

REHAB Loans

FHA 203K and other Rehab Loans



by Natalie Danielson

PROFESSIONAL *Direction* INC

email: clockhours@gmail.com

www.clockhours.com

A Washington State Approved Real Estate School under R.C.W. 18.85.

REHAB Loans

FHA 203K and other Rehab Loans Curriculum

Session Hours	Major Topics	Method of Presentation	Assignment
1 .5 hour	Discover what properties and borrowers qualify Learn about the eligible improvements.	Lecture Discussion Or optional Correspondence Webinar	Take notes Do the quiz
2 1 hour	Learn about the process to apply for loans including the sales contract. Understand the costs and financial calculations.		Take notes
3 .5 hour	Compare FHA and Conventional rehab loans Review the specific requirements		Take notes

The information here is only to be used as a guide. It is not to be relied upon. Any specific information regarding Rehab loans please consult a lender.

REHAB Loans

“The FHA FIXER and Conventional Loans”

There are so many properties in Washington State that are in need of repair. The value of land has increased at such a great rate over the past decade. In addition, affordable housing is becoming difficult to find and even to define.

The FHA 203 K Loan program is one that is used to rehabilitate a 1 to 4 unit structure. The loan is based on the projected value of the property after it has been rehabilitated. There are certain types of properties that can be rehabilitated and a certain process that must be followed to get this financing... but it can be a great way to build equity into a “fixer” house! In addition, there are conventional rehab loans available on the market.

Course Objectives

As a result of taking this class the real estate licensee shall be able to:

- Identify properties and prospective clients that might be able to apply for Rehab loan.
- Know what types of rehabilitation is possible using this type of loan program.
- Understand the financial calculations.
- Understand the process to apply for a loan.
- Know the specific requirements for the loan

The FHA 203K Rehab Loan

The 203 (k) loan is a Federal Housing Administration (FHA) insured program offered through approved lending institutions. It is one program in addition to conventional Rehab programs that allows a borrower to purchase or refinance a 1-4 unit house, combining both the purchase or outstanding mortgage balance and the rehabilitation costs in one 15 or 30 year loan.

Most mortgage financing plans provide only permanent financing. Generally, when a homebuyer wants to purchase a house in need of repair or modernization he or she must secure financing to purchase the home, additional financing to do the rehabilitation construction, and a permanent mortgage to repay the interim loans after the renovation is completed. Often this interim financing involves relatively high interest rates, short amortization periods, and double settlement fees. The FHA 203 (k) program eliminates these problems.

With the 203(k) program, the borrower can get one mortgage loan at a long term or adjustable rate to finance the home and its rehabilitation. The mortgage amount is based on the projected value of the property after rehabilitation.

HOW THE PROGRAM CAN BE USED

The 203 (k) program can be used to accomplish rehabilitation and/or improvement of an existing 1-4 unit dwelling in one of four ways:

1. To purchase a dwelling and the land on which the dwelling is located and rehabilitate it.
2. To purchase a dwelling on another site, move it onto a new foundation on the mortgaged property and rehabilitate it.
3. To refinance existing indebtedness and rehabilitate a dwelling.
4. To rehabilitate such a dwelling.

ELIGIBLE PROPERTY

Your lender has the most current conditions for a property to be eligible for a rehab loan.

To be eligible for the 203(k) program, the property must be a 1-4 unit family dwelling which has been completed for at least one year. Cooperative units are not eligible.

Condominium units are subject to other conditions. These conditions include some of the following; they must be owner occupied (no investors), limited only to the interior, only 25% of the total number of units in a complex can be rehabbed at one time and the maximum mortgage cannot exceed 100% of the after improved value.

Non-residential buildings can be converted to 1-4 family residential dwellings and single-family homes may be converted to a two, three, or four unit family dwelling, provided the property is properly zoned.

An existing house on another site may be moved onto the mortgaged property; however, release of loan proceeds for the existing structure on the non-mortgage property is not allowed until the new foundation has been properly inspected and dwelling has been properly placed and secured to the new foundation.

