

MAKE YOUR DREAM HOME COME TRUE



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HOW IS A 203(K) DIFFERENT?

Most home-financing programs require that rehabilitation be completed before a long-term mortgage is secured to provide adequate loan security. This would require a homeowner to first obtain interim financing to purchase the property and for improvement construction, then a permanent mortgage when the work is completed to pay off the first interim loans. The interim financing typically involves higher interest rates and shorter amortization periods than normal.

The 203(k) program was designed to simplify the mortgage process for borrowers in this situation. It is a single home loan with a long-term fixed or adjustable rate that is used to both finance and rehabilitate the property. The financing amount is based on the estimated value of the property after taking into account the cost of the work required.

HOW THE 203(K) PROGRAM MAY BE USED

1. To purchase and rehabilitate a home
2. To refinance an existing mortgage to rehabilitate the property

TWO TYPES OF 203(K) LOANS

Limited 203(k):

- For homes that need minor repairs
- Allows borrowers to finance the purchase of a home and make improvements or upgrades costing up to \$35,000 prior to moving in
- No minimum repair costs
- Borrower must occupy the property as their principal residence

Standard:

- For homes that need major rehabilitation:
 - Structural repairs
 - Landscaping improvements
 - Renovation costing more than \$35,000
- Minimum of \$5,000 worth of repairs required
- Borrower must occupy the property as their principal residence
- FHA loan limits are based on property type and location of property
- A portion of the loan proceeds are used to pay the seller or, in the case of a refinance, to pay off existing mortgage
- Remaining funds are placed in escrow and released as repairs are completed
- May roll in up to six months of mortgage payments if the HUD consultant determines you must be displaced during repairs

THE 203(K) PROCESS FROM START TO FINISH

1. Find a property and make an offer

Locate a home in need of rehabilitation, conduct a feasibility analysis of the property with your Realtor, and execute a purchase agreement or sales contract.

2. Find an FHA-approved lender experienced with 203(k) loans

Once you find an FHA-approved 203(k) lender, you will arrange for a detailed proposal from licensed contractors that includes cost estimates of each repair or improvement.

3. The lender will have the property appraised

The appraisal will determine the value of the property after the renovation, as well as whether any additional repairs are necessary for the property to meet minimum FHA property guidelines.

4. Home loan is approved and closed

Once the borrower, property, and planned improvements are approved, the loan closes for an amount that will cover the purchase or refinance of the home and improvement costs. The amount of the loan will also include an additional 10-20 percent of the total renovation costs as a contingency reserve to pay for any extra work required to complete the proposed repairs.

5. Property rehabilitation begins

Once the loan closes, mortgage payments and renovation begin. If the property cannot be occupied during the construction, the borrower may have up to six mortgage payments put into the cost of rehabilitation.* However, the length of time cannot exceed the estimated time that the property would not be habitable during the renovations as determined by FHA Consultant.

6. Escrowed funds are released

During construction, escrowed funds are released to contractors through a series of draw (payment) requests for completed work. Ten percent of each draw is withheld until the lender determines there will be no liens on the property, and the borrower always approves the release of funds to contractors.

*Applies to Standard 203(k); mortgage payment cannot be included on Limited 203(k).

PROPERTY ELIGIBILITY REQUIREMENTS

General requirements:

- Must be a one- to four-family dwelling
- Construction must have been completed for at least one year at the time of the case number assignment
- May be used to convert a one-family dwelling to a two-, three- or four-family dwelling
- A multi-unit dwelling may be decreased to a one- to four-family unit

Mixed-use residential property requirements:

- Areas of the property used for commercial purposes may not be greater than 49 percent
- Commercial use of the property will not affect the health and safety of occupants of the residential property
- Rehabilitation funds will be used only for residential functions of the property and areas used to access the residential portion of the property

Condominium requirements:

- Condominium project must be approved by FHA
- Property must be approved by FHA and must meet additional loan level certifications
- Rehabilitation is limited to the interior of the unit, except for the installation of firewall in the attic of the unit
- Five units or 25 percent of the total number of units, whichever is lower, may be undergoing rehabilitation at one time
- After rehabilitation is complete, the dwelling unit is in a structure containing no more than four dwelling units
- The maximum loan amount may not exceed 100 percent of the after-improved value
- The individual buildings within the condominium project must not contain more than four units
- Must be owner/occupant and qualified non-profit borrower only

203(K) DETAILS

Eligible improvements (Limited 203(k)):

