



DSHA 203(k) Program

Updated: December 3, 2020



Important note

While every effort has been made to ensure the reliability of this session content and it is current information as of the date on this training, DSHA's Product Matrices, Lakeview Loan Servicing's Selling Guide and FHA's Single Family Housing Policy Handbook and its corresponding HUD Mortgagee Letters, are the official guidelines of this program. In the event of discrepancies between the information in this training document and any of the above sources please follow the most conservative policy.

Learning Objectives

Questions we will answer:

- What teams are involved?
- What is a Standard 203(k) loan?
- What is a Limited 203(k) loan?
- What properties are eligible for Standard and Limited 203(k) loans?
- What improvements are necessary, eligible, or ineligible?
- What are the program guidelines?
- What are the renovation guidelines?
- What forms are required?
- What happens after closing/purchase?

DSHA 203(k) Overview

- The new 203(k) program is a partnership program with the goal of expanding affordable housing opportunities for borrowers in the state of Delaware.
- **Who are the team members?**

Delaware State Housing Authority (DSHA)

Lakeview Loan Servicing

M&T

203(k) Training

203(K) LOANS - DESCRIPTIONS AND ELIGIBILITY

What is a 203(k)?

- FHA's rehabilitation and repair program.
- Can be paired with DSHA second for closing costs and down payment assistance.
 - Assistance will be **5% of the final loan amount**
 - Note: DPA funds cannot be used for rehabilitation/renovation and principal reductions due to overages are not permitted
- Combines the cost of the home purchase and renovation into one mortgage.
- Allows buyers to purchase property and make the improvements after closing.

Important Things to Know

- Property type must meet all DSHA and Lakeview guidelines per the DSHA Government Program and 203(k) matrices. (Posted in the Lakeview Correspondent client portal)



DSHA Government Program



The DSHA Government Program is a partnership program between Lakeview Loan Servicing and the Delaware State Housing Authority with the goal of providing quality, affordable housing opportunities.



DSHA Section 203(k) Program Matrix*



The DSHA Section 203(k) Program is a partnership program between Lakeview Loan Servicing and the Delaware State Housing Authority with the goal of providing both quality, affordable housing opportunities while enabling homebuyers to purchase a house and the cost of its rehabilitation through a single mortgage.

*to be used in conjunction with Current DSHA Government Program Matrix

Important Things to Know

- Borrower must meet standard FHA down payment requirements but can utilize DSHA DPA.
- Borrower must pay up-front and annual mortgage insurance premiums as with most 203(b) mortgages.
- Borrower **cannot** get **cash** back, (refunds of EMD or other borrower paid POC fees only)
- Property does not have to meet minimum property standards at closing, but must meet after renovation is completed.
- 203(k) Fee= the greater of \$350 or 1.5% of the renovation amount
- Identity of interest transactions and conflict of interest are not permitted on 203(k) programs (except family member purchase).
- Seller credits are limited to **6%** of the **purchase price**, not the loan amount.
- Two options available: Limited vs. Standard depending on renovation need.

203(k) Standard vs. Limited

Standard 203(k)

- Used for **major** renovation and repairs
- **Minimum \$5,000** in repairs required
- No maximum, up to FHA max mortgage amount
- Must use 203(k) Consultant
- Number of disbursements - maximum five
- Contractor bid must break out labor and materials

Limited 203(k)

- Used for **minor** non-structural and cosmetic /remodeling
- Borrower must move into home within 30 days of closing
- No minimum amount, but **maximum of \$35,000** in repairs
- Do not need 203(k) consultant
- Number of disbursements - maximum two per contractor
- Contractor bid must break out labor and materials. Contractor must also state repairs are not structural, and if permits are required

Standard 203(k) Loan – Repair Eligibility Criteria

Eligible

- Decreasing an existing multi-unit structure to a one-to-four family structure.
- Reconstructing a structure in certain circumstances.
- Making changes for improved functions and modernization.
- Making changes for aesthetic appeal.

