

## Product Guidelines

### FHA 203(b) Repair Escrow - HUD REO

PROGRAM CODES: F30FRE, F15FRE, H30FRE, H15FRE

Version 4.3 – 07/21/21



PURCHASE			
Maximum LTV*	Max Loan Amount	Max Ratios	Mortgage/Rental History
MINIMUM FICO 500			
90.00%	Per FHA Max County Limits. See Loan Amount Matrix Below.	AUS Accept: Per AUS Manual: 31%/43%*	Evaluated by AUS
MINIMUM FICO 580+			
96.50%	Per FHA Max County Limits. See Loan Amount Matrix Below.	AUS Accept: Per AUS Manual: 31%/43%*	Evaluated by AUS

CMS must initially calculate the mortgage amount in accordance with the Section 203(b) requirements. CMS must add to the amount resulting from that calculation the amount of an escrow account for the completion of repairs after closing.

The maximum escrow amount must be based on the sum of the repairs required to meet the intent of HUD's MPR, plus a 10 percent contingency. The total escrow amount, including the 10 percent contingency, must not exceed \$11,000.

\*DTI may exceed 43% with compensating factors documented in the file and manual underwrite. Refer to Manual Underwrite section for additional information.

Underwriting Guidelines Requirements (All loan amounts must be submitted through FHA's Total Score Card)				
MAXIMUM LOAN AMOUNTS				
	# of Units	Lowest Maximum ("Floor")	Highest Maximum ("Ceiling") Conforming	Highest Maximum ("Ceiling") for High Balance
Continental U.S.	1 Unit	\$356,362	\$548,250	\$822,375
	2 Units	\$456,275	\$702,000	\$1,053,000
	3 Units	\$551,500	\$848,500	\$1,272,750
	4 Units	\$685,400	\$1,054,500	\$1,581,750
Maximum Loan Amt (Base)	Max Base Loan Amount cannot exceed the FHA Statutory Mortgage Limits for each county and under no circumstances will a county's mortgage limit be less than the "floor" or greater than the "ceiling" as outlined in the 4000.1.			

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#### COLLATERAL

Appraisal Requirements	<p>The Repair Escrow program is intended to enable uncomplicated rehabilitation to a home. Appraisals may only be performed by an appraiser listed on the FHA roster. Obtain an "as-is" appraisal and the appraisal must be marked as one of the following "Insurable", or "Insurable with Repairs". HUD's REO appraisal may be available at no charge. If the original HUD REO appraisal is available, a new appraisal may not be ordered when the sales price exceeds the "as-is" value specified on the M&amp;M's appraisal. If the M&amp;M Contractor's appraisal is more than 120 days old, the lender may order an updated "as-is" appraisal. The original appraisal must be used if a valid sales contract was executed prior to the expiration date of the appraisal. A second appraisal may only be ordered under the following circumstances: if the current HUD REO appraisal has expired, if there are material deficiencies with the current appraisal as determined by the DE Underwriter, or the original HUD REO appraisal is not made available by the M&amp;M Contractor. Refer to HUD REO appraisal requirements listed below.</p> <p><b>Note:</b> The case # on the HUD M&amp;M appraisal should not be changed if the original HUD REO appraisal was used.</p>
Appraisal Requirements - If Original HUD REO Appraisal is not Available	<p>An "as-is" appraisal is required with a statement of insurability. The statement of insurability on the appraisal must be marked as "insurable with repairs". The Property Condition Report (PCR) must be provided to the appraiser prior to inspection. In addition, the Listing History must be included in the file with the original list price. The property listing may be located at: <a href="http://www.HUD.GOV/hudhomes">www.HUD.GOV/hudhomes</a>. If the listing history is not present, the M&amp;M Contractor may provide.</p>
Appraisals Over 120 Days Old	<p>Appraisals are valid for 120 days on existing construction. The lender must order an updated appraisal when the M&amp;M's contractor's appraisal is more than 120 days old and a valid sales contract was not executed prior to the expiration date of the appraisal. The additional appraisal must be an "as-is" appraisal.</p> <p>If the updated appraisal results in a lower "as-is" value of the property, the borrower(s) will be given the opportunity to proceed with the transaction with no adjustment made to the sales price. If the updated appraisal results in a higher "as-is" value, the sales price will not be adjusted. The mortgage amount will be based upon the value established by the updated appraisal. However, the mortgage amount may not exceed the sales price indicated on the sales contract.</p> <p>The updated appraisal must be used when processing the application.</p> <p>The borrower may be charged for the second appraisal.</p>
Utilities On/Off During Inspection	<p>Utilities should be on at the time of the appraisal, unless there are documented extenuating circumstances. In such event, the appraiser must follow specific requirements which are listed on the CMS FHA Guidelines - 203(b) Repair Escrow Appraisal Requirements - Utility Issues.</p> <p>The purchaser is responsible to complete system check for utilities if the utilities were not on at the time of the appraisal.</p>

