



DSHA Section 203(k) Program Matrix*



****Approved Lenders Only****

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**

DSHA Section 203(k) Program

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Loan Product	
Ineligible Products/Terms	<ul style="list-style-type: none">Refer to DSHA Government Program Matrix. In addition, the following apply:<u>Energy Efficient Mortgages</u><u>Weatherization and Solar Energy stretch ratios and LTVs are not permitted. Individual Weatherization items, such as insulation, windows, etc. and Solar Energy items (i.e. panels owned by homeowner) may be included in a 203(k) renovation loan's normal work plan. However, Lakeview will not recognize the alternative ratio and LTV calculations.</u><u>Loans in which the borrower makes the repairs under a Rehabilitation Self-Help Agreement are not permitted.</u>
Maximum Mortgage Amount for 203(k) Purchase	<ul style="list-style-type: none">The maximum mortgage amount that FHA will insure on a 203(k) purchase is the lesser of:<ul style="list-style-type: none">the appropriate LTV ratio from the Purchase Loan-to-Value Limits in in FHA Handbook (II.A.2.ii), multiplied by the lesser of:<ul style="list-style-type: none">the Adjusted As-Is Value, plus:<ul style="list-style-type: none">Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); andFinanceable Mortgage Payment Reserves, for Standard 203(k) only; or110 percent of the After Improved Value (100 percent for condominiums); or the Nationwide Mortgage LimitsMaximum Mortgage calculation for all transactions must be documented and retained in the loan file on the applicable FHA 203(k) Maximum Mortgage Worksheet. Lenders may use either:<ul style="list-style-type: none">Print out from the case-specific FHA Connection 203(k) Calculator ORPrinted 203(k) Maximum Mortgage Worksheet from HUD web site
Renovation Term	<ul style="list-style-type: none">Not to exceed six (6) months
Property/Appraisal	
Eligible Property Types	<ul style="list-style-type: none">Refer to DSHA Government Program Matrix. In addition, the following apply:For condominiums, interior rehabilitation is permitted only (no common areas). See HUD Handbook 4000.1 for additional requirements.
Ineligible Property Types for 203(k) Loans	<ul style="list-style-type: none">Refer to DSHA Government Program Matrix. In addition, the following apply:<u>Manufactured Homes</u><u>Mixed-use properties</u>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.
Eligible Improvements	<ul style="list-style-type: none">The Standard 203(k) requires a minimum of \$5,000 in eligible improvements which can include:<ul style="list-style-type: none">decreasing an existing multi-unit Structure to a one- to four-family Structure;reconstructing a Structure that has been or will be demolished, 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;



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- o purchasing an existing Structure on another site, moving it onto a new foundation and repairing/renovating it;
 - o making structural alterations such as the repair or replacement of structural damage, additions to the Structure, and finished attics and/or basements;
 - o rehabilitating, improving or constructing a garage;
 - o eliminating health and safety hazards that would violate HUD's Minimum Property Requirements (MPR);
 - o installing or repairing wells and/or septic systems;
 - o connecting to public water and sewage systems;
 - o repairing/replacing plumbing, heating, AC and electrical systems;
 - o making changes for improved functions and modernization;
 - o making changes for aesthetic appeal;
 - o repairing or adding roofing, gutters and downspouts;
 - o making energy conservation improvements;
 - o creating accessibility for persons with disabilities;
 - o installing or repairing fences, walkways, and driveways;
 - o installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven, and washer/dryer;
 - o repairing or removing an in-ground swimming pool;
 - o installing smoke detectors;
 - o making site improvements;
 - o landscaping;
 - o installing or repairing exterior decks, patios, and porches;
 - o constructing a windstorm shelter; and
 - o covering lead-based paint stabilization costs, if the Structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule (24 CFR 200.805 and 200.810(c)) and the U.S. Environmental Protection Agency's (EPA) Renovation, Repair, and Painting Rule (40 CFR 745, especially subparts E and Q).
- **The Limited 203(k) may only be used for minor remodeling and non-structural repairs not to exceed \$35,000. These can include:**
- o eliminating health and safety hazards that would violate HUD's MPR;
 - o repairing or replacing wells and/or septic systems;
 - o connecting to public water and sewage systems;
 - o repairing/replacing plumbing, heating, AC and electrical systems;
 - o making changes for improved functions and modernization;
 - o eliminating obsolescence;
 - o repairing or installing new roofing, provided the structural integrity of the Structure will not be impacted by the work being performed; siding; gutters; and downspouts;
 - o making energy conservation improvements;
 - o creating accessibility for persons with disabilities;
 - o installing or repairing fences, walkways, and driveways;
 - o installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven and washer/dryer;
 - o repairing or removing an in-ground swimming pool;
 - o installing smoke detectors;
 - o installing, replacing or repairing exterior decks, patios, and porches; and
 - o covering lead-based paint stabilization costs (above and beyond what is paid for by HUD when it sells REO properties) if the Structure was built before 1978, in accordance with