Ineligible

- Conversions increasing the number of units.
- Any improvement that does not become a permanent part of the subject property.
- Purchase or repair of any luxury item.
- Any repair requiring a work schedule greater than 6 months.

Note: Refer to the DSHA 203(k) product matrix for the complete list.

Limited 203(k) Loan – Repair Eligibility Criteria

Eligible

- Minor kitchen remodeling not involving structural repairs
- Pool repairs
- Interior and exterior painting
- Repair/replacement/upgrade of appliances
- Window and door replacements
- Replace/repair roof, gutters, and downspouts

Ineligible

- Major rehabilitation or remodeling
- New construction
- Repairs of structural damage/foundation work
- Landscaping/new swimming pool/similar site amenity improvements
- Any repair requiring a work schedule greater than six months

Note: Refer to the DSHA 203(k) product matrix for the complete list.

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PROGRAM GUIDELINES

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DSHA 203(K) Program Guidelines

- Minimum FICO:
 - **660** if **DTI ≤ 45%**
 - **700** if **DTI > 45%**
- DTI per AUS approval, however **above minimum FICO requirements apply**
- All loans must be run through FHA Total Scorecard
- All loans must be run through AUS and require an approve/eligible or accept/eligible; manual underwriting is not permitted
- Sales contract must read: “Buyer has applied for Section 203(K) financing” for HUD REO properties and “Buyer has applied for Section 203(K) financing and this contract is contingent upon mortgage approval and the Buyer’s acceptance of additional required repairs as determined by the lender,” for all others.
- Mortgage document must read: “Provisions pertaining to releases are contained in the Rehabilitation Loan Rider which is attached to this mortgage and made a part thereof.”
- Mortgage insurance is required per [FHA guidelines](#).

Note: Refer to both of the DSHA product matrices for full program requirements and details.

203(k) Property Eligibility

Eligible

- 1-4 units (including REO)
- Condos (interior renovations only)
 - The maximum mortgage cannot exceed 100% of the after-improved value for FHA approved condo units.
- Property must have been complete for at least one year.
- Conversions are only allowed to decrease the number of units.

Note: Refer to the DSHA 203(k) product matrix for the most up to date eligibility criteria.

Ineligible

- Manufactured homes
- Mixed-use properties
- New construction is not allowed. Property must be an existing property that has been completed for at least one year prior to case number assignment date.

Contingency Reserve

Contingency Reserve Requirements	Minimum	Maximum
For structures with an actual age or <30 years		
<ul style="list-style-type: none"> Utilities On/ Operational – no termite damage Utility Off/ Not Operational – but repair/replacement is already included in the work plan 	<u>Limited = 5%</u> <u>Standard = 10%</u>	20%
<ul style="list-style-type: none"> Utilities On/ Operational – termite damage present Utilities On/ Operational – vacant property or REO Utility Off– but can document utility was operational prior to winterization 	10%	20%
<ul style="list-style-type: none"> Utilities Off 	<u>15%</u>	20%
For structures with an actual age or >30 Years		
<ul style="list-style-type: none"> Utilities On/ Operational – all properties Utility Off/ Not Operational – but repair/replacement is already included in the work plan 	10%	20%
<ul style="list-style-type: none"> Utilities Off 	15%	20%
In all above cases, the lender has discretion to increase reserves, for Standard 203(k), the HUD consultant's recommendation must be used as minimum and the lender may always increase.		

Anchor Point

Let's anchor here for a recap to make sure we are still on course.



• Things to remember

- Minimum score of 660 required
- No DTI cap with DU/LPA and total approval
- The 203(k) is only available on specific property types
- Check the DSHA Government Program and the DSHA 203(k) product matrices for full details and requirements
 - If the product matrix is silent, refer to FHA Handbook 4000.1
- Only certain property types are eligible; you must consult the product matrices for full details

203(k) Training

MAXIMUM MORTGAGE WORKSHEET/CALCULATOR

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Maximum Mortgage Worksheet/Calculator

