

## **IMPORTANT FACTS ABOUT RENOVATION LOANS**

### **There are 2 types of FHA rehab loans – 203K & 203K Streamline**

1. **There is no longer a minimum of \$5,000 in repairs for 203K Streamline.**
2. **A Contingency Reserve of 10% to 20% is added to the cost of repairs.** This is used for unexpected repairs or cost over-runs (amount determined by the Consultant or Underwriter)
3. **A "Work Write-Up" that outlines the project and costs is required on most rehab loans with the exception of a 203K Streamline.** A HUD Consultant typically meets the borrower for a site inspection to define the scope of work ("required" and/or "desired" repairs), and then prepares cost estimates and required documents for the appraiser and the lender.
4. **The Consultant Fee is payable directly to the Consultant at time of initial inspection.** If the loan does not close, the fee is NOT refundable.
5. **Additional inspections are required.** For all loans properties with wells and/or septic systems must have water purity and/or septic certifications. Inspections by specialized contractors or structural engineers may be required if so determined by the Consultant, Appraiser or Underwriter.
6. **Using a General Contractor is highly recommended.** For 203K only acting as your own contractor is permitted if the borrower has past experience in the contracting field. For plumbing electrical or roofing a licensed contractor is always required.
7. **Unused money can be used for additional improvements only after the original work items are completed.** It can also be applied to the principal balance of the loan.
8. **Start-up money is not given at closing however on a 203K Streamline up to 50% of the rehab amount can be requested immediately following the closing.** After closing the work can start. Funds are not released in advance of completing work\*. Payment will be made only for materials that are installed (partially finished items can be pro-rated).  
\*The only exception to this is for deposits required by suppliers to order special-order items of cabinets or flooring (deposits for contractors are not included under this exception).
9. **A Draw Inspection is scheduled after a portion of the work is completed. On a 203K Streamline if the rehab amount is under \$15,000 no inspections are required. If over \$15k inspections are required.** The Consultant will make a site visit to verify that work has been completed. Invoices from contractors and/or receipts for materials are required for each draw. Only materials that have been installed can be reimbursed
10. **A 10% hold back is deducted from the actual requested amount for each draw.** These funds are disbursed after completion of all repairs and a final title check is made for possible mechanics liens.
11. **For a 203K Streamline there is a maximum of 2 draws per contractor. For a 203K there can be up to 5 draws.** The 5<sup>th</sup> draw must be the final and is not disbursed a title update is complete.
12. **Building Permits and UL Inspections are required where applicable.** It is assumed that all work requires a building permit unless it is stated otherwise by the Consultant, or in a letter from the municipalities building department. UL inspections are required for ALL electrical work.