

# 203(k) UNDERWRITER CONSTRUCTION CHECKLIST

- Underwriter meets with borrower
    - To sign the borrower agreement
    - To sign a borrower's Acknowledgement
    - Cautions borrower to not get a contractor yet
  
  - Hires consultant
    - Remember the consultant is NOT an INSPECTOR!
    - He is a construction analyst and estimator
    - If the borrower desires a full home inspection, some of the consultants are qualified home inspectors also, and can do both jobs for the 203(k)
      - As a home inspector, he may charge his regular inspection fee and also charge the consultant fee. Both may be charged to the rehabilitation loan
  
  - Underwriter determines evaluation of the property using:
    - An appraisal from a licensed appraiser
    - Or a mandatory appraisal if there is little or no equity in the property
    - Or the sales price of a purchase transaction
    - Or the existing debt on a refinance transaction
  
  - Underwriter receives the copies of the work write-up
  
  - Underwriter gives the no-price copy to the borrower
    - Then instructs the borrower to get at least two to three bids on the specifications from qualified and licensed contractors
      - This allows open competitive bidding
        - Note: When the priced spec sheet has been given to the borrower, **the experience has been that they give the prices to the contractor**, which could be costing both the lender and the borrower more money*
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- At the same time, the Underwriter gives a priced copy of the write-up to the appraiser.
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- The appraiser does an as-repaired appraisal using the rehab figures of the consultant.
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- When the appraiser returns the completed appraisal to the underwriter, the Underwriter calculates the maximum loan
  - If the valuation plus the repairs exceed the maximum loan value, the Underwriter calls the Consultant and tells him how much he has to cut the wish list to make the loan work
  - If the valuation plus the repairs are equal or lower than the maximum loan value of the house, the loan can be closed
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- When the borrower finishes obtaining the bids, the borrower takes the bids back to the Underwriter and states which one was favored
  - The Underwriter should verify the contractor is licensed, has liability insurance and is qualified
- With the approval of the Underwriter, the borrower now signs a *Rehabilitation Loan Agreement* with the contractor and the loan can be closed
- Once the loan is closed, work must start within 30 days, may have no stoppage longer than 30 days, and have the work completed within six months (unless the contract agreement says there is less time to complete)
- There are four draws allowed. The first one can be at closing to pay permits, etc., if required. Other than that, no draws may be made until one day after closing.
- As the contractor or his sub-contractors complete part of their work and want a partial payment, a draw may be scheduled. This must be inspected by the Consultant who fills out the *92051 Compliance Inspection Report* AND the *Draw Request Form*.
- If there are excess funds available, the borrower may specify additional work to be done (as long as it doesn't add cost to the loan). If there is no desire to do additional rehab, the balance is applied to the principal balance of the loan