- Used to accurately calculate the maximum mortgage amount for a 203(k)
- Also used to determine:
 - Loan-to-value (LTV) factor for maximum mortgage eligibility
 - Calculates LTV for application of annual mortgage insurance premium (MIP)
 - Establishes details of 203(k) escrow account
- Can use either a print out from the case specific FHA Connection 203(k) Calculator OR printed 203(k) Maximum Mortgage Worksheet from the HUD website

How to access the Calculator

- Sign on to FHA Connection (FHAC) and select:
 1. Single Family FHA
 2. Single Family Origination
 3. Case Processing
 4. Click 203(k) Calculator
- HUD expects the DE underwriter to log onto FHA Connection during the UW and fill in the calculations.
 - Lenders must have a Maximum Mortgage Worksheet in the file to refer to for calculations.

Maximum Loan Calculations: Step 1

HUD Manual Worksheet

- Standard 203(k) – Purchase
 - Step 1 – Establishing Financeable Repair and Improvement Costs, Fees and Reserves

Step 1: Establishing Financeable Repair and Improvement Costs, Fees and Reserves		*STD Purchase*
A.	Repair and Improvement Costs and Fees Total (Sum of A1 thru A7)	\$ _____
	1. Costs of construction, repairs and rehabilitation	\$ _____
	2. Architectural or Engineering Professional Fees	\$ _____
	3. 203(k) Consultant Fees	\$ _____
	4. Inspection Fees # x \$ = \$ + mileage of \$ =	\$ _____
	5. Title Update Fees # x \$ =	\$ _____
	6. Permit Fees	\$ _____
	7. Feasibility Study when necessary	\$ _____
B.	Financeable Contingency Reserves % (if Borrower-Funded leave blank, use line 6D)	\$ _____
C.	Financeable Mortgage Payments Reserves # x PITI \$ =	\$ _____
D.	Financeable Mortgage Fees Total, if charged (Sum of D1 and D2)	\$ _____
	1. Origination Fee (Greater of \$350 or 1.5% of (Sum of 1A thru 1C))	\$ _____
	2. Discount Points (Applied to Sum of 1A thru 1C)	\$ _____
E.	Total Rehabilitation Costs, Fees and Reserves (Sum of 1A thru 1D)	\$ _____

Note: This is the manual worksheet from HUD's website. This is not FHA Connect.

Maximum Loan Calculations: Step 2

HUD Manual Worksheet

- **Step 2 – Establishing Value**

Step 2: Establishing Value		
Adjusted As-Is Value		
A.	Purchase Price	\$ _____
B.	Inducement to Purchase	\$ _____
C.	Purchase Price Less Inducement to Purchase	\$ _____
D.	As-Is Property Value <i>(when as As-Is Appraisal is performed)</i>	\$ _____
E.	Adjusted As-Is Value <i>(If As-is appraisal is obtained, then used 2D OR if As-is appraisal is not obtained use 2C)</i>	\$ _____
After-Improved Value		
F.	Appraised Value <i>(Subject to repairs and Improvements)</i>	\$ _____

Note: This is the manual worksheet from HUD's website. This is not FHA Connect.

Maximum Loan Calculations: Step 3

HUD Manual Worksheet

- Step 3 – Calculating Maximum Mortgage

Step 3: Calculating Maximum Mortgage			
A.	Sum of Step 2E + Step 1E (Adjusted As-Is Value + Step 1 Total)		\$ _____
B.	Step 2F (After-Improved Value) X 110% (100% if Condo)		\$ _____
C.	Less Lead-Based Paint Credit (when HUD REO only)		\$ _____
D.	Lesser of 3A or 3B (\$ _____) x Maximum LTV Factor from 3G _____% minus Step 3C		\$ _____
E.	Nationwide Mortgage Limit (Link)		\$ _____
F.	Initial Base Mortgage Amount = Lesser of 3D or 3E		\$ _____
G.	Determining Loan-To-Value Factor for Maximum Mortgage Eligibility _____%		
	Basis	Criteria	Maximum LTV Factor
	MDCS (minimum decision credit score)	At or above 580	<input checked="" type="checkbox"/> 96.5%
	MDCS (minimum decision credit score)	Between 500 and 579	<input type="checkbox"/> 90%
	Secondary Residences	With HOC Approval	<input type="checkbox"/> 85%
	No Credit Score	Manual Underwriting required	<input type="checkbox"/> 96.5%

Note: This is the manual worksheet from HUD’s website. This is not FHA Connect.