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	the Single Family mortgage insurance lead-based paint rule and EPA's Renovation, Repair, and Painting Rule.		
Ineligible Improvements	<p><u>Standard 203k:</u></p> <ul style="list-style-type: none"> Any improvement that does not become a permanent part of the subject property Purchase or repair of any luxury item Improvements that solely benefit commercial functions within the property including: <ul style="list-style-type: none"> recreational or luxury improvements, such as: swimming pools (existing swimming pools can be repaired), an exterior hot tub, spa, whirlpool bath, sauna, barbecue pits, outdoor fireplaces or hearths, bath houses, tennis courts, satellite dishes, tree surgery (except when eliminating an endangerment to existing improvements), photo murals, gazebos or additions or alterations to support commercial use or to equip or refurbish space for commercial use <u>Conversions increasing the number of units are not eligible.</u> <p><u>Limited 203k:</u></p> <ul style="list-style-type: none"> The repair or improvement is expected to require more than six months to complete The rehabilitation activities require more than two payments per specialized contractor The required repairs arising from the appraisal necessitate a consultant to develop a specification of repairs/work write up or require plans or architectural exhibits The repair prevents the borrower from occupying the Property for more than 15 days during the rehabilitation period converting a one-family Structure to a two-, three- or four-family Structure; decreasing an existing multi-unit Structure to a one- to four-family Structure; reconstructing a Structure that has been or will be demolished; repairing, reconstructing or elevating an existing foundation; purchasing an existing Structure on another site and moving it onto a new foundation; making structural alterations such as the repair of structural damage and New Construction, including room additions; landscaping and site improvements; constructing a windstorm shelter; making additions or alterations to support commercial use or to equip or refurbish space for commercial use; making recreational or luxury improvements, such as: new swimming pools; an exterior hot tub, spa, whirlpool bath, or sauna; barbecue pits, outdoor fireplaces or hearths; bath houses; tennis courts; satellite dishes; tree surgery (except when eliminating an endangerment to existing improvements); photo murals; or gazebos 		
Program Option Eligibility	Parameter	FHA 203(k) – Standard	FHA 203(k) - Limited
	Repair Amounts	Minimum \$5,000, no maximum up to FHA max mortgage amount.	No Minimum; maximum rehabilitation amount is \$35,000 ¹ .
	Plan Review/ Specification	<ul style="list-style-type: none"> Required to be prepared by HUD-approved Consultant. The Consultant's work write-up must specify the type of repair and cost of each Work Item. The estimates provided by the borrower's Contractor(s) must be in- 	<ul style="list-style-type: none"> A written work plan is required, detailing the proposed repair/ improvements. This plan may be prepared by the Borrower or an outside party, including a Contractor or an approved HUD Consultant to assist. Note: a work plan is separate and apart from required estimates



