



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: July 9, 2024

Mortgagee Letter 2024-13

To: All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All Eligible Submission Sources for Condominium Project Approvals
All FHA Roster Appraisers
All FHA-Approved 203(k) Consultants
All HUD-Certified Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Revisions to the 203(k) Rehabilitation Mortgage Insurance Program including updates to the 203(k) Consultant Requirements and Fees

Purpose This Mortgagee Letter (ML) implements updates to the Section 203(k) program guidelines, which are intended to reduce barriers to using the program.

Effective Date The provisions of this ML must be implemented for FHA case numbers assigned on or after **November 4, 2024**.

All updates will be incorporated into a forthcoming update of the HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

Affected Programs The provisions of this ML apply to applicable Section 203(k) program transactions.

Background HUD is committed to ensuring that its programs are as effective as possible for increasing the supply of affordable housing in the United States, particularly in underserved communities. An important means of expanding available supply is through the restoration and modernization of existing homes. As the country's housing stock ages, property renovation is

Mortgagee Letter 2024-13, Continued

important to preserving the quality and affordability of Single Family Properties.

The FHA 203(k) Rehabilitation Mortgage Insurance Program provides mortgage insurance for Mortgages that are used to purchase a home or refinance an existing Mortgage and that include funds to pay for the repair or rehabilitation of the subject property. Unfortunately, use of the 203(k) program has declined in recent years. In an effort to identify potential causes of that decline and opportunities to address them, on February 14, 2023, FHA published a request for information (RFI) in the Federal Register (Vol. 88, No. 30), seeking public input regarding the barriers that limit usage of the Section 203(k) program by Mortgagees and consumers. FHA received 146 comments from a wide variety of commenters, including trade associations, lenders, consumers, 203(k) Consultants, contractors, appraisers, nonprofit organizations, housing counselors, and local governments. The RFI posed 15 questions designed to garner information about the features of the 203(k) program that may limit its originations and to obtain recommendations for ways that FHA could improve the program to increase its usefulness in facilitating the preservation, renovation, and expansion of single family housing.

To support the Biden-Harris Administration goals of increasing the stock of affordable housing and expanding homeownership opportunities, FHA is making improvements to the Section 203(k) program to make it easier for Mortgagees to originate, and for Borrowers to complete, needed or desired rehabilitation of their homes. In this ML, FHA updates the 203(k) Rehabilitation Mortgage Insurance Program guidelines to increase the Limited 203(k) total rehabilitation costs limits, extend the rehabilitation period for both Standard 203(k) and Limited 203(k), revise the 203(k) Consultant fee schedule, and update the 203(k) Consultant requirements.

Summary of Changes

This ML:

- updates the 203(k) Consultant Application and Approval Process for:
 - Submitting an Application (I.B.2.c.ii);
 - Application Approval (I.B.2.c.iv); and
 - Biennial Recertification (I.B.2.c.vi);
- increases the total rehabilitation cost allowed for the Limited 203(k) (II.A.8.a.i(A)(2), II.A.8.a.vii(A), and II.A.8.a.xi);
- introduces an annual review process for updating the total rehabilitation cost for Limited 203(k) (II.A.8.a.i(A)(2));
- revises the Consultant and Identification Number (II.A.8.a.v(B)) by creating two subsections;
- updates Standard 203(k) Establishing Repairs and Improvements (II.A.8.a.vi(C));

Mortgagee Letter 2024-13, Continued

- increases the number of months a Mortgagee may establish financeable Mortgage Payment Reserve (II.A.8.a.vi(F));
- increases the number of Days that a Borrower is unable to occupy a Property during the rehabilitation period in Limited 203(k) Ineligible Improvements/Repairs (II.A.8.a.vii(B));
- allows the financing of the Consultant fees in Limited 203(k) Financeable Repair and Improvement Costs and Fees (II.A.8.a.vii(D));
- removes the 203(k) Consultant fee from the list of fees and costs that may not be financed under the Limited 203(k) (II.A.8.a.vii(G));
- extends the time frame for completion of repairs in the Rehabilitation Loan Agreement (II.A.8.a.xv(B)(1)); and
- updates the Consultant Fee Schedule (II.A.9.c).

FHA Single Family Housing Policy Handbook 4000.1

The policy changes will be incorporated into Handbook 4000.1 as follows:

Application and Approval Process (I.B.2.c)

ii. Submitting the Application

Doing Business with FHA

The application documents must be submitted as email attachments to the FHA Resource Center at answers@hud.gov.

Applications must include in the subject line: 203(k) Consultant Application Documents.

Application and Approval Process (I.B.2.c)

iv. Application Approval

FHA will inform the applicant if they are approved for placement on the [FHA 203\(k\) Consultant Roster](#). The approval will be valid for a two-year period from the date of initial approval. When the Consultant is placed on the Roster, they will be given a recertification due date.

Inclusion of a Consultant on the Roster means only that the Consultant has met the qualifications. It does not create or imply a warranty or endorsement by FHA of the Consultant, nor does it represent a warranty of any work performed by the Consultant.