- Repair or replacement of roof, gutters, and downspouts
- Repair, replacement, or upgrade of existing heating, ventilation, and air conditioning systems
- Repair, replacement, or upgrade of plumbing and electrical systems
- Minor renovation that does not require structural repairs, such as kitchen and bathroom updates
- Interior and exterior painting
- Weatherization, such as storm windows and doors, insulation, and weather stripping
- Purchase and installation of appliances
- Repair or replacement of septic system and well
- Accessibility improvements for people with disabilities
- Lead-based paint stabilization or abatement of lead-based paint hazards
- Repair, replacement or addition of exterior decks, patios, and porches
- Basement finishing and renovation that does not require structural work
- Basement waterproofing
- Window and door replacements
- Exterior wall re-siding

Ineligible improvements:

- Renovation requiring structural changes
- New construction, such as room additions
- Landscaping or fencing
- Work that will not start within 15 days of loan closing, will displace the borrower for more than 15 days, or will take more than six months to complete
- Luxury items, such as swimming pools (repair allowed, no additions or remodels), hot tubs, and tennis courts

Contractor requirement

Contractor must be licensed per state/local requirements and insured. Borrower cannot be their own contractor and contractor cannot be a family member or borrower's employer.

Timeline

Once the loan closes, the proceeds of the mortgage will be disbursed to pay the seller for the property and to

establish the Rehabilitation Escrow Account. Construction may begin at this point. Depending on what improvements will be made, the homeowner has up to six months to complete construction.

Payments

No more than two payments to each contractor. One Progress Payment upon completion of percentage of repairs and final payment upon 100% completion of repairs.

Before the final payment may be made, the borrower must sign a statement acknowledging the work has been completed satisfactorily. A final inspection is required for all improvements and repairs, and must be conducted before the final disbursement is released. Any leftover funds go toward the principal loan balance.

STANDARD 203(K) DETAILS

Eligible Improvements:

- All eligible improvements listed for a Limited 203(k)
- Desired repairs or upgrades such as painting, room additions, deck construction, etc.
- Home demolition as part of rehabilitation, as long as the complete existing foundation system is not affected and will still be used
- Structural reconstruction and improvements, such as repair of termite damage, finishing an attic or basement, major remodeling, etc.
- Major landscaping and property improvements that are safety hazards to the property, including correction of drainage problems, tree removal, repair of sidewalks and driveway, etc.

FHA-Approved Consultants

All Standard 203(k) loans require the use of an FHA-approved 203(k) consultant. The consultant will assist with determining what repairs will be made and the budget for completing the work. Once this has been done, the consultant will give you a plan that will detail the work to be completed and all associated costs. The consultant will then carry out inspections and submit draw requests to pay your contractors.

Timeline

Once the loan closes, the proceeds of the mortgage will be disbursed to pay the seller for the property and to establish the Rehabilitation Escrow Account. Construction may begin at this point. Depending on what improvements will be made, the homeowner has up to six months to complete construction.

Payments

Funds are released to pay contractors as construction progresses and after the work is inspected by an FHA-approved consultant. No more than five payments may be made, and amounts vary based on the work performed. As each disbursement is released from the Rehabilitation Escrow Account, there is a 10 percent holdback. Holdback funds will be released with final payment to contractor upon satisfactory completion of all repairs

Contingency Reserve

- Required on all 203(k) (Standard) and Limited 203(k) loans.
- Minimum 10 percent of the cost of rehabilitation, and a maximum of 20 percent. This fee cannot be waived.
- Used to ensure all work is completed satisfactorily and to cover any health, safety, and unplanned issues that

occur during construction.

Any remaining funds left from the contingency reserve will be applied toward the principal loan balance. This may only occur after a final inspection of all work completed and the issue of the Final Release Notice.

MAXIMUM MORTGAGE AMOUNTS

Purchase

The lesser of the below choices:

1. The value of the property before renovation plus the estimated cost of rehabilitation, multiplied by 96.5 percent
2. The purchase price of the property plus the estimated cost of rehabilitation, multiplied by 96.5 percent
3. 110 percent of the estimated post-rehabilitation value of the property

Refinance

The lesser of the below choices:

1. The existing balance on the mortgage prior to rehabilitation, plus the estimated cost of rehabilitation and allowable closing costs
2. The as-is value plus rehabilitation costs
3. 110 percent of the estimated post-rehabilitation value, multiplied by 97.75 percent

Base mortgage amount, never to exceed maximum mortgage limit for applicable county.

I hope this guide has helped you gain a better understanding of the 203(k) program and will be useful to you during the home-financing process. Please don't hesitate to contact me should you have any questions or concerns.

I am always available to provide assistance for all of your residential lending needs. I am eager to become your personal 203(k) mortgage program professional, and I excel at making dream homes become reality.

I LOOK FORWARD TO WORKING TOGETHER!

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Not a commitment to lend. Borrower must meet qualification criteria.

