

Supporting Statement for Paperwork Reduction Act Submissions Rehabilitation Mortgage Insurance Underwriting Program Section 203(K)

OMB Control Number 2502-0527
(HUD-92700-A, HUD-9746-A, HUD-92577)

A. Justification

1. The National Housing Act (12 U.S.C. 1703) authorizes the Secretary of Housing and Urban Development to insure financial institutions against losses as a result of borrower defaults on single-family mortgages. Specifically, under Section 203(k) of the Act, the Secretary is authorized to insure mortgages that fund the rehabilitation of single-family homes.
2. This request for OMB review involves an extension for information collected under OMB approval 2502-0527 for lenders that originate and service Section 203(k) mortgages.

The information collection focuses on the loan origination process and is used for underwriting purposes and to document expenditures from repair escrow accounts. The respondents represent borrowers and lenders, including approximately 20 nonprofits, who annually apply for the Standard 203(k) and Limited 203(k) loans of the 203(k) program. These two loan types were renamed from Regular 203(k) and 203 Streamlined (K), respectively. The three-year average of 203(k) program loans are 15,871. Approximately 1,939 consultants are on FHA's 203(k) Consultant Roster. The consultants are required to re-apply biennial for roster placement resulting in an average of 970 applications annually. The 203(k) Maximum Mortgage Worksheet, Form HUD 92700 is no longer in use. The information from this form is now fed directly into the Computerized Homes Underwriting Management System (CHUMS) along with other basic loan information and accounted for under OMB Control Number 2502-0059 and 2502-0556.

Below are descriptions of the requirements for the 203(k) program and other requirements of the Limited 203(k), separated into three categories, as follows:

Program Requirements unique to the regular 203(k):

- Architectural exhibits, such as Plot Plan, Existing Plan, Description of Materials, and Work Write-Up are generally, but not always, required (e.g., for a new roof), and an estimated number is provided here for computational purposes.
- 203(k) Borrower's Acknowledgement, HUD-92700-A, documents the borrower's understanding that HUD does not warrant the condition of the rehab property.
- The Draw Request Section 203(k), HUD-9746-A, includes the rehabilitation inspection report. The form documents material, equipment, and labor already purchased and installed. The lender uses this document as certification that work has been completed properly per program requirements.
- Contingency Release Letter approves or rejects borrower's request for release of the contingency reserve. No specific form required.
- Plan Review Certification certifies that the plan reviewer has inspected the property and found the architectural exhibits and rehabilitations costs to be acceptable.
- Consultant Application Package is information submitted by individuals wishing to be placed on HUD's FHA 203(k) Consultant Roster. No specific form required. The package contains the following:
A list or resume documenting:
 - A minimum of three years' experience as a remodeling contractor, general contractor, or home inspector.
 - A state license as a state certified engineer or architect may be submitted in lieu of the documentation of the three years' experience;
 - Education;

- Licensing (general contractor, home inspector, etc.). In those states where a Home Inspector is required to be licensed, the Department requires the applicant to be licensed and to provide proof of that licensing;
- A narrative description of the current/prospective consultant's ability to perform home inspections, prepare architectural drawings, use proper methods of cost estimating and complete draw inspections; and,
- The applicant must also submit a certification verifying that the consultant has read and fully understands the requirements of HUD Handbook 4000.1 and all related materials.
- Consultant Identity of Interest Certification certifies that the Consultant has no conflicts in the rehabilitation and inspection of the property. No specific form required.
- Rehabilitation Checklist is completed by the 203(k) Consultant for the Work Write-up. No specific form is required.

Program Requirements unique to the Limited 203(k):

- Lender review of borrower's documentation of competency if loan is Self-help Rehabilitation loan.
- Contractor's cost estimate.
- Appraiser's review of planned rehabilitation and pre-purchase home inspection report.
- Lender's review of acceptability of cost estimate.
- Eligibility for an Energy Efficient Mortgage is determined by the lender.

Overall 203(k) Program Requirements (including the Limited 203(k))