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#### COLLATERAL (continued)

<p>Inspection Requirements</p>	<p>If the home inspection identifies repairs not identified on the appraisal, the lender must discuss such discrepancies with the Asset Manager. The M&amp;M contractor is required to obtain a termite and pest control inspection on all properties which the appraiser has recommended be offered unless the property lies within a pre-designated geographic area not prone to termite and pest infestation.</p> <p>If required: Properties with a well and/or septic tank must have required tests and certifications completed in accordance with 4150.2, paragraph 3-6 A.5 and ML 95-34. The lender should first contact the M&amp;M contractor to determine if an inspection was completed. Otherwise, the lender should arrange for testing with the M&amp;M contractor if the inspection was not completed. REO properties built prior to 1978 must be tested for lead-based paint. CMS must obtain a copy of the lead-based inspection report and findings. The borrower must resolve with a State or EPA contractor to mitigate lead paint surfaces specified in HUD's report.</p>
<p>Defective Paint Surfaces</p>	<p>An automatic correction is required to all defective paint surfaces in or on structures and/or property improvements built before January 1, 1978. Contractors who perform the repair must be certified and must follow specific work practices to prevent lead contamination. A copy of the EPA or state-lead training certificate in the name of the party who performed the work must be provided. FHA Roster Appraisers &amp; Inspectors as well as other independent third parties may perform inspections to verify if painting repairs have been performed as required. Inspections are to determine completion of the repairs only, and may be not be used as evidence of compliance. If the repair was made by the homeowner, they must provide a letter stating that they personally made the repair. FHA Roster Appraiser and Inspector as well as other independent third parties may inspect the work to verify completion of the repair is required.</p>
<p>REO Lead-Based Paint Appraisal Requirements</p>	<p>Lead-based repair is not permitted on a REO with Repair Escrow. HUD will complete a lead-based inspection on properties built before 1978 and provide a cost estimate of the repairs.</p> <ol style="list-style-type: none"> <li>1. If lead-based paint was identified, HUD will perform the repairs if the cost is \$4,000 or less.</li> <li>2. If cost is greater than \$4,000, the borrower may either:             <ol style="list-style-type: none"> <li>a. cancel the contract, or</li> <li>b. change to 203(k) financing.</li> </ol> </li> </ol> <p>Contractors who perform the repair must be certified and must follow specific work practices to prevent lead contamination. A copy of the EPA or state-lead training certificate in the name of the party who performed the work must be provided.</p>
<p>Sales Contract Requirements</p>	<p>CMS may only accept a fully executed copy of form HUD-9548. The sales contract will specify the amount of repairs, sales price, the financing terms, the amount of closing costs HUD will pay at settlement, the real estate commission HUD will pay, the closing date, and any discount on the sales price that will be provided at settlement. The M&amp;M Contractor should be contacted if the contract is not complete, there are questions about terms and conditions, or if the contract must be amended as a condition of loan approval. Please refer to CMS FHA guidelines for additional details regarding sales contract requirements. The first block on Line 4 of the sales contract as well as the applicable block for FHA program - 203(b) Repair Escrow must be checked.</p>

