Insights of a Successful 203k Consultant

How to Have or Run a Trouble - Free FHA RENOVATION PROJECT

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AMERICA'S 203k QUEEN

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Insights of a Successful 203k Consultant – How to Have or Run a Trouble-Free FHA Renovation Project

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Foreword

"An FHA 203k Rehab Loan – how to buy a home that's ready to be sold" ***– Catherine Hall***

Foreclosed, Distressed Properties, Short Sales, Vandalized, Outdated and unattractive "unique-fixer-uppers"- all of these terms describe a large portion of the housing stock available to home buyers. People think this is a result of recent economic conditions but there have always been homes for sale that aren't ready to be bought.

An FHA 203k Rehab loan is the best way to capitalize on the amazing opportunities available to the buyer who has an eye for the "diamond in the rough".

In this book, you will learn first-hand from the nation's leading expert on FHA 203k Rehab Loans- America's 203k Queen herself- Catherine Hall. Learn from the 203k consultant's perspective the vital things to know when you are planning a 203k rehab project.

Every 203k project is different and the world of 203k consultant is growing and changing as all aspects of the real estate world. This book will give the new as well as experienced FHA consultant valuable tools and "inside information" that will enhance their business and prevent costly pitfalls and mistakes.

Reading this book can and mostly will help anyone with any interest in 203k loans be better prepared for the process and may prevent the pitfalls. Enjoy!

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Introduction

I'm Catherine Hall, the creator of the nationally recognized 203k In A Box System. I've trained and mentored hundreds of FHA 203k Consultants from across the country and I am also the founder and owner of Value Home Inspections.

This book is the distillation of years of knowledge and experience gained working in a business that I love and at which I excel.

The chapters are based on articles I have written for my newsletter over a period of two years and are jam-packed with specialist knowledge and good, practical advice that cannot fail to help you in your work as a 203k consultant.

To help you easily find what you need, the book is divided into three key areas: Business Development; Managing a 203k Project; and Mortgages and Lending.

You may start at the beginning and read right through to the end, or you may prefer to dip in and look for subjects that are of particular interest to you right now. That's your choice. Whichever approach you take, I'm confident you'll find this to be a useful and valuable resource.

Section 1

Business Development

This section of the book takes a look at the ways in which you can maximise your 203k consultancy business, from the products / services you offer to an exciting new opportunity – the National Association of FHA Consultants.

It is intended to inform, educate and enthuse, so that you see the wealth of opportunities that exist and succeed as professionals in your field.

If you want to stand out from the competition and be the first choice for buyers, agents and lenders in your area, this will help you achieve that goal.

Chapter 1 – The Word is OUT – 203k is a WIN WIN WIN

As I talk to people all around the country in the real estate industry, I keep hearing that the housing market is definitely improving. This is great to hear, not because of any statistics on growth in home sales or increases in lending practices, but because perception is everything. What we think is true, will be true.

Perception is also critically important when it comes to the 203k Rehab Loan Program. A lot of real estate agents and mortgage lenders are now seeing the Federal Housing Association (FHA) 203k program as the amazing tool that it is for helping homebuyers realize their dream of home ownership in markets that contain a lot of homes that are truly “not ready to be sold.”

Are you keeping up with the FHA HUDCLIPS? (For the uninitiated, that's the U.S. Department of Housing and Urban Development's Client information Policy Systems. http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips)

I noticed in an email from FHA that there will be some appraiser/lender education sessions at various HOCs. If you are in the vicinity of these HOCs and can attend these meetings, I strongly encourage you to do so. It is a great way to accomplish three important things for your 203k business:

1. Learn what appraisers and lenders are being taught about 203k loans.

2. Get the most up to date information for your activities.

3. Take this great opportunity to market to these key players in the FHA housing world.

In the same email was the following notice:

This will be the last listserv message generated from the Jerrold.H.Mayer@hud.gov email address. Future listserv messages will now come from the following email address: FHAlistserv@hud.gov Listserv subscribers should ensure that their email system will allow emails from this source.

Not receiving HUDCLIPS? Here is the link to get them sent to you:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/ref/hsgregst

Another really great way to get the word out is via your Facebook fan page. Go to Facebook and search FHA 203k. You will be surprised at the posts that are on this site from every part of the country. In order to fine tune your marketing, type FHA 203k “your city” in the search box. Then, when the results come up, respond to the posts you see from people discussing 203k loans in your area.

Most importantly, you can create an enormous amount of positive energy just by “talking it up” every time you are on an inspection or in front of real estate agents. In the final analysis, if you get the word out – the WORK will come back to you.

Chapter 2 – How to Create a 203k Ambassador REAL ESTATE AGENT

How do you get agents comfortable with the 203k program? Easy – hold frequent office education training sessions and "lunch and learn" meetings. With an office education session you can show your agent database that the FHA 203k loan program is a great way to save a deal that would otherwise die due to the deficiencies in the home. Using the packaged office education training sessions, build up the case that 203k is a great option for many homebuyers. Make sure you can answer the following questions (and even provide slides):

1. **What is the maximum loan limit for FHA mortgages in your area?** This is an important and very "eye-opening" piece of information because it will show the agents that FHA mortgages are NOT just for

low/mod home buyers. You can access this information from the 203k In A Box website, or this link: https://entp.hud.gov/idapp/html/ hicostlook.cfm. You need to make sure to select the FHA Forward option – as this is the label for the HUD insured mortgages that are used for 203B and 203k loans.

2. **What lenders can provide a 203k loan?** Ideally, the “in-house” lender is a DE approved 203k lender. You will not only want to have talked to them before the office meeting, but also be certain that this loan officer will be present. Let him/her know that you plan to really push the real estate agents to use him as the best way to succeed with the FHA process. Explain that the two of you are working together and will each do everything to make sure the agent’s client easily and successfully navigates the FHA process.

3. **What can be done with the 203k?** Be sure to have lots of before and after pictures to share. Excite people’s imagination with pictures of homes and defects that are common in your area. If you need pictures (as you probably don’t have a database to choose from just yet) contact us and we will happily supply you with a wealth of projects, small and large, to add to your presentation. Be sure to highlight the power of using the 203k on any specific condition unique to your area that causes a lot of problems for buyers.

Next, get “up close and personal”. Take a few agents to lunch and let them “pick your brain”. Don’t worry, you really DO know most of the answers.

The personal touch goes a long way and in this small, intimate setting you can voice for them the fears that they are probably experiencing. Fears like: What if the buyer wants to do more repairs than he can afford? Or, How will my buyer find the right contractor? And most agents’ favorite unasked question: Where do I fit in this picture? Let them know that you will be working closely with them and their buyer both before and after settlement and that you are not an “ordinary home inspector” but a professional CONSULTANT – and that is what you are trained and happy to do – consult them and their buyers all through the process.

One last tip that really worked well for me – invite your favorite real estate agent to a draw inspection (make sure to get the OK from the buyer and their current agent – hopefully they are from the same brokerage). Or better yet, invite them to attend an upcoming Contractor 101 Educational Training for building contractors interested in participating in the 203k program. There, the real estate agent will learn how well organized, detailed and knowledgeable you are in all aspects of the new and truly valuable loan process. Be sure to invite several loan officers (focusing on the networking opportunity).

Chapter 3 – Inspecting for FHA – Minimum Property Standards

I run a very successful home inspection company in the Pennsylvania area. The reason why I am very happy to stay active in that company is that I'm able to try out things that I get – the ideas that I get – before I share them with others.

You have no idea how many ideas I have had that have never been shared with others because they didn't go over as well as I would have hoped; ideas for give-aways or marketing ideas or procedural changes that we've tried, hoping to improve the quality of service for the customer or the ease in facility of our 203k activities. Many things, many projects and many ideas, have crashed and burned.

