

“Renovating and Rebuilding America - One Home at a Time”



The 10 Step Quick Start Guide

What's Included:

Types of 203K Loans



**10 Quick Steps To
Get You Started**



The FHA 203K Loan 10 Step Quick Start Guide

If there was a way to create your dream home without emptying your savings, would you be interested in knowing how? Of course! That's precisely why we've developed this step-by-step quick start guide to the FHA 203K Loan process. We want you to be as educated and informed as possible before you buy your next home or refinance and remodel your existing home.

Hello, I am Jeff Onofrio, the Director of Renovation Lending and a Licensed Mortgage Originator here in Mount Laurel, New Jersey. I specialize in helping clients obtain FHA 203K Renovation and Rehab loans throughout the 27 states that AnnieMac Home Mortgage is currently licensed in.

The FHA 203K loan offers everything you could want for that home needing a little TLC to a complete renovation. Whether it is that fantastic foreclosure deal, adding a new deck, getting rid of that shag carpet, updating appliances, saving the purchase deal that the bank turned down due to property condition or a major remodel that turns an ordinary home into your dream home, the FHA 203K loan can help you.

Unfortunately, there aren't many real estate agents who are aware of this program or feel comfortable doing these types of transactions. In fact, most mortgage lenders are unable to fund these loans because they lack the necessary knowledge or capability to do so. My goal is to provide an overview on the process from beginning to end when using an FHA 203K loan to purchase a property.



Knowing what to expect and what is required will help you prepare in advance for the steps necessary to efficiently process your transaction and limit delays. If your real estate agent is unfamiliar with the FHA 203K loan program, you may want to refer him or her to this guide to help them get a better idea of the 203K process.

Before we get into the 10 steps, you must know there are two types of FHA 203K loans you can use to buy and fix up a property, and choosing the type that suits you best will depend on the amount and type of improvements your property needs.

The FHA 203K Standard can be used for major improvements totaling over \$35,000 and an "FHA 203K Consultant" is required, along with one bid from a contractor. A 203K Streamline can be used for rehab and repairs of up to \$35,000 and one bid per contractor.

Now let's go over the 10 steps. (*continued on page 2*)

Step 1: Get Pre-approved with AnnieMac Renovation Lending (Homebuyer/Borrower)

Having a pre-approved loan will:

- Ensure you know the price range of homes to be shopping and are comfortable with the total monthly payment, down payment and costs to close.
- Help you understand the process and requirements of FHA 203K loans.
- Put you at the top of the list when presenting your offer.
- Expedite your closing process.

Heads up! 95% of mortgage lenders are unable to lend on FHA 203K loans and it is crucial to find a lender who cannot only offer this program, but is also a specialist. This is an extremely important fact to understand. There are plenty of lenders who can offer the FHA 203K mortgage but not many are specialists - having a specialist like myself will ensure your loan closes in a timely fashion.

To get pre-approved with an FHA 203K lender, go to www.anniemac203klending.com and click "Confidential Quick Quote Form".

Step 2: Searching for a Property (Homebuyer)

A great way to expedite the closing process is to interview contractors while you're searching for a property. Depending on your area, AnnieMac Renovation Lending works with experienced 203K contractors and we would be happy to recommend one out. If you already have a contractor you would like to use, go to www.anniemac203klending.com to determine eligibility requirements.



Still have questions about FHA 203K Loans? Call us at **856.505.6722** or email us at 203kinfo@annie-mac.com. **We are available 7 days a week!**

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Many clients have also found it beneficial to spend time at local hardware stores (i.e. Home Depot, Lowes, etc.) researching possibilities and prices.

When searching for a property, the property can be a single family residence, 2 to 4 units (e.g. duplex, triplex or fourplex), condo, or PUD. There are different maximum loan limits that apply and will vary depending on the county in which the property is located and whether the property is 1 to 4 units. For a table of the maximum loan limits in your area you can go to <https://entp.hud.gov/idapp/html/hicostlook.cfm>.

Step 3: Making the offer (Homebuyer and Real Estate Agent)

You've found a house! Before meeting with your agent to make the offer, develop a list of possible renovation options. I would suggest you develop the following lists:

- Must DO List (*addresses health & safety*)
 - Appraiser may add to this after viewing the property.
 - Meet with a FHA 203K Consultant that can do a feasibility analysis for you. This analysis will show you what is necessary to get your home into shape so that it meets FHA minimum property standards. The consultant report takes what has to be done and then allows for your "Wish List" to be added.
- Wish List.

This is the time for you and your real estate agent to sit down and determine an appropriate purchase price, while taking into consideration a very rough estimate of additional money needed for work to be done.



When making the offer to the seller, the offer you make is for the purchase price only and will not include the money needed for repairs/remodel.

For example: You want to pay \$100,000 for a house and plan to roll \$20,000 - \$30,000 into the FHA 203K loan for repairs/remodel. The offer to the seller will be for \$100,000 (the “as is” price); the additional money for repairs/remodel will come from the lender and should not be included in the offer to the seller.

Meeting with your contractor and your 203K Consultant before submitting an offer can be very helpful; however, in a competitive market you risk losing the house while getting your ducks in a row. Not to worry, there is a way around this dilemma. In your contract you can specify the necessary dates and deadlines, allowing you the time required for completing all inspections and gathering all estimates.

Step 4: Submitting the Offer *(Real Estate Agent)*

This step is your real estate agent’s responsibility; however, it’s beneficial for you to understand the requirements, so you can review your offer prior

to your agent submitting it to the seller.