ELIGIBLE IMPROVEMENTS

Luxury items and improvements are not eligible as a cost rehabilitation. However, the homeowner can use the 203(k) program to finance such items as painting, room additions, decks and other items even if the home does not need any other improvements. All health, safety and energy conservation items must be addressed prior to completing general home improvements.

The type of improvements that borrowers may make using Section 203K financing include:

- structural alterations and reconstruction
- modernization and improvements to the home's function
- elimination of health and safety hazards
- changes that improve appearance and eliminate obsolescence
- reconditioning or replacing plumbing; installing a well and/or septic system
- adding or replacing roofing, gutters, and downspouts
- adding or replacing floors and/or floor treatments
- major landscape work and site improvements
- enhancing accessibility for a disabled persons
- making energy conservation improvements

REQUIRED IMPROVEMENTS

All rehabilitation construction and/or additions financed with Section 203(k) mortgage proceeds must comply with Cost Effective Energy Conservation Standards.

(1) Addition to existing structure. New construction must conform with local codes and HUD Minimum Property Standards in 24 CFR 200.926d.

(2) Rehabilitation of Existing Structure. To improve the thermal efficiency of the dwelling, the following are required:

Weatherstrip all doors and windows to reduce infiltration of air when existing weatherstripping is inadequate or nonexistent. Caulk or seal all openings, cracks or joints in the building envelope to reduce air infiltration. Insulate all openings in exterior walls where the cavity has been exposed as a result of the rehabilitation. Insulate ceiling areas where necessary. Adequately ventilate attic and crawl space areas. For additional information and requirements, refer to 24 CFR Part 39.

(3) Replacement Systems. Heating, ventilating, and air conditioning system supply and return pipes and ducts must be insulated whenever they run through unconditioned spaces.

Heating systems, burners, and air conditioning systems must be carefully sized to be no greater than 15 percent oversized for the critical design, heating or cooling, except to satisfy the manufacturer's next closest nominal size.

Smoke Detectors and CO2 monitors. Each sleeping area must be provided with a minimum of one (1) approved, listed and labeled smoke and CO detector installed adjacent to the sleeping area and on each floor.

REHAB FEASIBILITY

Prior to beginning a 203 (k), it is important to determine whether or not the rehabilitation cost, when added to the purchase price, can be supported in the property value. In order to determine this, the borrower may enlist the help of the realtor to determine the value of the other comparable properties in a neighborhood or area. If the sum of the estimated rehabilitation cost and the purchase price (or existing debt, if the loan is a refinance) is not significantly greater than the value of the comparable properties, the project would be considered feasible.

APPLICATION PROCESS

A. Homebuyer Locates the Property.

B. Preliminary Feasibility Analysis. After the property is located, the homebuyer and their real estate professional 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 work. Note: 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.

C. Sales Contract is Executed. 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 lender.

D. Homebuyer Selects Mortgage Lender. Call HUD Field Office for a list of lenders.

E. Consultant Prepares Work Write-up and Cost Estimate.

F. Lender Requests HUD Case Number. Upon acceptance of the architectural exhibits, the lender requests the assignment of a HUD case number, the plan reviewer, appraiser, and the inspector.

G. Fee Consultant Visits Property. The homebuyer and contractor (where applicable) meet with the fee consultant to ensure that the architectural exhibits are acceptable and that all program requirements have been properly shown on the exhibits.

H. Appraiser Performs the Appraisal.

I. Lender Reviews the Application The appraisal is reviewed to determine the maximum insurable mortgage amount for the property

J. Issuance of Conditional Commitment/Statement of Appraised Value. This is issued by the lender and establishes the maximum insurable mortgage amount for the property.

K. Lender Prepares Firm Commitment Application. The borrower provides information for the lender to request a credit report, verifications of employment and deposits, and any other source documents needed to establish the ability of the borrower to repay the mortgage.

