yes, thank you so much. So, again, make sure you get credit for this training. You can do that by going to the webinar archives training page on HUD Exchange. You can search the webinar by date and/or topic. To obtain the credit, select the webinar, and then click get credit for this training.

Before you go, if you don't mind to give us a little bit of feedback in the questions box. Was this webinar useful to you and to your client, or will you share this information with coworkers, and any other comments you may have.

And lastly, here are a few hyperlinks to pages about housing counseling. There's a HUD Exchange page. There's also a link to counselors training and testing website, and a link to our news articles, The Bridge [ph].

And that's all that I have. Thank you, guys.

Moderator That does conclude our conference for today. Thank you for your participation, and using AT&T Conferencing Services. You may now disconnect.