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#### COLLATERAL (continued)

Contractor Bid / Invoice Requirements	The contractor's licensing and bonding must meet all state and local requirements. The bid must include only the repairs that are stated on the sales contract and appraisal. If the bid amount is higher than the sales contract, then update the amount on the sales contract so that the bid and the amount on the sales contract are equal. The escrow amount must always be the greater of the sales contract, bid, or appraisal. Only repairs that are listed on Property Condition Report (PCR) which are Minimum Property Requirements (MPR) are permitted. Cosmetic repairs may not be added to the escrow account.
Case Number Processing	New case number is required and must be entered as "Real Estate Owned with Appraisal" for Processing Type on FHA Connection. CMS must answer "Was this case previously sold as a Property Disposition" as "YES".
Eligible Properties (Collateral)	HUD Owned Properties, Owner Occupied Only. 1-4 Units. PUD's, FHA approved condominium projects, double-wide manufactured homes permanently affixed to the foundation, built on or after June 15, 1976, and meet HUD requirements.
Ineligible Properties (Collateral)	Second homes, investment properties, condotels, leaseholds, timeshares, FHA secondary residences, properties encumbered with Property Assessed Clean Energy (PACE) or Home Energy Renovation Opportunity (HERO) obligations, State-approved medical marijuana producing properties, homes that have never been completed, homes that have been completely demolished, properties on stilts, posts, or piers, single-wide manufactured homes, mobile homes, co-ops, commercial or industrial zoned properties, mixed-used with residential building use less than 51%, working farms, construction to permanent, unique properties such as log homes, berm homes, properties located in the area of Wrightwood, CA, properties located within designated Costal Barrier Resource System (BRS) areas, properties located on Tribal Lands which include section 248, Hawaiian properties in Lava Zones 1 and 2, Native Hawaiian Housing Loan Guarantee Program (Section 184A), Hawaiian Home Land (Section 247), properties with sink holes, properties with a wastewater stabilization pond/lagoon (aka sewage lagoon), properties with individual water purification systems required to make the water safe for human consumption (does not include systems installed to improve the taste or softness of the water), and/or any other ineligible properties as defined by HUD Handbook 4000.1.
Condos	Rehabilitation is limited only to the interior of the unit. The maximum mortgage amount cannot exceed 100% of the after-improved value. Must be current FHA-approved condominium complex and meet all HUD requirements (51% occupancy, 15% delinquencies). All condos and attached PUD's require 100% 'walls-in' HO6 coverage. Site condos do not require FHA HRAP/DELRAP approval. Only the lesser of 5 units per condominium association, or 25% of the total number of units, can be undergoing rehabilitation at any time. Refer to the FHA Condominium Project Matrix located in CMS FHA Underwriting Guidelines for more detail.

