

203k's from OMEGA

Omega Financial Services



MULTI-STATE DIRECT ENDORSEMENT LENDER

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Why FHA 203(k)

- Through the Federal Housing Administration (FHA) 203(k) mortgage insurance program, customers can purchase or refinance their home and include the costs to rehabilitate and repair it in the same loan. This program can help you expand homeownership opportunities while at the same time revitalizing the communities you serve.

FHA 203(k) can help you:

- Expand your market reach
- Help customers find affordable financing and realize the dream of homeownership

Opportunity

- There are customers who:
 - Are interested in purchasing a property that needs repairs
 - Are existing homeowners who need funds to rehabilitate their property
 - Want to save time and money by financing the purchase or refinance with the cost of the repairs
 - May not qualify for a conventional loan
 - Have low-to-moderate incomes
 - Are first-time homebuyers
 - Live in disadvantaged neighborhoods
 - Have credit blemishes or low credit scores
 - Have limited cash for down payment or closing costs
 - Want to improve their home and neighborhood

Solution

- Provide customers an affordable, stable financing solution that combines the purchase or refinance of the home along with the costs of the improvements into a single loan:
 - FHA guidelines apply
 - Opportunity to borrow against the value of the home after improvements
 - Low down payment requirements
 - Flexible credit qualifying
 - Fixed-rate and adjustable-rate mortgages up to 30-year terms
 - Fully assumable loans to qualified customers
 - Owner-occupied 1-4 unit properties, PUDs, condos and REO properties
 - Lower initial monthly payments with optional temporary buydown

Target Markets

- Customers purchasing a home in need of rehabilitation
 - May be REOs, short sales and foreclosures
 - Incomplete renovations
 - Out-dated kitchens, bathrooms, etc.
- Customers refinancing existing home to make improvements
 - Improve instead of move
 - Out-dated kitchens, bathrooms, etc.
 - Expand to accommodate a growing family

Program Eligibility

- **Types of mortgages**
 - 15-, 20-, 25- and 30-year fixed-rate terms
 - 15- and 30-year only with FHA jumbo loan amounts
 - 1-year adjustable-rate mortgage
 - Not allowed with FHA jumbo loan amounts
 - Optional temporary 2/1 buydown
- **Purchase and refinance of owner-occupied, primary residence**
 - Attached and detached single family residences, condos and PUDs
 - 2-4 unit properties
 - REO properties
- **Eligible customers**
 - U.S. citizens
 - Permanent and non-permanent resident aliens
 - Inter vivos revocable trusts
 - Non-occupant co-borrowers

Program Highlights

- OMEGA handles draws
 - Up to five releases allowed—two releases for Streamlined
- Work can be completed by contractor or customer
 - Customer must be qualified and approved to do the work
 - Work must be completed within agreed upon timeframe (no more than six months after closing)
- Up to six months PITI can be included in the mortgage if the property is not occupied during construction
- Loan is fully assumable to qualified customers with no money down

Eligible Improvements

- Virtually any kind of improvement is eligible provided it becomes a permanent part of the real property and adds value, for instance:
 - Additions to the structure
 - Kitchen or bath remodels
 - Finished basement or attic
 - Patios, decks or terraces
 - Roofing and landscaping
 - Safety, energy efficiency and electrical upgrades
 - Handicapped accessibility improvements
- Luxury items are not eligible
 - Swimming pools, hot tubs, tennis courts, gazebos, barbecue pits, saunas or alterations to support commercial use

Credit

- **FHA guidelines apply**
- **Manual underwriting**
 - **Minimum 580 credit score required on loans with FHA standard loan amounts**
 - **Minimum 620 required on loans FHA jumbo loan amounts**
 - **Non-traditional credit permitted**
- **Bankruptcy and foreclosure**
 - **Chapter 7 allowed 24 months after the discharge date, provided that good credit has been reestablished**
 - **Less than 24 months (but not less than 12 months) may be allowed provided the reason for the BK was due to extenuating circumstances and the customer has exhibited an ability to manage financial affairs and the reason for the BK isn't likely to recur**
 - **Chapter 13 allowed after 12 months of the pay-out period provided performance has been satisfactory and customer receives court approval to enter into the mortgage transaction**
 - **Foreclosure or deed-in-lieu allowed after three years**
- **Court ordered judgments and tax liens must be paid**
 - **Tax liens may be included in the refinance**

