

Section 5: The 203(k) Loan Process

Overview

The purpose of this section is to outline the steps that for successful origination and closing of 203(k) loans.

203(k) Process – Application through Funding

In order to complete the 203(k) application process quickly and efficiently, the Loan Officer should follow the steps below. These are applicable to both Streamline K and Consultant K unless otherwise noted.

1. **Pre- Qualification** – The borrowers should be pre-qualified following standard FHA guidelines.
2. **Complete Loan Application** – A complete and thorough FHA 203(k) loan application is the result of the borrowers and Loan Officer working together closely. In addition to the Uniform Residential Loan Application and standard FHA disclosures, a 203(k) Maximum Mortgage Worksheet, Good Faith Estimate and 203(k) Addendum to GFE, Mortgage Payment disclosure, and 203(k) Borrowers Acknowledgement are required. All 203(k) loans will be processed in the Renovation Loan Processing Centers. Processing time for 203(k) loans is longer than a regular FHA loan.
3. **The Purchase Contract** – The financing terms should clearly state that the loan terms for the transaction will be an FHA 203(k) loan. The 203(k) Contract Addendum can be used to incorporate this item. The purchase contract can be contingent upon receipt of an acceptable Feasibility Study, Home Inspection or limit on required repairs. Where financing terms are required, be sure to indicate the loan amount and/or required down payment are estimated.
4. **Order a Feasibility Study (Consultant K only)** – This step involves an FHA approved Consultant to meet with the borrower at the property to determine the FHA required repairs and optional repair costs. With the assistance of the Loan Officer, the borrowers and the 203(k) Consultant is made aware of the loan limits for the borrowers. The 203(k) Consultant determines if the amount of repairs plus the sales price fits within the stated loan limits so the borrowers may proceed. If the borrower agrees to proceed, the Consultant converts the Feasibility Study into a full Specification of Repairs, which is the heart of the Work Write Up. (More detail on this step will be covered in the section on The Consultant K.)

5. Choose a Contractor and obtain Bids – The borrower must research and select Contractors with whom they feel comfortable. Contractors must provide specific documentation to be accepted for use in the Renovation program. If the borrowers decide to complete the repairs themselves, they are only reimbursed for repairs, not labor. If the borrowers use sub-contractors, they must submit receipts for both labor and materials. See requirements for General Contractors, Owner GC, and Self-Help.
6. Order Appraisal - Once the borrowers have signed the Specification of Repairs accepting the cost, order the as-improved appraisal. Provide the Specification of Repairs (Consultant K) or Contractor Bids (Streamline K) along with all other standard FHA appraisal order items. For a 203(k) refinance, request the appraiser to provide an 'as-is' value in addition to the 'after-improvement' value. Only the after-improved value needs comparables. (According to FHA regulations, when an as-is value is required a separate appraisal is to be performed. If the appraiser will not provide an as-is value as a comment with the as-improved appraisal, contact your 203(k) Underwriter for assistance.)
NOTE: If repairs are changed after the appraisal has been completed, the appraiser must review those changes and indicate through an addendum any changes to the appraised value.
7. Submission of the Loan Package for Underwriting Approval – Once the appraisal is received, the full loan package including the credit and collateral will be sent to underwriting for final approval. Standard FHA policies apply regarding the use of automated underwriting with 203(k). If we do not get a DU Accept, then the file is manually underwritten.
8. Insurance: Depending on the nature of the repairs and the habitability of the property, the Borrowers may be required to obtain a "Builder's Risk" policy or endorsement to the Homeowner's Policy - the Insurance Agent can provide guidance here.
9. When the loan closes, the realtor and seller are paid. The funds for the repairs are placed in an escrow account. If mortgage payments are included in the escrow account and will be paid when they are due. Repairs must begin within 30 days of closing and be completed within 6 months.

After Funding Procedures

Once the closing is complete and the loan is funded, the 203(k) Department completes additional tasks to

- Assist in the sale to the investor
- Expedite the Investor's draw process

Post Closing, FHA Insuring and Sale to the Investor

Post Closing reviews the file documents and requests any missing or unsigned documents needed for FHA insuring or sale to the Investor. Once all items are received, the file is sent to the investor for purchase. The investor also reviews the file and sends a list of any missing items or documents needed for purchase.