



Paramount Residential Mortgage Group (PRMG)
HUD REPAIR ESCROWS
UNDERWRITING AND APPRAISAL REQUIREMENTS

PURPOSE

This is an outline of *specific* requirements for HUD repair escrows. Follow the published FHA product matrix for general requirements and maximum loan amount limitations.

LOAN PROGRAMS

Available on 15 and 30 year fixed rate terms only. Choose the appropriate FHA Repair Escrow product in Fast Trac. The \$100 down program is not available in conjunction with the repair escrow program.

DESKTOP UNDERWRITER

All loans must be run through FHA's TOTAL SCORECARD decisioning engine via DU, and a copy of the findings must be included in the file.

PURCHASE AGREEMENT

In order to qualify for FHA-insured financing, the first block on Line 4 of the sales contract, as well as the applicable block for the FHA program – 203(b), 203(b) repair escrow must be checked. REO properties that are condominiums which are offered for sale with FHA mortgage insurance should be processed under Section 234(c), even though Section 203(b) is specified on the sales contract. The existing FHA case number is generally identified on the upper right side of the contract.

REAL ESTATE BROKER AND CLOSING AGENTS

Effective 9/30/16, HUD must approve any real estate broker wishing to list properties or represent buyers in sales transactions of HUD REO Properties and closing agents must meet the requirements as outlined in the 4000.1 in order to conduct a closing on a sales transaction of a HUD REO Property.

CLOSING COSTS/PREPAID EXPENSES

HUD-paid closing costs are specified on item 5 of the HUD sales contract. This amount may be applied to the actual cost of closing costs and/or prepaid expenses. If the total of actual costs of such closing costs and/or prepaid expenses is less than the amount specified in Item 5, the balance may not be credited to the borrower.

FUNDS TO CLOSE

Cash saved at home allowed, must meet all HUD requirements to be able to use for the transaction and for verification of funds.

CALCULATING LOAN AMOUNT

Loan amount is calculated by using the lesser of the appraised value or the sales price and multiply using the appropriate LTV factor. This calculation will produce the base loan amount. Add the repair amount to the base loan amount giving you a new base loan amount. Multiply that by the correct UFMIP factor using the matrix located in the Resource Center. Add the new base loan amount (which already includes the repairs) to the UFMIP amount producing the final loan amount. See example below:

The repair costs are included in the base loan amount, and UFMIP is calculated using the base loan amount plus the repair cost. See example below:

Sales Price:	\$300,000
Based Loan Amount:	\$289,500
Repair Costs:	\$4,000.00
New Base Loan Amount:	\$293,500
Multiple by UFMIP Factor:	1.750% (Verify with Matrix located in the Resource Center)
UFMIP:	\$5,136.25
Final (Total) Loan Amount:	\$298,636 (drop the cents)

DETAILS OF TRANSACTION

Repair costs must be identified on the 1003 under item B (Repairs, Alterations, and Improvements) in the details of transaction section. Below is a sample of Details of Transaction Screen:

VII. Details of Transaction

Details of Transaction	
a. Purchase Price	\$300,000.00
b. Alterations, Improvements, Repairs	\$4,000.00
c. Land (if acquired separately)	\$0.00
d. Refinance (Total of all debts paid at closing on Liabilities tab)	\$0.00
e. Estimated Prepaid Items	<input checked="" type="checkbox"/> Lock \$2,195.42
f. Estimated Closing Costs	<input checked="" type="checkbox"/> Lock \$9,266.50
g. PMI, MIP, Funding Fee	Upfront MIP % 1.750% \$5,136.25
h. Discount (if borrower will pay, from GFE)	<input type="checkbox"/> Lock \$0.00
i. Total Costs	\$320,508.17
j. Subordinate Financing (HELOC Drawn Amount)	\$0.00
k. Borrower's Closing Costs Paid By Seller (total from GFE)	<input checked="" type="checkbox"/> Lock \$0.00
l. Other Credits (Sum Of Other Credits Section)	\$3,000.00
Closing Costs from New Second Mortgage (For Sub Financing Only)	\$0.00
m. Loan Amount (excluding PMI, MIP, Funding Fee)	\$293,500.00
n. PMI, MIP, Funding Fee Financed	\$5,136.00
o. Loan Amount (add m & n)	\$298,636.00
p. Cash From/To Borrower	\$18,062.17

FHA CASE NUMBER PROCESSING

A new FHA Case Number is required for FHA-insured financing involving REO properties. When entering the case information in the FHA Connection, the case processing type should be “Real Estate Owned” in the case assignment screen.

During the case number processing procedure, the question, “Was this case previously sold as a Real Estate Owned?” must always be checked YES, and the previous case number, found on the purchase agreement, must be entered into the “Previous Case Number” field.

PROPERTY AND APPRAISAL REQUIREMENTS

Upon conveyance of properties to HUD’s REO inventory, HUD’s Management and Marketing contractors (M&M contractor) shall obtain an as-is appraisal (not as-repaired) for each HUD REO property to determine the listing price. The appraiser must list needed repairs required to meet HUD’s minimum property requirements. A Property Condition Report accompanies the appraisal. The appraiser’s opinion of value would be classified as “subject to repairs.”