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		line with the Consultant's Work Write-Up. The higher of the two should be used in calculating the maximum mortgage.	• If a HUD Consultant is engaged for any reason on a Limited 203(k), the fee CANNOT be financed into the rehab amount.	
Contingency Reserve				
	Contingency Reserve Requirements		Minimum	Maximum
	For Structures with an actual age or <30 Years			
	• Utilities On/ Operational – No Termite Damage • Utility Off/ Not Operational – but repair/replacement is already included in the work plan		Limited = 5% Standard = 10%	20%
	• 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%
	• Utilities Off		15%	20%
	For Structures with an actual age or >30 Years			
	• Utilities On/ Operational – all properties • Utility Off/ Not Operational – but repair/replacement is already included in the work plan		10%	20%
	• 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.			
	Contingency Reserve Release Requirements			
	Standard 203(k)		Limited 203(k)	
	• <u>Using Contingency when work is not complete:</u> To allow use of contingency funds when the overall project is not finished: <ul style="list-style-type: none">Permitted for any healthy/safety repairsWhen contingency is requested to be used for improvements OTHER THAN health and safety, M&T's Draw Administration Department must determine that it is unlikely that any health and safety deficiency will be discovered AND that the mortgage will not exceed 95% of the appraised value. This requirement is difficult to meet for loans closed with LTVs >95%, and therefore is rarely used.In all cases a fully executed HUD-92577 "Change Order" is required.		<u>Contingency Reserve may be accessed at any point during the project, to pay for the proposed repairs or improvements and any unforeseen items related to these repair items.</u> <u>In all cases, a fully executed HUD-92577 "Change Order" is required to be maintained in the file.</u> <u>Contingency reserves may NOT be used for repairs other than those originally cited or adopted with change orders.</u>	
	• <u>Using Contingency when work is complete:</u> <ul style="list-style-type: none">Contingency Reserve funds may be used for additional improvements not included in the original Work Write-Up.			



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		<p>However, these repairs must be on the "<u>Eligible types of Improvements</u>" list as outlined in FHA Handbook 4000.1. If the repair was deemed ineligible during underwriting, the Contingency Reserves may not be used toward that item.</p> <p>In all cases a fully executed HUD-92577 "Change Order" is required.</p>	
	Draw Disbursements at Closing	<p>Mortgagees may disburse the following at closing:</p> <ul style="list-style-type: none"> • permit fees (the permit must be obtained before work commences); • prepaid architectural or engineering fees; • prepaid Consultant fees; • origination fees in the Rehab; • discount points in the Rehab; • documented orders: <ul style="list-style-type: none"> ◦ materials costs for items, prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date. Contract for the order with the manufacturer/ supplier must be present in the file, as well as proof of borrower/contractor payment; and ◦ up to 50 percent of materials costs for items, not yet paid for by the Borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date. Contract for the order with the manufacturer/supplier must be present in the file, and confirmation of item(s) being "on order." <p>For any Disbursements paid to the contractor, the Mortgagee must hold back 10 percent of the draw request in the Contingency Reserve.</p>	<p>Mortgagees may disburse the following at closing:</p> <ul style="list-style-type: none"> • permit fees (the permit must be obtained before work commences); • origination fees in the Rehab; • discount points in the Rehab; and • up to 50% of the estimated materials and labor costs before beginning construction only when the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction. Must meet requirements below. <ul style="list-style-type: none"> ◦ Contractor requesting 50% upfront release of labor & materials at closing must provide a written statement to be reviewed by the DE UW that states either: <ul style="list-style-type: none"> ▪ They are unwilling or unable to defer the receipt of payment until the completion of work, OR ▪ The payment represents the cost of materials incurred prior to beginning work ◦ If permitted by DE, must document the specific amount and purpose of the initial draw in writing on 92900-LT. ◦ 203(k) authorizations forms provided for each contractor ◦ Not to exceed \$17,500 ◦ No advances for lead based paint or mold remediation on REO properties. ◦ CD to reflect the disbursement in Section H
	Draw Disbursements	<ul style="list-style-type: none"> • HUD Consultant inspects property and identifies the percentage of work complete to date. • Maximum 5 draws (4 intermediate, 1 final) • 10% holdback on each disbursement. 	<ul style="list-style-type: none"> • Appraiser conducts satisfactory re-inspection. • First draw at closing limited to 50% of total repair costs, including labor (see additional requirements in • No holdbacks.