Income

- Full documentation only
- Miscellaneous income is acceptable, including child support, alimony or maintenance payments, and Note income
 - Must show a 12-month history and evidence that the income will continue for three years
- Self-employed income must be stable
 - Two-year history required
- Rental income acceptable with two-year history
- 31/43% qualifying ratios

Flexible Down Payment and Source of Funds

- Minimum \$5,000 rehabilitation amount
- 3% minimum down payment required
 - Checking, savings or other depository accounts
 - Proceeds from 401(k)
 - Gift from relative, fiancé/fiancée or domestic partner
 - Cash-on-hand
- Interest party contributions allowed up to 6%
- Cash reserves are not required on 1-2 unit properties

203(k) Streamlined

- Allows customers to easily finance an additional \$35,000 into their mortgage to make improvements
 - Cover improvements identified by home inspector or FHA appraiser
 - Available for purchase and refinance transactions
 - Allowed on limited improvement types, including:
 - Roofs, gutters, downspouts
 - Heating and air conditioning
 - Upgrade/repair plumbing, septic, well and electrical systems
 - Replacement of flooring, windows, doors, siding
 - Weatherization, painting, basement waterproofing
 - Minor remodels that don't involve structural repairs
 - Purchase and installation of appliances
 - Handicapped accessibility improvements
- **Streamlined 203(k) is subject to the same guidelines as FHA 203(k)—it is the improvements that are “streamlined”**

Good Neighbor Next Door

- Additional benefits for customers who serve their communities
 - Such as police officers, firefighters, emergency medical technicians and school teachers
 - 1-unit, PUDs and condos
 - Minimum \$100 down payment
 - Closing and financing costs can be included in mortgage amount
 - Customers must agree to occupy the property as a primary residence for three consecutive years
 - Designated HUD-owned properties in revitalization/exception areas are eligible at 50% off the sales price

Application Process



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graph TD; A[Homebuyer locates property and signs a sales contract (purchase subject to home inspection)] --> B[Homebuyer schedules an inspection with a 203(k) cost consultant to budget the improvements]; B --> C[Once budget is approved by customer, cost consultant completes the work write-up and prepares contractor bid packages to obtain cost estimates]; C --> D[Appraiser uses work write-up to determine "as-is" and "improved value"]; D --> E[Loan closes]; E --> F[Construction begins within 30 days of loan closing—must be completed in six months or less];
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Homebuyer locates property and signs a sales contract
(purchase subject to home inspection)

Homebuyer schedules an inspection
with a 203(k) cost consultant to budget the improvements

Once budget is approved by customer, cost consultant completes the
work write-up and prepares contractor bid packages to obtain cost
estimates

Appraiser uses work write-up to determine “as-is” and “improved value”

Loan closes

Construction begins within 30 days of loan closing—must be completed
in six months or less

Determining the Value and Renovation Costs

- The loan-to-value is based on the lesser of:
 - The sales price or "as is" appraised value plus cost of rehabilitation minus sales concessions or
 - 110% of "as completed" appraised value
- When a 203(k) loan is coupled with an energy efficient mortgage, the base loan amount may exceed the county maximum up to \$8,000