- Rehabilitation (Self-Help) Loan Agreement defines the terms of the loan for the rehabilitation of property where the borrower is performing some or all of the rehabilitation. No specific form required.
- Rehabilitation Loan Agreement defines the terms between the lender and borrower and establishes the conditions under which the lender will advance the loan proceeds. No specific form required.
- Rehabilitation Loan Rider provides the lender with the authority to take the necessary steps to protect the rehabilitation improvements if the rehabilitation is not properly completed. No specific form required.
- Final Release Notice is issued by the lender after reviewing case file to determine that all work has been satisfactorily completed. No specific form required.
- Mortgagor's Letter of Completion provides certification by borrower that the rehabilitation has been completed in a workmanlike manner to their satisfaction and authorizes lender to distribute remaining funds. No specific form required.
- Request for Change, HUD-92557, is used when the scope of work of the rehabilitation will change.
- Homeowner/Contractor Agreement is a contract for rehabilitation work. No specific form required.
- Currently, there are approximately zero nonprofit loans per year. HUD is working on new policy to increase participation. Documentation to support Nonprofit Applications for 203(k) Participation includes the following:
 - complete articles of incorporation and by-laws of the entity;
 - corporate resolution delegating signature authority;
 - an outline of current and future housing objectives;
 - a marketing plan describing the nonprofit's methodology of renting the units or transferring properties to homeowners through credit qualifying;
 - assumptions or other means, if appropriate;
 - a detailed description of the last two years' experience as a housing provider;
 - proof of the organization's exemption from Federal income tax;
 - copies of the last two years' tax returns (Form IRS 990, Return of Organization Exempt from Income Tax, is a form available for public inspection and sometimes serves as the primary or sole source of information about a particular organization);
 - Year-end Financial (Nonprofits);
 - 90-day Year to Date Financials (Nonprofits); and
 - Credit Reports (Nonprofits).

- Chain of Title Evidence provides evidence of prior ownership when a property was sold in the last year and that prior ownership must be reviewed for undisclosed identity of interest transactions.
 - Borrower's Identity-of-Interest Certification certifies that the Borrower has no conflicts of interest in the purchase. No specific form required.
 - Quality Control Plan Maintenance is a routine function of each mortgagee's origination and/or servicing operations. All FHA-approved mortgagees, including Loan Correspondents, must implement and continuously have in place a Quality Control Plan for the origination and/or servicing of insured mortgages as a condition of receiving and maintaining FHA approval.
 - Accounting of 203(k) rehab funding is record keeping for each loan. The information is reported at the closeout (see below).
 - Automated Processing of 203(k) Closeout is a mortgagee's certification that they have reviewed and verified for accuracy the following documents without limitations: final release notice, mortgagor's letter of completion, title update/lien inspection reports, lender accounting of the 203(k) rehabilitation funds, change orders, payment ledgers, extensions for completion, and contingency release letters.
3. Because of wide variations in the size of Section 203(k) lenders, the number of loans originated, and the fact that the collection includes financial and other documentation from the borrower, improved information technology to reduce respondent burden has limited applicability. Information is collected on paper by the mortgagees and submitted to HUD electronically through the Computerized Homes Underwriting Management System (CHUMS), which accounts for the 5% electronic processing. The lender is not required to submit copies of the requisite forms, only to ensure that copies are placed in the case binder.
 4. Data collected is unique to each Section 203(k) loan and therefore not duplicative.
 5. There is an impact on small businesses or other small entities in that the Limited 203(k) provides a limited repair augmentation to the overall program specifically excludes the involvement of 203(k) consultants who are required to develop a "Specification of Repairs/Work Write-Up" for a Standard 203(k) loan. This modification to the overall program, will not cause a decrease in the use of 203(k) consultants for the Standard 203(k) program. There is no other impact on small businesses or other small entities.
 6. Information collected is a one-time "on occasion" type, and therefore no reduction in frequency is possible. The documentation requirements and strengthened internal controls are meant to help reduce HUD's exposure to insurance losses from loan defaults.
 7. There are no special circumstances involved in this collection.
 8. In accordance with 5 CFR 1320.8(d), this information collection soliciting public comments was announced in the *Federal Register* on DATE, Volume XX, Number XX, Page XXXX). No Comments received.

HUD consulted directly with leading participating lenders in regard to information requirements of the 203(k) programs. Lenders reported that the data collection process has been automated and managed with computer systems that accept data from the FHA appraiser and consultant electronically. This is consistent with the guidelines in 5 CFR 1320.
 9. There are no gifts or other types payments made to respondents.
 10. The Privacy Act of 1974 protects respondents who meet these information-reporting requirements. There are no other pledges of confidentiality.
 11. This information collection does not contain any questions of a sensitive nature.
 12. The loan volume on 203(k) mortgages, including the Limited 203(K) is 15,871 and HUD anticipates continued volume growth in future years. Of the 15,871 loans, approximately zero are nonprofit

organizations, which is the average for the past three fiscal years. HUD currently has 1,939 203(k) consultants who are approved to perform inspections services under the 203(k) program on a biennial basis. This is a revolving program with consultants being removed from and/or added to the approved list or voluntarily withdrawing from the list, therefore, additional consultants will apply for and be approved to perform inspection services under the 203(k) program on an annual basis. The reporting burden on respondents for the collections is calculated currently at 207,838 hours.