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		<ul style="list-style-type: none">• Checks cut jointly in contractor and borrower's names.	<ul style="list-style-type: none">• Checks cut jointly in contractor and borrower's names.• No more than 2 draws per contractor.
	Inspections and Title Updates	<ul style="list-style-type: none">• Inspections are required prior to each disbursement.• Two title updates performed: one at 50% of renovation dollars advanced and one at final draw	<ul style="list-style-type: none">• For inspections, case-by-case depending on the number of contractors• Certificates from municipalities are acceptable in lieu• Only 1 title update at final draw
	Borrower-Contractor Agreements	Required for each contractor.	Required for each contractor.
	Mortgage Payment Reserve	Up to 6 months of PITI can be financed, if the home is not habitable during renovation.	Borrower must move into property within 30 days of closing. Mortgage payments may not be escrowed.
	Lowest Sales Price the Last 12 Months	The lowest sales price does NOT have to be documented or used in the maximum mortgage calculations.	
	Project Conversions	Projects which: <ul style="list-style-type: none">• Decrease the number of units are permitted; satisfactory municipal Certificate of Occupancy is required prior to final Draw for # of finished units• <u>Increase the number of units are NOT permitted</u>	Not permitted.
	Partially Completed Projects OR Work-in-Progress	<ul style="list-style-type: none">• Finish a Build - The 203(k) program cannot be used to finish a new-build; subject must be an existing property that has been completed for at least one year prior to the case number assignment date. A municipal Certificate of Occupancy may be used to document same.• Partially Completed Projects: properties in which current OR prior owners started work but it is not completed – but all work has stopped at the time of mortgage application - are permitted. The use of a HUD Consultant is strongly recommended in these instances (regardless of dollar amount of project) to assure proper analysis of the property condition and required work. A pre-closing municipal inspection is also strongly recommended in these cases to identify potential hidden code-compliance issues that should be added to the project.• If Work-In-Progress is identified during the loan application process, a “STOP WORK” order must be issued by the lender. A prior-to-closing re-inspection must be obtained which identifies the amount of work completed since appraisal inspection but prior-to closing. The project costs must be recalculated, and loan amount adjusted if necessary. This program cannot pay out on work completed prior to closing – that amount is the borrower's responsibility, and may not be financed	
¹ Effective with case numbers assigned on or after December 16, 2019 an increase to the maximum total rehab costs from \$35,000 to \$50,000 for Qualified Opportunity Zone (QOZs) for the first 15,000 mortgages endorsed each calendar year. A list of QOZs is available through the Treasury Department's Developmental Financial Institutions Fund webpage at: https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx			
Review of Contractor Qualifications	<ul style="list-style-type: none">• Contractor acceptance is required for all transactions, both Standard and Limited. All rehab work must be performed by a qualified and experienced contractor chosen by the borrower and completed in a workmanlike manner.<ul style="list-style-type: none">◦ <u>Borrowers may not use relatives/employers as their contractors; review Identity of Interest section for details</u>		