L. Lender Issues Firm Commitment. If the application is found acceptable, the firm commitment is issued to the borrower. It states the maximum mortgage amount that HUD will insure for the borrower and the property.

M. Mortgage Loan Closing. After issuance of the firm commitment, the lender prepares for the closing of the mortgage. This includes the preparation of the Rehabilitation Loan Agreement. The Agreement is executed by the borrower and the lender in order to establish the conditions under which the lender will release funds from the Rehabilitation Escrow Account. Following closing, the borrower is required to begin making mortgage payments on the entire principal amount for the mortgage, including the amount in the Rehabilitation Escrow Account that has not yet been disbursed.

N. Mortgage Insurance Endorsement. Following loan closing, the lender submits copies of the mortgage documents to the HUD office for mortgage insurance endorsement. HUD reviews the submission and, if found acceptable, issues a Mortgage Insurance Certificate to the lender.

O. Rehabilitation Construction Begins. At loan closing, the mortgage proceeds will be disbursed to pay off the seller of the existing property and the Rehabilitation Escrow Account will be established. Construction may begin. The homeowner has up to six (6) months to complete the work depending on the extent of work to be completed. (Lenders may require less than six months.)

P. Releases from Rehabilitation Escrow Account. As construction progresses, funds are released after the work is inspected by a HUD-approved inspector. A maximum of four draw inspections plus a final inspection are allowed. The inspector reviews the Draw Request (form HUD-9746-A) that is prepared by the borrower and contractor. If the cost of rehabilitation exceeds \$10,000, additional draw inspections are authorized provided the lender and borrower agree in writing and the number of draw inspections is shown on form HUD-92700, 203(k) Maximum Mortgage Worksheet.

Q. Completion of Work/Final Inspection. When all work is complete according to the approved architectural exhibits and change orders, the borrower provides a letter indicating that all work is satisfactorily complete and ready for final inspection. If the HUD-approved inspector agrees, the final draw may be released, minus the required 10 percent holdback. If there is unused contingency funds or mortgage payment reserves in the Account, the lender must apply the funds to prepay the mortgage principal.

SALES CONTRACT

It should be stated in the sales contract that the borrower is applying for a FHA 203 (K) financing. The contract must be contingent upon loan approval and the buyer's acceptance of additional required rehabilitation and/or improvements as determined by FHA. The seller must allow access to the property for the inspectors, contractor, or plan reviewer or consultants who will be estimating the damage to the property and the cost of the repairs. Within seven to ten days of agreement, the buyer should obtain a pest inspection to make sure there are not unforeseen problems.

MORTGAGE APPLICATION

Now is the time for the borrower to complete the mortgage application with an FHA 203 (k) approved lender . Fees for the credit report, appraisal, and consultant should be collected at this point. Any documentation needed for the application process should be requested at this time (ie: tax returns, bank statements, etc). The loan can then go to the processor for order out and credit verification process.

The lender assists in determining the maximum mortgage amount with an estimated Maximum Mortgage Worksheet at this time. The loan professional should explain the sequence of events which must take place prior to loan closing to the homebuyer at this time. These items will include the Contractor bids, Feasibility Report or Consultant package and 203 (k) appraisal.

ELIGIBLE IMPROVEMENTS

There is a minimum requirement of \$5,000 in eligible improvements on the subject property.

The mortgage must include one or more of the items listed below:

- Structural repairs and alterations.
- Includes such items as additions to the structure; repairing any and all structural damage
- Improvement in the functionality or modernization.
- Includes such items as remodeled kitchens and bathrooms.
- Changes for aesthetic appeal, and the elimination of obsolescence.
- Includes such items as new exterior siding and new doors.
- Reconditioning or replacement of plumbing, heating, air conditioning or electrical system.
- Replacement of flooring, carpeting or tiling.
- Energy conservation improvement can include such items as new double pane windows and doors, storm windows, insulation, solar domestic hot water systems.
- Major landscape work and site improvement including such items as patios and terraces.
- Improvements for easier accessibility to the handicapped.
- When basic improvements are involved, related items such as new cooking ranges, refrigerators and other appliances are eligible improvements.
- Painting and other cosmetic repairs by themselves are not eligible, but can be included when part of a larger rehabilitation and/or improvement program.

