

Loan Rehabilitation Requirements – FHA Limited 203(k)

Congratulations on your decision to move forward with a *Limited 203(k)* loan. This flexible, dependable loan is the best option for homes in need of renovations and provides you with the security of knowing that you will have informed, expert assistance every step of the way. We've prepared this document to ensure that the work on your property is done according to plan, and to make you fully aware of the requirements of this loan.

Please read carefully and initial each statement below to indicate your understanding of the loan rehabilitation requirements.

Borrower

Initials

Contractors & Contracts

- _____ Contractors must be licensed and insured in the State of Rhode Island.
- _____ Contracts should be submitted to your lender or mortgage broker as early in the process as possible to facilitate a timely closing.
- _____ Purchase and sales agreement must identify that the borrower has applied for 203(k) financing.
- _____ Work must start within 30 days of closing and be completed within 90 days of closing.
- _____ The work write-up and cost estimate must be categorized by room or project and include itemized labor and material costs per repair or improvement to be performed.
- _____ Scope of work may only include minor remodeling and non-structural repairs.
- _____ Repairs/remodeling must not prevent the borrower from occupying the property for more than 15 days during the rehabilitation period.
- _____ Please inform your lender if your property has a private septic or well. A lot size waiver may be required through the U.S. Department of Housing & Urban Development (HUD).
- _____ Contractor(s) is/are responsible to obtain all required permits prior to the start of work.
- _____ Changing your Contractor(s) prior to closing is only allowed with the approval of your lender or mortgage broker. A new Homeowner/Contractor(s) Agreement and a release from the original Contractor(s) are required.
- _____ No alterations are to be made by the Contractor or Borrower to the Scope of Work/original bid that was approved prior to loan closing. An exception is only allowed if health and safety issues arise during the rehabilitation phase, and any exception will need approval before work proceeds.

Disbursement of Funds

- _____ Up to two (2) disbursements per Contractor are allowed. The Contractor will receive the first disbursement at closing from RIHousing via the closing agent. This initial disbursement will provide the funds for the Contractor to buy materials and start the renovation, and is not to exceed 50% of the total cost of repairs. (Exception: if there is a septic repair or installation, 50% of the amount of that contract will be the only advance at closing, as septic-related work must be completed prior to the initiation of other projects). The final disbursement will be made when all work is complete and when all signed releases and permits are received by RI Housing.

- _____ For rehabilitation work over \$15,000, RI Housing will also order a title rundown at each disbursement to ensure there are no additional liens against the property since the date of closing.

- _____ For rehabilitation work over \$15,000, a final inspection will be required prior to the final disbursement.

- _____ Once the inspector has verified completion of work, it will take approximately 72 hours to receive the report and process the disbursement check(s).

- _____ Checks will be made payable to the Contractor(s) only. Payment will only be made to approved Contractors who have executed a Homeowner/Contractor Agreement with you.

- _____ Mortgagor’s letter of completion notice will be provided by RIHousing to the buyer.

- _____ At the time of final payout, all work at the property must be fully completed with no additional repairs needed. No disbursement will be made without a signed release and building permit.

- _____ Additional money is held back at the time of closing, in the form of a contingency reserve. This is to ensure that if the specific project(s) outlined in the proposal exceed the allocated budget, reserve funds exist. If these funds are not used, they will be applied to your loan as a principal reduction.

For post-closing questions, please contact:
203(k) Specialist – 401-429-1494, 203k@rihousing.com
Customer Service – 401-457-1180, 800-854-1180

By initialing each section above and signing below, I/We indicate that I/We have reviewed and understand the *Limited* 203(k) loan requirements.

Borrower _____ **Date** _____

Borrower _____ **Date** _____

Lender/Mortgage Broker Representative _____ **Date** _____