APPENDIX B: SPECIAL PROGRAMS

B-1 203(K) REHABILITATION HOME MORTGAGE INSURANCE

The Section 203(k) program is HUD's primary program for rehabilitating and repairing single-family properties. A Section 203(k) mortgage provides financing for the acquisition and rehabilitation construction of a property. The mortgage is funded by a HUD-approved lender and insured by HUD/FHA. A Section 203(k) mortgage may be used to perform the following:

- o Purchase a property and repair/renovate it.
- o Purchase a dwelling on another site, move it onto a new foundation and repair/ renovate it.
- o Refinance existing indebtedness and repair/ renovate a property.
- o Repair/renovate a presently owned property.

The following table summarizes which properties are eligible under Section 203(k).

Type of Property	Eligibility
Condominiums	Yes 2
Mobile homes	Yes
Cooperatives	No
Non-residential being converted to single family (1-4 unit)	Yes
Single family (over 1 year old)	Yes

A 203(k) mortgage may be originated on a "mixed use" residential property provided that:

- o The percentage floor area used for commercial purposes follows these standards:
  - - One story building 25%
  - - Two story building 49%
  - - Three story building 33%

- o The commercial use will not affect the health and safety of the occupants of the residential property

- o The rehabilitation funds will only be used for the residential functions of the dwelling and areas used to access the residential part of the property.

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2 Condominiums are eligible only if they meet the following requirements:
- FHA/VA approved
- Maximum loan does not exceed 100%
- Improvements are only within the unit walls
- Condominium is complete with no ongoing or anticipated addition of any units or common areas
- Unit owners have had control of the common area for at least one year
- The condominium association has proof of hazard, liability

and flood insurance coverage
- Unit is owned fee simple
- There are no restrictive covenants or provisions restricting conveyance of the unit
- A minimum of 90% of the units in the project have been sold
- 51 % or greater of the units in the project are owner occupied
- No single entity owns more than 10% of the units in a project with more than 30 units.
- No single entity owns more than 20% of the units in a project with less than 30 units.

A. ELIGIBLE IMPROVEMENTS

(B-1) A minimum of $5,000 must be used in part for renovation and/or repair of an existing property. Minor or cosmetic repairs or new fixtures alone, such as stoves and refrigerators, are not acceptable. The repair or renovation may include:

- o making structural alterations such as repair or replacement of structural damage, additions to structure and finished attics and/or basements
- o eliminating health and safety hazards that would violate HUD's Minimum Property Standards
- o installing wells and/or septic systems and reconditioning plumbing
- o making changes for improved functions and modernization
- o making changes for aesthetic appeal and eliminating obsolescence
- o repairing or adding roofing, gutters and downspouts
- o making energy conservation improvements
- o landscaping, grading, repairing patios and terraces that improve the property equal to the dollar amount spent on the improvements
- o creating accessibility for the handicapped

B. INELIGIBLE IMPROVEMENTS

Any luxury item and/or improvement that does not become a permanent part of the subject property is not eligible, including:

- o additions or alterations to support commercial use or to equip or refurbish space for commercial use
- o recreational or luxury improvements, such as swimming pools, hot tubs, whirlpool baths and saunas
- o barbecue pits, bath houses, tennis courts, satellite dishes or tree surgery

C. BORROWER, PLAN REVIEWER AND APPRAISER

The borrower must have the following items prepared before an application, review or appraisal can occur:

- o an existing plan of the structure
- o a proposed plan detailing where structural or planning changes are contemplated
- o inspection reports from a qualified engineer or inspection service denoting the presence of rodents, dry rot or termites and evaluating the adequacy of the existing structural, heating, plumbing, electrical and roofing systems
- o specifications of repairs
- o for site improvements, a plot plan denoting the location of the structure, walkways, drives and other relevant details
- o description of materials (HUD Form 92005 or similar form)

203k Consultant: The borrower selects a HUD approved 203(k) Consultant to do the following:

- o visit the site
- o prepare work write-up that specifies a description and cost of each work item
- o review the architectural exhibits for compliance with HUD's Minimum Property Standards
- o inspect any of the property's health and safety items noted on the drawings

In comparing the cost estimates with others projects, the consultant can use R.S. Means & Company Repair and Remodeling Cost Data Book or The Home-Tech Remodeling and Renovation Cost Estimator. When the consultant has reviewed the property and respective plans, an appraisal can be requested. The lender will hire the same or another 203(k) Consultant to inspect the rehabilitation during construction and sign off on all draw requests.

Appraiser. The appraiser is required to perform an "as-repaired" appraisal and to report it on the URAR. When performing an "as-repaired" appraisal, appraise the subject property at its expected market value when the proposed rehabilitation and/or improvements are complete.

Also, a lender may request an "as-is" appraisal to be recorded on a separate URAR. Under an "as-is" appraisal, the subject property is appraised in its present condition to establish the value before rehabilitation. Repair requirements or VC conditions are not included in the "as is" valuation.

The appraiser must visit the property, review the architectural exhibits showing the proposed work and review the proposal for standard valuation conditions that may have been overlooked. If conditions exist that impact the safety and health of the occupants, discuss these items with the plan reviewer to correct them in the architectural exhibits.