NOTE:

- Improvements that do not become a permanent part of the real property are not eligible. Luxury items are not eligible. These items include, but are not limited to: Swimming pools*, exterior hot tubs, saunas, spas, tennis courts, and barbecue pits.

Up to \$1,500 can be spent to repair an existing in ground swimming pool.

CONTRACTOR BIDS

Once the scope of the rehabilitation has been determined, contractor bids must be obtained to estimate the cost of the project. There is no requirement for the number of bids one must obtain. If the borrower does not obtain contractor bids, they run the risk of underestimating or overestimating the cost of the project. This will increase the mortgage amount and cause the payments to remain higher than what they should be.

The guidelines for the contractor bids are as follows:

Architectural drawings will be necessary only if there is going to be a structural change on the property (ie: addition to the property, a wall removed added or relocated). These drawings must be rendered by an architect or consultant, or by the homebuyer. The drawings must clearly show the scope of the work to be accomplished. All work to be completed must be written up on the specification of repairs. This will be the basis for the Draw Request, and the Maximum Mortgage Worksheet. It must be signed by both the buyers and the general contractor. The buyer may be their own general contractor and do the rehabilitation themselves provided they can present the items listed below and a fully executed Self-Help Agreement.

A plot plan is needed for new additions showing the location of the structure(s), walks, drives, streets and other relevant detail. Finished grade elevations at the property corners and building corners must be included as well as the required flood elevation; a survey will suffice if the elevations are included. An existing plan of the dwelling is required in all cases. A proposed plan is needed when structural changes are to be made to the interior of the home, such as a wall moved, added or relocated. Drawings may be hand drawn and must show the "before and after" of the rehabilitation.

For safety concerns, the FHA requires that each sleeping area be provided with a minimum of one approved listed and labeled smoke detector installed adjacent to the sleeping area. The detector must sense visible or invisible particles of combustion. When activated, the detector must provide an alarm suitable to warn occupants within the sleeping area. The smoke detectors may be battery powered when installed in existing or rehabilitated dwellings. However, where new construction is being added to an existing building, the smoke detector must receive its primary power from building wiring in conformance to local codes and ordinances.

PLAN REVIEW

The improvements must comply with HUD's Minimum Property Standards (HUD Handbook 4905.1) and all local codes and ordinances. The homebuyer must provide the lender with the following: Appropriate architectural exhibits that clearly show the scope of work to be accomplished. A pest inspection and a full structural inspection, description of materials and draw request. All work orders required in the pest and structural report must be included in the contractor's bid. A drawing of the existing dwelling, proposed dwelling. Plot Plan showing the location of the structures, walks, drives, street and other relevant detail. Include finished grade elevations at the property corners and building corners. The plot plan should show the required flood elevation. This information is then forwarded to the Local Field office of the Plan Reviewer who will then visit the site to determine that all health and safety items have been properly noted on the architectural exhibits, and are in compliance with HUD Requirements.

If Independent Consultants are utilized, the borrower should choose a contractor and have a pest inspection performed by a licensed pest inspector. The consultants meet with the borrower and contractor at the property, perform a structural inspection of the property and provide the contractor with the appropriate forms and assistance with ensuring that all health and safety concerns are included in the bid. The contractor completes the bid and forward to the consultant for review to ensure compliance with FHA requirements and specification of repairs form and cost estimates shown for all work to be completed are at a reasonable market estimate and do not exceed the cost data publications (RS Means Co "Repair and Remodeling Cost Data" book or the "Marshall and Swift" cost estimating guide). They will prepare the drawings (existing and proposed), site plan, plat map and recommendation for approval in their feasibility report. Three copies of this feasibility report is then returned to the mortgage loan professional. The lender typically retains two copies of the feasibility report for their files, and forwards a third copy to the FHA assigned 203 (k) appraiser.