This is not one of them.

Several years ago, in response to requests from lenders, I created a system called the FHA Minimum Property Standard Evaluation. Real estate lenders and underwriters specifically are always looking for ways to qualify the condition of a property to ensure that the home is going to be one that the borrower will have the ability to maintain and utilize without a great amount of expense.

Simply speaking, a lender is always concerned that the borrower could be buying a home that might break after they buy it and that they might not then have the money to complete the necessary repairs and pay the mortgage. For that reason, underwriters are asking borrowers whether they've completed home inspections, and if they have, to share copies of that report with them. What's happening then – much to the dissatisfaction of the real estate agent and buyer – is that they’re calling out repairs that they're identifying from this home inspection report as being items necessary to "clear to close".

I wonder if you, like I, am receiving phone calls from time to time from real estate agents saying, "The underwriter saw your report and saw that you wrote that the heater is nearing the end of its life expectancy and it's going to be expensive to repair. Can you take this off your report because the underwriter is saying that the buyer needs to replace his heater?"

Well, we've gotten that call and I've had to explain to the real estate agent, "I can't take this off the report because I have to protect my interest in the event that the heater does break… I have told the buyer that it might, but that it was functional at the time of the inspection."

As a response to the needs of both the real estate agent and the borrower, I've created a system and a product that allows for an evaluation report that closely resembles what the appraiser is looking for and provides only information regarding those elements that would pose an immediate safety or soundness deficiency, and mean that a property would otherwise fail an actual FHA appraisal.

This service is going over huge.

We offer it to customers in two ways; as a standalone service for a lower fee than a home inspection, with the clear understanding that it is not a full home inspection and that there certain elements of a home inspection that are not going to be performed; and / or as an additional upcharge on the home inspection as a report, and a report that they can comfortably share with the underwriter. So this is something that they can give to the underwriter to provide them assurance, but that does not involve sharing things that would potentially raise concerns in the underwriter's mind.

We are very happy to be providing this new system and product to 203k In A Box members, and to home inspectors around the country as a standalone product. The FHA Minimum Property Standards Evaluation is also now being offered via the National Association of FHA Consultants (NAFHAC).

What I wanted to share with you was an understanding of the importance and benefits that this service can offer you, and also help you open up your mind to the possibility and the opportunity, just like a 203k consultant, a home inspector or building consultant, as I want you to consider yourselves, has an obligation where available and where possible, to assist the home buyer in the process of getting the home.

Many home inspectors believe that their service stands apart from the real estate transaction. I have many home inspectors come to me and say, "It's not my job to care whether or not the person buys the home. My job is to only give them the information and the report of what I have found when I went out to the property."

True. But what the buyer is looking to have us do when we carry out a home inspection is to provide information to support the process of buying that home, and if we have a tool that can help support that process, facilitate that transaction – and, in fact, actually expedite it, especially in relation to an FHA-insured mortgage which has another layer of accountability from the appraisers. Do we not have that responsibility to try to help the borrower? I pose this question to you and it is the main motivation for why I created the FHA Minimum Property Standards Evaluation, because as a 203k consultant, my mindset and my objective is to help the buyer get on the other side of closing, whereas as the home inspector we give reports that many times will prevent them from getting to settlement.

What is an FHA Minimum Property Standards Evaluation? This is a limited – very limited – evaluation. Again, very similar to a feasibility inspection, but without providing estimates for repairs and a description of what needs to be done. This evaluation is limited to those elements that would fall under the category of “minimum safety and soundness deficiencies”, those being what an appraiser is looking for. In this evaluation, the building consultant (notice I'm not describing you as a home inspector for this work) does not remove covers from electrical panels, does not use a ladder to evaluate a roof, will only evaluate a crawl space from the opening with a flashlight, and is not required to test outlets, except GFI receptacles at wet areas. This limited evaluation is looking for visual deficiencies that would pose immediate and obvious safety and soundness concerns, in exactly the way an appraiser does. However, it gives the information to the buyer early enough in the transaction and for a fee reasonable enough so that if the project is not a good fit for their financial needs or billing to get items repaired from a seller per se, they can move on to another property long before having an appraisal come in, which doesn't take place until very close to the settlement process.

It also is a great opportunity – a wonderful tool to help a borrower (notice I’ve switched from the word “buyer” to “borrower” because this is where you can probably change a potential buyer into an FHA 203k borrower by pointing out all of the FHA-required repairs and explaining that they can all be completed successfully using a 203k inspection report).

This is also a great tool to upsell your 203k's feasibility inspection services. If the property successfully passes the FHA Minimum Property Standards Evaluation, the borrower can choose to use that information to move forward with their closing activities or opt to purchase a full service home inspection from you where you are going to do a more detailed and thorough inspection according to the standards of practice of your state or national association.

THIS IS NOT A HOME INSPECTION.

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I said that three times because many of you are in states that have rules that state that if a person is providing a specific type of service that entails inspecting a certain number of systems or components, then they must use standards of practice of that state association. This is not a home inspection, and if you are performing a service and it's clearly described in the agreement form, in the allowable fee agreement or the contract – whatever terminology you wish to use with the client – then so long as all parties are agreeable to the service parameters and limitations I cannot see where your states can prevent you from performing this activity as defined.

I understand that there are some very, very rigid and inflexible states and I am looking to reach out to them as we speak to get them to give me a position statement about this service. Bear in mind that these states allow appraisers to evaluate properties without making them adhere to any type of term or condition relating to home inspection definition. So this is possible – it only remains to have these states be open to the opportunities that will be available through this very exciting product.

Who can do an FHA Minimum Property Standards Evaluation? Actually, any qualified, licensed, certified home inspector has all of the capacities and capabilities for doing this type of evaluation. Ideally it should be done by an FHA 203k consultant, because as a 203k consultant you are intimately familiar with the FHA Minimum Property Standards (or should be) and because this process is one step below a full 203k process.

How do you market this service? This system practically sells itself. When you can provide information to real estate agents, and to home buyer education and office education training classes, about the opportunity to have FHA buyers receive information for a fee that is less than your typical home inspection fee, but with the ability to have additional added services of termite inspection, radon testing and any other additional ancillary service you provide, you're going to find agents will jump at the opportunity and will at least give it a try. Adding it on as a value-added service to a regular home inspection for an FHA buyer as a unique selling proposition to separate you from your competition is a great tool and the software that is used to create it is a simple PDF form that is just a checkbox system that is easily completed right there at the job site; if you have Wi-Fi capability on your mobile device, you can literally email this report directly to the agent's and the client's inbox right there and then, while you're at the property.

Chapter 4 – Putting a "Contract Out" on Contractors

Does anyone out there know of a good "hit man"? I may be in the market! Those of you who are already actively consulting on 203k projects may already know what I mean. What is the role of the contractor? It may seem like a rhetorical question – but it isn't!

The contractor is obviously an important element in the renovation process – one of the four legs of the project table, the other three being the borrower, the disbursement officer and, of course, you, the consultant. It is very important to "set the table" before you let the contractor start work. By doing so, you can avoid a lot of problems that can cause the renovation project extensive delays and difficulties.

First, I strongly suggest you meet with a borrower's "pre-selected" contractor before the close of escrow. I usually invite the contractor and the borrower (if they would like to attend) to my office for a brief 15-30 minute meeting. In that meeting, I explain what the contractor can expect to happen after settlement. I clarify any misconception about how funds are disbursed and even show the contractor a sample of the complete draw request and change order form. I make it completely clear that all permits will be required prior to the first draw and that (considering who the lender will be) in most cases there will be advance payment for materials or custom purchases.

I sometimes have to tell a contractor what some would consider obvious professional actions. For example, I often need to remind a contractor that he should make an appointment early in the project to select specialty items so that any custom items that need to be ordered can be available and on hand when needed.

