

A Little TLC Goes



A Long Way!

FHA 203k

Streamline

Home Loan

Compliments of Certified Mortgage Advisor

Kevin Walton



Buying a fixer-upper?

Buying an "as-is" condition property?

Having problems obtaining lender approval due to an
"undesirable" property?

Purchase and finance minor repairs which includes new carpet and paint, new appliances, new HVAC system, new flooring, weatherization, new exterior decks and porches, minor kitchen and bath remodeling, and much more.....up to \$35,000 in repairs.

Purchase or refinance—and obtain up to \$35k in cosmetic repair funds.

All in 1 loan!

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203k Streamline Handbook

Hello and thanks for your interest in the FHA 203k Streamline loan!

There isn't another loan like it on the market, and everyone-homebuyer and home-owner-should know about the existence of this loan. It is often misunderstood since it is so much different than other loans, but I hope after you read this guide, you will have a grasp as to how it can work for you and others.

For starters, the FHA 203k Streamline loan is a program that was revamped in 2005 to include up to \$35,000 in cosmetic repairs and minor improvements.

It is not to be confused with the standard FHA 203k loan that allows room additions or even a full tear down of an existing property. The standard 203k allows repairs greater than \$35,000.

In this handbook I'll give you 9 steps, a brief list of allowed improvements along with a sample bid sheet. I will also go through a typical scenario from start to finish.

Please keep in mind, in the current volatile state of real estate lending, some of the guidelines I'm going to cover may be changed by the FHA or by the lender(s) who offer the program at any time. It's also important to note, that not all lenders do the 203k Streamline loan the same way. Some lenders may be more strict on minimum borrower credit standards, use their own 203k Streamline forms, and not allow specific requested repairs. I deal with several lenders who offer this program, and each do it a bit differently, but all in all it is a unique loan that creates a win-win for everyone involved.

The FHA 203k Streamline loan features a minimum down payment of 3.5%, credit scores as low as 640, and can only be used on owner-occupied 1-4 unit homes. The maximum loan amount is \$729,750 (varies by county) including repairs, and can be used to purchase a home or refinance an existing loan.

Each page of this handbook has valuable information and the last several pages will summarize a complete start to finish 203k Streamline loan scenario.

Let's now go ahead and start our journey by going into step #1.

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Step 1. Preparation!

One must prepare *before* you shop for a home. The FHA 203k Streamline, to be addressed as “the Streamline” from here forward, involves additional work that must be done by the homebuyer/homeowner than any other loan....and it is well worth it.

You can use this loan to buy a home or refinance an existing loan. If you are buying a home and you are looking at lender-owned properties or properties being sold in “as-is” condition, know that some of these properties may not meet minimum lending standards or may have health and safety issues, which means a conventional or standard FHA loan may not be possible.

However, the Streamline can solve many of these problems. The Streamline gives you a loan to purchase or refinance a home **plus** gives you up to \$35,000 for minor cosmetic repairs. **All in 1 loan!**

These cosmetic repairs are done *after* escrow closes, but the repair/improvement planning starts before you make an offer on the desired property.

The repairs/improvements allowed under the Streamline program (see the abbreviated list of repairs allowed on page 20) are decided by you, the homebuyer/homeowner. You decide where the money goes (within FHA/lender guidelines), what kind of appliances you want, and what color. There is no minimum dollar repair requirement per item.

If the property needs a new roof, you choose the contractor, you obtain the bid for the work, you obtain the personal data from the contractor, which consists a signed W-9, copy of workers compensation and liability insurance policy, a copy of their drivers license, as well as two recommendation letters by past satisfied clients. You will then submit this data to your lender. I will help you with these steps, but it is ultimately your decision on what you buy (again within lender limits) and who you hire.

As long as you are prepared and prepare your contractor (if the project requires a contractor), even though this requires some additional time and work on everyone’s part, you are already ahead of the game.

The way you should structure the Streamline, the contractor should get a 203k Streamline disbursement check for materials first, but may not get the balance of their funds owed for up to 60 days or more since the second disbursement can’t be made until all repairs are made/installed. So the contractor has to wait a bit longer for the balance of their monies

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owed, but it's important that you know this prior to selecting a contractor. We will cover disbursements more a bit later.