Information Collected	Number of Respondents	Frequency of Response	Total Annual Responses	Hours per Response	Total Hours	Cost per Hour	Total Cost
Standard 203(k) Program Requirements*							
Architectural Exhibits	3,626	1	3,626	4	14,504	35.00	507,640
203(k) Borrower's Acknowledgment HUD-92700-A	5,494	1	5,494	.10	549	35.00	19,215
Application for HUD Section 203(k) Rehabilitation Program Consultant	970****	1	970****	4	3,880	35.00	135,800
Draw Request Section 203(k) HUD-9746-A	5,494	2	10,988	1	10,988	35.00	384,580
Consultant's Identity-of-Interest Certification	5,494	1	5,494	.10	549	35.00	19,215
Accounting of 203(k) Rehab Funding	5,494	1	5,494	.5	2,747	35.00	96,145
Contingency Release Letter	5,494	1	5,494	.1	549	35.00	19,215
Plan Reviewer Certification	5,494	1	5,494	1	5,494	35.00	192,290
Rehabilitation Checklist	5,494	1	5,494	4	21,976	35.00	769,160
Subtotal;	5,494		48,548		64,532		2,143,260
Limited 203(k) Program Requirements**							
Lender's review of borrower's documentation of competency if Self Help Rehab	1,729	1	1,729	.1	173	35.00	6,055
Contractor's Cost Estimate	10,377	1	10,377	2	20,754	35.00	726,390
Appraiser's review of planned rehabilitation and pre-purchase home inspection report	10,377	1	10,377	1	10,377	35.00	363,195
Lender's review of acceptability of cost estimate	10,377	1	10,377	.2	2,075	35.00	76,625
Energy Efficient Mortgage Calculation	1729	1	1729	.2	346	35.00	12,110
Subtotal	10,377		10,377		33,725		1,184,375
Overall 203(k) Program Requirements***							
Rehabilitation (Self Help) Loan Agreement	1,587	1	1,587	.2	159	35.00	5,565
Rehabilitation Loan Agreement	15,871	1	15,871	.2	3,174	35.00	111,090
Rehabilitation Loan Rider	15,871	1	15,871	.2	3,174	35.00	111,090
Final Release Notice	15,871	1	15,871	.1	1,587	35.00	55,545
Mortgagor's Letter of Completion	15,871	1	15,871	.1	1,587	35.00	55,545
Borrower/Contractor Agreement	15,871	1	15,871	.1	1,587	35.00	55,545
Borrower's Identity-of-Interest Certification	15,871	1	15,871	.1	1,587	35.00	55,545

Information Collected	Number of Respondents	Frequency of Response	Total Annual Responses	Hours per Response	Total Hours	Cost per Hour	Total Cost
Documentation to Support Nonprofit Applications for 203(k) Participation	0	1	0	4	0	35.00	0
• Form IRS 990 (Nonprofits)	0	1	0	.25	0	35.00	0
• Year-end Financial (Non-profits)	0	1	0	.25	0	35.00	0
• 90 day YTD Financial (Non-profits)	0	1	0	.25	0	35.00	0
• Credit Reports (Non-profits)	0	1	0	.5	0	35.00	0
HUD-92577 -- Request for Acceptance of Changes in Approved Drawings and Specifications	3,000	1	3,000	.5	1,500	35.00	52,500
Chain of Title Evidence	15,871	1	15,871	.50	7,936	35.00	277,760
Lender's Quality Control Plan	15,871	1	15,871	5	79,355	35.00	2,777,425
Accounting of 203(k) Rehab Funding	15,871	1	15,871	.2	3,174	35.00	111,090
Automated Processing of 203(k) Closeouts	15,871	1	15,871	.3	4,761	35.00	166,635
Subtotal	15,871		163,297		109,581		3,779,790
Totals	15,871		222,222		207,838		7,107,425

Costs are assumed to be approximately \$35 per hour, including salaries, overhead, staff support, record keeping, etc.

* unique to Standard 203(k) program

**unique to the Limited 203(k) program

*** required under both the Standard 203(k) and the Limited 203(k) programs

**** all the approximately 1,939 203(k) consultants (divided by 2) who are currently approved. These consultants will have to submit applications biennially to remain on the national roster of consultant.

13. There are no additional costs to respondents.

14. The annualized cost to the Federal government is estimated at 10% of the total burden hours or 20,783 hours. The Federal burden includes compliance reviews related to the loan originations. The annualized cost to the Federal government also assumes a \$35 per hour estimate, based on the salary for a GS-12, Step 1, and is calculated at \$727,405.

15. This is an extension of a currently approved collection. The program is continually being reviewed to determine any impact from housing market conditions. Also, this is a revolving program with consultants being removed from and/or added to the approved list or voluntarily withdrawing from the list, therefore additional consultants are projected to apply for and be approved to perform inspection services under the 203(k) program on an annual basis.

16. This information collection does not include results that will be published.

17. HUD is not seeking approval to avoid displaying the expiration date for the OMB approval.

18. There are no exceptions to the certification statement identified in item 19 of the OMB 83-I.

PART B. Collections of Information Employing Statistical Methods

1. The collection of information does not employ statistical methods.