How can you help reduce the difficulties with contractors? Create your own database of qualified contractors that you can introduce to the borrowers you work with. These contractors will be pre-screened, and prepared by you to ensure there will be as smooth a renovation project as possible.

Finding the best contractors is not as difficult as it may seem – start by asking some of the real estate agents, and especially conveyancing agents, in offices you are connected to, to tell you who they call when a seller needs some work done on a property. Get a list of these contractors (and also advertise in CraigsList) and hold a Contractor 101 class. Don't forget to invite real estate agents and lenders – making it a marketing event – showing your dedication to the success of 203k rehab loans.

Chapter 5 – FHA Compliance Evaluations for Sellers

The world of home buying continues to show increased optimism and activity around the country. As more and more buyers look to purchase homes while interest rates are at all-time lows, sellers are faced with the ever increasing demands of appraisers, underwriters and insurance agents. Listing agents are finding it more of a challenge every day to find that “move-in ready” property. I have seen it and I’m sure you have as well, when you arrive to do a home inspection or 203k feasibility study; properties are failing to meet minimum property standards.

Many of us offer pre-listing home inspection services, but it is usually a difficult concept for the seller who does not understand why they should pay for a service that the buyer will also be expected to pay for. For this reason, and as a way to demonstrate to sellers and real estate agents alike, I have created a service called the FHA Compliance Evaluation – and we give this service for free! It is turning heads!

Here's how it works. A seller, recommended by their listing agent, receives a visual evaluation of their property. We do not create a written report of any kind and the seller must be present to take notes and get the information about those items that fail to meet minimum property standards. It is a very "eye-opening" experience for most home owners to learn that their house will NOT pass an FHA appraisal. It is a great educational experience for the real estate agent, as well. The listing agents are delighted when their seller is given much-needed information that will ultimately smooth the transaction when a buyer comes along with an offer.

You may be asking, why should I do this for free? Here are four reasons:

1. This service will introduce you to a seller who already thinks they may have a problem. You have the opportunity to "up-sell" to a full Pre-Listing Consultation or Home Inspection.

2. That seller will probably need a home inspection on their new residence – you will now be the obvious choice.

3. The real estate agent will appreciate you helping them make a sale and will remember you as the “caring inspector”.

4. You can educate both seller and agent about the FHA 203k process and how it will help them sell the house faster – without doing repairs of any kind.

Chapter 6 – 203k Lenders – Come Out! Come Out! Wherever You Are!

The use of FHA 203k rehab loans continues to grow in popularity, yet I am frequently asked questions about how and where to get prospects and leads. As many of you have discovered, and as I have said very often, all you need to do to get your phone to ring with two 203k projects is to let the lenders know that you are there, capable, qualified, and eager to assist their clients complete FHA 203k projects.

Just recently, I performed a consultation for a first time loan officer. He was curious to see how the two 203k process worked and attended the inspection. During the inspection I described to the client all the activities that I would be undertaking to assist with his 203k renovation project, both before settlement and after closing the loan. The loan officer, listening to this conversation, commented that all the things that I would be doing are things that he normally had to do for the streamline two 203k client. This was the perfect “in” for me to explain to the lender that getting me involved as an FHA consultant with streamline customers was the best way to assure a successful streamlined two 203k transaction. With any marketing activity it’s important to help your prospect or customer feel the pain – the pain that you will be resolving for them. In other words, show the problem and be the cure.

What is the best way to accomplish this? The best thing that you can do is get to know the loan officers in your area. Many loan officers are not able to broker a two 203k rehab mortgage, and others don’t know how. It’s your job, and your opportunity to show the lenders in your area all the benefits of not only the use of the FHA 203k program, but of using this program only with you as a partner.

Lenders want to get every buyer to settlement (close of escrow) just like real estate agents. These loan officers are often unsure about the steps necessary to complete a two 203k process. They have been told that they are responsible for completing all the necessary paperwork for an FHA 203k streamline client, yet they don’t know what the steps are, nor are they sure they are doing them in the right order. You are the resource that can assist these loan officers in getting their clients to closing with the fewest difficulties and obstacles. By providing a feasibility study for the streamline customer, for a fee that is many times less than the home inspection cost the borrower is expecting to pay, you are providing a report that will detail not only for the buyer but also for the loan officer all other necessary desired FHA repairs, suggested upgrades, and the desired repairs the customer is looking to do, with the associated cost estimates.

How valuable is this to a loan officer who is typically not going to ever set foot in the house? Your report will help the borrower (and loan officer) to know what to ask the contractor to bid on, as well as providing cost estimations that can be used as comparable estimates against the contractor's proposed bid. This will save the lender a step and move the process more quickly to the appraisal and settlement. By having you complete the feasibility report for the streamline customer, the loan officer is also saving his time which translates into more money per transaction in his pocket. (We are all familiar with Time and Billing.)

Where do you find these loan officers? That is the easiest part! Go to any larger real estate agency – you are visiting them regularly anyway, right? Ask to speak to the "in house" loan officer and ask them what they do when a client has a need for an FHA 203k loan. You will get one of three responses (usually):

1. He processes the request personally as their loan company is an approved FHA lender.

(Make sure you are specifying full 203k projects – remember every FHA 203B approved lender can originate a 203k Streamline, but only DE approved lenders are authorized to originate a FULL or Standard 203k rehab project.)

2. She must refer the loan to another person in the company – this is typically the case for Wells Fargo as they have mandated that only specifically trained 203k loan officers can originate 203k projects. You will, of course, ask who that person is.

3. She must refer the loan to another company entirely as their mortgage company/bank does not handle them at all (again, you will ask who that is).

Once you have gathered the information for about 5-7 real estate offices, start a marketing campaign to these loan officers. This campaign will include personal visits and mailings – both email and actual “snail” mail.

In addition to this method, an even quicker way to identify the FHA 203k loan officers in your area is to click the link on the 203k In A Box Power Team site that takes you to the HUD resource guide for lenders.

Chapter 7 – "The Power of the Press" in Getting the Word Out About 203k

An article published in a Florida newspaper recently was forwarded to me. In that article, the writer talked about the FHA 203k program truly as if it were the best thing to hit the real estate market since electronic lockboxes. Not only did she quote some very exciting statistics from FHA – such as an expected increase in usage of the 203k program – but she interviewed several loan officers / mortgage brokers who also had promising comments about the 203k loan program.

As I read the article, I was reminded of just how valuable the media can be to us in getting the word out about the wonderful benefits and opportunities FHA 203k mortgages make available to home buyers and owners all around the country.

This is our mission, too, to spread the good news. We, as ambassadors for this program, should take advantage of every opportunity to get the word out. Some of the best ways to get the media on your / our side is to update them frequently with positive information about your work as an FHA 203k consultant. Email the real estate editor or head writer for the real estate department of your most popular publication at least once a month. You don't need to write a four-page essay – just a simple, short press release with noteworthy and hopefully newsworthy content.

In just a few paragraphs you might talk about a recent successful 203k project where you helped a home owner / buyer turn an outdated eyesore into one of the "gems" of the neighborhood. Mention that you can offer (always with permission from the borrower) great before, during and after photos for the publication's blog or Internet site.

Another great piece of news that you should consider announcing in a press release is when you establish a new relationship with a lender. This has a two-fold benefit. One, it shows you as the 203k consultant chosen by more lenders than other consultants in your area (if there are any in your area). Two, you are providing the lender with great free advertising. He or she will be delighted and grateful for the promotion.

Everything I have described also applies to posting on the blog or websites, LinkedIn or Facebook pages of your local media as well.

The added and most valuable benefit this media campaign will provide you is that when the publication needs a comment or opinion from a local expert – guess who they will call? That’s right: you!

