

CHAPTER 3. PROCESSING PROCEDURES

- 3-1. GENERAL. This chapter describes the processing procedures required to obtain a Conditional Commitment from HUD or a Statement of Appraised Value from a Direct Endorsement lender. This information is required whether the mortgage on the property is in a first or second lien position.
- 3-2. STEP-BY-STEP PROCEDURES.
- A. Preliminary Feasibility Analysis. After the property is located, the homebuyer should make a marketability analysis prior to signing the sales contract. The following should be determined:
- 1) The extent of the rehabilitation work required;
 - 2) Rough cost estimate of the work; and
 - 3) The expected market value of the property after completion of the rehabilitation of the property.

The borrower does not want to spend money for appraisals and repair specifications (plans), then discover that the value of the property will be less than the purchase price (or existing indebtedness) plus the cost of improvements.

- B. Sales Contract. A provision should be included in the sales contract that the buyer has applied for Section 203(k) financing and that the contract is contingent upon loan approval and buyer's acceptance of additional required improvements as determined by HUD or the DE lender.
- C. Architectural Exhibits. The improvements must comply with HUD's Minimum Property Standards (24 CFR 200.926d and/or HUD Handbook 4905.1) and all local codes and ordinances. The homebuyer may decide to employ an architect or a design consultant to prepare the proposal. The homebuyer must provide the lender the appropriate architectural

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exhibits that clearly show the scope of work to be accomplished. The following list of exhibits are recommended, but may be modified by the local HUD Field Office as required:

- 1) Plot Plan (for new additions) showing the location of the structure(s), walks, drives, streets, and other relevant detail. Include finished grade elevations at the property corners and building corners. Show the required flood elevation.

- 2) Existing Plan of the structure.
- 3) Proposed Plan (show where structural or planning changes are contemplated; if there are no major changes, then only an existing plan is needed).
- 4) Description of Materials (HUD Form 92005) or similar acceptable format acceptable to the HUD Field Office.
- 5) Work Writ-up. Any format may be used, however, quantity and cost of each item must be shown. Use the Rehabilitation Checklist in Appendix 1 to ensure all work items are considered. Transfer costs to the Draw Request (Form HUD 9746-A).

Cost estimates must include labor and materials sufficient to complete the work. Homebuyers doing their own work cannot eliminate the cost estimate for labor, because if they cannot complete the work there must be sufficient money in the escrow account to get a subcontractor to do the work. The Work Write-up does not need to reflect the color or specific model numbers of appliances, bathroom fixtures, carpeting, etc., unless they are non-standard units.

- 6) Draw Request (Form HUD 9746-A) or similar acceptable computerized form.

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- 7) Inspection Report from a qualified architectural, engineering or home inspection service (i.e., members of the American Society of Home Inspectors) to:
 - a. Report on existence of rodents, dryrot, termites and other infestation; include information on how to correct the problem.
 - b. Report on any item in the property that may affect the health and safety of the occupants (i.e., lead based paint, etc.)
 - c. Report on the adequacy of the existing structural, heating, plumbing, electrical, and roofing systems. The report should include requirements for upgrading of thermal protection.

Where required by the local HUD Field Office, provide an earthquake hazard evaluation for seismic stability (Seismic zones 3 and 4).

D. Homebuyer Selects Mortgage Lender. Names of FHA approved lending

institutions which fund mortgages are generally listed in the Yellow Pages under "Mortgages." Homebuyer submits two sets of architectural exhibits to the lender. After review and acceptance of the architectural exhibits, the lender prepares the following:

- 1) HUD Form 92800, HUD Application for Property Appraisal and Commitment;
- 2) HUD Form 92900, Application for Commitment for Insurance Under the National Housing Act;
- 3) Homebuyer's Qualification Statement, where applicable.

Adequate documentation from the homebuyer is required when the homebuyer is doing some or all of the rehabilitation work, confirming that homebuyer is competent to do the work.

