

Towne Mortgage Company FHA Limited 203K Guidelines

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| <p>What Is It?</p> | <p>The Limited 203K Program is a modification of the FHA 203K Program and is designed to simplify the process in the purchase of homes that need minor rehabilitation work, including needed repairs noted in a prepurchase inspection and FHA appraisal.</p> |
| <p>Loan Parameters</p> | <ul style="list-style-type: none"> • Available for purchase and no cash out refinance transactions • Rehabilitation costs: Maximum \$35,000 (no minimum) |
| <p>Eligible Work Items</p> | <p>Eligible improvement types include, but are not limited to:</p> <ul style="list-style-type: none"> • Eliminating health and safety hazards that would violate HUD's MPR; • Repairing or replacing wells and/or septic systems; • Connecting to public water and sewage systems; • Repairing/replacing plumbing, heating, AC and electrical systems; • Making changes for improved functions and modernization; • Eliminating obsolescence; • Repairing or installing new roofing, provided the structural integrity of the structure will not be impacted by the work being performed; siding; • Gutters; and downspouts; • Making energy conservation improvements; • Creating accessibility for persons with disabilities; • Installing or repairing fences, walkways, and driveways; • Installing a new refrigerator, cooktop, oven, dishwasher, built-in Microwave oven and washer/dryer; • Repairing or removing an in-ground swimming pool; • Installing smoke detectors; • Installing, replacing or repairing exterior decks, patios, and porches • Cost of installation or repair of patios and decks must increase the "as-is" value equal to the dollar amount spent on the improvement. • Covering lead-based paint stabilization costs. If the Property was built before 1978, paint mitigation must be in compliance with EPA's Painting Rule and HUD's lead-based paint regulation. All painting must be done by contractors that are certified in Lead Based Paint Abatement. <p>*Cost of installation or repair of patios and decks must increase the "as-is" value equal to the dollar amount spent on the improvement.</p> |

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| <p>Ineligible Work Items</p> | <p>Any items that do not appear on the eligible list that would:</p> <ul style="list-style-type: none"> • Necessitate a “consultant” to develop a “Specification of Repairs/Work Write-Up” • Require plans or architectural exhibits; • Require a plan reviewer • Require more than six months to complete (HUD will not grant extensions) • Result in work not starting within 30 days after loan closing; or • Prevent the borrower from occupying the property for more than 15 days during the rehabilitation period |
| <p>Rehabilitation Criteria</p> | <ul style="list-style-type: none"> • Maximum number of contractors is limited to four (4) • Repairs must comply with local code. All permits must be obtained prior to start of work. • Once loan is closed – repair items cannot be changed unless a D. E. underwriter approves change order. • If change orders result in net cost increase, then <u>mortgagor must pay for additional costs</u> • Mortgagor <u>must</u> use one or more contractors. Self-help arrangements are generally not allowed except for minor items such as painting. (not allowed for LBP remediation) |

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| <p>FHA Appraisal Requirements</p> | <p>Purchase transactions An appraisal is always required to establish the “after improved” value of property. An “as-is” appraisal is not required except in purchase transactions where FHA property flipping rules apply and second appraisal is required.</p> <p>Refinance transactions An appraisal is always required to establish the “after improved” value of property.</p> <p>In addition, an as-is appraisal may be required as below:</p> <p>Properties acquired GREATER than 12 months prior to case number assignment: An “as-is” appraisal would be required only when existing debt plus all allowable financed costs EXCEEDS the after improved value. Otherwise, an “as-is” appraisal is NOT required. If “as-is” appraisal is required, must be done by FHA approved appraiser.</p> <p>Adjusted value is:</p> <ul style="list-style-type: none"> • Existing debt (principal balance plus interest due, MIP, late charges, escrow shortages, etc.) or: • “As-is” value – IF appraisal required <p>Property acquired LESS than 12 months prior to case number assignment</p> <p>An “as-is” appraisal is always required. Adjusted value is lesser of:</p> <ul style="list-style-type: none"> • Existing debt plus fees associated with new mortgage or: “ • As-is” property value <p>Exception: Properties acquired by inheritance or through gift from family member (adjusted value same as if acquired more than 12 months ago)</p> |
| <p>Home Inspections</p> | <p>Items noted in a pre-purchase home inspection can be included. The FHA appraiser must be provided with a full copy of the inspection.</p> |
| <p>Contractor Approval</p> | <p>All contractors selected by the borrower must:</p> <ul style="list-style-type: none"> • Be fully licensed for each specialized repair or improvement • Maintain full liability (at least \$300,000 coverage) and workman’s compensation insurance (if they employ others). • Agree in writing to complete the work for the amount of cost estimate and sign a homeowner/contractor agreement. • Must complete a Form W-9 (Each Contractor) • Contractors CANNOT be related to borrower |