Maximum Loan Calculations: Step 4

HUD Manual Worksheet

- **Step 4 – Energy Efficient Mortgage Calculation- N/A**

Step 4:	Additions to Initial Base Mortgage Amount for EEM, and/or Solar/Wind Energy	
	<i>Note: If no EEM or Solar/Wind additions, then Initial Base Mortgage amount (3F) = Final Base Mortgage amount (4G)</i>	
A.	Energy Efficient Mortgage (EEM) Improvement Amount	\$_____
B.	Step 3F + Step 4A (Initial Base Mortgage Amount + EEM Improvement Amount)	\$_____
C.	Solar/Wind Energy System Actual Cost	\$_____
D.	Step 2G x 20% (After-Improved Value x 20%)	\$_____
E.	Lesser of (Step 4C or Step 4D) = Maximum financeable Solar/Wind Energy amount	\$_____
F.	Step 3E x 120% (Nationwide Mortgage Limit x 120%)	\$_____
G.	Final Base Mortgage Amount = Lesser of (Sum of Step 4B + Step 4E) or Step 4F	\$_____

Note: This section is not utilized because we do not permit energy efficient mortgages.

Maximum Loan Calculations: Step 5

HUD Manual Worksheet

- **Step 5** – Calculating LTV for MIP and Transmittal/Findings-Purchase and Refi
 - Do not use 4G – instead use base mortgage amount from Step 3

Step 5:

Calculating the LTV s

Note: If no EEM or Solar/Wind additions, then Initial Base Mortgage amount (3F) = Final Base Mortgage amount (4G)

A	MIP LTV ^① = Step 4G divided by Step 2F (Final Base Mortgage Amount divided by After Improved Value)	____%
B	CASE LTV ^② = Step 4G divided by the Lesser Of Step 3A or Step 3B	____%

①

This is NOT the Case LTV; this is the LTV used to determine the correct MIP factor and term

②

This is the Case LTV, which should match the LTV printed on the lender’s HUD-92900-LT loan transmittal and TOTAL Score Card findings.

Note: 4G is not utilized because we do not permit energy efficient mortgages.

Maximum Loan Calculations: Step 6

HUD Manual Worksheet

- Step 6 – Establishing Escrow Account

Step 6: Establishing the Rehabilitation Escrow Account			
A	Rehabilitation Escrow Account (Step 1 total) +	\$ _____	
B	Cost of Energy Efficient Improvements (Step 4A) +	\$ _____	
C	Cost of Financed Solar/Wind Energy Systems (Step 4E) +		
D	Borrower's Own Funds for Contingency Reserves +	\$ _____	
E	Rehabilitation Escrow Account Total (sum of 6A+6B+6C+6D)	=	\$ _____
F	Initial Draw at Closing Total (Sum of F1 thru F7 below)		\$ _____
	1. 203k Consultant Fees	\$ _____	
	2. Architectural or Engineering Professional Fees	\$ _____	
	3. Permit Fees	\$ _____	
	4. Origination Fees (Step 1:D1)	\$ _____	
	5. Discount Points on Repair Costs and Fees (Step 1:D2)	\$ _____	
	6. Material costs for items ordered & prepaid by Borrower/or contractor (under contract for delivery)	\$ _____	Not permitted at M&T Bank on STANDARD 203(k)
	7. Up to 50% of materials not yet paid for by the Borrower/or contractor	\$ _____	
G.	Rehabilitation Escrow Amount Balance for Future Draws = 6E minus 6F		\$ _____

Note: This is the manual worksheet from HUD's website. This is not FHA Connect.

Anchor Point

Let's anchor here for a recap to make sure we are still on course.