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- E. Acceptance of Borrower's Application. Lender calls HUD Field Office for the assignment of a case number, plan reviewer, fee appraiser and fee inspector. Lender must state that the application will be submitted under Section 203(k). All sets of exhibits are provided to the plan reviewer for scheduling of a review inspection on-site with the homebuyer and contractor. The HUD Case Binder should be marked "203(k)."
- F. Plan Reviewer's Responsibilities (HUD fee panel, DE staff or fee consultant). Field Offices must establish a fee plan reviewer on their fee inspector panel. Existing fee inspectors can be trained as a plan reviewer, however, limit the number of plan reviewers that review these documents so they will become proficient at processing a 203(k) property.
 - 1) Review the architectural exhibits for compliance with HUD requirements. Homebuyer and contractor should be in attendance, when possible;
 - 2) Inspect the house to determine that all health and safety items have been properly noted on architectural exhibits.
 - 3) Review adequacy of the Work Write-up, Description of Materials and Draw Request.

Upon completion, return the exhibits to the lender with a letter indicating acceptance of the architectural exhibits. If exhibits are unacceptable, return them to the homebuyer for correction. If exhibits are acceptable, the lender sends appraisal package and two sets of exhibits to the appraiser (If DE lender, then only one set is necessary).

The plan reviewer reviews the submitted documents for completeness to ensure they accurately reflect the proposed work, including the repair of all health and safety items. The plan reviewer should not require additional items that do not affect the health and safety of the home, or the provisions of Handbook 4905.1, Requirements for Existing Housing. The plan reviewer is not responsible for an in-depth review of the cost estimate(s), but reviews them to determine they are reasonable and do not exceed the cost data publications from R.S. Means Co., Inc., "Repair and Remodeling Cost Data" book or the "Home-Tech Remodeling and

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Renovation Cost Estimator." If these books are used the field office will not question the reliability of the cost estimates.

Where possible, the plan reviewer should try to avoid rejecting the case by correcting the exhibits for simple changes and ask the homebuyer and contractor to initial them. However, the plan reviewer may reject a case not in compliance with the architectural exhibit requirements. The rejection should be explained, but the plan reviewer has no responsibility to assist in correcting the deficiencies in the exhibits, nor is the plan reviewer responsible for coordinating the efforts of the homebuyers and the contractors.

G. Appraiser's Responsibilities. Perform two appraisals;
See paragraph 2-2:

- 1) An "As-is" appraisal, establishing the value of the property prior to any rehabilitation; and
- 2) An "After Rehab" appraisal, establishing the value of the property after the rehabilitation work has been completed.

Field Office should designate only certain appraisers to do 203(k) appraisals after training them in the procedures outlined in this handbook. Not all appraisers on the HUD panel should be assigned 203(k) properties.

The appraiser does not include VC Conditions on the appraisal report. The loan cannot be completed unless all of the work items are in the cost estimate. If the appraiser believes that additional items that may affect the health and safety of the occupants should be added to the work writeup, then the appraisal should not be done and the plan reviewer should be consulted to reevaluate the problem(s). An additional fee cannot be charged by the plan reviewer. The appraisal can be completed only after the plan reviewer ensures that the items have been included in the work writeup and cost estimate.

Upon Completion, return appraisal package and all exhibits to DE lender or HUD Field Office.

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H. Receiving Clerk Responsibilities (HUD processed case).

1) Upon receipt of the appraisal package:

- a. Review the appraisal and the architectural exhibits for completeness; ensure that all plans have the correct case number.
- b. Date stamp appraisals and place all documents in appropriate case binder. Enter date received on CHUMS Appraisal Receiving Logging Screen.
- c. Stamp one set of architectural exhibits "Builder's/Inspector's Copy".

2) If acceptable, forward case binder to Valuation Branch.

3) If unacceptable, return exhibits to fee appraiser for correction.

I. Valuation Processing. Refer to paragraph 2-3.

J. Contingency Reserve. Refer to paragraph 1-9.F.

K. Issuance of Conditional Commitment/Statement of Appraised Value. Refer to paragraph 2-4.

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