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<p>Manufactured Housing</p>	<p>CMS accepts manufactured homes permanently affixed to the foundation, built on or after June 15, 1976, and meet all HUD requirements. Single-wide manufactured homes are not eligible. Manufactured homes with acceptable alterations or additions must have marketability, “like” comparables, gross living area (GLA) of addition must be smaller than the original home and structural engineer’s certificate required. A manufactured home with an additional manufactured home of the property is permitted when the second manufactured home is used as a storage building, the kitchen is rendered inoperable and the utilities are disconnected. An engineer’s certification is always required to verify the foundation complies with the Permanent Foundations Guide for Manufactured Housing (PFGMH). The engineer certificate must also address additions/modifications when additions/modifications are present. Follow HUD requirements. Refer to the CMS FHA Underwriting Guidelines for additional details regarding manufactured housing.</p>
<p>Eligible Repairs/Improvements</p>	<p>Property must be habitable at time of closing. Borrower must occupy within 30 days and all work must be completed within 45 days of closing.</p> <ul style="list-style-type: none"> <li>• Repair roofs, gutters and downspouts</li> <li>• Repair/replacement/upgrade of existing HVAC systems, plumbing and electrical systems, and flooring</li> <li>• Painting both exterior and interior</li> <li>• Weatherization, including storm windows and doors, insulation, weather stripping, etc.</li> <li>• Purchase and installation of appliances including free-standing ranges, refrigerators, washers/dryers, dishwashers and microwave ovens</li> <li>• Minor repair to exterior decks, patios, and porches</li> <li>• Minor basement waterproofing</li> <li>• Window and door replacements and exterior wall re-siding</li> <li>• Other minor repair(s) as indicated by the appraiser as being cosmetic in nature and conform to HUD’s repair escrow requirements.</li> </ul>
<p>Ineligible Improvements</p>	<p>Any repairs that will exceed 45 days or result in work not starting within 15 days after loan closing and require a "consultant" to develop a "Specification of Repairs/Work Write-Up", require plans or architectural exhibits, require a plan reviewer, cause the borrower to be displaced from the property for more than 30 days during the time the rehabilitation work is being completed.</p> <ul style="list-style-type: none"> <li>• Major rehabilitation or major remodeling, such as the relocation of load-bearing wall</li> <li>• New construction (including room additions)</li> <li>• Any repair that according to the appraiser’s report is not cosmetic in nature</li> <li>• Repair of structural damage</li> <li>• Landscaping or similar site amenity improvements</li> <li>• Any repair/rehabilitation activities that require more than 1 final disbursement.</li> </ul>

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#### COLLATERAL (continued)

Contractor requirements & Self-help	If the repairs require more than one contractor, the services of a duly licensed and bonded general contractor must be utilized. The general contractor will be under the contractual obligation for the entire work to be performed from start to finish. The general contractor is responsible for hiring the different trades required to complete all of the work. "Self-help" arrangements, in which the mortgagor performs the work, will not be approved.
Final Inspection	The appraiser must make a final inspection on all transactions to determine that all listed repairs and or renovations were completed.
Requirements for reviewing the contractor and the rehabilitation proposal	CMS will review the mortgagor's proposed work plan and cost estimates to ensure the planned work meets all program and repair recommendations as noted on the appraisal report. The mortgagor must provide CMS with a written cost estimate. All repairs and improvements must meet any and all local codes and ordinances as evidenced by a permit issued by the local authority, if applicable. The mortgagor and/or contractor must obtain all required permits prior to closing. The submitted cost estimates must clearly state the type of repair and the cost for completion of the work items. CMS will review and verify the contractor's credentials and work experience and may require the mortgagor to provide additional cost estimates from other licensed and bonded contractors if necessary. CMS reserves the right to decline the use of a specific contractor at its sole discretion. The selected contractor must agree in writing to complete the work for the amount of the cost estimate and must agree to complete all work in a professional and satisfactory manner within 45 days of closing. A copy of the contractor's cost estimates and executed Homeowner/Contractor agreement must be received by CMS prior to closing.
Required Completion Time for Repairs	The contractor must finish the work in accordance with the written estimate and Homeowner/Contractor agreement within 45 days. If the work is not completed within 45 days of closing, a principal reduction will be made towards the remaining unpaid balance of the mortgage.
Disbursements made to Contractors/Borrowers	No more than 1 payment may be disbursed to the contractor. The borrower must obtain all licenses, permits and HOA approvals required prior to any draw release. The only disbursement will be made following completion of all work and release of any and all liens arising out of the contract or submission of receipts or other evidence of payment covering all subcontractors or suppliers who could file a legal claim. Before the disbursement is made, the borrower must complete a Letter of Completion statement acknowledging that the work has been completed in a professional and satisfactory manner. In addition, prior to the release of the disbursement, a final inspection from the appraiser must be received by CMS verifying that the work has been completed in accordance with the approved estimates and appraiser's requirements. A title update is required prior to final disbursement confirming all liens have been released.
Contingency Reserve	CMS requires a contingency reserve of 10%, of all repairs or rehabilitation expenses. Funds held back in contingency reserve must be used solely to pay for the proposed repairs or improvements and any unforeseen items related to these repair items. Any unspent funds remaining after the final work item payments are made, must be applied to the mortgage principal.