Do-it - yourself repair is allowed but discouraged. The reason is that any repair you make, aside from installing an appliance (ie..refrigerator), you must be licensed in the repair area needing work. For example, if you want to install flooring, you must have a general contractor's license. Several lenders will not allow any do-it- yourself improvements, even if you are licensed! There's been fraud with self help projects in the past and many lenders have been bit by it, so they are reticent to allow it. However, if you are licensed in the area of the specific repair, and the lender allows do-it-yourself, it might be allowed. Just be prepared for additional lender scrutiny.

Step 2: Starting to shop for a property

If you are shopping for a property, before you leave home, make sure you have a few things:

- A tape measure
- A keen eye for detail
- A contractor by your side (optional)

The tape measure is needed because no two kitchens and bathrooms are the same. Refrigerators, dishwashers, and cooktops are all different sizes and your preferred appliance may not fit in the allotted spot. Plus, you need to know if the home utilities run on gas, electric, or a combination of both. This will determine the size/make of the appliance as well.

If you want/need new carpet or new flooring, you are going to need to do some quick measurements to shop for pricing for materials and labor needed to complete the job. By getting your measurements *up front* you will save yourself and your Realtor time from having to keep going back and forth to the property. Also make sure and take my checklist provided for repairs and estimates at the end of this guide.

You need to have a good idea of what repairs/improvements you are going to do *before* making an offer to purchase a home. Your Loan Officer should prequalify you for a loan including the maximum of \$35,000 in repair funds offered by the Streamline loan since you don't know exactly how much your repairs are going to be. That will come later. You will need to know exactly how much your repairs are going to be prior to the appraisal being ordered. In fact, you have to write into the purchase contract that you are applying for an FHA 203k Streamline loan

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and the repairs you are going to make to the home. The dollar cost for each repair/improvement does not have to be disclosed in the purchase contract, just a list of some of the items.

While you are measuring, look for any red flags, such as brown water stains in the ceiling in each room. Also look for any off-color spots in the ceiling which may indicate a water stain that was not fixed but rather was painted over. Make sure that the toilets and sinks are present and that there are no major window cracks. Make a list of any red flags and give me a call and we can go over them.

Why look for red flags? Because the appraiser will see these same red flags and list them in their appraisal report for the lender to review. The lender will demand that any health and safety issues must be fixed first before any of your desired repairs/improvements. That means that the lender-demanded repair costs come right out of your \$35,000 repair/improvement 203k Streamline loan funds.

Looking for red flags is vital. If you apply for a non-FHA loan and you don't look for red flags and there is a health and safety issue that you didn't see, but the appraiser or home inspector did see, there's a good chance that your loan will not fund and you are out the \$500 appraisal fee. Lenders will not allow a loan to fund when a property doesn't meet their minimum lending guidelines. So make sure and look for imperfections. *The home inspection should be done prior to the appraisal when using the Streamline loan. You need to know exactly what repairs are needed.*

It's also important to note that before the appraisal is ordered, a list of detailed bids covering all the repairs and improvements must be submitted to your lender who gives them to the appraiser before the home is appraised.

The contractor information, complete with copies of their liability and workers comp (if applicable), a copy of their driver's license, and two letters of recommendation, must also be submitted to the appraiser at the same time as the bids.

Bringing a contractor with you to visit the property on your initial visit is optional. But if there is some work to be done by a contractor (ie. cabinets or new roof), you will at some point in time need to get the contractor to visit the property to prepare a bid. If you estimate a dollar amount on your own, and later discover the actual contractor cost to be a higher figure, it could possibly cause a problem. If your loan has not been submitted to the lender for underwriting and you are not bumping up against the \$35,000 ceiling allotted for repairs, the numbers can be recalculated,

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and things may be o.k. While we're on the subject of contractors, it's important to note that any contractor used for your repairs will be thoroughly checked out by the FHA and/or lender. They will go on the Secretary of State and Contractors State License Board websites to ensure they are licensed and have no major infractions.