- Things to remember if using the manual worksheet and not going through FHAC
 - The worksheet has different versions for purchase and refinance calculations, so make sure you use the purchase one
 - There are allowable consultant fees based on the cost of the repairs
 - The Maximum Mortgage Worksheet should remain on file with the lender and should also be completed on FHA Connection

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203 (K) LTV CALCULATIONS

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LTV Calculations

- The base mortgage amount is calculated by multiplying **96.50%** by the lesser of:
 - The sum of the sales price plus the total rehabilitation cost; or
 - 110% of after-improved value
- Divide the base loan amount by the after-improved value for the MI LTV

AUS Transmittal:

- DU and LPA will no longer calculate MI factor in findings.
- When entering the appraised value you must use 110% of as completed value and the AUS will automatically use the lowest number for loan LTV calculation.

203(k) Training

RENOVATION GUIDELINES

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Who are the participants?

- The work write up, (the specification of repairs form) is completed by a **HUD approved 203(k) Consultant**.
 - Go to: www.hud.gov/offices/hsg/sfh/insp/inspector
- An **experienced contractor** does the renovation.
 - Lender should review and accept the contractor
 - Selected prior to closing
 - Must have contracts in place
 - Need licenses from all contractors (including subs)
- **Borrower is not permitted to do any work.**
 - Self-help/DIY is strictly prohibited

Rehabilitation Period

- The contractor has up to **six months** to complete the work, but on a limited 203(k), the borrowers must be able to move in within 30 days of close.
- The project scope should be realistic in terms of completing the project within **six months**.

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203(K) LOANS – DSHA 203(K) PROCESS

DSHA 203(k) Process

Borrower

- Selects property and an FHA approved mortgage.

Lender

- Takes the loan application and selects a 203(k) Consultant (standard 203(k)).

203(k) Consultant (only required on standard)

- Visits property and prepares the work write up (standard 203(k)).

Borrower

- Hires and works with contractor, and provides work write ups to the lender.

Lender

- Processes, underwrites, closes, **disburses fees and costs**, funds the first mortgage (DSHA funds second) and submits for FHA endorsement.

DSHA 203(k) Overview, continued

Lender

- Delivers the loan package to Lakeview.



Lakeview

- Performs compliance and credit reviews, works with lender to clear conditions purchases the first mortgage and sells the first to M&T.



M&T

- Draw administrator contacts borrower, contractor and consultant, and reviews process.
- Sends welcome package and works with borrower and 203(k) Consultant.
- All contact in reference to loan and renovation transitions to M&T. (refer to contact slide)

DSHA 203(k) Overview, continued

Borrower

- Once contractor completes first phase, contacts the 203(k) consultant and requests an inspection and a draw request to pay the contractor.

M&T

- Disburses a check made payable to the borrower and contractor.

Borrower

- Once contractor completes renovations, borrower requests final draw and provides release letter indicating work is completed.

203(k) Consultant

- Verifies completion.

M&T

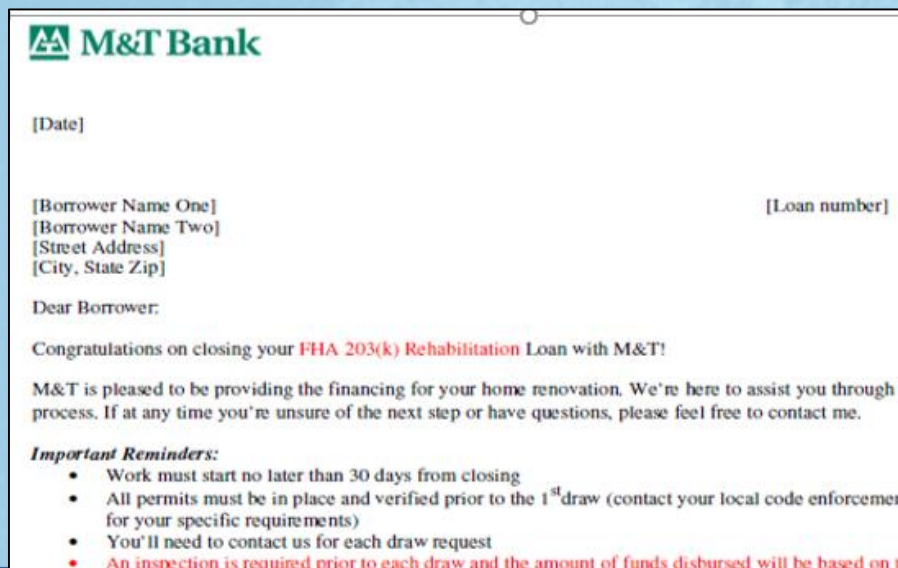
- Remaining Rehabilitation Escrow Account funds are released and M&T handles closeout in FHA Connect.

