FHA 203(h) For Disaster Victims

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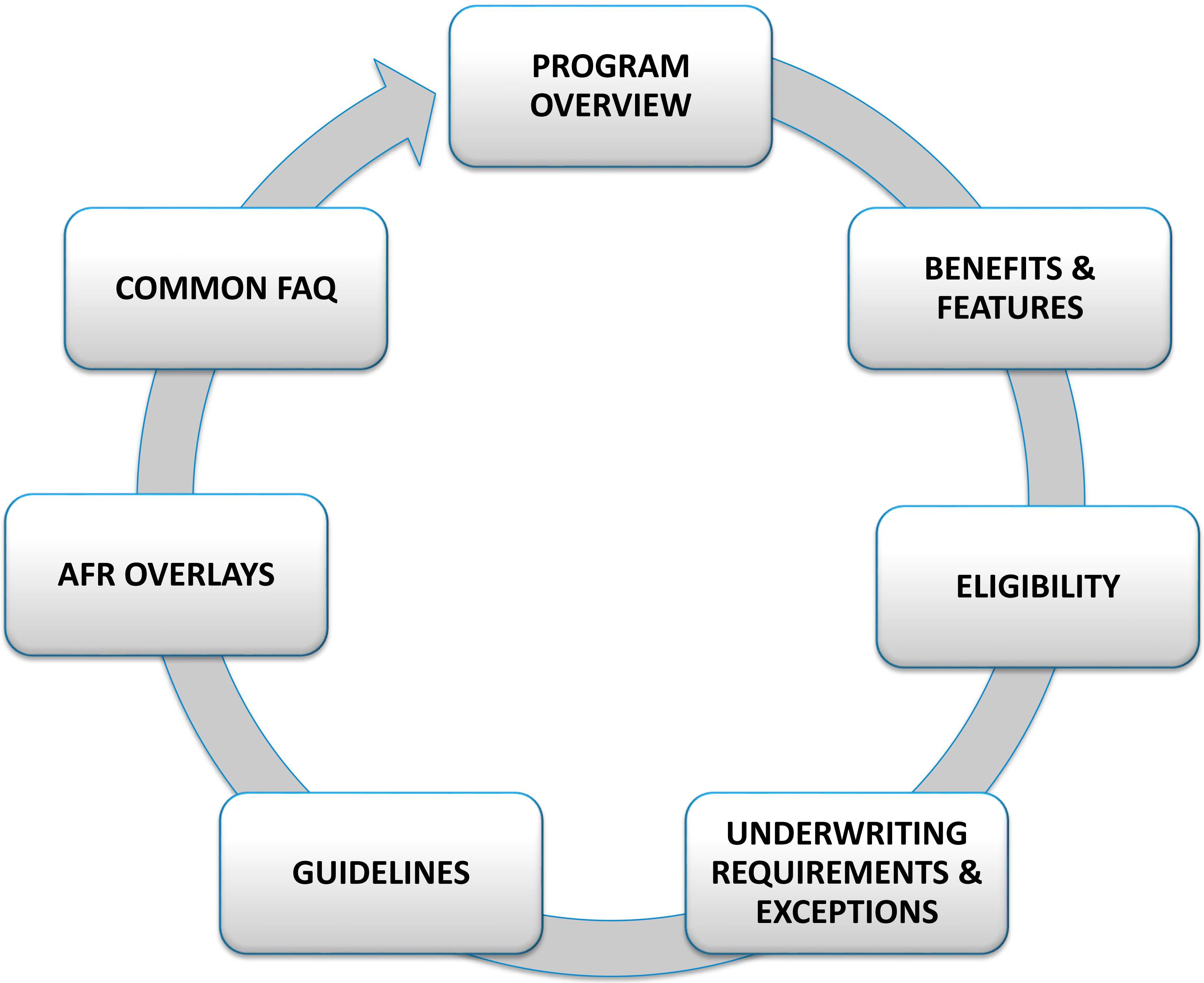
AGENDA



FHA 203(h) For Disaster Victims

PROGRAM OVERVIEW

- This program allows the Federal Housing Administration (FHA) to insure mortgages for victims of a major disaster who have lost their homes and are in the process of rebuilding or buying another home.
- It helps victims in Presidentially-Declared Major Disaster Areas (PDMDA) recover by making it easier for them to get mortgages and become homeowners or re-establish themselves as homeowners.