Chapter 8 – What to Say to the "Nay-Sayers"

There is a growing awareness of the FHA 203k rehab loan in the real estate community and most real estate agents fall in one of two categories:

1. The ones who have never heard of it (and actually think it is a new thing).

2. The ones who have nothing but bad things to say about it.

The ones in the second group are the topic of this chapter. It's not that difficult to show someone something new that is exciting and will improve their business. It is another thing entirely to get someone to open their mind to accept a change in their beliefs, but it is totally worth the effort.

What are the typical comments you will encounter from the "Nay Sayers" when you ask them what they know about the 203k?

- "I did one years ago and it was a disaster. It took forever to close and no one knew what was going on."
- "They don't work in our market."
- "I don't work with first time homebuyers."
- "The buyers can never find a contractor who will take a job with no upfront money."
- "That was only used in the 80s, right?"
- "I don't work with low income buyers."
- "That's only for foreclosed or really messed up homes – right?"
- "There's no need for them – I get the seller to make all FHA repairs or the deal doesn't go through."

As you look at these comments can you see the opportunities for opening up a positive dialog with the agent? Let's unpack a few of these. But before we do that, let me share a few basic sales strategies for overcoming objections.

When working to get someone to consider a different point of view you must get them to start agreeing with you on other things. You work your way up to agreement on the final argument, which is much easier when they have been agreeing with you on the things that lead up to the point you are trying to get them to accept.

Another strategy is to expand the objection to a completely ridiculous level meaning that the other person is forced to agree that the objection is not as bad as they originally thought – then you can get them to see the positive side of the situation.

So let's take a look at how to deal with the objections listed above.

"I did one years ago and it was a disaster. It took forever to close and no one knew what was going on."

This is the easiest objection to overcome. Agree with the agent that yes, 203k loans did take a long time to close in the 80s and early 90s, but didn't everything take longer than it does today? Back then you were sending documents by courier and overnight mail. There was no fax or email, electronic signatures or smartphone apps that make every aspect of the real estate industry so successful now. Give them the new information about "Direct Endorsement Lending": that now the loan underwriter – not FHA – makes the lending decision. No longer does a 203k loan package have to be sent to a regional HUD office for approval – this obviously will drastically reduce the turnaround time of a 203k. Share with the real estate agent that you can put them in touch with a loan officer who will all but guarantee closing a 203k loan in the same time as a standard FHA 203kB or conventional loan.

The next thing you will assure the agent is that YOU know what to do – that a properly trained and experienced 203k consultant is the orchestrator of a successful 203k rehab loan project. From explaining to the borrower (or home buyer) the flexibility they have in what repairs are completed to providing all the necessary paperwork the underwriter and appraiser needs to go to closing, YOU make a 203k project work. It wouldn't hurt to have a few testimonials (ask me for a few if you haven't yet done a project and gotten your own, or get a testimonial from a loan officer as to why they love doing 203k loans and how great they are for real estate agents).

The next objection I want to help you overcome is: "I don't work with low income buyers."

This is easy to address and completely dispel by having a printout of the FHA Maximum Loan Limits for your areas, or a link on your smartphone or tablet to the URL on the 203k In A Box Power Team site where you can show the agent or anyone that the FHA 203k loan is not just for low income home buyers – that in fact many middle and upper-middle income buyers are choosing this loan because of the advantages of low interest and low down payment. For most areas in the country the loan limits start at $400,000 and in higher priced areas like California and New York the limits start over $600,000. A person can buy a lot of home and get it renovated with limits like those.

Most of the other objections can be dispelled by explaining why YOU – as a qualified, and experienced, building consultant – are the first person the agent or their buyer should call to discuss a possible 203k project. Share the benefits of the feasibility inspection and why it answers the questions about FHA repair needs that a general home inspection is not designed to answer. Show samples of your reports and some before and after photos.

Finally, get your website up today! It is the best marketing tool you could have and will set you apart from your competition in ways you cannot imagine. Do it now!

Chapter 9 – NAFHAC – What, Why and NOW!

To quote a famous line from a great movie…"It's Alive!" Yes – the National Association of FHA Consultants is alive and the response to it has been amazing to say the least. Already I have spoken with three national lenders who are excited that there will finally be a place to find a qualified 203k consultant.

I have been talking about NAFHAC for almost two years now, but what is it and how will it help you? Great questions!

NAFHAC was an idea that was sparked by the growing number of people who were contacting 203k In A Box for referrals to 203k consultants. I was getting questions on Facebook, through the website, and phone calls from borrowers and lenders who wanted to know where they could find a 203k consultant they could trust to get the job done – done right, that is.

Lenders who have come to trust the 203k In A Box certified seal enjoyed being able to have one consultant in one part of the country and a second in another state, but have the consistency that came from the training and coaching 203k In A Box members receive.

But that wasn’t enough. I wanted more – more resources, more education, more outreach to the country. I wanted to keep 203k In A Box dedicated to consultants, hence the need for NAFHAC.

What is my goal for NAFHAC? I would like to see NAFHAC as the most recognized and referred to organization for everything – everything 203k. It will have a qualification and certification department where existing 203k consultants will be screened to ensure their skills and procedures are up to the standards lenders want and need in a 203k consultant.

We will have an online education department for real estate agents and borrowers. Maybe even online CEU courses for agents. You may have heard me say, “Knowledge is NOT power – the use of knowledge is power.” The more NAFHAC is able to help the general home buying /selling / owning public know how powerful, versatile and beneficial 203k and other types of renovation loans can be – the better it will be for all of us.

I have a goal – a dream written down and given a date is a goal – to have a NAFHAC convention in the Spring of 2015 with at least 50% of all 203k consultants attending. We are talking about having it in Washington DC around the time of the Cherry Blossom Festival. Spring in DC is so beautiful. But we are open to other venues.

What are the next steps?

I need you – every one of you – to register. (Your dues for NAFHAC are included in your membership in the 203k In A Box Coaching Program for those of you at the Gold Level ($147) and above levels. Discounted membership will be offered to those of you at other levels.)

There are three levels of membership – one for every person who is interested in 203k consulting.

Candidate Membership is for the building consultant / home inspector or contractor who is interested in becoming a 203k consultant but has not completed the FHA approval process. This is a great membership opportunity for the home inspector who has not completed three years in the industry, but wants to stay current in the world of 203k consulting, so that when they have been the requirements for certification the transition to certified/approved consultant is easy and seamless.

Certified Membership is the level that every 203k In A Box certified/FHA approved consultant would automatically receive. Other FHA approved consultants would be able to apply for this level of membership, but would need to pass a knowledge assessment test as well as provide a sample of a completed feasibility report, work write up package and draw request forms. (Again, our goal – like our mission statement –is to promote Competency, Consistency and Community in the World of 203k Consulting.)

Certified Consultant Engineer is the highest level of membership and is for the already certified member who has completed at least one-hundred-fifty 203k consultations. Upon completion of a verification application, these elite members of our industry will have special privileges reserved exclusively for them.

For example: A Certified Consultant Engineer will have their listing on the “Find a Consultant” section of the website at the top of their area’s listing – and will have a special logo next to their name. Also, these members will be eligible for other benefits that will be shared in the future (we are working on vendor partnerships).

Speaking of vendors, we are going to be providing special discounted and free benefits of membership that will pay for your membership in NAFHAC several times over every month. Merchant Service Provider services with low or no fees is just one of the benefits we are negotiating for you right now. We will be having an online store where you will be able to purchase apparel and other NAFHAC logo items – we are working on a more impressive logo (not that we don’t like the one we have) and it will be available on merchandise. Other plans that are on the drawing board are a radio and possibly Internet TV show – I am open to suggestions for the title. We are looking for volunteers for committees that are forming: convention committee, radio / TV committee are just a few of the opportunities that are available.