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	<ul style="list-style-type: none"> o <u>Borrower is limited to a total of (3) contractors or a General Contractor will be required.</u> o <u>The borrower may not act as the General Contractor. "Self-Help" loans are not permitted.</u> o <u>An acceptable "Contractor's Resume" (as determined by lender) should be completed by all contractors. The Underwriter must validate the Contractor(s) selected by the borrowers are acceptable to lender, and must document same in the file.</u> o <u>A Borrower-Contractor Agreement is required for each contractor</u> o <u>The Contractor (s) selected must meet all jurisdictional licensing and bonding requirements. The lender is responsible for determining jurisdictional requirements. Copies of applicable licenses for all contractors (including sub-contractors, if identity is known prior-to-closing) are required. Sub-contractor licenses may be required post-closing during Draw Administration, as applicable.</u>
Building Permits	<ul style="list-style-type: none"> • Building Permits issued by the local municipality are required prior to work beginning and prior to any monies being released. The requirements of the municipality in which the property is located must be adhered to. <u>Print outs from the municipal online website, confirming permit costs, may be included in the file. A lender's 'permit certification' should be signed by an official of the municipality for all 203(k) transaction types, prior to closing which identifies all required permits, the expected turn-time to issue them, and any open violations on the subject property. A HUD Consultant or Lender's Underwriter/Processor may sign the form, but must certify to the accuracy of the information provided, confirming that they have spoken with the municipality to verify all data.</u>
Mold and/or Lead Paint Remediation Work	<ul style="list-style-type: none"> • <u>If Mold or Lead Paint remediation is required, the specialized Mold or Lead Paint remediation contractor must indicate if the scope of the project will (or will not) require a final/clearance test (air quality/surface test).</u> <ul style="list-style-type: none"> o <u>If an air quality/surface test is required, the cost must be included in the work write-up, work plan and on the LE/CD.</u> • <u>Lead Based Paint contractors must be certified and trained by EPA-approved training providers and follow lead-safe work practices, as outlined by the EPA's Lead Renovation, Repair and Painting Program (RRP). Some states are authorized to administer their own RRP programs in lieu of the Federal program. To validate that a contractor is certified, visit this link, and search by State or scroll down to the "FIND A FIRM" section. Evidence of contractor certification must be documented in the loan file.</u>
Written Proposal and Cost Estimates (Repair Estimates)	<ul style="list-style-type: none"> • Lenders must provide written estimates from qualified/licensed Contractors for all work being included in their repair escrow. <ul style="list-style-type: none"> o Estimates are required for each Work Item, broken out by labor and materials o Estimates must itemize all work being included o All estimate amounts must match the Borrower/Contractor Agreement(s) o The borrower(s) and contractor must sign all estimates. • <u>Materials or appliance estimates from "box stores" (i.e. Lowe's, etc.) must be accompanied by labor estimates from the installing contractor who will install the materials.</u> <ul style="list-style-type: none"> o <u>Whether the installing contractor is independent OR a sub-contractor for a store, they must still provide an executed Borrower/Contractor agreement</u> o <u>Exception: free-standing appliances (or items that do not require installation or labor to install) may be presented as stand-alone estimates (i.e. free-standing stove, washer, dryer).</u> o <u>Paint must always be accompanied by a labor estimate.</u>
Appraisal Requirements	<ul style="list-style-type: none"> • Lender must establish both an Adjusted As-Is Value and an After Improved Value. Refer to the FHA Handbook for full requirements. • Adjusted As-Is Value is the lesser of: <ul style="list-style-type: none"> o the purchase price less any inducements to purchase; or



