

# FHA :: 203(k) Renovation Guidelines

## Overview

The Standard FHA 203(k) Mortgage may be used for remodeling and major repairs. There is a minimum repair cost of \$5000 and the use of a 203(k) Consultant is required.

## Base Program Guidelines

AFR’s loan program is based on HUD’s FHA 203(b) program. The base program guidelines can be found on HUD’s website in the 4000.1 handbook, here:

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/handbook\\_4000-1](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1)

## AFR's Specifications & Overlays

<p><b>Channels</b></p>	<ul style="list-style-type: none"> <li>• Broker</li> <li>• Correspondent             <ul style="list-style-type: none"> <li>◦ Table Funded</li> <li>◦ Non-Delegated UW</li> <li>◦ Delegated UW</li> <li>◦ <b>Important:</b> CDE Clients <u>must</u> complete an interview with the AFR Renovation Department and be approved <u>prior</u> to submission on any FHA 203(k) transaction.</li> </ul> </li> </ul>
<p><b>FICO</b></p>	<p>Minimum Qualifying Credit Scores:</p> <ul style="list-style-type: none"> <li>• 580 for all qualifying borrowers</li> </ul>
<p><b>UW Method</b></p>	<ul style="list-style-type: none"> <li>• Total Scorecard:             <ul style="list-style-type: none"> <li>◦ Desktop Underwriter (DU)</li> <li>◦ Loan Product Advisor (LPA)</li> </ul> </li> </ul>
<p><b>AUS Recommendation</b></p>	<ul style="list-style-type: none"> <li>• Approve/Eligible – DU</li> </ul>

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	<ul style="list-style-type: none"> <li>• Refer/Eligible - DU</li> <li>• Risk Class Accept – LPA</li> <li>• Risk Class Refer – LPA</li> </ul>
<b>Eligible Terms</b>	<ul style="list-style-type: none"> <li>• 10Yr., 15Yr., 20Yr., 25Yr., 30Yr. Fixed</li> <li>• 5/1 Hybrid ARM – Suspended 7/14/2022, until further notice</li> </ul>
<b>Eligible Transaction Types</b>	<ul style="list-style-type: none"> <li>• Purchase</li> <li>• Rate/Term Refinance</li> </ul>
<b>Eligible Property Types</b>	<ul style="list-style-type: none"> <li>• 1-4 Unit Primary Residence</li> <li>• Manufactured Housing: <ul style="list-style-type: none"> <li>◦ Where the rehabilitation does not affect the structural components of the Structure that were designed and constructed in conformance with the FMHCSS and must comply with all other requirements for manufactured housing.</li> </ul> </li> <li>• FHA Approved Condos: <ul style="list-style-type: none"> <li>◦ Rehabilitation or improvements are limited to the interior of the unit, except for the installation of firewalls in the attic for the unit</li> <li>◦ No more than 5 units per condominium Association, or 25% of the total number of units, whichever is less, can undergo rehabilitation at anytime</li> <li>◦ After rehabilitation is completed, the unit is located in a Structure containing no more than 4 units.</li> </ul> </li> <li>• Site Condominium</li> <li>• PUDs</li> <li>• HUD REO: <ul style="list-style-type: none"> <li>◦ The Property is identified as eligible for 203(k) financing as evidenced in the sales contract or addendum. Investor purchases of HUD REO properties are not eligible for 203(k) financing.</li> </ul> </li> </ul> <p>Reminders:</p> <ul style="list-style-type: none"> <li>• Property must be an existing Property that has been completed for at least one year prior to the case number assignment date.</li> <li>• A Property that is not eligible for a 203(b) Mortgage due to health and safety or security issues may be eligible under 203(k) if the rehabilitation or repair work performed will correct such issues.</li> <li>• A Property with an existing 203(k) Mortgage is not eligible to be refinanced until all repairs are completed and the case has been electronically closed out.</li> <li>• Cashback on Rate/Term Refinance transactions is not permitted.</li> </ul>
<b>Maximum LTV/CLTV/HCLTV</b>	<ul style="list-style-type: none"> <li>• Purchase 96.50%</li> <li>• Rate/Term 97.75%</li> </ul>