Application and Approval Process (I.B.2.c)

vi. Biennial Recertification

To retain placement on the FHA [203\(k\) Consultant Roster](#), the Consultant must recertify every two years. The Consultant is required to recertify that they are still in compliance with all laws, regulations, licensing, certification, registration, or other approval requirements that govern their ability to perform as a 203(k) Consultant in the states where they do business.

Consultants must submit the required updated certification and attachments by email to the FHA Resource Center at answers@hud.gov. The subject line must read: 203(k) Consultant Recertification.

203(k) Consultants who fail to meet the recertification requirements will be removed from the [FHA 203\(k\) Consultant Roster](#). To request reinstatement on the Roster, the Consultant must submit a new [application](#) (I.B.2.c.i) after resolving the issue.

**FHA Single
Family Housing
Policy
Handbook
4000.1**

**Origination
through Post-
Closing/
Endorsement**

Types of 203(k) Rehabilitation Mortgages (II.A.8.a.i(A))

(2) Limited 203(k)

The Limited 203(k) may only be used for [minor remodeling and nonstructural repairs](#) (II.A.8.a.vii(B)). The Limited 203(k) does not require the use of a 203(k) Consultant, but a Consultant may be used. The total rehabilitation costs must not exceed \$75,000. The Limited 203(k) total rehabilitation cost limit will be evaluated on an annual basis in conjunction with the process undertaken for the establishment of FHA's Nationwide Forward Mortgage Loan Limits. If it is determined that an increase to the Limited 203(k) loan limit is warranted, the new limit will be announced concurrent with the publication of the Nationwide Forward Mortgage Loan Limits announcement.

Consultant Selection and Identification Number (II.A.8.a.v(B))

(1) Consultant Selection

The use of a 203(k) Consultant is required for a Standard 203(k) Rehabilitation Mortgage. The Limited 203(k) Mortgage does not require the use of a 203(k) Consultant, but a Consultant may be used.

When using a Consultant, the Mortgagee must select an FHA-approved 203(k) Consultant that is active on the [FHA 203\(k\) Consultant Roster](#) for the state in which the Property is located.

The Mortgagee must not use the services of a 203(k) Consultant who has demonstrated previous poor performance based on reviews conducted by the Mortgagee.

(2) Consultant Identification Number

The Mortgagee must enter the Consultant identification number into the “Consultant ID” field on the Case Number Assignment screen in [FHAC](#). For a Limited 203(k) with no Consultant, the Mortgagee must enter “203KS” in the “Consultant ID” field.

Standard 203(k) Transactions (II.A.8.a.vi)

(C) Standard 203(k) Establishing Repairs and Improvements

The Mortgagee must select an FHA-approved 203(k) Consultant from the [FHA 203\(k\) Consultant Roster](#) in [FHAC](#). The Mortgagee must not use the services of a Consultant who has demonstrated previous poor performance based on reviews performed by the Mortgagee. The Consultant must inspect the Property and prepare the Work Write-Up and Cost Estimate. **The Mortgagee must verify that the name shown in the [203\(k\) Consultant’s Certification](#) (II.A.9.k.i) matches the selected 203(k) Consultant.**

The Work Write-Up refers to the report prepared by a 203(k) Consultant that identifies each Work Item to be performed and the specifications for completion of the repair.

Cost Estimate refers to a breakdown of the cost for each proposed Work Item, prepared by a 203(k) Consultant.

Work Item refers to a specific repair or improvement that will be performed.

Exception for Borrowers Doing Own Work

For Borrowers performing their own work under a Rehabilitation Self-Help Agreement, the Consultant must identify on the Work Write-Up each Work Item to be performed by the Borrower. The Borrower must not be reimbursed for labor costs.

Standard 203(k) Transactions (II.A.8.a.vi)

(F) Standard 203(k) Financeable Mortgage Payment Reserves

A Mortgage Payment Reserve refers to an amount set aside to make Mortgage Payments when the Property cannot be occupied during rehabilitation.

A Mortgagee may establish a financeable Mortgage Payment Reserve, not to exceed 12 months of Mortgage Payments. The Mortgage Payment Reserve may include Mortgage Payments only for the period during which the Property cannot be occupied. The number of Mortgage Payments cannot exceed the completion time frame required in the Rehabilitation Loan Agreement.

For multi-unit Properties, if one or more units are occupied, the Mortgage Payment Reserve may only include the portion of the Mortgage Payment attributable to the units that cannot be occupied. To calculate the amount that can be included in the Mortgage Payment Reserve, the Mortgagee will divide the monthly Mortgage Payment by the number of units in the Property and multiply that figure by the number of units that cannot be occupied. The resulting figure is the amount of the Mortgage Payment that will be paid through the Mortgage Payment Reserve. The Borrower is responsible for paying the servicing Mortgagee the portion of the Mortgage not covered by the Mortgage Payment Reserve.

Limited 203(k) Transactions (II.A.8.a.vii)

(A) Limited 203(k) Eligible Improvements

The Limited 203(k) may only be used for minor remodeling and nonstructural repairs. The total rehabilitation costs may not exceed \$75,000.