The bid created must show the scope of work and be very explicit. A breakdown of materials, labor, and profit must be spelled out. It also must be printed in bold ink and legible. This bid may be faxed up to 10 times during the loan process, so if it's not legible, your loan will be delayed until a replacement bid is done.

There are also specific FHA contractor/homeowner lender- specific bid sheets that may be used for bids, to be used instead of the contractor's estimate receipts. If these are requested by the lender, I can obtain these for you. Most contractors are not familiar with these forms, so you have to inform them that this is the way the FHA works or else the loan can't fund and you can't use that contractor.

With certain lenders you may need two different (separate companies) contractor bids to supply the lender for each item needing contractor work. You have to specify which bid you are going with and know that if FHA feels the bid isn't reasonable for the scope of work (too exorbitant) to be done, they can cut back the repair amount. You may also use a HUD approved consultant to review the work being done to make sure the contractor price is reasonable. I can help you find a HUD Consultant, which can cost between \$250. to \$500 and must be paid upfront. HUD Consultants are always used on the standard 203k loan that allows greater than \$35,000 in repairs, but seldom on the 203k Streamline.

At this point, your exact proposed loan amount is still a floating target. Why? Your preliminary loan amount is based on the purchase price plus repairs *or* 110% of the *after* improved value of the home after the proposed repairs and improvements are installed or finished, whichever is *less*.

Who comes up with these figures? The appraiser. The appraiser takes the present condition of the property then takes into account your bids for your proposed repairs/improvements and comes up with a before and after value.

Know that just because you put in \$30,000 of Streamline funds into a \$200,000 home doesn't mean that it's going to have an after value of \$230,000. It's not dollar for dollar. Only a percentage of repairs/improvement costs will affect the after value and this is true of any improvement on any home at any time.

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The main thing to be concerned about at this point in time is getting your bids together and making sure you aren't going over the \$30,000-\$35,000 figure in total repairs.

Step 3: Making an offer on a home

You are making an offer on the home based on the *listing price only*. You do not add the repair/improvement cost to the purchase price. Mention in the contract that you are using FHA 203k Streamline financing and the items you may be repairing but do not disclose how much you are spending in repairs.

The repair amount only concerns your Streamline lender, not the seller of the home.

It is also vital that you use the proper terminology of "FHA 203k Streamline" when mentioning what kind of loan you are obtaining for financing. Just writing into the contract that you are obtaining an "FHA" loan or an "FHA 203k" loan is incorrect. There is a huge difference between a 203k and 203k Streamline. They are two different loans with much different implications on what you intend to do with the property.

Since there is more work involved on a Streamline, the purchasing timelines should reflect this. The following figures should be written into the contract:

Close of escrow:	60 days after escrow is open
Appraisal contingency:	20-25 days
Loan Contingency	30-35 days

Step 4: Offer acceptance

If your offer is accepted by the seller, congratulations! In this market that is a big victory. If you are going to have some minor work done by a contractor and you haven't met with him yet, now you need to get the contractor estimate, along with the contractor personal information, as previously discussed, along with your other bids for work that do not involve a contractor (self-help work) and turn it in to your lender.

Self-help work could involve appliances. If you intend to obtain appliances from Sears, for example, you would need bids that include the cost for appliances and installation. If a Sears employee installs the appliance, since they are not a

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contractor per se, this would be classified as a “self-help” item. A “self-help” contract will need to be completed and signed by you the buyer/homeowner. There may be other self-help items as well that don’t require a contractor, where you may have to sign a self-help” contract as well. To be safe, it would be a good idea to get a backup retailer in mind, such as Home Depot, with the same appliance or similar. The lender may want a second separate bid for each appliance. It’s unlikely but it’s best to be prepared.

Step 5: Appraisal gets ordered

The property appraisal gets ordered. Your lender will forward to the appraiser, the contractor (again if applicable) bids and personal information and your other self-help bids for work that is to be done.

The appraiser will than work up an “as-is” and after improved value. The appraisal report may take up to 10 days to complete.

It would be helpful if the utilities are turned on the day your appraiser arrives for their inspection. This is coordinated between the Realtors.

Step 6: Appraised value and finalizing the loan amount.