B-2 SECTION 255: HOME EQUITY CONVERSION MORTGAGES (REVERSE MORTGAGES)

A Reverse Mortgage allows a borrower aged 62 and older to borrow against the equity in a property that has limited outstanding debt. A subject property under this program must be a one- to four-unit dwelling in which the mortgagor occupies one of the units. The appraiser must perform the appraisal with the same standards and forms expected in an FHA single-family appraisal. It may be a unit in an approved condominium or Planned Unit Development (PUD). Manufactured homes are eligible if the home complies with outstanding FHA guidance. The same deficiencies and repair items must be noted on the URAR forms. In certain instances, the borrower is not required to treat any defective paint surfaces after closing for properties built before 1978.

B-3 SECTION 223(E)

Section 223(e) is a mortgage insurance program for properties located in older, declining urban areas. The program allows for the acquisition, repair and/or renovation or construction of a residential property. Under this program, FHA waives the requirement that the subject property have a remaining economic life of at least five years if the property is in a reasonably viable location where there is a need for affordable housing.

Appraisal: The property must comply with HUD's Minimum Property Requirements of , and the appraisal must denote any deficiencies on the VC form. When conducting an appraisal on a subject property eligible for this program, the appraiser must determine the remaining economic life by examining the pattern of recent changes in the adjacent sites' land use strategies that would be incompatible with single-family use. If the remaining economic life is less than five years, prepare a plan of the subject property denoting the land use patterns surrounding it.

The physical life of the property must be sufficient to permit a long-term mortgage. Under this program, the physical life of a property can be substituted for the economic life because of the special risk provisions that compensates for the economic factors that adversely affect the property.

B-4 TITLE I PROPERTY IMPROVEMENT AND MANUFACTURED HOME LOAN PROGRAM

Title I is two-loan programs, one for property improvements and one for the purchase of manufactured homes and/or lots on which the manufactured homes are to be placed. No appraisal is needed for a property improvement loan; however, an appraisal of any real property involved in a manufactured home is required or for any existing home. This would be:

- a manufactured home lot loan
- the lot portion of a combination loan for the purchase of a lot and manufactured home
- a used manufactured home

If a loan defaults, the lender repossessing the manufactured home under the Uniform Commercial Code or through judicial processes must request an N.A.D.A. appraisal. Appraisals of repossessed manufactured homes should be made before removal by the lender.

B-5 SOLAR ENERGY

To encourage the use of solar energy in homes, HUD will insure a mortgage up to 20 percent above the maximum allowable insurable amount in a geographical area if such increase is necessary to account for the increased cost of the residence due to the installation of a solar energy system which may not exceed 20 percent of the value of the property.

An eligible solar energy system is defined as any addition, alteration, or improvement to an existing or new structure which is designed to utilize wind or solar energy to reduce energy requirements obtained from other sources. Active, passive and photovoltaic solar energy systems are permitted in this program, provided they are accompanied by operational 100 percent back-up conventional systems.

The solar energy system's contribution to value will be limited by its replacement cost or by its effect on the market price of the dwelling. In the event that market data is not available to indicate the additional amount which would be paid for a property containing a solar energy system, the amount of increase would be the lesser of the actual cost of the solar system installed in the subject house or 20 percent of the market value of the property. The difference in added value contributed by the solar system in comparison to the conventional system must represent a reasonable proportion of the total value of the property and may never exceed 20 percent of the market value of the property without a solar energy system.

A. Appraisal Procedure

The appraiser shall reflect in value the local market acceptance of solar heating equipment. Solar collectors must be located where they will be free from natural or man made obstructions to the sun.

1. Solar Hot Water Systems

Acceptability. When such systems are proposed to be installed, they must comply with the provisions of Use of Materials Bulletin Number 100, Subject: HUD Building Product Standards and Certification Program for Solar Water Heating Systems, issued August 15,1993. [Use of

Materials Bulletin are available for public inspection during regular business hours in the Office of Consumer and Regulatory Affairs, Department of Housing and Urban Development, Room 9156,451 7'h Street S.W., Washington, DC 20410. They will soon be available on the HUD Web Page.] When such a system is already installed in an existing home, the appraiser may request an inspection by a qualified solar system inspector/contractor for recommendations as to acceptability in operations, maintenance and life expectancy.

2. Photovoltaic Systems [In Preparation]

3. Limits to Value

The solar heating or hot water system's contribution to value will be limited by its replacement cost and by its effect on the market price of the dwelling. In estimating market value by comparing a subject property that has a solar heating system to a recently sold comparable property with a fossil fuel system only, increased the sale price of the comparable by the amount typically paid in the market for the solar heating system.

4. Temporary Procedure

Lack of Market Data. In the event that market data is not available to indicate the additional amount which would be paid for a property which does include solar heating or hot water system, then the amount of the increase shall be the difference in cost between all heating equipment, including solar installed in the subject house, less the cost of all heating equipment installed in the comparable property without a solar installation.

However, in making this adjustment based on differences in cost, the appraiser shall consider the ratio between the value added by a solar heating system and the value of the property with a conventional heating system only, to ensure that the contribution of a solar heating system to the total value represents a reasonable proportion of the total value of the property.

5. Responsibility for Temporary Limit

The HOC will consider the costs of acceptable solar energy systems for homes of several sizes, and will consider the market prices of typical homes of these several sizes (without solar energy systems) in order to set a limit on the amount which a solar energy system can add to the estimated value of the subject property. This limit shall be expressed as a percentage of the market value of the subject property (before consideration of the solar energy system) and this limit shall not exceed 20 percent of the market value of the subject property (without a solar energy system).