Limited 203(k) Transactions (II.A.8.a.vii)

(B) Limited 203(k) Ineligible Improvements/Repairs

The Limited 203(k) mortgage proceeds **may not** be used to finance major rehabilitation or major remodeling. FHA considers a repair to be “major” when any of the following are applicable:

Mortgagee Letter 2024-13, Continued

- the repair or improvements are expected to require more than **nine** months to complete;
 - the rehabilitation activities require more than two payments per specialized contractor;
 - the required repairs arising from the appraisal:
 - necessitate a Consultant to develop a specification of repairs/Work Write-Up; or
 - require plans or architectural exhibits; or
 - the repair prevents the Borrower from occupying the Property for more than **a total of 30** Days during the rehabilitation period.
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Limited 203(k) Transactions (II.A.8.a.vii)

(D) Limited 203(k) Financeable Repair and Improvement Costs and Fees

The following costs and fees may be financed:

- costs of construction, repairs, and rehabilitation;
- inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- **the 203(k) Consultant fee, subject to the limits in the 203(k) [Consultant Fee Schedule](#) section;**
- title update fees; and
- permits.

Any costs for [Energy Efficient Mortgages](#) (II.A.8.c) and [Solar Energy Systems](#) (II.A.2.a.v(C)) must not be included in financeable repair and improvement costs.

For Borrowers performing their own work, the Mortgagee must include the costs for labor and materials for each Work Item to be completed by the Borrower under a [Rehabilitation \(Self-Help\) Loan Agreement](#).

Limited 203(k) Transactions (II.A.8.a.vii)

(G) Limited 203(k) Ineligible Fees and Costs **[Text was deleted in this section.]**

The following fees and costs **may not** be financed under the Limited 203(k):

- Mortgage Payment Reserves
 - architectural/engineering professional fees
 - a Feasibility Study
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203(k) Rehabilitation Mortgage Insurance Program (II.A.8.a)

xi. Maximum Mortgage Amounts for Energy Efficient Mortgages, Weatherization Items, and Solar Energy Systems

The Mortgagee must calculate the maximum mortgage amount without factoring in the cost of Energy Efficient Mortgage ([EEM](#)) (II.A.8.c) items, [Weatherization](#) (II.A.8.l) items, and [solar energy systems](#) (II.A.8.m). The Mortgagee may then add the cost of these improvements to determine the Base Loan Amount. The Base Loan Amount may not exceed 110 percent of the After Improved Value of the Property (100 percent for condominiums).

For Limited 203(k) transactions, the costs for energy improvements can be in addition to the **\$75,000** limit on total rehabilitation costs.

Closing – Required Documentation (II.A.8.a.xv(B))

(1) Rehabilitation Loan Agreement

The Mortgagee and Borrower must execute the [Rehabilitation Loan Agreement](#), which establishes the conditions under which the Mortgagee will disburse the rehabilitation escrow account funds.

The [Rehabilitation Loan Agreement](#) is incorporated by reference and made a part of the security instrument.

(a) Standard 203(k) Rehabilitation Period

The Mortgagee must review the 203(k) Consultant’s Work Write-Up to determine the time frame for completion of repairs not to exceed **12** months.

(b) Limited 203(k) Rehabilitation Period

The Mortgagee must consult the Borrower Contractor Agreement to determine the time frame for completion of repairs not to exceed **nine** months.

203(k) Consultant Requirements (II.A.9)

c. Consultant Fee Schedule

Below are the maximum fees that may be charged by the Consultant.

i. Feasibility Study

If requested by the Borrower or Mortgagee to determine if a 203(k) Mortgage is feasible, the Consultant may charge an additional fee of \$375 for the preparation of a Feasibility Study.

ii. Work Write-Up

The Consultant may charge the fees listed below for the preparation of the Work Write-Up and review of architectural exhibits:

- Up to \$1,000 for repairs less than or equal to \$50,000
- Up to \$1,200 for repairs between \$50,001 and \$85,000
- Up to \$1,400 for repairs between \$85,001 and \$140,000
- Up to 1 percent of the repair costs or \$2,000, whichever is lower, for repairs over \$140,000

The Consultant may charge an additional \$25 per additional Dwelling Unit.

iii. Draw Inspection Fee

For each draw request, the Consultant may charge an inspection fee that is reasonable and customary for work performed in the area where the Property is located, provided the fee does not exceed a maximum of \$375.

iv. Change Order Fee

The Consultant may charge \$120 per change order request.

v. Reinspection Fee

The Consultant may charge a \$225 fee when reinspection of a Work Item is requested by the Borrower or Mortgagee.

vi. Mileage Fee

The Consultant may charge a mileage fee at the current Internal Revenue Service [\(IRS\) mileage rate](#) when the Consultant's place of business is more than 15 miles from the Property.

**Paperwork
Reduction Act**

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0358; 2502-0404; 2502-

Mortgagee Letter 2024-13, Continued

0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-0610; and 2502-0611. In accordance with the PRA, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

Feedback or Questions

HUD welcomes feedback from interested parties and will consider feedback in determining the need for future updates. Any feedback or questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342), answers@hud.gov, or www.hud.gov/answers. The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

Signature

Julia R. Gordon
Assistant Secretary for Housing -
FHA Commissioner