Remember how I mentioned that your loan amount is a floating target? Now that we have appraisal figures we can firm things up. Also if there’s any health and safety issue items that the appraiser spots and lists in the appraisal report, they will have to be repaired first before your preferred repairs. For example, if the home is built prior to 1978, there may be a lead-based paint abatement that needs to be performed to meet health and safety standards. There are modern abatement procedures that could cost anywhere from \$800-\$1,500 depending on the size of the home.

You can use the Streamline funds to fix the repairs, assuming they aren’t major repairs.

It is worth mentioning that the FHA does require a heating source to be present and in working order, so if the heater isn’t working or needs repair, that will also need to be added to your repairs list and takes priority over other non health and safety issues.

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Your final loan amount and down payment is either based on the purchase price plus repairs or 110% of the after improved value, *whichever is less*. For example, the agreed upon sales price for a home is \$300,000. You are proposing \$30,000 in repairs, which includes a lender holdback and lender fees, (explained in step 8) for a total proposed loan amount of \$330,000. Let's say the after improved value is deemed to be \$310,000 and $\$310,000 \times 110\% = \$341,000$. We then use the lower figure of \$330,000. If you are using 3.5% as a downpayment, it is figured off of \$330,000 not your agreed upon sales price of \$300,000.

When considering your loan amount here's something to keep in mind. If your repair amount is bumping up against the \$35,000 maximum limit (taking into account the 10% holdback and lender fees to administer the escrow account), you may want to consider doing some improvements on your own (after the second disbursement explained in step 8), that doesn't require a license such as interior painting. The expense for the painting would be out of your pocketbook and not from the Streamline since you are close to exhausting the repair funds.

If for any reason you have exceeded your budget, for example you allotted \$25,000 for repairs and the holdback and lender fees, but the project has run over to \$27,000, you would have to pay the difference out of pocket and you must bring in the difference and deposit them *directly* into the escrow disbursement account. This must be coordinated with your lender.

Even though your project ran to \$27,000 and the Streamline allows up to \$35,000, you can't apply for additional Streamline funds to cover the difference. That's why it's so important to do the homework up front. This doesn't happen very often since the holdback usually is enough to cover any budget overages.

You are able to alter your requested improvements, but once the appraisal has been completed and the loan has been turned into the lender's underwriter, it's best not to make any alterations after this point. Doing so may affect the appraised value of the property (if you are subtracting a repair), which will cause loan delays and will cause you to miss your loan closing date. Resubmitting paperwork after the loan has been turned in to underwriting means your file has to go back through underwriting.

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Step 7: Loan approval with conditions

Now that the appraisal is complete, your loan package which included your income and asset documentation, credit report, and purchase contract among other things, is prepped and sent to the lender's underwriting department for validation.

Once you obtain loan approval, the lender will give you a list of conditions that will require you to work with your lender to satisfy. Once all of the conditions are met, your final loan documents are ordered for your signature, which is usually done at the escrow office.

Step 8: Loan funding and repair improvement disbursements

Once your loan funds, the seller's mortgage(s) (if any) are paid off along with any other liens on the property. An escrow account is set up to control the repair/improvement fund disbursements. It's also important to note that 10% of your total repairs will be in the form of a "holdback". For example if you have \$30,000 in proposed repairs, the lender will withhold an additional \$3,000 (10%) for emergency completion funds to finish any repairs that went over budget. If the holdback isn't used, meaning you ended up not going over budget, then the holdback amount can either be used for more repairs or it gets applied to your loan balance as a principal payment reduction. In addition to the holdback lender fees to administer the holdback escrow funds get added to the repair amount as well. So even though you needed \$30,000, you do have to take into account the holdback and lender fees being added to your total repairs and under no circumstances can the total exceed \$35,000.

Getting back to your escrow account being set up, it may take up to 4 to 6 weeks for your escrow account to be set up. It is important that you notify your contractor that the balance of funds owed won't be available until the 4 to 6 week period passes. This should be communicated to the contractor prior to obtaining a bid from him since some contractors may not want to wait to be paid for their services

You will also receive in the mail a welcome package from the lender explaining how the Streamline works in regards to the disbursements. This paperwork should hit your mailbox 2 to 4 weeks after your loan has funded.

