

What does a 203K or renovation consultant do?

Before loan closing

Generally speaking there are several types of renovation loans, 203K, Homestyle and conventional. 203K and Homestyle are similar in that the property is inspected by a consultant for the purpose of identifying the condition of the property as it relates to safety and health standards. Most lenders also require certified 203K lenders to perform the same services for their conventional renovation loans.

A 203K consultant's inspection is not the same as what is commonly referred to as a home inspection report. A 203K HUD consultant is certified by HUD to represent them in purchases that involve federally backed loans. A regular home inspector is usually accredited by the National Association of Home Inspectors (NAHI) and is not usually federally certified by HUD. A 203K consultant can qualify the property for an FHA insured loan. A NAHI inspector cannot. Your 203K consultant can help advise you if a regular home inspection is recommended for a particular property.

If you need a consultant he will meet with you at the property to perform what is called an FHA Minimum Property Standards inspection. Once he has inspected the property for standards then he will discuss with you any additional work that you may want to be done to update or modify the property. This can be anything from flooring to kitchen remodels to full room additions.

Your consultant will then use all of this input to generate a list of work to be done, called a Specification of Repairs (SoR). This list is the "product" that the consultant produces for his consulting fee. All fees for 203K and Homestyle loans are dictated by HUD and are wrapped into the loan. There are no out of pocket fees for you for consultant services except for a deposit made at the time of the initial MPS inspection. But you will be reimbursed even that payment at loan closing.

The SoR will include a detailed list of project tasks to be performed and will have the consultant's fair market cost estimate of each item on the list. The SoR can be evolved by you and the consultant to insure that it includes all the work required and the work desired that it is within your budget.

Consultants generally have a list of contractors that you can contact for bids on the work. You may already have a contractor. If so, be sure that he is approved by your lender. The lender can help you with that. There are also certain rules for payment that the contractor needs to know. See my "Notice to Contractor" form that should be in this email.

Once the final SoR is established an FHA appraisal will be requested by your lender. This usually takes 7-10 days to complete. A certified appraiser will contact you to set up a time to view the property. While this is happening you can be involving a contractor to bid the work from the SoR. I can provide you with bid sheets reflecting the work on the SoR. They can be provided either with or without consultant's cost estimates showing on them.

When the appraisal is done the lender can finish their work with approvals and underwriting and the loan can close.

After loan closing

Once the loan closes the consultant's role will change a bit. Some people think that by having a consultant they have a contracted project manager that will oversee their project. In reality, you will be responsible for day to day communications with your contractor and oversee day to day progress the same as with any home improvement project.

Your consultant will become the eyes of the lender to assure them that the list work is completed according to industry standards. The loan will include the costs for from one to five progress inspections depending on the size and cost of the work scope. Your contractor will call for progress inspections along the way. When called, the inspector will inspect the property for work completed. He will provide you with copies of the necessary draw forms for signature and then send that to the lender. While the consultant has experience in the construction industry he is not there as a liaison between you and your contractor. Issues between you and the contractor such as quality of work remain your responsibility to resolve directly with the contractor.

The consultant will document progress using pictures and approved forms to report to the lender the status of the project. You, your contractor and you consultant will need to sign draw forms that will be sent to the lender. The lender will provide payments per the draw. All draw checks will be for 90% of the value of the completed work. The remaining 10% will be held in escrow until the end when the final draw is made and a Letter of Completion is sent to the lender.

As a rule, lenders make payment checks out to either the borrower or the borrower and the contractor jointly. Most lenders have waiver forms whereby the checks can be written only to the contractor with the approval of the borrower. This can sometimes help if logistics are a problem such as the borrower lives out of town.

At the time of the next to the last draw you should create a punch list of things that are not complete to your satisfaction to give the contractor the time to correct them. The 10% holdback on each draw is your assurance that outstanding issues will be resolved in the end.

At the last draw, when all work is complete, I will perform a final draw inspection. You will sign a "letter of completion" for the bank and the final payment will be made to the contractor, including the 10% holdback.

All work, including punch list work should be complete before the final inspection.