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<p><b>Maximum DTI</b></p>	<ul style="list-style-type: none"> <li>• Approve/Eligible or Risk Class Accept - Follow AUS</li> <li>• Refer/Eligible or Manual Underwriting – Follow FHA Guidelines</li> </ul>
<p><b>Ineligible Repairs</b></p>	<ul style="list-style-type: none"> <li>• Any repair/removal/remediation of Oil Tanks</li> </ul>
<p><b>AFR 203(k) Restrictions</b></p>	<ul style="list-style-type: none"> <li>• The contractor bid cannot exceed the consultant's write up and it must be within the contingency percentage.</li> <li>• Raising/demolition of home down to its foundation is not permitted</li> <li>• Physical relocation of a home from another location is not permitted</li> <li>• Self-help is not permitted</li> <li>• AFR permits only 1 General Contractor; Multiple General Contractors are not permitted</li> <li>• AFR does not permit identities/conflicts of interest between the borrower and contractor. The borrower and contractor may not be related nor can there be any employee/employer relationship.</li> <li>• AFR will require stamped and sealed line drawings by a licensed engineer or architect with a statement provided that permits can be obtained when any type of addition is being done or a zoning modification is going to be needed.</li> <li>• 2nd level review by AFR Management on any property that is identified to have a current "As-is" property condition rating of C5 or C6. Loan is subject to additional requirements/conditions. Note: "As Completed" Property Condition Rating as determined by the Appraiser must be C1-C4.</li> <li>• If the utilities are off the time of the inspection, the Appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the utilities turned on, then a pressure test and electrical test is required and must be completed by an appropriately licensed professional.</li> <li>• AFR permits the renovation of an existing Accessory Dwelling Unit (A.D.U.) Attached or Detached. Construction of a new detached A.D.U. is not permitted.</li> </ul>
<p><b>Geographic Restrictions</b></p> <p><b>Please Note: This section has been highlighted to inform you about recent changes to this program.</b></p>	<ul style="list-style-type: none"> <li>• <b>New York</b> <ul style="list-style-type: none"> <li>◦ <b>Temporarily suspended as of 10/20/2023.</b></li> </ul> </li> <li>• Hawaii <ul style="list-style-type: none"> <li>◦ AFR does not operate in the state of Hawaii and does not permit loans with a subject property in Hawaii for all programs in all channels with the exception of Correspondent Delegated UW transactions.</li> </ul> </li> <li>• AFR requires the use of AFR's Texas counsel on all Texas transactions with the exception of Correspondent Delegated loans. AFR utilizes this 3<sup>rd</sup> party for document preparation and require 48 hours for both title review and to generate a closing package.</li> </ul>

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<p><b>Borrower</b></p>	<ul style="list-style-type: none"> <li>• AFR does not permit nonprofit organizations and state and local government agencies to purchase rental properties.</li> <li>• A borrower with more than 4 financed properties requires a second level review by management.</li> <li>• AFR requires each MyLoanCenter account (borrower, co-borrower, spouse, third party, etc.) to have a unique email address regardless of their marital status.</li> </ul>
<p><b>Credit</b></p>	<ul style="list-style-type: none"> <li>• 1 credit score required for all qualifying borrowers. Use the middle score if 3 credit scores or the lower of the two if 2 credit scores. Lowest representative score from all borrowers will be used for qualification purposes.</li> <li>• Mortgage Sanctions and defaulted CAIVRS are not permitted</li> <li>• Non-traditional credit is not permitted with the exception of Correspondent Delegated UW transactions that have an AUS Approve/Eligible or Accept recommendation.</li> <li>• Housing History: <ul style="list-style-type: none"> <li>◦ If the loan is manually Underwritten and/or mortgage is not analyzed through AUS, 0x30 required for the most recent 12 months</li> <li>◦ As a reminder, if, in AFR's judgement, the applicant does not have the ability or willingness to repay the loan, the DE Underwriter does have the ability reject the application regardless of written guidelines being met</li> </ul> </li> </ul>
<p><b>Property</b></p>	<ul style="list-style-type: none"> <li>• Follow ML <a href="#">2022-11</a> for Appraisal Validity periods</li> <li>• Escrow holdbacks not permitted with the exception of cold weather (adverse weather) related repairs. Borrower(s) are required to enter into an escrow agreement and in most cases require a contractor bid. AFR will determine an acceptable contingency reserve. This should not be confused with a Repair Escrow.</li> <li>• AFR will not permit a property with an individual residential water purification system</li> <li>• The following property types are not permitted: <ul style="list-style-type: none"> <li>◦ Non-FHA Approved Condominiums</li> <li>◦ Co-Ops</li> <li>◦ Manufactured Housing that has been moved and/or traded</li> <li>◦ AFR will not permit properties with more than 100 acres</li> </ul> </li> <li>• AFR requires a disaster report completed by a licensed appraiser on all properties on all transactions in a Presidentially Declared Disaster Area with individual assistance. If the loan is closed, AFR may require this report up to 60 days after the date of the disaster declaration. If the loan has not already closed and funded, AFR will not close or fund until the inspection report is completed to AFR's satisfaction. In all cases, the inspection must be dated after the affected incident period. The disaster report must comply with applicable agency guidelines. On a case-by-case basis AFR may allow a loan to close and fund if the incident period was declared more than 14 days prior to the scheduled closing date. Originators are responsible for determining potential impact to a property located in an area where a disaster is occurring or has occurred. This is regardless of whether a property was included in the area covered by the declaration. If an originator has reason to believe that a property might have been damaged in a disaster the originator must work with AFR to ensure that the property is free from</li> </ul>