Disbursements are done twice, once at the beginning, when your loan funds, and once at the end of the process. There may be 60 days or so between disbursements, and no contractor receives more than two disbursement checks in total.

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For example, even if you requested a total of \$7,000 in repairs, all being appliances (all appliances are self-help items) you would only get 50% of the total cost in the first disbursement:

New refrigerator	\$3,500
New cooktop	\$1,000
New dishwasher	\$1,000
New oven	\$1,500
<hr/>	
All totaling	\$7000

Your first disbursement check will be for \$3,750

When planning your disbursements, you want to order any supplies or materials for a contractor job first. That way they have some up front funds to order materials. They may have to wait, depending on how you structure the disbursements, until the second disbursement is made to collect the balance of their money owed to them. This means your appliance funds can be ordered using your second disbursement since you need to cover some up front materials for the contractor.

For example: A flooring job that costs a total of \$5,000 is broken down in the following manner:

Materials:	\$2,000
Labor:	\$2,000
Profit:	\$1,000

You could structure the disbursement to disburse 50% of the flooring job which equals \$2,500 or just \$2,000. Just keep in mind 50% of the *total amount* of repairs must be disbursed in the first disbursement. You can divide up the funds however you see fit. You could even structure the disbursement to pay the \$5,000 flooring job in full in the first disbursement. The disbursement check will be made payable to you and the contractor, so you both have to endorse it. The balance, if any, will be payable on the second disbursement.

So what happens if the contractor can't wait for 60 days to get the balance of his monies? You have to make sure the contractor can float some funds until the second disbursement is done. You can also use a credit card or cash to pay the contractor the balance if they can't wait

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But be careful when using a credit card or cash. You don't want any subcontractor liens floating around out there that may be placed on your property by a disgruntled worker who didn't get paid by the general contractor. The title company, prior to the second disbursement, will check for any liens which protects you. It's highly recommended that you don't pay for any contractor costs prior to a disbursement. It's just asking for trouble.

Your second disbursement check will include the balance plus your holdback funds. If the holdback funds weren't used, you can possibly use these for more repairs. Once you get notification from the lender of the dollar amount of the holdback funds that haven't been used, you simply get a bid for the added repair and submit for approval to the lender. If there are any holdback funds leftover after that, they will be applied to your loan as principal reduction. It is against the FHA guidelines to cut a check to you for any unused funds. The principal reduction is applied along with the second disbursement of funds once payments to any subcontractors/suppliers that are owed have been paid and any liens that were placed against the property as a result of the contractor work, are cleared.

When the total requested repair amount is less than \$15,000, the lender is not required to inspect the completed work. A letter from the homeowner stating that the job(s) were completed in a workmanlike manner to your satisfaction is usually sufficient to show completion. The lender may however demand a final inspection if they deem it necessary.

Step 9: Inspection and Title Release

As noted earlier, the Streamline issues two disbursement checks. If you are using a contractor(s) you need to be advised that if the contractor was not paid in full for their services and materials in the first disbursement, they will have to wait for the second disbursement for the remainder owed to them. So even though they finished their work a month ago, they have to wait until *all* repairs are completed before anyone gets paid.

If the repairs were greater than \$15,000 than the appraiser has to come back out to the property and issue an addendum stating the work is complete.

What's a title release? As mentioned above, before you receive the second disbursement, the title company will need a letter of job completion before allowing the second disbursement. The title company will then check to make sure there are no contractor liens on your property, and if not, they will instruct the lender to disburse.

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Here's a Typical 203k Streamline Scenario for a Homebuyer

A homebuyer who has been repeatedly outbid by other buyers for prospective homes starts looking at “undesirable” homes that have been on the market for several months. For one reason or another, the property hasn't sold, possibly because of health and safety issues or it needs too much work.

The homebuyer views a property with a keen eye for detail knowing that the Streamline gives you the funds to fix cosmetic repairs.

You find a single family residence listed for sale for \$305,000. You write an offer to purchase the home for \$300,000 with the correct FHA 203k Streamline loan verbiage written into the contract.