FHA APPRAISAL

The purchase price (or existing liens if a refinance) are considered to be the "As Is" value for a 203(k) loan. An appraisal is performed by an FHA approved 203 (k) appraiser utilizing the feasibility report and comparable sales to the property as if the work were already done. For this reason, no VC conditions are included in the appraiser's 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 write-up, 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 write-up and cost estimate. Keep in mind that not all improvements necessary will add value from a market standpoint. In this instance, the lesser of the 110% of the "after improved" value or the acquisition plus the cost of improvements (not to exceed the maximum loan limitations for the county) is utilized in determining the maximum mortgage amount.

LOAN APPROVAL AND CLOSING

Once the feasibility report, appraisal, credit verifications, and supporting documentation is received, the loan can be submitted to underwriting. 203(k) loans are underwritten in accordance with FHA guidelines. If the loan is approved, a commitment letter is issued to notify the borrower of any conditions that must be met prior to closing the loan. Once all conditions of approval have been met, the loan can close. At this time the funds will be disbursed to either pay the sales price or the existing debt (in a refinance transaction). The remaining funds are held in an interest-bearing escrow account that will be used to fund the Draw requests throughout the rehabilitation period. This escrow account consists of several component parts, which include:

- **The rehabilitation escrow which is the allotted amount shown on the Draw Request form to cover the cost of all planned repairs.**
- **The contingency Reserve which is used to pay for any unforeseen repairs or cost overruns that must be completed for health, safety, or necessity reasons.**
- **Additional funds to pay for inspections fees, title update fees.**
- **The mortgage payment escrow (for up to six months), if the property is not habitable so that the property owner does not have to make mortgage payments during construction.**

NOTE: 10% of each disbursement from the rehabilitation escrow is held back which will be released at time of Final Draw request with proof that no mechanics/materialman's liens exist on the property.

At closing, the borrower signs the Rehabilitation Loan Agreement, which states that the work must commence within 30 days of closing, and must be completed within **six** months of closing.

Once the rehab, process is complete, any unused funds are applied to the **principal loan balance**.

MAXIMUM CHARGES AND FEES

Due to the nature of the 203(k) program, there are a number of fees which the borrower will incur throughout the completion of the rehabilitation. In order to save the borrower the immediate expense, HUD has made provisions which allow for various fees to be financed. When these fees are financed, they cause an increase in the mortgage amount. In order to prevent unreasonably high mortgage amounts, guidelines have been established to what fees can be charged. Please note that the discount points for the rehab are able to be financed.

Origination Fee

The lender may collect a supplemental origination fee 1 ½% of the portion of the mortgage allocated to the rehab or \$350, whichever is greater. It is collected in addition to the 1% origination fee on the total mortgage.

Inspection Fees

Fees for a maximum of five draw inspections will be allowed for inclusion in the cost of rehabilitation. If all inspections are not required, remaining funds will be applied to the principal after the Final Release Notice is issued.

If additional inspections are required by the lender to ensure satisfactory compliance with exhibits, the borrower or contractor will be responsible for payment; however, the lender has ultimate responsibility.

Title Update Fees

To protect the validity of the mortgage position from mechanic's liens on the property, reasonable fees charged by a title company may be included as an allowable cost of rehabilitation. When the mortgage position is protected and is not in jeopardy, this fee may not apply. Borrowers may wish to obtain lien protection, but the fees must be paid by the borrower where such lien protection is not required to ensure the validity of the security instrument. The allowable fee should not exceed \$50.00 per draw release. If all draw inspections are not made, monies left in escrow must be applied to reduce the mortgage balance.

Appraisal Fee

The lender may charge a borrower no more than the actual amount the lender pays the appraiser and include it in the closing costs.

