

Property Improvement Loan Insurance

Insuring loans for borrowers to improve their property

BACKGROUND AND PURPOSE

The Title I Property Improvement Loan Insurance program insures loans that lenders make to borrowers to finance alterations and repairs of single-family, multi-family, and nonresidential properties. Loans may also finance site improvements, as well as construction of nonresidential properties, as long as the nonresidential uses are subordinate to the residential uses and consistent with the property's zoning. The program is designed to help low- and moderate-income (LMI) borrowers improve their homes and is an alternative for homeowners with limited home equity, who cannot use their home's equity to finance significant home repairs. The home improvements can be conducted by the homeowner themselves or through a contractor. The improvements must substantially protect or improve the basic livability or utility of the property. In general, improvements must be permanent, hard-wired, or hard-plumbed to the property. FHA insures

lenders against the risk of default for up to 90 percent of the loan.

This program differs from FHA's Section 203(k) Rehabilitation loan program in that a Title I Property Improvement Loan only covers the amount of the proposed repairs, not the purchase of the property. The two programs can be used together on the same home. Title I Property Improvement Loans are typically second or subordinate liens. Only lenders approved by HUD specifically for this program can make loans covered by Title I insurance.

BORROWER CRITERIA

Income limits: This program has no income limits.

Credit: There is no minimum credit score requirement for the program, but HUD expects that lenders will undertake a thorough review of the borrower's credit

PROGRAM NAME	Property Improvement Loan Insurance
AGENCY	Federal Housing Administration
EXPIRATION DATE	Not Applicable
APPLICATIONS	To participate, lenders must be FHA-approved for the Title I loan program. Lenders may access FHA's Lender Requirements and the online lender application at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr
WEB LINK	http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/title/title-i
CONTACT INFORMATION	Telephone: (800) CALL-FHA (225-5342) Email: answers@hud.gov . Lenders that want to apply for FHA approval should include the words "New Applicant" in the email subject line and include a contact person and phone number in the email body so that a Lender Approval representative may contact you.
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

history by pulling a credit report, verifying employment, and checking that the borrower is not delinquent or in default on a federally guaranteed loan obligation.

First-time homebuyers: First-time homebuyers can take advantage of the program as long as they have or take title of the property at closing. The home must have been occupied for at least 90 days. This does not exclude first-time homebuyers; rather it is designed to avoid using the program to bail out builders of new homes.

Occupancy and ownership of other properties: Title I loans may be used to finance permanent property improvements that protect or improve the basic livability or utility of the property, including manufactured homes, single-family and multifamily homes, nonresidential structures, and the preservation of historic homes. The loans can also be used for fire safety equipment. Funds can be used to finance the construction of a nonresidential structure on the property, as long as the nonresidential uses are subordinate to the residential uses and consistent with the property's zoning. To be eligible for a Title I loan, borrowers must be:

1. the owner of the property being improved;
2. the person leasing the property (if the lease extends at least six months after the loan is scheduled to be fully repaid); or
3. someone purchasing the property under a land installment contract.

Special populations: There is no targeted population, but the program is a tool for both homeowners and persons leasing the property to make improvements.

Special assistance for persons with disabilities: Title I loans can be used for improvements that make the home more accessible to a disabled person. Improvements can include remodeling kitchens and baths for wheelchair access, lowering kitchen cabinets, or installing wider doors and exterior ramps.

Verification of property improvements: Loan proceeds must be used only for purposes established in the loan application. If the borrower uses a dealer to execute the improvement work, the lender must receive a copy of the proposal or contract describing in detail the work to be performed and cost estimates. If the borrower is completing the improvements, they must provide the lender with a detailed written description of the work, materials, and cost.

List of acceptable property improvements:

- Improvements for accessibility to a disabled person such as remodeling kitchens and baths for wheelchair access, lowering kitchen cabinets, installing wider doors and exterior ramps, and the like.
- Improvements must protect or improve the livability or utility of the property.

POTENTIAL BENEFITS

HUD-approved Title I lenders can offer improvement loans for various property types including manufactured home properties. The manufactured home is not required to be real property. However, in order to use the loan to finance site improvements, the borrower must comply with the criteria for owning, or otherwise being authorized to execute liens against the underlying land.

Title I property improvement loans can be originated currently with the purchase or refinance of an existing property. The loans may also be originated at any point after the property purchase.

POTENTIAL CHALLENGES

The lender must be approved by HUD as a Title I lender.