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BENEFITS OF THE FHA 203(H) MORTGAGE

This program allows the Federal Housing Administration (FHA) to insure mortgages for victims of a major disaster who have lost their homes and are in the process of buying another home.

Available to renters as well as homeowners

- Renters who are displaced by a disaster may be eligible to purchase a new home with 100% financing through this program, rather than needing to put 3.5 – 5% down as would likely be required through most FHA or Conventional financing.

Does not need to be used right away

- In the days and weeks immediately following a disaster it may not be possible or prudent to focus on the next steps towards establishing long term housing or homeownership. Thankfully eligibility for this program begins as soon as the President declares the disaster and remains for one year from that date of declaration.

Option to move on

- 203h offers financing for those that want to purchase another home, for those that desire to renovate their existing home, the FHA 203(k) or FNMA Homestyle may be a viable option.

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FEATURES

- The new mortgage may be used to finance the purchase of a one-family home that will be the principal residence of the applicant. The applicant is eligible for 100% financing, therefore, no down payment is required. Closing costs and prepaid expenses must be paid by the applicant through premium pricing, or by the seller (subject to a 6% limitation on seller concessions).

✓No minimum loan amount

✓No down payment is required

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ELIGIBILITY

This program is available to anyone whose home has been destroyed or severely damaged in a Presidentially declared disaster area provided they meet the eligibility requirements.

APPLICATION DEADLINE

- The FHA case number must be assigned within one year of the date the PDMDA is declared.

PREVIOUS PROPERTY

- The previous residence (owned or rented) must have been located in a PDMDA and destroyed or damaged to such an extent that reconstruction or replacement is necessary.

- A list of the specified affected counties and cities and corresponding disaster declarations are provided by the Federal Emergency Management Agency (FEMA) at https://www.fema.gov/disasters.

SUBJECT PROPERTY

- The subject property is not required to be located in the area where the previous house was located.

- Disaster victims are not required to purchase the new property in the PDMDA area.

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ELIGIBILITY

DOCUMENTATION REQUIREMENTS

- Documentation attesting to the damage of the previous home must accompany the mortgage application.

- The Lender must document and verify that the Borrower's previous residence was:
  - In the disaster area; and
  - Destroyed or damaged to such an extent that reconstruction or replacement is necessary.

Note: *AFR can not provide a list of acceptable documents as this will vary from company to company.*

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UNDERWRITING REQUIREMENTS AND EXCEPTIONS

LENDER RESPONSIBILITIES

- The Lender is required to make every effort to obtain traditional documentation and document their attempts for:
  - Employment, Assets, and Credit

- The Lender may use alternative documentation that is reasonable and prudent to rely upon in underwriting a mortgage.

- Where traditional documentation is unavailable, the Lender may use alternative documentation subject to additional guidelines for:
  - Housing Payment History, Credit, Liabilities, Income & Assets.

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UNDERWRITING REQUIREMENTS AND EXCEPTIONS

HOUSING PAYMENT HISTORY

- The Lender may disregard any late payments for a previous obligation on the property that was destroyed or damaged in the disaster.
- Late payments within 12 months prior to the disaster are not allowed.
- The Lender may justify approval when the Borrower provides a detailed explanation that late payments are due to the recent disaster.

CREDIT

- For Borrowers with derogatory credit, the Lender may consider the Borrower a satisfactory credit risk if:
  - The credit report indicates satisfactory credit prior to a disaster; and
  - Any derogatory credit subsequent to the date of the disaster is related to the effects of the disaster.