I hope you are getting as excited about NAFHAC as we are. I hope you will go right now and register – www.nafhac.org. It’s a new world for FHA and you are the reason it will be an amazing one!

Section 2

Managing a 203k Project

This section will show you how you can easily manage 203k projects, anticipating and minimising both the likelihood and impact of issues arising; adroitly handling contractors; and building and maintaining good relationships with clients at all levels.

We'll look at costing and pricing, allocating and dealing with the contingency fund, and how to handle the unexpected.

We start right at the beginning by asking the question: What is the role of a 203k consultant? That might sound obvious to you, but we are making no assumptions here; we are making sure the scope and responsibilities of the role are fully understood. After all, if the foundation isn't sound, the business you build on it will be shaky, and it’s my intention that you build a good, solid business now that will thrive and grow in the future.

Chapter 10 – 203k Consultant Responsibilities– What Are They REALLY?

What is the role of a 203k consultant? Really?

A loan officer recently advised me not to discuss issues with his client that were not directly related to the HUD report.

What he was referring to was the fact I shared with the client the knowledge that whoever their loan was going to be brokered to would dramatically affect their project – after all, an increase from 10% to15% on the contingency reserve on a $220,000 project is an $11,000 difference – the difference between feasible and NOT feasible.

In another instance, the deal is in jeopardy because the contractor the borrower is working with does not have proper licensing to work in a certain area – a contractor the client brought into the project, I might add. The real estate agent wants to point a finger at me for not telling his client all the things a 203k contractor is required to have in order to get validated.

With the control comes the responsibility and I for one am happy to take the reins and provide as much education and support to my clients as possible. For example, by providing a list of qualified (legally licensed) contractors for my clients to work with eliminates issues like the one described above – in fact that client ended up using a contractor from my list. Educating my clients as to all the possible hurdles that I have the experience to describe to them will reinforce in their minds my professionalism and expertise.

Do you have a responsibility to know as much as possible about the underwriting requirements of the banks and lenders that are being used most in your areas? I say yes! You are serving your client when you are able to let your client know that they cannot list on their 203k write up “owner supplied fixtures” based on the lender that the loan will be sold to. It is better to address all possible issues before going to underwriting then having to re-write a Specification of Repairs the day before settlement because of issues you as a responsible consultant could have reported earlier in the process.

Get to know as much as you can about all phases of the 203k process and you will be the consultant lenders will want to work with, because you will be helping them get what they want – a smooth settlement.

If you are a 203k In A Box consultant, you have the benefit of a network of consultants sharing information as well as access to one of the most experienced and knowledgeable consultants in the country – me.

Chapter 11 – The Reason for the 203k – The Borrower

I have talked about almost every element of the 203k process – the lender, the contractor, the real estate agents – I have even talked about investors (who still cannot use the 203k program – but we keep hoping). Not once have I talked about the most important player in the game – our borrower.

You all should know that I use the term “borrower” instead of “buyer” because at least one third of our customers are not buying the home they are having renovated, but re-financing their existing home. Working with these two different types of home owners takes a little skill and discernment. What do I mean?

The Home Buying Borrower – this person is usually working with a real estate agent and is on a somewhat limited time frame to get all the pre-settlement paperwork completed. This borrower will be very nervous about the amount of repairs that are mandatory because it affect their total mortgage. Be careful of the borrower who asks you to “take that off of the report”. Never bend to this request as it will (I promise you) come back to haunt you.

In a feasibility consultation I did for a home buying borrower there was an issue with the electrical service masthead. He asked me if I could “not” put it on the report. Of course I had to say no. As it turns out, the repairs necessary to safely address this concern caused the project to turn into a full 203k (he was hoping to keep it as a Streamline K).

The client is now concerned about the extra fees involved and the fact that the contractor will get no upfront money. It is my job – and yours – to help ease the borrower’s fears. Reassure them that your presence throughout the process is a benefit to them as it will mean the quality of the work will be overseen by you with the same care and attention to detail that you used in the initial consultation.

When working with the home buying borrower, you are also going to need to be very aware of the ARV (after repaired value) and the appraisal requirements for valuation. In some cases, you may suggest the borrower’s agent get updated comps that support the cost of the work to be added to the purchase price.

All in all – working with the home buying borrower boils down to one thing – continual communication; especially during the early days immediately following your report delivery.

Chapter 12 – 203k Consulting – a Responsibility to Respect

Congratulations! You are a 203k Consultant! That may be how the letter or email you received from FHA began. It was a simple letter that didn't really go into any details about what it really means to be a certified FHA Renovation Mortgage Consultant. It is definitely a benchmark and a true indication of the experience and knowledge you have in the building trades industry, but it is also a serious responsibility, one that you should always consider when you are performing your duties as a 203k consultant.

There are a lot of new companies entering the field of 203k lending – they are popping up like dandelions in summer. That can be good and it can also be bad. Lenders new to 203k funding (and some that have been doing it for years) sometimes need guidance and correction, just like anyone else working with a complex program like the 203k. 203k mortgages are not complicated in and of themselves, but become so due to the “human element” – the contractors and borrowers and the relationship and difficulties that arise during a construction project.

Many people are describing to me situations where lenders are acting in ways that are, in their opinion, outside of the FHA guidelines for 203k rehab funding. I have heard comments that consultants are hesitant to point out the errors of these lenders for fear they will discontinue referring business. It is a hard place to be – between the lender and FHA – but you need to remember who gave you your certification and who could take it away – and that’s FHA. Always be quick to email your requests for information and clarification to the lender where a questionable situation has occurred and be slow to sign your name to draw or change order forms when you think something has been done incorrectly.

Your signature indicates your agreement with the way the funding is to be administered – even though we do not have anything to do with the actual release of funds. While it is your job to advise and monitor the activities of the construction project, it is not your responsibility to criticize or correct the lender, who you may feel is acting contrary to FHA protocols. So what does the concerned consultant do?

Reach out to me, as many of you have done.

Many times I can provide a different perspective that will show you the lender may not be in conflict with the guidelines of FHA 203k lending. If, however, I agree that there is cause for concern, I will forward your information to FHA Client Relations Department. I speak with the head of this department frequently and she appreciates feedback and information about possible abuses of the program. She also appreciates the “chain of command”, as it were. What I mean is, she is grateful that I am able to screen calls and address those that do not truly need her involvement – so saving her time for the real difficult issues. When you do have a project that you have concerns about, you need to have the following information available to facilitate FHA’s review of the loan:

1. Lender’s name, contact person’s name, phone and email address.

2. FHA Case Number, client’s name and contact information.

FHA will in some cases flag the file for a review or audit. This is routinely and randomly done on all 203k projects. When a concern is raised, FHA can schedule a review of the particular file without any reference to you bringing it to FHA’s attention. If there is a situation that needs to be corrected, FHA will inform the lender of the required procedural adjustments.

You may find the lender asking you to change or resubmit some of the forms as a result of this audit or you may never hear about the situation again. If FHA contacts you about the case, you will have the comfort of knowing you have all the emails and notes from the concerns you had when you were communicating with the lender. By providing this documentation, you are showing FHA, “your boss”, that you take your responsibility seriously.

In the final analysis, we as 203k consultants “report” to many: the borrower, the lender and even the contractor, but we are responsible to just one – FHA.

Chapter 13 – Cost Estimating for the 203k Consultant

The price of a new vinyl thermal pane window – $350 or $550? The cost of a square foot of granite countertop – $55 or $80? Are questions like these about the cost estimating function of an FHA 203k consultant causing you anxiety about undertaking 203k consultation projects, or maybe even preventing you from completing your application package? Then let me give you the good news right now! Estimating your 203k projects is NOT the difficult process you think it is. It really is NOT the elephant in the room.