HUD will no longer provide the appraisal by the M&M contractor for use on the loan, so a new full “as-is appraisal” will be required.

The requirements for the appraiser are the same as for any other property. If the utilities are not on at the time of observation and the systems could not be operated, the Appraiser must:

- render the appraisal as subject to re-observation;
- condition the appraisal upon further observation to determine if the systems are in proper working order once the utilities are restored; and
- complete the appraisal under the extraordinary assumption that utilities and mechanical systems, and appliances are in working order.

The Appraiser must note that the re-observation may result in additional repair requirements once all the utilities are on and fully functional. If the HUD REO appraisal was completed without the utilities being activated, HUD form 92051 (Compliance Inspection Report) will be required to verify utilities were activated and fully functional **prior to** funding the loan.

On section 203(b) applications, the mortgage amount must be based on the lesser of the as-is value or the sales price.

RELEASE OF THE APPRAISAL TO THE LENDER/PURCHASER

HUD will no longer provide the appraisal by the M&M contractor for use on the loan, so a new full “as-is appraisal” will be required.

APPRAISAL VALIDITY PERIOD (PER ML 2010-08 and 2010-13)

HUD will no longer provide the appraisal by the M&M contractor for use on the loan, so a new full “as-is appraisal” will be required and standard appraisal expiration dates apply.

Validity period for appraisals with **no** Appraisal Update Report

PRMG will not allow a 30 day extension to the initial appraisal report. The max validity period for an appraisal without an update is 120 days.

Appraisal with an Appraisal Update Report

240 Day Validity Period: In no case may a loan be insured where the original or underlying appraisal is subsequently updated if the loan is not closed within 240 days of the effective date of the original appraisal report being updated (120 day validity period for original appraisal plus 120 day validity period for Appraisal Update Report). The 30 day extension period cannot be used for cases when the original appraisal is updated.

When obtaining an updated appraisal report, the appraiser must provide two new comparables that continue to support the original opinion of value. The update must also include a newly completed Market Conditions addendum (1004MC).

REPAIR ESCROW FINANCING

A property that requires no more than \$10,000 for repairs to meet FHA's MPRs as estimated by the Property Condition Report and as reviewed and determined to be reasonable by the appraiser, is eligible to be marketed for sale in its "as-is" condition under the repair program.

The repair costs are included in the base loan amount, and UFMIP is calculated using the base loan amount plus the repair cost. All loans using the Repair Escrow program must meet the following restrictions:

- HUD REO properties only
- Fixed Rate terms only
- Manufactured Homes not allowed
- Up to 110% of the estimated cost of repairs (not to exceed 110% of \$10,000, or \$11,000) may be financed into the loan amount.
- Obtain a written estimate from the appraiser for the cost of re-inspection for completion of repairs (CIR) to include in total costs.

The max LTV can be exceeded by the amount of the financed repairs (up to 110% of \$10,000 or a max of \$11,000.)

The repair escrow must be financed in the FHA loan and is not to be taken from HUD proceeds at closing. The escrow account is administered by PRMG's accounting department. As part of the responsibility for administering the escrow account, accounting will follow up in obtaining the Compliance Inspection Report to ensure that the repairs have been completed. Any changes to the repair costs require approval and acknowledgment from the M&M Contractor on the purchase agreement.

All repairs are to be completed by the borrower within 90 days of closing. Upon satisfactory completion of all repairs, PRMG will require the final invoice and completed W-9 from the Contractor and/or legible receipts from the borrower. Please forward these items to PRMG at 203k@prmg.net or fax to 951-547-6029. For case numbers assigned on or after October 31, 2016, after the repair escrow account is closed, PRMG must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed.

PRMG will order all required inspections. Upon receipt of a satisfactory final inspection PRMG will release the funds to the contractor and/or borrower.

If actual repair costs are less than the amount escrowed, the balance of the escrow will be applied to reduce the outstanding principal balance of the mortgage. If the escrow is inadequate, or if additional items of repair are discovered at some subsequent date, it is the borrower's responsibility to bear the additional cost.

HUD FORMS

For repair escrows, as completed “Mortgagee’s Assurance of Completion” form HUD-92300 must be included in the case binder submitted for insurance endorsement and a completed “Compliance Inspection Report” form HUD-92051 must be submitted after completion of repairs. Indicate the dollar amount of the repair escrow on HUD form 92800.5B and form 92300.

ESTIMATED HUD 1

The estimated HUD 1 will reflect the total loan amount in the appropriate column (New Loan Amount), inclusive of the repair escrow amount. The repair amount must also be itemized on a separate entry line on the HUD 1 and shown as a debit. The repair amount, including the cost of reinspection by the appraiser must be itemized on lines 905 or 906 of the estimated HUD 1

LENDER’S INSTRUCTIONS

HUD no longer references payment of a fee for administering the escrow account, and as such, it no longer applies.