Independent Consultant

A borrower can have an independent consultant prepare the required architectural exhibits. A borrower can also use a contractor to prepare the construction exhibits or prepare the exhibits themselves. The use of a consultant is not required; however, the borrower should consider using this service in order to expedite the processing of the 203(k) loan. When a consultant is used, HUD does not warrant the competence of the consultant or the quality of the work the consultant may perform for the borrower.

The consultant must enter into a written agreement with the borrower that completely explains what services the consultant will perform for the borrower and the fee charged. The fee charged by the consultant can be included in the mortgage. A fee of \$400 is acceptable for a property with repairs less than \$7,500; \$500 for repairs between \$7,501 and \$15,000; \$600 for repairs between \$ 15,001 and \$ 30,000; and \$ 700 for repairs between \$30,001 and \$50,000; \$800 for repairs between \$50,001 and \$75,000; \$900 for repairs between \$75,001 and \$100,000; and \$ 1,000 for repairs over \$100,000. An additional fee of \$25 can be charged for each additional unit in the property under the same FHA case number. For this fee, the consultant would inspect the property and provide all the required architectural exhibits. State licensed architect or engineer fees are not restricted by this fee schedule. The architect and engineer fees must be customary and reasonable for the type of project.)

Fee Consultant. Prior to the appraisal, a HUD-accepted fee consultant must visit the site to ensure compliance with program requirements. The utilities must be on for this site review to take place. The fee is as follows and may not be changed without HUD Headquarters approval:

1) Initial review prior to appraisal: Cost of Repairs/Fee: <\$15,000=\$100.00, >\$15,001 but less than or equal to<\$30,000=\$150.00, >\$30,001=\$200.00

2) Additional unit review (two to four units with same case number)-\$50.00/unit.

3) Additional review (reinspection of the same unit)-\$50.00. When travel distance exceeds 30 miles round trip from the reviewer's place of business, a mileage charge (established by HUD Field Office) may be applied to the above charges, including toll road and other charges where applicable.

The Independent Consultants function is essentially the same as the Plan Reviewer. The advantage to utilizing a consultant is they will perform the necessary structural inspection, prepare the feasibility report and perform the plan review, and work closely with the buyer and contractor on the work write up and cost estimates. If the fees for the consultant were not collected in advance at loan application, they will be due at the time of inspection.

DIFFERENCES BETWEEN FHA AND CONVENTIONAL LOANS

Qualifying for a rehab loan

The FHA qualifying requirements will be slightly different than the Conventional requirements. There maybe be a higher credit score and better debt to income ratios but will finance properties that are not just the primary residence.

Down Payments on Rehab Loans

A rehab loan finances the costs to renovate your home along with the purchase price. It bases the appraisal on the plans for repairs. Your down payment is calculated off the total costs of both purchase and repair. The FHA 203k rehab program only requires a 3.5 percent down payment. Conventional rehab loans can technically be done with as little as 5 percent down. But realistically you should expect to need a 20 percent down payment for conventional rehab financing. This is because of the difficulty in obtaining private mortgage insurance for these loans. For this reason, many banks simply do not offer conventional rehab loans at higher than 80 percent of the final cost.

If you buy a home for \$150,000 with plans for an additional \$50,000 in repairs, the down payment required for a conventional rehab loan would be \$40,000. For FHA, it would be \$7,000. The maximum loan amount would be the same as the FHA or conventional loan limit for the county the property is in.

Mortgage Insurance & Future Refinance

On FHA loans, including the 203k rehab loan, mortgage insurance is built into the loan. There is not a separate mortgage insurance approval process the way there is with conventional loans. Mortgage insurance adds a significant upfront and ongoing monthly cost to the FHA loan compared to conventional, yet because of the reduced down payment requirement, the 203k is by far the most common kind of rehab loan. A significant renovation project should increase the value of a house by more than the amount spent on the work. For this reason, many people will refinance a year after getting a 203k loan. One year of seasoning is required before the current value can be used for a new loan. If the house now has 20 percent equity, a conventional loan can be used which will not require mortgage insurance.