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#### COLLATERAL (continued)

Minimum and Maximum Amounts for Repair Costs	There are no minimum repair costs. The maximum total repair costs, including the contingency reserve and costs are \$11,000 subject to a maximum loan to value as listed above. Therefore, the maximum allowed repairs is \$10,000. CMS requires 10% for contingency costs. In the event total repair costs, contingency reserve costs and fees exceed \$11,000, the loan will not be eligible for the 203(b) Repair Escrow program.
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#### CREDIT

Bankruptcy	<p>AUS Approve - must be &gt; 2 years since date of discharge at the time of Case # assignment and borrower must have re-established good credit, or chosen not to incur new credit obligations.</p> <p>Manual - Chapter 7 If &lt; 2 years, but not &lt; 12 months, may be acceptable, if borrower can show that bankruptcy was caused by extenuating circumstances (must be approved by Underwriter Manager or Team Lead), and has exhibited a documented ability to manage his/her financial affairs.</p> <p>Manual - Chapter 13 must document the following:</p> <ol style="list-style-type: none"> <li>1. 1 year of the pay-out period under the bankruptcy has elapsed.</li> <li>2. All borrower's payments have been made on time.</li> <li>3. Borrower has received written permission from court to enter into mortgage transaction.</li> </ol>
Consumer Credit Counseling	1 year of the pay-out has elapsed under the plan, borrower's payment performance has been satisfactory with all required payments made timely, and borrower has received written permission from the counseling agency to enter into the mortgage transaction.
Social Security Numbers	Required for ALL borrowers and must be validated for non-borrowing spouse or registered domestic partner in Community Property States. See Guidelines.
Charge Offs	Refer to Guidelines.
Collections	AUS Approve/Eligible - The Underwriter must complete a capacity analysis of collection accounts with an aggregate balance $\geq$ \$2,000. Non-purchasing spouse's or registered domestic partner's collections are included in the combined balances for community property states. Monthly payments must be included in the DTI when cumulative balances are $\geq$ \$2,000. Manually underwritten loans, in addition to the requirements above, the reason for approving a loan when the borrower has collection accounts regardless of the amount must be documented. The Underwriter must determine if the collection was result of disregard for financial obligations, inability to manage debt, or extenuating circumstances. The borrower must provide a letter of explanation with supporting documentation for each outstanding collection.

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### CREDIT (continued)

Capacity Analysis for Collections	<p>Outstanding Collections with aggregate \$2,000 or more:</p> <ul style="list-style-type: none"> <li>• Prior to closing, the collection account is paid in full. Verification of acceptable sources of funds is required.</li> <li>• Payment arrangements have been made with the creditor. The monthly payment must be included in the DTI and documentation is required.</li> <li>• 5% of the outstanding balance of each collection will be used as the monthly payment and will be included in the DTI.</li> </ul>
Judgments/Liens	<p>All outstanding judgments and liens must be paid prior to or at closing except when the borrower has an agreement with the creditor to make regular and timely payments. Copy of the agreement and the borrower is required to have made a minimum of 3 monthly scheduled payments prior to Case # assignment. This includes non-purchasing spouses and registered domestic partners in community property states. Borrowers may not prepay scheduled payments in order to meet the minimum monthly requirement. Payment is included in the DTI.</p> <p>Manually underwritten loans, reason for approving a loan when the borrower has judgment(s) or liens regardless of the amount must be documented. The Underwriter must determine if the judgment was result of disregard for financial obligations, inability to manage debt, or extenuating circumstances. The borrower must provide a letter of explanation with supporting documentation for each outstanding judgment.</p>
Foreclosure / Deed-in-Lieu	<p>Must be &gt;3yrs from date of trustee's deed or FHA claim (CAIVRS-if applicable). This is measured from the recording date finalizing the foreclosure or the date the FHA claim was paid to the application date of the subject transaction. Borrower(s) with prior CMS Foreclosure or Deed in Lieu are not permitted at the time of Case # assignment.</p>
Short Sale	<p>A borrower is not eligible for a new FHA insured mortgage if a short sale was pursued to take advantage of declining market conditions and purchase a similar or superior property within reasonable commuting distance of prior residence. A borrower in default at time of short sale/restructure or pre-foreclosure is not eligible for a new FHA insured mortgage for 3 yrs from date of pre-foreclosure sale to Case # assignment. Manual UW Only: Borrower's current at time of short sale must have 0x30 mortgage and installment debt pay history for the preceding 12-month period. Borrower(s) with prior CMS Short Sale are not permitted.</p>
Disputed Accounts	<p>Disputed derogatory accounts &gt;= \$1,000 cumulative must be downgraded to "Refer" manual underwrite. Medical and accounts resulting from identity and credit card theft or unauthorized use are excluded. A letter from the creditor, police report, etc. are required.</p> <p>Disputed non-derogatory accounts are excluded from the \$1000 cumulative total which includes accounts with zero balance, accounts with late payments aged 24 months or older, or disputed accounts that are current and paid as agreed.</p>
FICO	<p>Minimum of 2 reported credit score required. All borrowers must have credit scores. Non-traditional credit not permitted.</p>
Minimum Payment	<p>If no payment is indicated, 5% for revolving accounts.</p>
Student Loan Payments	<p>Student loan(s) would be calculated as follows, regardless of the payment status. CMS must use either <b>the payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or 0.5% of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report is zero.</b></p>