You do need to have a solid grasp of the 50-100 items that are commonly called for in most 203k projects, but this is easy!

1. Replacement windows – most standard sizes cost the same. What is it in your area? You can find out from

any home center store or contractor. In my area they are about $350-$400 (all our windows are energy efficient thermal pane).

2. What is the cost to upgrade a typical 2 and 3 piece bath? Cost of toilet, sink, tub or shower?

3. What is the typical cost to replace 1 linear foot of wall or base kitchen cabinetry and 1 square foot of laminate and granite countertop?

These are the items that will come up in about 80% of all your 203k projects. Get these numbers and you are pretty much home free.

What about heaters, electric services, etc? Yes, you need to know these prices too, but you will in time be able to remember all the common items that will come up in your projects. More importantly, you don't have to really have these numbers at your fingertips.

Yes, the borrowers will walk around and ask you what will this cost me and what will that cost me. When you are just starting, you may have to have a cheat sheet glued to your clipboard under your note pages. You can surreptitiously take a peek while appearing to write notes on the project. As a rule of thumb, if you are cornered into giving verbal numbers and you are not sure – say so! Say that you are not able to calculate this information while you stand there as you must factor in several elements like contractor overhead, cost of permits and other factors. Assure the customer that you will be certain to have accurate information on the feasibility report. Also, if you do intend to give some numbers out while you are walking about the property – make sure the numbers are somewhat higher than you truly think the cost will be – and make sure you tell the customer that you are overestimating because it would be easier to be wrong on the high side then on the low.

The best way I've found to make sure I have accurate cost estimates is to get the data from the contractors I have on my database. I frequently send them an email asking them to give me updated labor and material costs. Usually about twice each year the price of materials like drywall, romex and roofing shingles changes. Checking with your contractors periodically will help you stay on top of these changes.

Additionally, I find it very useful and actually fun to wander around Lowe's and Home Depot. I go to the plumbing, electrical, doors and flooring departments and look at the new items that I know my borrowers are looking at. I take pictures of the cool new lighting fixtures and the really nice cabinetry or countertop materials with my cell phone. I will sometimes show these pictures to the borrower at the consultation appointment to give them an idea of what their money will buy. I will get pictures of products in all three levels of pricing – economy, builder's grade (standard) and premium. Depending on which the client chooses from just one item, I have a good idea how to price all my material allowances throughout the project.

The most important thing to remember about cost estimating is that in the final analysis it is the prices provided by the contractor that determine the mortgage – you are only providing costs as a preliminary step to help guide the borrower to the next stage in the loan process. Trust your instincts and your knowledge, and you will be pleasantly surprised by how accurate your costs estimates are.

Chapter 14 – The Jobs, They Are a Changin'

Throughout the years as a renovation consultant I have always been surprised when a project finishes without any need to dip into the contingency. If you are new to the world of 203k renovation consulting you may not have realized this yet, but 95% of all 203k projects I have worked on required the use of contingency funds in order to complete the scope of work. I sometimes wonder how “non-203k” rehab projects get done when typically there is no safety cushion to address the all too frequent unforeseen problem.

There are a number of different ways and times during a 203k project where a borrower and contractor can use the contingency funds; however, more and more lenders are placing restrictions on when and how contingency funds can be released.

The original purpose of the contingency fund was to address potential problems that would usually arise when the home to be renovated had very old mechanical systems or when the ability to thoroughly evaluate the operation of those systems was limited – usually because the utilities were off prior to the close of escrow. The amount of contingency reserve that is added to the project would then be increased from the base of 10% to as much as 20% of the total cost of the 203k rehab, to mitigate the likelihood of there being added safety or soundness repairs that could not be completed due to a lack of funds. The contingency reserve is part of the funds escrowed for the renovation project, but these funds are not guaranteed to the contractor. If during the renovation there is no need to use these funds, they automatically are applied back against the principal balance of the mortgage. What most people do not realize is that the contingency is not just one lump sum of money available for discretionary use, but a "bucket" that has a percentage of all the amounts of each of the categories. In other words a contingency of 10% is really 10% of each category added together.

Some people, especially contractors, have asked me why we as consultants do not simply increase the actual amount of the repairs in the category in question to a higher amount. The answer is that whatever amount is indicated on the scope of work is money that is considered contractually to belong to the contractor. In fact, if the contractor on a 203k project stated that he was able to complete the work on a line item or category for less than the amount listed on the S.O.R (Specification of Repairs), the only way that money can be "returned against principal" is by the contractor completing a Change Order form (along with an invoice on his lettehead) stating he does not need the funds and authorizes the borrower to have their funds back. This, by the way, would be called a "cost savings change order."

The best way to manage a 203k project when it comes to contingency usage is to explain to all parties at the very beginning that the contingency is an emergency fund (to start) and towards the end of the project, if no emergencies or unforeseen repair needs arise, the funds in the contingency reserve can be used to complete desired additional improvements and / or upgrades. A very important comment should be made to the contractor – that if he does any repairs or improvements NOT listed on the S.O.R. or previously approved by the lender (you) he risks not being paid for those additional repairs. If a borrower asks for something extra or special and the only way to complete this modification is to do it earlier than the end of the project, suggest strongly that the contractor obtain a written agreement from the borrower prior to beginning the work. This agreement should obligate the borrower for the cost of the extra work in the event the funds are not available in the contingency reserve at the end of the 203k renovation project to pay the contractor for the desired improvements. This will save everyone a lot of trouble if things become “interesting” towards the end of the job. Always remember my favorite saying when it comes to working with a 203k renovation project – begin with the END in mind.

Chapter 15 – The Contingency Reserve Fund – More Than a Bucket of Cash

Just recently I was contacted by a LOA (Loan Originating Agent) who wanted to get information about my company, as she was looking to change FHA consultants she referred to her clients. It seemed that the consultant always insisted the projects include a 20% contingency reserve – even the smaller jobs – and due to that requirement, a recent deal had died; the borrower was unable to qualify for the extra amount of funds.

Understanding the use of the contingency reserve and administering it properly is one of the ways a truly capable and experienced FHA consultant separates themselves from the rest of the "pack."

The contingency reserve is more than just a bucket of money – it actually represents a percentage of each of the categories of improvement.

For example, if the project is a $30,000 project, the 10% (or higher) contingency is not only $3,000, but should be considered apportioned in this way:

Category	**Repair Amount**	**Contingency Amount**
1. Masonry	$15,000	$1,500
3. Roofs	$10,000	$1,000
7. Walks	$5,000	$500

Using this example, there are funds available to cover unforeseen extra costs up to the value of 10% for each category. This is not how most consultants, or even lenders, think of the contingency reserve fund.

So how can you, as the consultant, authorize use of contingency funds correctly?

First of all, notify your borrower and contractor at the beginning of the renovation project that they must report to you any and all requests for changes prior to beginning work not included in the Specification of Repairs (S.O.R. – you knew that, right?). When the contractor identifies a repair need that he feels must be completed right away in order to allow continuation with the original scope of work, he must send you a written request of the extra work to be done, the reason for this change and the cost involved in completing this request. This written request should be on a numbered change order invoice on the contractor's letterhead and should have the borrower's signature of approval.

You need to make it quite clear to all parties that should change order repairs be performed prior to obtaining authorization from you (and the lender) the contractor risks NOT being compensated for this unauthorized work.

In most cases, the change order repairs do NOT represent health and safety related repairs, but are cost increases due to borrower's desires (i.e. borrower decides after settlement that he wants brick pavers instead of concrete walks). In most cases like this, the contractor will not receive payment for this extra expense until the final draw when all S.O.R. items have been completed.

Why is this? Let's go back to our table above. If the extra cost for the brick pavers is $950, there is not enough money in the contingency reserve for Category 7, walks, to cover the full amount of the change order. If the contractor is paid the "extra" $450 from the contingency, then there may not be adequate funds to address a required change order for masonry or roofing.