FHA 203k and conventional rehab loans can also be used for a refinance renovation on a home you already own, if you want to add an addition or make major repairs to your home. The same equity requirements would apply as on the down payment for a purchase loan.

Underwriting Timing

If you are buying a home with a rehab loan, you should expect the process to take longer than for a regular purchase loan. Sixty days would be a standard time frame from contract to closing, while 90 days would not be unusual, depending on the scope of the project. The underwriter will need to document the loan file in detail. The contractor needs to be vetted with references and sometimes even a credit report. Going into a rehab transaction, whether FHA or conventional, it is helpful for the buyer, realtor, contractor and even seller to understand that they need to have a high level of involvement throughout the loan approval process.

Typical Specific Requirements of Rehab Programs

Minimum 100 amp electrical service in each living unit.

Bathtub in each unit

Closet and entry door in each bedroom

No pass through bedrooms.

Central heat, electric baseboard, space heaters if existing.

No woodstove heat.

Smoke alarms in each living unit.

Stair rails for all stairs.

No wells in basements; dug wells reviewed case by case.

Is the building insulated? Energy conservation is encouraged

Estimates must be comparable to the fair market price.

Work must be completed within six months of closing.

GENERAL QUESTIONS TO ASK

Is the paint chipped or peeling? Interior or exterior?

Is there any damaged or bare wood showing?

Are there storm windows?

Is the plaster/drywall in good condition? Cracked?

Are the bathrooms old? Is there a tub?

Is the plumbing or electrical system in need of repair?

Are the wood floors in need of refinishing?

Is the driveway cracked, or deteriorating?

Does the fence need to be repaired or replaced?

Does the roof look old or new?

Are the Windows cracked or loose?

Do the porches look solid and painted?

Are the carpets worn? Is the floor coating worn?

Are the cabinets in good condition? Counter tops?

Are the appliances in need of repair or replacement?

Do the doors shut properly?

Is the house properly insulated?

Is there a smoke detector?

Rehab Loans Quiz

You can use the answer sheet at the end of the quiz!

1. *The FHA 203K loan is used to improve properties that have 1-4 units* T / F
2. *Rehab loans often combine the purchase and the rehab costs into one loan.* T / F
3. *An FHA 203K loan is only available in a 14 year mortgage loan.* T / F
4. *A rehab loan can only be used to refinance and rehabilitate a home.* T / F
5. *An FHA 203k rehab loan can be used to rehab condominium units with special conditions.* T / F
6. *When purchasing a home, a buyer can use a rehab loan for the purchase and the rehab construction.* T / F
7. *There are FHA and Conventional Rehab loans available to borrowers.* T / F
8. *A rehab loan can be used on homes that are moved from one site to another.* T / F
9. *A rehab loan cannot be used to just modernize the home.* T / F
10. *When buying a fixer, a rehab loan can be used to fix plumbing and electrical issues.* T / F
11. *A rehab loan can only be used for the home/ dwelling. It cannot be used for major landscape work.* T / F
12. *When work is done on a dwelling using a rehab loan, it must meet insulation standards.* T / F
13. *When rehabilitating a home, it is required that smoke detectors and CO2 monitors be installed to code.* T / F
14. *The cost to rehab a dwelling when added to the purchase price, should be supported in a competitive property value.* T / F
15. *The home buyer and real estate broker should complete an analysis to determine if the rehab is feasible.* T / F
16. *The value of the property after completing a rehab must be greater than the purchase price plus improvements.* T / F
17. *The FHA 203K lender will review the plans prior to approving the application.* T / F
18. *An appraisal is ordered to determine the maximum insurable mortgage amount for the property.* T / F
19. *The borrower must qualify to repay the mortgage including employment and credit.* T / F
20. *When a purchaser write up a contract to purchase a home, it must be disclosed that they are applying for a rehab loan.* T / F
21. *Funds from the loan are released after work is inspected by a HUD inspector.* T / F
22. *There is a maximum of 10 draw inspections plus a final inspection.* T / F
23. *The homeowner has up to 2 years to complete the work using an FHA 203K rehab loan.* T / F
24. *If the homeowner does not use the full amount of the money requested for the 203K loan, he/she can use it to buy a boat.* T / F
25. *The seller must allow access to the property for the lender's inspectors, plan reviewer or consultants.* T / F
26. *The purchase and sale agreement must be contingent upon FHA 203k Loan.* T / F
27. *A homeowner can use the funds from a FHA 203K loan to add a sauna, tennis court and BBQ pit.* T / F
28. *Prior to the final draw of loan funds, the lender looks for prof that there are no mechanics liens on the property.* T / F
29. *Once the rehab is complete, any unused funds are applied to the Principal Loan Balance on a FHA 203K loan.* T / F