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POTENTIAL HOME CHECKLIST

Bring a copy of this checklist to each prospective home you visit. Having a record of what each home offers can make your final decision much easier.

Date Seen _____

Address _____ Price _____ Property Taxes _____

Seller _____ Age of Home _____ Neighborhood _____

Style of home Two Story Ranch Split Level Contemporary
 Cape Cod Townhouse Condo Traditional

Type of Construction Wood Brick Stone Stucco Vinyl Siding Aluminum Siding

Exterior Features (5=Good, 3=Fair and 1=Poor)

Landscaping	1—3—5	Deck	1—3—5
Fencing	1—3—5	Garage	1—3—5
Porch	1—3—5	Roof Condition	1—3—5
Paint	1—3—5	Sidewalks	1—3—5
Patio	1—3—5	Well-maintained neighborhood	1—3—5

Interior Features (5=Good, 3=Fair and 1=Poor)

KITCHEN Size _____

Eat-in Yes No

Flooring Ceramic Vinyl Tile Wood Carpet |1—3—5|

Appliances |1—3—5| Nonexistent

Counter tops |1—3—5| Cabinets |1—3—5|

Windows |1—3—5|

DINING ROOM Size _____

Flooring Ceramic Vinyl Tile Wood Carpet |1—3—5|

Lighting Fixtures |1—3—5| Nonexistent

LIVING ROOM Size _____

Flooring Ceramic Vinyl Tile Wood Carpet |1—3—5|

Lighting Fixtures |1—3—5| Nonexistent

Fireplace |1—3—5| Nonexistent

DEN Size _____

Flooring Ceramic Vinyl Tile Wood Carpet |1—3—5|

Lighting Fixtures |1—3—5| Nonexistent

Fireplace |1—3—5| Nonexistent

HALLWAYS Size _____

Flooring Ceramic Vinyl Tile Wood Carpet |1—3—5|

Linen Closet |1—3—5| Nonexistent

Total Bedrooms_____

MASTER BD Size_____

Flooring Ceramic Tile Vinyl Wood Carpet |1|---|3|---|5|
Closet |1|---|3|---|5| Nonexistent

BEDROOM 1 Size_____

Flooring Ceramic Tile Vinyl Wood Carpet |1|---|3|---|5|
Closet |1|---|3|---|5| Nonexistent

BEDROOM 2 Size_____

Flooring Ceramic Tile Vinyl Wood Carpet |1|---|3|---|5|
Closet |1|---|3|---|5| Nonexistent

BEDROOM 3 Size_____

Flooring Ceramic Tile Vinyl Wood Carpet |1|---|3|---|5|
Closet |1|---|3|---|5| Nonexistent

Total Bathrooms_____

MASTER BATH Size_____

Flooring Ceramic Tile Vinyl Wood Carpet |1|---|3|---|5|
Tub |1|---|3|---|5| Nonexistent
Fixtures |1|---|3|---|5| Nonexistent

Bath 1 Size_____

Flooring Ceramic Tile Vinyl Wood Carpet |1|---|3|---|5|
Tub |1|---|3|---|5| Nonexistent
Fixtures |1|---|3|---|5| Nonexistent

Bath 2 Size_____

Flooring Ceramic Tile Vinyl Wood Carpet |1|---|3|---|5|
Tub |1|---|3|---|5| Nonexistent
Fixtures |1|---|3|---|5| Nonexistent

GUEST BATH Size_____

Flooring Ceramic Tile Vinyl Wood Carpet |1|---|3|---|5|
Tub |1|---|3|---|5| Nonexistent
Fixtures |1|---|3|---|5| Nonexistent

LAUNDRY RM Size_____

Flooring Ceramic Tile Vinyl Wood Carpet |1|---|3|---|5|
Washer |1|---|3|---|5| Nonexistent
Dryer |1|---|3|---|5| Nonexistent

SUFFICIENT CLOSET SPACE Yes No

BASEMENT Yes No Finished Carpet Wood Tile

UTILITIES

Type of heating Hot Water Gas Electric Oil
Insulation Fiberglass Cellulose Foam Nonexistent
Central Air Yes No

Plumbing Condition |1-----3-----5|
Sump pump/drainage system Yes No
Connected to sewer system Yes No

Age of heating system_____

Age/capacity of water heater_____

Age of electrical wiring_____

EASY PROXIMITY TO:

Work Schools Shopping Airport Industry Highways Parks/Recreation
 Places of Worship Public Transportation (if yes, type_____) Doctors/dentists

RECENT SALES IN NEIGHBORHOOD

Address_____ Size_____ Price_____
Address_____ Size_____ Price_____
Address_____ Size_____ Price_____
Address_____ Size_____ Price_____
Address_____ Size_____ Price_____



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