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	<p>damage. Please note, that due to the nature of natural disasters AFR may amend this policy and add additional restrictions at any time without notice.</p>
<p><b>Assets</b> Please Note: This section has been highlighted to inform you about recent changes to this program.</p>	<ul style="list-style-type: none"> <li>• Sweat Equity not permitted</li> <li>• Private Savings Clubs or Pooled Savings Accounts are not permitted</li> </ul>
<p><b>Income</b></p>	<ul style="list-style-type: none"> <li>• Marijuana income is unacceptable income regardless of state law.</li> <li>• AFR does not allow amended tax returns after application date. All amended tax returns within 90 days of the application date must be stamped and signed by the IRS or have transcripts.</li> <li>• AFR follows income calculations guidance from <a href="#">ML 2022-09</a></li> </ul>
<p><b>Programs</b></p>	<ul style="list-style-type: none"> <li>• AFR does not participate in the following Programs: <ul style="list-style-type: none"> <li>◦ Energy Efficient Mortgage Program</li> <li>◦ Hope for Homeowners (H4H) Program</li> <li>◦ Negative Equity Positions Program (Short Refi)</li> <li>◦ Indian Land Program (Section 248)</li> <li>◦ Indian Home Loan Guarantee Program (Section 184)</li> <li>◦ Home Equity Conversion Mortgage (HECM) Program (Section 255)</li> <li>◦ Graduated Payment Mortgages (GPMs) and Growing Equity Mortgages (GEMs) Program (Section 245(a))</li> <li>◦ Single Family Cooperative Program (Section 203(n))</li> <li>◦ Home Mortgage Insurance for Outlying Areas Program (Section 203(i))</li> <li>◦ HUD Section 8 Homeownership Program</li> <li>◦ Temporary Interest Rate Buydowns not permitted</li> </ul> </li> <li>• AFR permits CEMA transactions on NY properties: <ul style="list-style-type: none"> <li>◦ AFR requires an approved closing attorney in NY to conduct all NY settlements. You or the borrower may choose from the list below: <ul style="list-style-type: none"> <li>◦ Richard H. Lovell, Esq. - (Closing all transactions, including CEMA)</li> <li>◦ Jared Kaplan, Esq. - (Closing all transactions, including CEMA)</li> </ul> </li> </ul> </li> </ul>
<p><b>Ownership Types</b></p>	<p>The following are ineligible for submitting/delivery to AFR:</p> <ul style="list-style-type: none"> <li>• Life Estate</li> <li>• Blind Trusts</li> <li>• Irrevocable Trusts</li> <li>• 1031 Exchanges</li> <li>• LLCs, Corporations and Partnerships</li> <li>• Community Land Trusts</li> <li>• Leasehold – Manufactured Housing</li> </ul> <p>Vesting on the title commitment must remain unchanged/unaltered through the life of the loan. Any title transfer must be completed/recorded prior to the application.</p>