If, however, it is the final draw, all categories have been successfully completed and funds still remain in the contingency – then the lender will release all the required change order costs to cover the extra work in Category 7. In truth, most 203k lenders do not feel they need to pay ANY change order requests until the final draw – even those that represent health and safety repairs – this is a common “lender overlay.”

While HUD does state the lender can release contingency funds for health and safety repairs in the midst of the project, lenders have become wary that the requested change order truly is so needed. Where truly indicated, you can encourage the lender to pay the contingency when requested by stating on page 2 of your change order form “Health / Safety Mandatory Change Order – please release contingency funds with the draw request as per contractor invoice and change order #X.” It does not guarantee payment, but it does sometimes help. Let the contractor know that his funds are guaranteed as the repairs are necessary to the project or safety of the home, but the lender will pay the change order at the end.

Many borrowers believe the contingency reserve is money they can use at their discretion and will make wholesale changes to a project with the intent to use these funds. This is OK up to a point. To protect the contractor, and ensure the smooth flow of the project, the borrower should be advised that the contractor has the right to ask the borrower to provide any additional costs for these desired changes at the time the request is made. At the final draw, if funds are available, the borrower will be reimbursed for the out of pocket expenses. Next I will discuss what the procedures are when the mandatory changes exceed available funds in the contingency reserve and how to keep a project moving when major problems arise. (Yes, a cliff hanger to keep you reading! ☺)

Chapter 16 – What to do When the Unexpected Happens

What to do when there is no money left in the contingency reserve…first of all – DO NOT panic! In all the years I have been an FHA 203k consultant, I have only had this situation happen to me twice – and one was a “self-help.” (You know the quote from Benjamin Franklin: the man who defends himself has a fool for a client – same thing applies to the man or woman who does their own 203k project as a self-help loan – but I digress.) It is not unusual to have a contractor indicate a need to dip into the contingency fund. In fact this is a common and normal occurrence. However, there may come a time when the renovation project will experience unusual and completely unforeseen and expensive repair changes – how do you keep the project moving and get these new repairs paid?

First, the contractor needs to submit a change order invoice on his letterhead. The borrower needs to sign and agree to these changes. You will need to inspect this situation – in some cases this is a separate inspection and would entitle you to a draw fee. On the Draw Request Form page 2, under the Rehabilitation Inspection Report section, you check off that the purpose of the visit is to review change orders – no actual draw request fee is required to be submitted if no new work has been completed since the last draw. Once you have satisfied yourself that the repairs are valid and necessary, and after all contingency funds have been exhausted, you will need to discuss with the borrower what desired (and / or recommended) repair items will be eliminated from the scope of work to allow funds for the newly identified safety or soundness repairs that must be completed. For example (and this is actually what I had to do on the project where this happened to me) a project may have allotted $3,000 for ceramic tile wainscoting and flooring for a large bath – a desired repair item. The project would need to be amended to eliminate the ceramic tile and instead less expensive vinyl flooring would be installed. The wainscoting would be eliminated altogether. The savings from ceramic tile floor and walls ($2,250) would be moved to contingency. Now there is an extra $2,250 to use to cover the unexpected mandatory repairs. In an extreme case (again like the one I had), all desired improvements can be eliminated and some mandatory repairs scaled back to allow funds to complete the change order.

To clarify this, let's look at the "requirement" for kitchen cabinetry.

The only requirement is that there be a six foot sink base cabinet to hold the kitchen sink basin. If your project includes a lot of wall and base cabinetry – with granite or even laminate counters – these line items can be eliminated down to the bare minimum of a $400 sink base with a $75 laminate pre-cut counter – right? Right. I am not saying the borrower will be especially happy about this, but drastic times call for drastic measures.

The suggested modifications to the scope of work need to be submitted to the loan disbursement officer and may need to be reviewed by an underwriter. Make sure the contractor does NOT begin any work until you receive WRITTEN authorization for the re-allocation of project funds. Always remember – and constantly remind the borrower and the contractor – that any deviation from the approved S.O.R. must be pre-approved from the lender. I use the phrase "You (the borrower) own a piece of paper called A Mortgage; the lender owns the house."

If after all this has been done there is still a balance due – the borrower will be responsible for all costs as out of pocket expenses.

This is clearly explained in the Homeowner / Contractor Agreement.

Fortunately (knock on wood), I have never, ever had a borrower come out of pocket to cover unexpected / mandatory repairs.

All this further emphasizes the importance of insisting the contractor and borrower not “earmark” contingency funds for desired change order upgrades or extra work until at least 70% of all required repairs are completed.

Chapter 17 – Unique Appraisal Issues...do you know the answers?

The number of 203ks is growing and with each new 203k project comes new information and issues that I'm able to share with you. And this time is no exception. Let's take a look at appraisal issues. We'll start with a pop quiz. Answer the following questions with a yes or no:

1. Once the S.O.R. is submitted to the underwriter, no changes are ever made to the scope of work?

2. Only the actual building that will be inhabited by the owner is required to meet FHA minimum property standards?

So how did you do? You might have guessed it, but the answer to both questions is “No.” So let's unpack those questions.

The answer to the first question is “No.” I personally (and several of our members besides) have experienced a situation wherein appraisal has come in lower than was anticipated. When this happens, expect a telephone call from the loan officer asking you to indicate where they can experience some cost savings and shave money off of the scope of work to bring the loan down within the appraisal limits.

The first places you should look to cut in the scope of work are desired options and recommended repairs. Suggest to the borrower that these improvements may be able to be completed using the contingency reserve once seventy percent of the required repairs are completed. Another way to help reduce the amount of the work write up is to remove the reimbursement of allowable fees from the total cost of the project. The only allowable fees that must remain in the scope of work are the draw request fees. All other fees that the borrower has paid to you prior to closing can be simply out of pocket expenses. They will not be a credit to the client at close of escrow, but will also help reduce the total cost of the project.

The answer to the second question is one that really needs to be put out there, and not only to homebuyers, but to the real estate agents and mortgage lenders your borrowers are working with. The answer, of course, is "No." All buildings (that have power) are required to meet FHA Minimum Property Standards. This can affect whether or not a renovation project is feasible. That seriously deteriorated garage (that has electricity) must either be brought up to safety standards or demolished as part of the work write up. (Always bear in mind the effect removing a structure will have on appraisal.) Several clients I have met recently have been heartbroken when they learned the outbuildings must be repaired as part of the scope of work. It is usually not within the budget to add these repair costs and will sometimes break a deal. (I have verified this with an appraiser.)

Section 3

Mortgages and Lending

Do you know what the best type of mortgage is for your clients? Are you aware of all those you can access? Read on to find out about some of the most useful schemes available to you.

N.B. Terms and conditions relating to mortgages and lending is subject to regular change, so please check your facts before proceeding.

Chapter 18 – The "Story" on Streamlined 203(k)

In a recent In A Box webinar, Mike Wilcox of Academy Mortgage emphasized to his agents the importance of using a 203k consultant for feasibility study reports over home inspection reports for the Streamline K buyer. This is because when a home inspection report is shown to an underwriter it raises a whole host of concerns that in most cases are NOT FHA-required safety or soundness repairs.

Underwriters, in an effort to protect the investor, many times will call for repairs to be added to the 203k streamlined work write up simply because the home inspector indicated an item was "at the end of its useful life." This is a great opening for you to market your services to real estate agents as a better way to get the 203k Streamlined transaction to settlement.

The home buying public is becoming increasingly aware of the opportunities created by the 203k Rehab Mortgage.