Example: Determining the Maximum Loan Amount

EXAMPLE: purchase of a 1-unit property with 97/97% LTV — owner-occupied property only		
Purchase and Renovation Costs		
Sales Price (“as is” appraised value)	\$	120,000
Labor/Material	\$	24,500
Soft Costs	\$	2,200
Contingency (<i>utilities functioning – 10% required</i>)	\$	2,670
Monthly PITI (<i>Not required to vacate property during renovations</i>)	\$	0
Total for Purchase and Renovation	\$	149,370
“As-completed” value (determined by appraiser)	\$	160,000
<p>Value to use for determination of LTV must be the lesser of the sales price or “as is” appraised value plus cost of rehabilitation minus sales concessions, or 110% of the “as completed” appraised value. <i>In this example, \$149,370 is less than 110% of the “as completed” appraised value of \$176,000, therefore the value you must use when determining the maximum loan amount is \$149,370.</i></p>		
Maximum Loan Amount at 97%	\$	144,888.90

Funding the Loan

\$200,000 Total Loan Amount (\$175,000 purchase or refinance plus \$25,000 rehabilitation cost)*	
Item	Amount
Amount for purchase or refinance	\$175,000
Rehabilitation amount	\$25,000
Total loan amount	\$200,000
Total amount to be sent by Lender to the closing agent	\$200,000
Closing agent disburses funds (\$175,000 for purchase or refinance and \$25,000 to Lender to deposit into an interest-bearing escrow account)	\$200,000
Countrywide wires Lender	\$175,000
Lender transfers rehabilitation from escrow account back to warehouse line	\$25,000

* This simplified example is for illustrative purposes only and does not include any fees associated with the transaction

FHA 203(k) Draw Process

- After the loan is purchased
 - Welcome package is sent to the customer
 - Signed W-9 form required from contractor before funds can be drawn
 - Disbursements are made as each phase of the project is completed based on the draw paperwork provided by the cost consultant
 - Exception is for the cost of flooring, roofing, cabinets and windows—50% of the cost of these items can be disbursed upfront as part of a normal draw
 - Inspections are required prior to each disbursement
- A maximum of five draws allowed
 - Draw amounts may vary and are based on the work performed
 - A 10% reserve is withheld on each draw—a “holdback”
 - “Holdback” funds are disbursed upon completion of all work

Streamlined FHA 203(k) Draw Process

- After the loan is purchased
 - 50% of the rehabilitation funds are disbursed immediately
 - For customers doing the work themselves, a self-help agreement is required before any funds are disbursed—the check is made payable to the customer
 - For customers working with a contractor, a W-9 must be provided to establish the contractor as approved—a two-party check is made payable to both the customer and the contractor, the check will be sent to the customer
 - Included with the initial disbursement is an instruction letter detailing the receipt of the final disbursement
 - The balance is disbursed upon completion of all work
 - If the cost of the renovation is over \$15,000, an inspection by the original appraiser is required
- Two disbursements are made
 - One shortly after loan purchase
 - Second and final disbursement once all work has been completed

Contingency Reserve

- Used to cover health, safety and unplanned issues that arise during construction
- Required on FHA 203(k); recommended on Streamlined
- Required on properties older than 30 years and/or over \$7,500 in rehabilitation costs
- A minimum of 10% of the cost of rehabilitation and maximum of 20%
- If not used (after all construction is complete) the remaining amount can be
 - Applied to principal OR
 - Used to make other improvements (additional approval is required)

“Holdback” Funds

- Used as an incentive to insure all work is completed
- Required on FHA 203(k) only—not Streamlined 203(k)
- 10% of the cost is withheld from each draw
 - All payments are impacted by this requirement
 - For deposits on flooring, roofing, cabinets and windows there is no holdback on the deposit, but the final payment is subject to the holdback
 - Disbursed after all work has been completed and inspected
- Make sure all parties involved in the rehabilitation understand the holdback requirement

Tips and Tools

- Make sure all parties understand the draw process
 - When the first and all subsequent draws are made
 - How many draws are allowed—maximum five for 203(k) and two for Streamlined 203(k)
- Title must be clear before final payment is made
- The most common cause for a delay in draw is a missing W-9
- Cost consultants can help make the process easier — they are listed by location (search neighboring towns to locate additional cost consultants)
- Omega will be your contact for Draws

Resources

For information about FHA loans please visit our website

www.FHAomega.com

Loan limits, HUD Consultants, FHA Guidelines and a link to the HUD website

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