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<p><b>Compliance</b></p>	<ul style="list-style-type: none"> <li>• AFR’s Net Tangible Benefit Policy/Recoupment Policy</li> <li>• See AFR Resource Center for AFR Policy/State Requirements/Forms</li> <li>• When a state has a more restrictive recoupment policy, this policy must be met</li> <li>• AFR does not close and/or purchase any New York loan that is a subprime home loan. All NY Loans must be tested the time the commitment is prepared.</li> <li>• If the APR at the time of commitment cannot be determined AFR will not proceed with or purchase a Correspondent (Table Funded, Non-Delegated UW or Delegated UW loan.</li> <li>• Any loan that is classified as Rebuttable Presumption or a Higher-Priced Mortgage Loan (HPML) must have all HPML provisions applied. AFR follows Regulation Z requirements for Higher-Priced Mortgage loans. <ul style="list-style-type: none"> <li>◦ Loans must have an ability to repay (loan must be full income/credit qualifying transaction)</li> <li>◦ Loan must have an established escrow account (with the exception of Condos and PUDs where the consumer must participate in a governing association that is required to purchase a master policy insuring all dwellings) – see the TILA HPML Escrow Rule for more guidance.</li> <li>◦ Loan cannot have a prepayment penalty (AFR does not permit prepayment penalties)</li> </ul> </li> <li>• File remains subject to all Qualified Mortgage (“QM”) and Ability-to-Repay (“ATR”) underwriting guidelines, including Points and Fees thresholds through consummation. AFR will not originate, close, fund, or purchase any loan that is not legally deemed as a QM.</li> <li>• All loans must provide evidence of the borrower’s compliance of QM/ATR with a compliance report. Note: Correspondent Delegated UW transactions must have a compliance report evidencing compliance.</li> <li>• All loans must provide evidence of the borrower’s ability to repay with a fully completed/executed Ability to Repay Worksheet. Note: Correspondent Delegated UW transactions must have a fully completed/executed Ability to Repay Worksheet showing evidence the borrower meets the ability to repay requirements.</li> <li>• AFR will not originate loans as a high cost or predatory mortgage loan</li> <li>• AFR will comply in all respects with CFPB’s Rule on TILA-RESPA Integrated Disclosures. AFR will not originate, close, fund, or purchase any loan that does not adhere to the Rule.</li> </ul>
<p><b>Miscellaneous</b></p>	<ul style="list-style-type: none"> <li>• AFR requires all Correspondent Delegated (CDE) transactions to be purchased within 90 days of the Note date.</li> </ul>
<p><b>Temporary COVID-19 Guidance</b></p>	<p><b>Reference Mortgagee Letters:</b></p> <ul style="list-style-type: none"> <li>• <a href="#">2020-05</a></li> <li>• <a href="#">2020-14</a></li> <li>• <a href="#">2020-20</a></li> <li>• <a href="#">2020-23</a></li> <li>• <a href="#">2020-24</a></li> </ul>

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- [2020-28](#)
- [2020-30](#)
- [2020-37](#)
- [2020-40](#)
- [2020-46](#)
- [2020-47](#)
- [2021-06](#)
- [2021-07](#)
- [2021-16](#)
- [FHA FAQ's](#)

**Self-employment 10-day preclosing verification ensuring the business is currently operating:**

**Note: For case numbers assigned on or before September 30, 2021**

- Evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the verification is completed),
- Evidence of current business receipts within 10 days of the note date (payment for services performed,
- Documented certification that the business is open and operating (through a phone call or other means); or
- Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

**Housing Obligations / Mortgage Payment History:** For FHA transactions and due to the CARES Act, AFR requires additional documentation for all borrower(s) who have existing mortgage obligations to ensure those obligations are current. Documentation includes the following:

- 12-month payment history provided by the servicer(s) for each existing mortgage, or
- Third-party verification service to confirm 12-month mortgage/rent payment history.

Note: Follow current 4000.1 for Housing Obligations/Mortgage Payment History requirements.

**Rental Income Used to Qualify:** For case number assignment on or after **8/12/2020 through 9/30/2021** AFR will following guidance announced in [ML 2020-24](#) and extended in [ML 2020-40](#), [ML 2020-46](#), [ML 2021-07](#) and [ML 2021-16](#) where a borrower is qualifying utilizing rental income, for each property generating rental income the lender must either:

- Reduce the effective income associated with the calculation of rental income by 25%, or
- Verify 6 months PITI reserves, or
- Verify the borrower has received the previous 2 months rental payments as evidenced by borrower's bank statements showing the deposit. (This option is applicable only for borrowers with a history of rental income from the property).

Note: Follow all other guidelines outlined in 4000.1

**Note: This temporary policy guidance expires September 30, 2021**

***Note: All overlays above are subject to change by AFR without notice.***