Foreclosure rates may be slightly lower, but the overall condition of many homes being sold falls far short of the FHA Minimum Property Standard (MPS). This, plus the extremely competitive nature of interest rates for FHA insured mortgages, are just two of the more obvious reasons why people are turning to 203ks – and most of them are trying to use the Streamlined 203k product. So what's the "story" on 203k Streamline anyway?

The FHA Streamlined 203k program is a modification of the "standard" 203k product that allows "simple, un-complicated" repairs to be completed based on a contractor's proposal and appraisal report only – eliminating the requirement for a buyer to use an FHA 203k consultant for the work write up and post-settlement draw inspections.

All this you know, as well as what the repairs are that can and can NOT be included in a Streamlined 203k. What you may not know are some of the difficulties and opportunities that are developing with the new popularity of this product.

Many states have home center stores (like Lowe's and Home Depot) that advertise that they can "do the streamlined 203k" for borrowers. Be careful recommending this to your clients as many lenders are not accepting these stores as qualified to complete the required Homeowner/Contractor Agreement. More and more lenders are taking greater care verifying the qualifications of contractors, even for those rehab projects that are designed to be small and uncomplicated.

Also, many buyers and their contractors are finding the scope of work they planned and budgeted to be paid with the Streamline K do not include all required MPS items. The appraiser comes in close to the settlement date and finds repair needs not listed by the contractor's proposal – these repairs are causing the buyer to have to seek out an FHA consultant at the "11th hour" because the new project cost exceeds the $35K max, and/or the appraiser identifies structural repairs.

This is where you now have an opportunity. Market to your contact base (agents, lenders, buyers) to have YOU "prequalify" the property for the Streamline K with a pre-purchase feasibility report. You can even offer to include FHA repair information in your home inspection reports (hint – a USP).

You will be viewed as the hero helping the buyer use the Streamline K successfully – a true WIN WIN for everybody!

Reach out to your local Academy Mortgage loan officer – let them know that they are encouraged NOT to use home inspectors for Streamlined K loans – and tell them you are ready to help them get their loans to settlement without the home inspection hang ups!

Chapter 19 – Renovation Lending for Investors is in the News

Have you “Googled” 203k lately? Try it some time and you will see everyone is talking about the FHA 203k mortgage. Lenders especially are spending lots of money in ads and campaigns around the country promoting interest in the 203k program.

For example, I recently saw a web page where a loan officer explains the exciting possibility of the 203k Investor program returning. Sixteen years ago, the FHA changed its "construction loan" program, making it available for owner-occupied properties only. Real estate investors and owners of vacation homes were locked out. Today, there's talk of restoring 203k access. HUD says it intends to re-open 203k loans to investors sometime soon, although no specific date has been announced.

There is also a lot of “buzz” about the Fannie Mae HomePath mortgage program. HomePath financing is available only on Fannie Mae-owned properties (REOs). It offers great benefits – low down payment, no mortgage insurance, expanded seller contributions, and more. A buyer can use the HomePath mortgage for move-in ready properties for both owner occupants and investors. There is a HomePath Renovation Mortgage, also. It provides both the funds to purchase and to renovate in one loan. Another advantage of the HomePath (especially for investors) is the fact that many condo project requirements are waived – this is sometimes a problem when trying to purchase a condo with FHA financing. Like the FHA 203k, with the HomePath, the borrower can use the financing of their choice from any lender, such as their local bank, credit union or other financial institution.

Like the 203k rehab loan, most lenders will require the borrower to have the HomePath Renovation project evaluated and reviewed by a consultant. This opens a whole new opportunity for you as a consultant – especially when helping investors select properties to purchase. (Note: investors planning to make an offer on a HomePath property should know that Fannie Mae will only accept offers from potential “owner-occupied” borrowers for the first fifteen days from the listing date – and will not entertain any offers until three days after the home has been listed for sale.)

How can you tell if a property is eligible for HomePath? Look for the logos below on Trend, or other real estate websites.

Chapter 20 – The GNND – Helping Our Heroes by HUD Homes

The GNND program – Good Neighbor Next Door – is a HUD program that not only helps and rewards our hard working community professionals (teachers, law enforcement officers, firefighters and EMTs) but the communities that need these professionals the most. Believe it or not, it has been around since the mid-1990s!

The GNND is a program designed to provide a substantial incentive for eligible professionals to buy HUD owned homes in specific "Revitalization Areas". The program allows these deserving buyers the ability to purchase these HUD single-family properties for half of the list price. That's right! A 50% discount on any HUD home listed in specific areas in hundreds of cities around the country.

The purpose of providing these regionalized sales incentives is to promote revitalization through expanded homeownership opportunities, thereby improving the health and stability of the communities in most need. The revitalization areas are designated by HUD based on household incomes, homeownership rates and FHA-insured foreclosure activity.

The buyers can use any type of financing: FHA, VA, Conventional and Cash. If the buyer is buying FHA they are eligible for any and all additional FHA incentives that would be available for a non-GNND buyer. For example, if they are qualified for an FHA-insured mortgage they may be able to get the home with the $100 Down program and have all closing costs financed as well. Also, any state or local homebuyer program incentives are also permitted, along with the discounted purchase. No, I am not making this stuff up, really!

The homeowner who is buying with the GNND program would get a "silent" second mortgage for the discounted amount – interest and payment free. This second mortgage stays active for a 36-month occupancy period, one of the few conditions of the loan, and an understandable one considering the purpose is to create a long-term improvement in the quality of life in these neighborhoods. The 3-year residency requirement begins following the end of the "move-in date".

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About the Author

Catherine Hall is the creator of the nationally recognized 203k In A Box System. As America's 203k queen, she has trained and mentored hundreds of FHA 203k consultants from across the country. She is also the founder and owner of Value Home Inspections and has been a practicing FHA 203k consultant since 1999, having completed over 500 consultations, in addition to having performed over 3000 home inspections.

Catherine is certified as a FEMA Disaster Relief Inspector, REAC Contract inspector, PA DEP Lead Risk Assessor, PA DEP Radon Measurement Technician, and PA DEP Licensed Pest Control Operator. She also holds leadership positions in various organizations, including Montgomery County Partners for Home Ownership, Willow Grove Leads Group, and the Beacon Cooperative for Homeownership.

Catherine has an extensive teaching background, which includes courses at Temple University, Philadelphia Community College, Montgomery County Community College and Drexel's University Science Center, as well as for thousands of small and large groups of prospective homebuyers in a cooperative venture with non-profit housing counseling agencies and community service organizations throughout the area.

She served as board treasurer for the National Association of Home Inspectors, East Penn chapter, and is currently Vice President of the Pennsylvania Home Inspectors Coalition.

Catherine lives by the belief that education and information are the keys to success in all areas of life and she has devoted herself and her company to assisting people from all segments of the population achieve the dream of safe home ownership.

She is the author of the book *Major Purchase / Major Decision, The 7 Things You Need to Know Before Hiring a Home Inspector*.

http://www.majorpurchasemajordecision.com/

Resource Guide

Major Purchase / Major Decision, The 7 Things You Need to Know Before Hiring a Home Inspector: http://www.majorpurchasemajordecision.com/

203k In A Box Guide for FHA Consultants, Rel. 2: http://www.203kinabox.com (Membership required)

HUD – FHA 203k Home page: http://www.hud.gov/offices/hsg/sfh/203k/203kmenu.cfm

HUD Handbook 4240.4, REV 2 (203(k) Handbook): http://www.hud.gov/offices/adm/hudclips/handbooks/hsgh/4240.4/index.cfm

FHA Consultant Roster: https://entp.hud.gov/idapp/html/f17cnsltdata.cfm

FHA 203k Program Overview: http://www.hud.gov/offices/hsg/sfh/203k/203kabou.cfm

HUD Approved Lender Search Page: http://www.hud.gov/ll/code/llslcrit.html

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