LIABILITIES

- When a Borrower is purchasing a new home, the Lender MAY exclude the Mortgage Payment on the destroyed residence located in a PDMDA from the Borrower's liabilities, only if:
  - The Lender obtains information that the Borrower is working with the servicing Lender to appropriately address their mortgage obligation; and
  - Apply any property insurance proceeds to the mortgage of the damaged home.

Note: *AFR can not provide a list of acceptable documents as this will vary from company to company.*

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UNDERWRITING REQUIREMENTS AND EXCEPTIONS

INCOME

- If prior employment cannot be verified because records were destroyed by the disaster, and the Borrower is in the same field, then FHA will accept:

- W-2s and tax returns from the Internal Revenue Service (IRS) to confirm prior employment and income.

ASSETS

- If traditional asset documentation is not available, the Lender may use account statements downloaded from the Borrower's financial institution website to confirm the Borrower has sufficient assets to close the mortgage.

- NOTE: See SF Handbook, Section II.A.8.b.

(CAIVRS)

- Lenders must check all Borrowers against the Credit Alert Verification Reporting System (CAIVRS), including those impacted by federally declared disasters.

- All borrowers must have a clear CAIVRS

  - For additional information on CAIVRS, refer to SF Handbook, Section II.A.1.B.ii.

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GUIDELINES

MINIMUM QUALIFYING CREDIT SCORE

- Broker: 620
- Correspondent:
  - Table Funded: 620
  - Non-Delegated UW: 620
  - Delegated UW: 620
- **Reminder:** AFR does not permit <620 FICOs on Refers or Manual Underwrites.

GUIDELINES

- LTV:
  - The maximum LTV limit is 100% of the Adjusted Value
- DTI:
  - Approve/Accept: Follow AUS
  - Refer: Maximum DTI limit is 31/43%
- AUS Recommendations:
  - Approve/Eligible - DU
  - Refer/Eligible - DU
  - Approve/Ineligible - DU
  - Refer/Ineligible - DU
  - Accept - LP
  - Refer - LP
  - Accept/Ineligible - LP
  - Refer/Ineligible - LP

***Note:** Ineligible must be for LTV or credit reasons only.*

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GUIDELINES

TERMS	TRANSACTION TYPES	PROPERTY TYPES
• 10Yr., 15Yr., 20Yr., 25Yr., 30Yr., Fixed • 5/1 Hybrid ARM	• Purchase Only	• Single Family Property • Manufactured Housing • FHA Approved Condominium • PUDs • **Reminder:** The Property must be the Borrower's Primary Residence. • The previous residence (owned or rented) must have been located in a PDMDA and destroyed or damaged to such an extent that replacement is necessary.

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AFR OVERLAYS

PROGRAM OVERLAYS

Follow all overlays outlined in the FHA 203(b) Program Matrix **and:**

- Short-term employment income will not be permitted to be used as effective income.
- Non-traditional credit is not permitted.
- 0x30 12 month mortgage history required prior to declared disaster date.
- No Refinances
- FICO
  - Broker: 620
  - Correspondent:
    - Table Funded: 620
    - Non-Delegated UW: 620
    - Delegated UW: 620

GEOGRAPHIC RESTRICTIONS

This program is restricted in Hawaii.

Note: *AFR does not operate in the state of Hawaii and does not permit loans with a subject property in Hawaii for all program channels with the exception of Correspondent Delegated UW transactions.*

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COMMON 203(h) FAQ

- **Can a person that currently has an FHA loan on a home that has been destroyed be eligible for the 203(h) loan?**
  - Yes, HUD will allow a borrower whose primary residence was destroyed in the disaster that was an FHA mortgage to obtain a new FHA mortgage under 203(h) program.