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| <p>Documentation Required</p> | <ul style="list-style-type: none"> • Borrowers must provide a written Work Plan detailing the proposed repairs or improvements to be made to the property. Borrower may use outside party such as 203k consultant or contractor to do this. • Written proposal and cost estimate – must be broken down for each specialized repair or improvement. Cost estimate must state the nature and type of repair, materials to be used (i.e.: granite countertops, oak hardwood flooring, Cherry cabinets) AND the cost for each item must be broken down by labor and materials • Fully completed Contractor Profile Form providing at least two references of project recently completed. • Copy of current license for each specialized repair or improvement or General Contractors license • Fully completed Homeowner Agreement signed by borrowers and contractor(s) • Copy of contractor’s liability policy (with at least \$300,000 coverage and workman’s compensation policy (if required) • Fully completed and signed W/9 forms for each contractor • Sales contract that includes a provision that “The borrower has applied for Section 203k financing and the contract is contingent upon mortgage approval and the Borrower’s acceptance of additional required improvements as determined by the mortgagee |
| <p>Maximum Mortgage</p> | <p>Purchases: The appropriate LTV ratios (96.5% for credit score \geq to 580 or 90% < 580) multiplied by the lesser of:</p> <p style="text-align: center;">Purchase price (or adjusted value if as-is appraisal required. + Total rehab costs (hard and soft costs)</p> <p style="text-align: center;">Or;</p> <p style="text-align: center;">110% of after improved value Multiplied by LTV Factor (96.5%)</p> <p style="text-align: center;">Or;</p> <p style="text-align: center;">Nationwide mortgage limit</p> <p>Refinances: Lesser of:</p> <p>1) Sum of existing liens + total rehab costs (hard and soft) + borrower paid closing costs and prepaids MINUS any MIP refund; or</p> <p>2) LESSOR of: A) As-Is Value + rehab costs OR B) 110% of after -improved value Multiply the lowest above by 97.75%</p> |

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| Down Payment Assistance | <p>Not Allowed</p> |
| Allowable "Soft Costs" | <ul style="list-style-type: none"> • Permit costs • Inspection fees |
| Contingency Reserves | <p>A minimum 10% contingency reserve is required and may be increased up to 20% at Towne's discretion. Fee can be financed into loan amount.</p> |
| Supplemental Origination fee and Additional Fees Charged | <p>Towne will collect a supplemental origination fee equal to the greater of 1.5% or \$350 of the total rehab amount (not the total loan amount).</p> <p>This may be financed into the loan amount.</p> <p>Additional costs that will be charged: \$170 inspection fee and a \$150 title update fee. These fees can also be financed into the loan amount.</p> |
| Draws | <ul style="list-style-type: none"> • <u>No more than 2 payments</u> will be made to each contractor. • <u>50% FUNDS ARE RELEASED AT CLOSING</u> • NO REQUEST FOR FINAL DRAW CAN BE MADE FOR A MINIMUM OF 20 BUSINESS DAYS FROM THE CLOSING DATE. • No additional funds will be disbursed (above the 50% to each contractor) UNTIL THE ENTIRE PROJECT IS COMPLETED. |