203(k) Training

AFTER CLOSING/PURCHASE (M & T)

Welcome

- Client, 203(k) consultant and contractor will receive a welcome email from the draw administrator once M&T purchases.
- All future contact will go through the draw administrator.
- Client will also get a welcome package in the mail.



Draws & Inspections

- Work begins after closing.
- HUD 203(k) Consultant determines the number of draws.
 - Usually five draws (standard), paying for work as it is finished.
- All permits must be obtained before the first draw.
- Work is inspected by the 203(k) consultant – fee is limited to **\$350** each time.
- Everyone involved should sign the Draw Request Form (9746-A).

Draw Process

- Borrower or contractor can request inspections.
- Consultant is contacted to do the inspection.
- Checks are co-payable to borrower and contractor covering completed work and sent to the borrower within **24-48 hours** of verification of completed work.
- **10%** holdback is released upon project completion.

Change Orders

- HUD 92577 or letter - must describe items to be changed and cost.
- Changes must be initiated by Inspector and approved by DE underwriter prior to work being started.

Final Inspection

- Final inspection is ordered upon notification by the borrower.
- Any additional work must be approved and completed prior to final inspection.
- Unused money is applied to the principal balance.
- Mortgagor's Letter of Completion and Final Release Notice must be signed and sent with the final draw request.
- Final title update and/or final lien waiver is done.

Anchor Point

Let's anchor here for a recap to make sure we are still on course.



- Things to remember
 - HUD consultant determines the number of draws
 - 203(k) Consultant inspects the work
 - Specific forms are required for change orders and at final inspection

203(k) Training

FORMS

Required Documents at Application

- FHA Application Document Package plus:
 - Renovation Loan Checklist
 - 203(k) Maximum Mortgage Calculation
 - 203(k) Borrower's Acknowledgement (HUD 92700-A)
 - Contractor resume, copy of liability insurance and licenses (if applicable), and client and/or trade references
 - Rehabilitation Loan Permit Certification

Required Documents during Processing

- Homeowner(Borrower)/Contractor Agreement
- Identity of Interest Certifications
- Specification of Repairs (Plan Review)
- Draw Request Form (HUD 9746-A)

Optional Early Renovation Review Program

- M & T review of documentation prior to close
 - The review is strictly for the renovation documents only, it does not constitute a review of the credit documents nor does it incorporate an underwriting review of the appraisal.
 - Your DE underwriter is responsible for the UW decision AND the credit underwrite of the appraisal & the issuing of the conditional commitment.
- Not necessary, per lender discretion
- \$250.00 cost
 - This is a lender cost and **cannot** be passed on to the borrower

203(k) Training

CONTACTS

Contacts

Pre Purchase

General Program Questions:

- Underwriting Scenario Desk
 - Phone: 85-Lakeview, Option 2
 - Email: underwritingquestions@bayviewloanservicing.com

Conditions on Closed loans:

- Client Managers at Lakeview
 - Current assigned Client Manager will assist

Post Purchase

M&T Contacts

- Draw Administrator
 - will provide contact information in welcome email
- Brenda Reppert: Phone: 800-378-7212 option 1, option 2, Email: breppert@mtb.com
- Gary Mills: Phone: 703-927-2590, Email: gamills@mtb.com

Questions



Any Questions?