Your offer is accepted for \$300,000 and you want \$33,000 in repairs (which includes the 10% holdback funds and lender fees). Congratulations! Next, get your bids including any contractor bids and their personal information and submit them to your lender. Keep in mind, the home inspection may reveal additional repairs.

Next, get your home inspection done and review for any possible repairs.

Your lender will be working on your home loan package to prepare to submit for lender underwriting and your appraisal is ordered.

Once the appraisal is received, your final loan amount can be firmed up, and repair estimates, if necessary, are adjusted.

Your loan, including the appraisal, is submitted for lender underwriting.

Next, your loan is approved with conditions. You work together with your lender to satisfy the conditions and once done, you sign your final loan documents.

The loan documents are signed at the escrow office, and you bring in your down payment funds and closing costs at the same time (sometimes the day after is permitted by escrow depending on your closing date). A day or two later, your loan funds and you receive half of the \$33,000 in repairs for your first disbursement which is \$14,600 ($\$33,000 - \$3,300 \text{ holdback} - \text{lender fees of } \$500 = \$29,200 \text{ divided by } 2 = \$14,600$). There is an FHA worksheet to figure the holdback and fees and this is done by your lender/loan originator. The lender fees stated above are strictly an estimate not a set amount. Each lender has a different set of administration fees.

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Here's a list of your proposed repairs. You have bids, for each one of them that you turned into your lender prior to the appraisal being ordered:

New flooring:	\$2,000 materials + \$2,000 labor = \$4,000
New refrigerator	\$2,000
New cooktop	\$1,000
New washer and dryer	\$1,750
New dishwasher	\$950
New oven	\$1,500
New microwave	\$500
New HVAC	\$8,500 unit + \$1,500 ducting + \$4,400 labor = \$14,500
New carpet	\$1500 material + \$1,400 labor = \$3,000

Total \$29,200	

Your first disbursement of \$14,600 should cover any and all material costs when possible for each project.

You can dictate how you want the \$14,600 first disbursement allotted.

So, in the case of the HVAC repair project, you would want to make sure the materials for the HVAC unit and the ducting materials are ordered in your first disbursement. The labor can be covered in the second disbursement. You would want to make sure that the flooring and carpeting materials are covered in the first disbursement as well. This way the work can be started on these projects and be finished in plenty of time prior to the second disbursement which is roughly 60 days after the first disbursement.

Your second disbursement of \$14,600 will cover the balance of the contractor projects and the self-help projects (appliances among other things). If in the case of having projects that are all self-help (no contractor projects), you would have to split the repair monies into two disbursements as normal. If you are only able to pay for half of the dishwasher in the first disbursement, than you have to wait for the second disbursement to pay for the other half. But if you need that dishwasher right away, you may have to use your credit card to pay for the second half and then use the second disbursement check to pay off the credit card balance.

In light of this, plan ahead on how you arrange your funds to be divided.

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Your jobs requiring a contractor are started and the appliances included in the first disbursement are ordered. Any partially paid self-help item from the first disbursement is either financed with your credit card or you wait to pay the balance with the second disbursement.

You receive the welcome package from the Streamline servicer who controls the escrow/disbursement funds.

Prior to the second disbursement being paid, the title insurance company checks your property to make sure that there are no outstanding general or sub-contractor liens on your property. Once this is done and deemed clear, your second half of the Streamline funds are disbursed and any self-help checks are made payable to you. The contractor-involved projects with balances due are made payable to you *and* the contractor and must be endorsed by *both* of you.

Pay off any outstanding amounts owed on your projects with your second disbursement funds and you are finished! Voila! Congratulations!

There you have it! This should give you a better idea of how the FHA 203k Streamline loan can work for you. Doing your homework in the beginning is critical! If you have any questions, my e-mail and Website address is below. You may also go to my Website and click on the 203k Streamline questionnaire tab on the left and ask a question or describe your scenario.

And as always, you can call me anytime on my cell phone listed below. Also please remember that I do all types of residential real estate loans as well, and it would be an honor if you gave me the opportunity to earn your business.

So dare to dream, and remember a little TLC can go a long way.

All the best,

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