Lenders that want to offer dealer loans, where a contractor helps the borrower with financing instead of directly lending to the borrower, must approve the dealers through a separate process. The lender must verify that the property improvement dealer has a net worth of \$25,000 and meets HUD guidelines. A jointly signed HUD-approved form documents the approval and lenders must annually recertify the dealers to whom they extend dealer loans.

- Loans cannot be used to finance luxury-type items such as swimming pools or outdoor fireplaces, or to pay for work completed before the loan application.
- Loan proceeds may be used for alterations and/or repairs of single-family, multifamily, and nonresidential property types and for site improvements.

LOAN CRITERIA

Loan limits: Title I approved lenders can offer eligible borrowers improvement loans for up to 20 years on either single-family or multifamily properties. The maximum loan amount is \$25,000 for a single-family home or to build a nonresidential structure. To improve a two- to four-unit structure, the maximum loan amount is \$12,000 per family unit, not to exceed a total of \$60,000 for the structure.

Loan-to-value limits: The program does not limit the loan-to-value ratio and borrowers are not required to have equity in the property. A loan amount greater than \$7,500 must be secured by a recorded lien on the improved property. The lien does not have to be a first lien on the property, but it must not be placed in less than second position. A Title I loan may be secured in third place by exception when the first and second loans were originated to finance the property's purchase.

Adjustable-rate mortgages: Lenders must offer fixed-rate loans (no adjustable-rate terms are permitted) and charge market-rate interest.

Homeownership counseling: Housing counseling is not required for participation in the program.

Mortgage insurance: FHA insures private lenders against the risk of default for up to 90 percent of any single loan. The annual premium for this insurance is \$1 per \$100 of the amount advanced. The insurance premium may be charged to the borrower separately, but it is sometimes covered by a higher interest charge.

Debt-to-income ratio: The borrower must have a maximum DTI of 45 percent, meaning total fixed expenses (including payments on the property improvement loan) may not exceed 45 percent of effective gross income. In the event the borrower has student loan debt and is not yet in repayment, as is the case for current students, FHA's policy is to include 2 percent

of the total student loan balance in the debt-to-income calculation.

Refinance: Borrowers may refinance with the Title I lender that holds the note.

Potential Benefits

- HUD-approved Title I lenders can offer improvement loans for various property types including manufactured home properties. The manufactured home is not required to be real property. However, in order to use the loan to finance site improvements, the borrower must comply with the criteria for owning, or otherwise being authorized to execute liens against, the underlying land.
- Title I property improvement loans can be originated concurrently with the purchase or refinance of an existing property. The loans may also be originated at any point after the property purchase.
- No security or co-signer is needed for loan amounts below \$7,500.
- Loans originated through this program may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.

Potential Challenges

- The lender must be approved by HUD as a Title I lender.
- Lenders that want to offer dealer loans, where a contractor helps the borrower with financing, instead of directly lending to the borrower, must approve the dealers through a separate process. The lender must verify that the property improvement dealer has a net worth of \$25,000 and meets HUD guidelines. A jointly signed HUD-approved form documents the approval and lenders must annually recertify the dealers to whom they extend dealer loans.
- The lender must be familiar with the unique forms and requirements of this program.

SIMILAR PROGRAMS

- FHA 203(k) Rehabilitation Mortgage Insurance
- USDA Section 504 Repair Loan/Grant Program

RESOURCES

General information

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/title/title-i

HUD Handbook 1060.2 REV-6 for Title I Property Improvement and Manufactured Home Loans (issued in 1996 and includes program rules)

<http://portal.hud.gov/hudportal/documents/huddoc?id=10602HSGH.pdf>

HUD Handbook 4000.1 (issued August 26, 2015)

<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>

Title I Letter TI-473, "Publication of Final Rule on November 7, 2001 Regarding: Strengthening the Title I Property Improvement and Manufactured Home Loan Insurance Programs and Title I Lender/Title II Mortgagee Approval Requirements" (includes insurance premium information)

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/title1

Title I Lender Letter TI-470, "Clarifications to the Title I Property Improvement Program" (includes debt-to-income information)

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/title1

HUD Guidelines for Dealers (see section 201.27 "Requirements for dealer loans" in HUD Handbook 1060.2 REV-6)

<http://portal.hud.gov/hudportal/documents/huddoc?id=10602HSGH.pdf>

Dealer/Contractor Application Form HUD-55013 (to be completed by lender)

<http://portal.hud.gov/hudportal/documents/huddoc?id=55013.pdf>