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#### CREDIT (continued)

Minimum Tradelines	Borrowers must have sufficient credit history to generate a valid FICO score. Generally, an acceptable credit history does not have late housing, installment debt or major derogatory revolving payments. Authorized tradelines are not acceptable for establishing a credit history and may invalidate the FICO score.
Mortgage/Rental History**	PER AUS approved/accept for FICO > 580. 0x30 in previous 12 months for FICO 500-579 and all manually underwritten loans. Seasoning is measured to case number assignment.
Non-Purchasing Spouse	Credit report required for non-purchasing spouse or registered domestic partner in community property states. Debts must be added to DTI Ratio and Credit History must not be considered. Non-purchasing spouse may be added to title on a purchase transaction or may remain on title when refinancing. No other party other than the borrower or their spouse may be permitted to have a vested interest to the property.
Other Requirements	NSF activity, private mortgage lates, delinquent CAIVRS, LDP or GSA findings, mortgage lates not reporting on the credit bureau, significant delinquencies after bankruptcy, and any other credit delinquencies will supersede any "approved/eligible" finding.

#### INCOME/ASSETS

Debt Ratio	Regardless of AUS decision, maximum 45%/49.99%. Manually Underwritten Loans: 40%/49.99% with 2 compensating factors. Credit scores of 640 and under and DTI greater than 43% regardless of AUS decision require manual underwrite.
Manual Underwriting	Permitted, loans receiving a Refer/Eligible may be eligible for downgrade to a manual underwrite. Manually underwritten loans must follow standard FHA guidelines as outlined in CMS FHA Lending Guide. Documentation waivers are not acceptable on manually underwritten loans. All manually underwritten loans require compensating factors supporting loan decision and 2 years of signed tax returns. Refer to CMS Lending Guide for maximum ratios for manually underwritten loans. All manual underwrites require an AUS to be run and "refer eligible" findings uploaded into the LOS. The AUS findings must be uploaded even when the Underwriter knows the loan will be manually underwritten upfront or the loan will be downgraded to a manual underwrite.
Non-Taxable Income	Nontaxable income such as Social Security, Pension, Workers Comp and Disability Retirement income may be grossed up to the lesser of the actual tax rate or 15%.
Income	All types of income must have been received for the most recent two consecutive years including overtime, bonus, second job, part-time, commission, self-employment.
Unacceptable Sources of Income	The following income sources are not acceptable for purposes of qualifying the borrower: Any unverified source of income, Income determined to be temporary or one-time in nature, Retained earnings in a company, Stock options, Trailing spouse income, VA education benefits (GI Bill), Income derived from State approved marijuana dispensary.
Assets	Minimum cash investment from borrowers own funds and/or gift (no cash on hand permitted). Refer to CMS FHA Guidelines for more information.