When writing the contract, many real estate agents specify (under additional provisions) that the buyer will be obtaining a FHA 203K loan. This is a great place to give the listing agent and seller advance notice because 1) if the property is not currently in the FHA required condition, they know you have a strategy to address all necessary repairs and 2) FHA 203K loans may require more inspections and different dates and deadlines than a typical transaction.

It has been my experience that many clients are awarded the winning bid because their offer specified the buyer will be obtaining a FHA 203K loan. This is especially the case when bidding on foreclosure, REO, bank owned and short sale properties because the bank knows the loan will close despite the condition of the property, unlike all other loan types.

When obtaining a FHA 203K loan, all work is done after your closing, so the closing time frame is similar to a typical transaction - real estate agents and sellers love this.

(continues on page 4)

Suggested Dates and Deadlines for Your Offer / Purchase Contract:

FHA 203K Streamline: Up to \$35,000 in repairs

Closing Deadline = 35 days from contract acceptance date

Inspection Deadline = 14 days from contract acceptance date

Appraisal Deadline = 21 days from contract acceptance date

Loan Conditions Deadline = 30 days from contract acceptance date

FHA Standard 203K: \$35,000 or more in repairs

Closing Deadline = 40 days from contract acceptance date

Inspection Deadline = 17 days from contract acceptance date

Appraisal Deadline = 25 days from contract acceptance date

Loan Conditions Deadline = 35 days from contract acceptance date

Of course these are recommendations only and time frames may vary depending on the individual transaction, but allowing more time is always better and less stressful.



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Step 5: FHA 203K Feasibility Study or Full Work Write Up Ordered and Estimates Calculated

(Homebuyer & FHA 203K Lender, Homebuyer & Contractor and/or FHA 203K Consultant)

Congratulations! The offer has been accepted, the clock has now started and it's time for you to:

- Order your inspection: your 203K Lender will guide you through this. NOTE: If you think it is possible that you will be obtaining a FHA 203K Standard loan, you will want to have the FHA 203K Consultant do a feasibility study prior to performing the full work write up. Contact your FHA 203K lender for details.
- Meet with the contractor and FHA 203K Consultant (required on FHA Standard 203K loans only) to go over the estimate of all the repairs, updates and rehab that will be done to the property. (FHA 203K Streamlines do not require this, however they do require a home inspection by a FHA 203K inspector.)
- Contact your FHA 203K lender to discuss the outcome of your meetings with your contractor and FHA 203K Consultant and determine the best FHA 203K to suit your needs.

If you have additional repairs required as an outcome of your home inspection, these repairs can be included into the estimate, as well.

Step 6: The Appraisal is Ordered (FHA 203K Lender)

Once your inspection has been completed and you have received all estimates giving you a



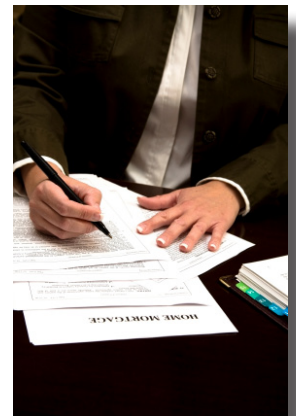
breakdown of the costs of the work to be done, your 203K lender will order the appraisal.

The appraiser will go out to the property and give an “as is” value as well as an “after improved” value (also known as a “subject to” value).

Step 7: Verifying the Loan Amount (FHA 203K Lender)

Now that the appraisal has been completed and received, your loan numbers can be finalized. The maximum loan amount and down payment (3.5%) are calculated and based on the sum of the purchase price, repairs and contingency reserves (10 - 20% of total costs) or 110% of the “after improved” value, whichever is less (see calculation example in the *Everything you Need to Know FHA 203K Manual*).

On a refinance, the maximum loan amount is based on the sum of the loan payoff, closing costs, prepaids, repairs and contingency reserves, or 97.75 (110% of the “after improved” value), whichever is less (see calculation example in the *Everything you Need to Know FHA 203K Manual*).



The contingency reserve is the required buffer, covering unforeseen situations that may cause you to need more money to complete your project. Depending on your project's complexity, the lender will appropriate 10% to 20% of the total remodeling costs to the contingency reserve. After completing your project, all unused money will be applied to the principal balance of your loan.



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Step 8: Loan Approval

(FHA 203K Lender)

The loan package has now been completed, submitted to underwriting and approved. Once the loan is approved and conditions are satisfied, the final documents are ordered and signed.

Step 9: Closing

This is when everything is now in line and ready to fund. The wire/loan proceeds are disbursed to pay off the seller, as well as to set up the escrow account for the improvements to be made after closing.

Final HUD-1 statement is the real estate document containing all your final numbers, including the exact amount of money you need to bring to the closing table. This will be available at a minimum of 48 hour before your closing and in most cases this is available one week before your closing.

Step 10: Inspections and Draw Disbursement Checks

If your loan is a 203K Streamline, there will be one inspection and two checks, one check within 2 to 4 weeks from closing and the second and final check after the work/inspections have been completed.

If your loan is a FHA 203K Standard, there will be one up-front check 30 days after closing and up to four inspections with disbursement checks to follow.

Well, I hope this has helped and you now feel more comfortable in making an offer on properties needing repairs, cosmetic or major, using the FHA 203K loan.

If you would like more information about FHA 203K loans, check out the *Everything you Need to Know FHA 203K Manual*.

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You can also contact our team at 856.505.6722 or email us at 203kinfo@annie-mac.com.

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