30. *At closing of the property, the borrower signs an agreement that states the work must commence within 30 days.* T / F
31. *A "mortgage payment escrow" for 6 months can happen if the property is not habitable so the borrower doesn't make payments.* T / F
32. *There are conventional rehab loans available for consumers.* T / F
33. *A conventional rehab loan can also finance rehabilitation of properties that are not the primary residence.* T / F
34. *Many conventional rehab loans required a higher down payment than the FHA 203K programs.* T / F
35. *An FHA 203k rehab loan has mortgage insurance built into the pricing.* T / F
36. *The FHA 203K loan program is one of the most popular rehab loan programs.* T / F
37. *A conventional rehab loan may have more flexible requirements for the property, but the qualifying has higher requirements.* T / F
38. *Often borrowers refinance 203k loans. A year of seasoning is usually required before a refinance.* T / F
39. *The time period for underwriting a rehab loan is considerably longer than a traditional home mortgage.* T / F
40. *The equity in your house can be used as a downpayment when applying for a rehab loan to improve the house.* T / F

I attest that I have read the materials and have answered the questions.

Date Course Started _____ **Date Course Completed** _____

Print Name _____ **Company** _____ **Signature** _____

clockhours@gmail.com

You can use the Answer sheet below for your answers to the quiz! It's optional Thanks

1		21	
2		22	
3		23	
4		24	
5		25	
6		26	
7		27	
8		28	
9		29	
10		30	
11		31	
12		32	
13		33	
14		34	
15		35	
16		36	
17		37	
18		38	
19		39	
20		40	

Comments you want to add regarding the discussion questions.

I attest that I have read the materials and have answered the questions.

Date Course Started _____ **Date Course Completed** _____

Print Name _____ **Company** _____ **Signature** _____

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Mandatory Evaluation

- Did you read the material in the booklet on this date? YES / NO
 Did you complete the quiz and attach answer sheet? YES / NO
 Did you pay tuition? YES / NO
 Did you fill out and sign this form? YES / NO
 Why did you choose to take this course? Topic? Time? Cost? Ease? Other?
 A "clock hour" is 50 minutes. This 3 hour class should take about 2 hrs 30 min. How long did it take you to complete the course? ___

	No			Yes	
Will the material you learned improve your performance?	1	2	3	4	5
Were the course materials easy to follow?	1	2	3	4	5
Were the course materials relevant to your profession?	1	2	3	4	5
Were your objectives met by attending the class?	1	2	3	4	5

What are 3 things that you learned from the course?

1. _____ 2. _____ 3. _____

Rehab Loans

Print Name CLEARLY	Signature	Company
Address	City Zip Code	Phone
Instructor name if applicable	Email	
License Renewal Date		Date class taken

*Thanks for taking this class! I really appreciate the agents that take clockhours from my school! I am always working on my classes and writing new ones!
 Thanks, Natalie*

Professional Direction
email: clockhours@gmail.com
www.clockhours.com