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<b>INCOME/ASSETS (continued)</b>	
Unacceptable Sources of Assets	Retained earnings in a company, stock options, assets derived from State approved marijuana dispensary, VA education benefits (GI Bill), student loans and/or grant funds, employer tuition reimbursements, unsecured borrowed funds, cash on hand, welfare benefits and Section 8 Voucher Assistance.
Gifts	Permitted. May not be used for reserves on 3-4 unit properties. Gifts or excess gift funds are not acceptable as reserves for manual underwrites.
Documentation - 4506-C or 2907 Puerto Rico Tax Returns	Full income documentation loans only. All borrowers must sign IRS Form 4506-C at closing. Underwriting may require processed IRS transcripts at their discretion prior to closing under circumstances such as verifying recently-filed tax returns used for qualifying, the filing of amended tax returns, or to resolve inconsistencies with income documentation. Borrowers with income from Puerto Rico must: Sign form Modelo SC 2907 to obtain tax transcripts, returned Modelo SC 2903 transcripts for 2 years, and transcripts must be translated to English and notarized by 3rd party. The 4506-C must be in the file with confirmation that states "no records found" when using Puerto Rico tax returns. The confirmation must be from the IRS website and contain the borrowers name and SSN.
Minimum Reserves	AUS Loans: 1-2 Units: None. 3-4 Units: 3 Mos. On 3-4 units AUS will apply gift funds to the down-payment and exclude them from reserves. Manually Underwritten Loans: 1-2 Units: 1 Month. 3-4 Units: 3 Months. PITI.
2-4 Units/Rental Income	Borrower must qualify on their own without using rental income.
Non Occupant co borrower	Permitted.
<b>TYPES OF FINANCING</b>	
Buyer Contribution	Minimum investment of 3.5% required. All down payment funds and cash to close must be documented and verified.
Down Payment Assistance	Not Permitted
Repair Escrow in conjunction with FHA \$100 Down Program - MUST use 203b Repair Escrow Program Code.	The borrower may not finance closing costs and pre-paid expenses in their mortgage. The minimum investment of \$100 is required. All down payment funds and cash to close must be documented and verified. The LTV without the repair escrow cannot exceed 100% off the "As Is" value. The Up Front Mortgage Insurance Premiums (UFMIP) cannot be financed unless the "As Is" appraised value is greater than the sales price by the amount of the UFMIP. The \$100 Down Program is only available to CMS approved states under the Atlanta HOC jurisdiction which are: Alabama, Florida, Georgia, Illinois, Indiana, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee.
Seller Contribution	Max contributions limited to 6%. Contributions include (not limited to): Discount, Closing Costs, Prepays and Up Front MIP. Financed closing costs may not be paid by seller contributions.

