



The Benefits of FHA Financing

- ✚ Available on 1-4 unit and FHA approved condominiums
- ✚ Down payment requirements as little as 3.5%
- ✚ Down payment does not have to be borrower's own funds. The full 3.5% down payment requirement can be 100% gift funds from family member, borrower's employer and even a close friend
- ✚ Any closing costs including origination fee, discount points, Up Front Mortgage Insurance, Buydown costs and prepaid items can be paid by the seller up to 6% of the purchase price.
- ✚ Private Secondary financing is permitted by charitable organization, government agencies and family members.
- ✚ Ability to finance property improvements at the time of purchase under a 203K Streamline and 203K Rehab loan
- ✚ Less restrictive credit guidelines allowing credit scores as low as 640
- ✚ No reserve requirements on 1 & 2 family properties. Three months reserves are required on 3 & 4 family properties from borrower's own funds.
- ✚ When purchasing a 2-4 unit property, 85% of rental income can be added to the qualify
- ✚ Non-owner occupants are allowed on single family homes and condominium purchases (ie. Parents cosigning)



What Every Real Estate Professional should know about FHA Financing

- + All FHA loans are assumable
- + FHA Amendatory Clause and Real Estate Certification should be executed at the time of Purchase and Sale Agreement.
- + Condominiums **MUST** be HUD Approved prior to application for financing. HUD turn times is up to 30 days for review.
- + Properties are not required to have appliances
- + 3 & 4 Unit Properties must cash-flow at 85% of the total rental income
- + Properties with private well and septic must be a minimum of 75 feet apart.
- + All properties must meet FHA property standards for safety and soundness (except for 203k and Streamline 203k financing)- See attached page for FHA Appraisal Requirements

Streamline (K) Program

Repairs and improvements required by the appraiser as essential for property eligibility may qualify for financing under the new “Streamline (K)” Limited Repair Program as detailed in Mortgage Letter 2005-19, issued April 29, 2005. The Streamline (K) program is a modification of the 203(k) program to facilitate purchase transactions in which the property needs minor rehabilitation work, as identified in a pre-purchase home inspection or the FHA appraisal. The Streamline (K) program is intended to assist the homeowners with basic repairs costing between \$5,000 and \$35,000. Unlike the standard 203(k) program, any FHA approved mortgagee may originate a Streamline (K) mortgage.



FHA Appraisal Requirements

Effective January 1, 2006, as stated in Revised Appendix D, of Handbook 4150.2 Chg. – 1 FHA now permits an “as-is” appraisal for existing properties that serve as security for FHA insured mortgages when minor property deficiencies, which generally result from deferred maintenance and normal wear and tear, do not affect the safety of the occupants or the security and soundness of the property. FHA no longer requires repairs for these types of minor cosmetic deficiencies to bring a property into compliance with FHA Minimum Property Requirements. Specifically, the guidance provided in Handbook 4150.2, CHG-1, Chapter 3, Paragraph 3-6, A-7 referencing all-weather road surfaces; Paragraph 3-6, A-8 referencing poor workmanship; Paragraph 3-6, A-11 referencing debris and trash in crawl space; Paragraph 3-6, A-16 referencing steps without a handrail; Paragraph 3-6, C referencing bare floors, badly soiled carpeting and cracked plaster and sheetrock is no longer applicable. Additionally, the guidance provided in Handbook 4905.1, REV-1, Chapter 2, Paragraph 2-7, A-2 referencing all weather road surfaces; Paragraph 2-8 referencing poor workmanship and Paragraph 2-14, C referencing crawl spaces with debris and trash is no longer applicable. Any reference to the Valuation Condition form (form HUD-92564-VC) and protocol for its completion contained in Handbook 4150.2 is no longer applicable.

Examples of minor property conditions that no longer require automatic repair for **existing** properties include, but are not limited to:

- Missing handrails
- Cracked or damaged exit doors that are otherwise operable
- Cracked window glass
- Defective paint surfaces in homes constructed post 1978
- Minor plumbing leaks (such as leaky faucets)
- Defective floor finish or covering (worn through the finish, badly soiled carpeting)
- Evidence of previous (non-active) Wood Destroying Insect/Organism damage where there is no evidence of un-repaired structural damage
- Rotten or worn out counter tops
- Damaged plaster, sheetrock or other wall and ceiling materials in homes constructed post- 1978
- Poor workmanship
- Trip hazards (cracked or partially heaving sidewalks, poorly installed carpeting)
- Crawl space with debris and trash
- Lack of an all weather driveway surface

Examples of property conditions that may represent a risk to the health and safety of the occupants or the soundness of the property for which FHA will continue to require automatic repair for **existing** properties include, but are not limited to:

- Inadequate access/egress from bedrooms to exterior of home
- Leaking or worn out roofs (if 3 or more layers of shingles on leaking or worn out roof, all existing shingles must be removed before re-roofing)
- Evidence of structural problems (such as foundation damage caused by excessive settlement)
- Defective paint surfaces in homes constructed pre-1978
- Defective exterior paint surfaces in home constructed post-1978 where the finish is otherwise unprotected.

Inspection Requirements

FHA no longer mandates automatic inspections for the following items and/or conditions in **existing** properties:

Wood Destroying Insect Inspection Report – only if evidence of active infestation, or if mandated by state or local jurisdiction, or at the lender’s discretion.

When required, a Wood Destroying Insect Inspection Report (Exhibit 14) (form NPCA-1) must be included in the case binder with the other appropriate loan documents submitted for mortgage insurance. The primary purpose of the form is to provide reasonable assurance that the physical security of the property is not threatened or damaged by termites or other wood destroying insects.

The Pest Inspection form must be signed by an authorized representative of a licensed pest control company. In this regard, HUD is aware of many states that do not license pest control inspectors but do license pesticide applicators. In such states, it is HUD's policy that the Wood Insect Inspection Report must be signed by a licensed pesticide applicator.

Well Water Inspections – only if evidence of an issue exists based on the appraiser’s findings.

In no instances may this report be signed by a Home Inspector, Fee Inspector, etc. that does not maintain an appropriate pest control inspector and/or applicator’s license.

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