- **What documentation must be obtained to prove that the borrower's existing home has been damaged to an extent that they are now eligible for a 203H loan?**
  - Evidence from fema.gov showing current residence was in PDMDA with individual assistance, along with specific documentation that borrower is currently working with current mortgage lender and insurance company for damages incurred from disaster. (Additional documentation may apply.)
    - For renters-acceptable documentation from insurance company, landlord, etc.

- **How do I determine if the borrower is in an area where they can take advantage of the 203(h) program?**
  - A list of the specified affected counties and cities and corresponding disaster declarations are provided by the Federal Emergency Management Agency (FEMA) at https://www.fema.gov/disasters. Please be sure to select "Major Disaster Declaration" from the dropdown, to determine if the property is located in an PDMDA.

- **What (specifically) does AFR require for a displaced homeowner to prove that their home was destroyed / damaged to the point they were displaced?**
  - Due to the variation from company to company AFR is unable to provide a list of acceptable documents and will have to review them as they are received.

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COMMON 203(h) FAQ

- **What (specifically) does AFR require for a displaced renter to prove that their apartment complex or private residence that they were renting out was destroyed / damaged to the point that they were displaced?**
  - Due to the variation from company to company AFR is unable to provide a list of acceptable documents and will have to review them as they are received.

- **Are there any special codes/input requirements when running DU or LP for a 203(h) loan?**
  - No, not at this time.

- **Are there any special codes/input requirements when completing FHAC?**
  - Yes, you will need to select the following:
    - Program ID: 02 – Disaster Housing
    - Housing Program: Other

- **Any other completed forms that must be submitted with these loans?**
  - No, follow 203(b) program guidelines.
    - https://resources.afrloancenter.com/programs/program-matrix/

- **How much seller concession is allowed?**
  - 6% seller contribution is allowed on the 203(h) product.

ADDITIONAL FAQ

- **What happens to the borrower's mortgage on the destroyed house, if they choose to buy a new home?**
  - The mortgage obligation is still there. Any prior debt and/or credit must be negotiated with the individual creditors.
- **What if the borrower did not have flood insurance and need funds for living expenses can it be built into loan?**
  - No, there is not a program that will allow living expenses to be financed.
- **What if the borrower is displaced from work for weeks or a month and/or relocate to find new work elsewhere, how will their income be calculated with job gap or new employment?**
  - Follow income guidelines outlined in the FHA 4000.1. All FHA 203(b) income requirements must be met.
- **Knowing contractors/builders will be overwhelmed, what is the time line to complete the renovation work?**
  - This will vary depending on the program chosen. Please refer to the Program Matrix for timeline requirements.
- **What if a homeowner does not make a payment? Is this an adverse effect on credit?**
  - Yes, it will adversely affect their credit however with the 203(h) program this will be evaluated based on the date of disaster and date of derogatory reporting.

ADDITIONAL FAQ

- **Is DU updated to reflect a FEMA declared disaster area?**
  - Not that we are aware of. Please visit https://www.fema.gov/disasters and select "Major Disaster Declaration" from the dropdown, to determine if the property is located in an PDMDA.
- **Is a borrower allowed to do a 203(k) refinance to finance repairs?**
  - Yes, if there is equity in the property and the property is 12 months or older. Please refer to the Program Matrix for additional program qualification requirements.
- **Do you offer any training and marketing materials for your renovation, construction and 203(h) programs?**
  - Yes, please refer to the Program Matrix in the Resource Center for specific Program Presentations and Program Flyers or visit our Webinars section and join us for one of our many presentations!
- **What if the borrower was unable or is currently unable to return to work due to the disaster? Do they have to wait until they can return to work before applying for a renovation loan?**
  - Follow income guidelines outlined in the FHA 4000.1. All FHA 203(b) income requirements must be met.
- **Are there any costs typically associated with a refinance/purchase that are now covered due to the storm?**
  - No, all applicable costs/fees will remain the same and apply to all transactions.

THANK YOU

AFR TRAINING TEAM