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#### GENERAL

AUS Findings	An "Ineligible" DU finding is acceptable only if the reason for the ineligibility is due to financing the repair escrow and not for other reasons (for example: short to close). Underwriter must comment on the HUD 92900-LT form regarding the reason for ineligibility.
Ineligible	Escrow waivers and escrow holdbacks. Energy Efficient Mortgage, Good Neighbor Next Door, Mortgage Credit Certificate (MCC), borrowers with extenuating circumstances due to an Economic Event, Homes for Heroes, Heroes Home Advantage.
Borrower Eligibility	In order to obtain FHA-insured financing, all Borrowers must meet the eligibility criteria outlined in the CMS FHA Underwriting Guidelines.  Ineligible Borrowers: Individuals convicted of previous financial crimes, borrowers with delinquent Federal non-tax debt, and all non-individual legal entities such as Corporations, General Partnerships, Limited Partnerships, Real Estate Syndications, Investment Trusts, Trusts (including Inter-vivos and Living Trusts) and Limited Liability Company (LLC). Refer to the CMS FHA Underwriting Guidelines for additional requirements regarding borrower eligibility.
Subordinate Financing	Not permitted.
Loan Terms Available	30 Year Fixed and 15 Year Fixed
Qualifying Fixed Products	Qualify at Note Rate
State Specific - Texas	<ul style="list-style-type: none"> <li>• A 10% statutory retainage should be withheld from each advance to cover any claim notices from subcontractors or suppliers. The entire retainage, representing 10% of construction costs, will be retained for 30 days after final completion.</li> <li>• Additional monies requested for cost overruns and upgrades are secured under the builder's contract only if they are evidenced by change orders signed by both parties</li> <li>• Subject property must be a Texas homestead</li> </ul>
State Specific - West Virginia	Maximum LTV/CLTV is 100% for properties in West Virginia. This maximum applies to all programs that otherwise allow LTV/CLTV to exceed 100%
Additional Costs	<ul style="list-style-type: none"> <li>• Final Inspection Fee \$300</li> <li>• Initial Appraisal \$460-\$645 (range)</li> </ul>
Identity-of-Interest	Identity-of-interest contractors and closing agents are not permitted under the 203(b) Repair Escrow program. An identity-of-interest exists if the originating lender, mortgagee of record, or mortgagor (or any general or limited partner, shareholder, director, officer, employee or authorized representative of the lender) can directly, or through one or more intermediaries, control or influence the decisions or policies of the contractor, closing agent or its employees, or vice versa. An identity-of-interest exists whenever there is a financial, family relationship, professional or business affiliation involved.

# Product Guidelines

## FHA 203(b) Repair Escrow - HUD REO

PROGRAM CODES: F30FRE, F15FRE, H30FRE, H15FRE

Version 4.3 – 07/21/21



### GENERAL (continued)

Closing Agents	Must use CMS approved closing agents only. Identity of interest closing agents is not permitted under the 203(b) Repair Escrow program. Identity of interest exists whenever there is a financial, family relationship, professional or business affiliation involved.		
Prepayment Penalty	Not permitted.		
Maximum # of Properties	The maximum number of CMS properties financed for all borrowers is 2, including the subject property. The maximum number of all properties, including properties owned free and clear is 7 in accordance with FHA guidelines.		
Special Forms/Documents	<b>Required Stage</b>	<b>Document</b>	<b>Obtained From/Completed By</b>
	Prior to Docs	<ul style="list-style-type: none"> <li>Contractor Bid</li> <li>Property Condition Report</li> <li>Lead-based paint inspection &amp; clearance *(for properties built prior to 1978)</li> <li>New Appraisal</li> <li>203(b) Owner Contractor Agreement</li> <li>203(b) Identity-of-Interest Certification</li> <li>203(b) Contractor Profile *(Including evidence of license/insurance/bonding/W9)</li> <li>HUD-92300 Mortgagee's Assurance of Completion</li> </ul>	<ul style="list-style-type: none"> <li>Contractor</li> <li>HUD Asset Manager</li> <li>HUD Asset Manager</li> <li>Approved AMC</li> <li>Borrower and Contractor</li> <li>Borrower</li> <li>Contractor</li> <li>Underwriter</li> </ul>
	Prior to Funding	203(b) Rehabilitation Loan Agreement	Prepared by CMS Doc Drawer
Escrow Close Out	Once all repairs are complete, CMS Escrow Services will process the close-out with the following documentation.		
	<b>Required Stage</b>	<b>Document</b>	<b>Obtained From/Completed By</b>
	Post-Closing	<ul style="list-style-type: none"> <li>203(b) Lien Release</li> <li>203(b) Borrowers Letter of Completion</li> <li>203(b) Final Disbursement Checklist</li> <li>203(b) Repair Escrow UW Closeout Form</li> <li>203(b) Final Disbursement Request</li> <li>HUD 92051 Compliance Inspection Report</li> </ul>	<ul style="list-style-type: none"> <li>Contractor</li> <li>Borrower</li> <li>CMS Escrow Servicing Associate</li> <li>CMS Underwriter</li> <li>CMS Escrow Servicing Associate</li> <li>Appraiser for final inspection</li> </ul>