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	<ul style="list-style-type: none"> o the As-Is Property Value • To establish the After Improved Value, the Mortgagee must obtain an appraisal of the Property subject to the repairs and improvements. • When an appraisal report identifies the need for health and safety repairs that were not included in the Consultant's Work Write-Up, Borrower's work plan, or contractor's proposal, the lender <ul style="list-style-type: none"> o must ensure the repairs are completed and re-inspected prior to closing or o included in the Consultant's final Work Write-Up or the Borrower's final work plan • For Standard 203(k): If Site Improvements, Landscaping, Patios, Decks and/or Terraces are included in the work plan, the work must increase the As-Is Property Value equal to the dollar amount spent on the improvements (<u>confirmed in writing by the appraiser in the As-Is Appraisal</u>) • For Limited 203(k): If Patios/Decks are included in the work plan, the work must increase the As-Is Property Value equal to the dollar amount spent on the improvements (<u>confirmed in writing by the appraiser in the As-Is Appraisal</u>)
Insurance	
Mortgage Insurance	<ul style="list-style-type: none"> • Refer to FHA Handbook • For the purpose of calculating the LTV for application of the MIP, the Lender must divide the Base Loan Amount by the After Improved Value.
Special Restrictions	
Credit and Underwriting Considerations	<p>Contract:</p> <ul style="list-style-type: none"> • The contract of Sale for both Standard and Limited 203(k) must include a written provision that the borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the Buyer's acceptance of additional required improvements as determined by the lender. • The FHA Amendatory Clause is not required on 203(k) Mortgages, however, the FHA Real Estate Certification IS still required <p>FICO:</p> <ul style="list-style-type: none"> • <u>620 Minimum FICO</u> <p>Loan Decisioning:</p> <ul style="list-style-type: none"> • <u>All loans must be run through FHA Total Score Card (TSC) and require an approve/eligible or accept/eligible</u> <p>Identity-of-Interest (IOI) Transactions:</p> <ul style="list-style-type: none"> • Transactions between Family Members, business partners or other business affiliates • Conflict of Interest (COI) refers to any party to the transaction who has a direct or indirect personal, business, or financial relationship sufficient to appear that may cause partiality and influence the transaction. <ul style="list-style-type: none"> o Sales transactions between Family Members are permitted (see FHA Handbook 4000.1– Glossary for the definition of Family Member) o Other than the sales transaction between buyer and seller, there can be NO other instances of IOI or COI between parties in a 203(k) transaction (i.e. borrower cannot be related to the Contractor, Realtor, Consultant, Appraiser, etc.) o The Borrower and the 203(k) Consultant must each sign an Identity-of-Interest certification



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Required 203(k) Documents	<ul style="list-style-type: none">• <u>Contractor's Resume & Lender's due diligence in performing Contractor review</u>• FHA 203(k) Borrower's Acknowledgement (HUD-92700-A).• FHA Identity of Interest Certifications (Borrower and Consultant, if applicable)• Borrower/Contractor Agreement (for each Contractor)• Lender's 203(k) Permit Certification – confirming which permits are required for the project• Work Plan for Limited 203(k) Only – can be written by borrower or qualified 3rd party• Plan Review / Specification of Repairs signed by Consultant (not required for 203(k) Limited (Streamline)).• Rehabilitation Loan Agreement• Rehabilitation Loan Rider (to Mortgage)• Compliance Inspection Report (Form HUD-92051), as applicable• Lender's Contingency Release Letter, if applicable• FHA Draw Request (Form HUD-9746-A) – not required for 203(k) Limited (Streamlined).• Request for Acceptance of Changes in Approved Drawings and Specifications (HUD-92577), if applicable• Exhibit 02-408 Allowable Costs Released at Closing & Draw Request Funds to be Disbursed at Loan Purchase• Security Instrument (Mortgage/Deed of Trust): the following language must be placed on this document: <i>"Provisions pertaining to releases are contained in the Rehabilitation Loan Rider which is attached to this mortgage and made a part thereof."</i>
Fees	<p><u>In addition to current DSHA Funding, Tax Service, Flood Transfer and Code Compliance Fees, the following 203(k) fee(s) will apply:</u></p> <ul style="list-style-type: none">• Higher of \$350 or 1.5% of the renovation amount• \$250 Early Renovation Review (ERR) process fee, (if applicable)
Principal Reductions	<p><u>Principal reductions are not permitted.</u></p>

Version Control			
Author	Section	Date	Update
LR & DM	All	6/29/20	<ul style="list-style-type: none">• New Program created and released
DM	Principal Reductions	7/9/20	<ul style="list-style-type: none">• Added section: Principal reductions not permitted
DM		6.1.21	Updated Logo
DM	Credit and Underwriting Considerations	11.17.21	Removed COVID overlay and reverted to 620 minimum FICO



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