



ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

**Date: November 22, 2019**

**Mortgagee Letter 2019-18**

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

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**Subject** Maximum Rehabilitation Costs in Qualified Opportunity Zones (QOZs) for Limited 203(k) Mortgages.

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**Purpose** The purpose of this Mortgagee Letter (ML) is to increase the Maximum Rehabilitation Costs in QOZs for Limited 203(k) Mortgages from \$35,000 to \$50,000.

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**Effective Date** The guidance in this ML is effective for case numbers assigned on or after December 16, 2019 through December 31, 2028.

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

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**Public Feedback** HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide any feedback on this policy document, please send comments to the FHA Resource Center at [answers@hud.gov](mailto:answers@hud.gov). HUD will consider the feedback in determining the need for future updates.

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*Continued on next page*

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### **Affected Programs**

This policy only applies to Limited 203(k) mortgages secured by properties located in QOZs.

This guidance will affect the following sections in SF Handbook 4000.1:

Section II.A.8.a.i(A)(2) Limited 203(k);  
Section II.A.8.a.vii(A) Limited 203(k) Eligible Improvements; and  
Section II.A.8.a.xi Maximum Mortgage Amounts for Energy Efficient Mortgages, Weatherization Items, and Solar Energy Systems.

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### **Background**

The 2017 Tax Cuts and Jobs Act (Public Law 115–97) created tax incentives for investments made in QOZs to spur economic development and job creation by encouraging long-term investment in low-income communities nationwide. Executive Order 13853 created the White House Opportunity and Revitalization Council, which was directed to evaluate whether and how agencies can prioritize support for urban and economically distressed areas, including QOZs, in their grants, financing, and other assistance. QOZs are designated census tracts that provide incentives for long-term private sector investment in economically distressed communities. Governors or other chief administrative officials nominated census tracts of communities most in need of private investment to the U.S. Department of the Treasury (Treasury Department), which then certified QOZs.

As of September 30, 2019, FHA insures over 623,000 Single-Family loans on eligible properties within the QOZs, accounting for approximately eight percent of the total number of active FHA-insured Single-Family loans nationwide. Consistent with Executive Order 13853, FHA has chosen to maximize the beneficial impact of investments in QOZs through specific changes to the 203(k) Rehabilitation Mortgage Insurance program. This program enables homebuyers and homeowners to finance both the purchase (or refinancing) of a house and the cost of its rehabilitation through a single mortgage or to finance the rehabilitation of their existing home. Prior to the Effective Date of this ML, Limited 203(k) mortgages could only be used for minor remodeling and non-structural repairs, with total rehabilitation costs insured by FHA capped at \$35,000.

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## Summary of Changes

The Limited 203(k) section of SF Handbook 4000.1 is amended to increase the current maximum total rehabilitation costs from \$35,000 to \$50,000 for the first 15,000 mortgages endorsed each calendar year in QOZs only. A list of QOZs is available through the Treasury Department's Community Development Financial Institutions Fund webpage at: <https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx>

By enhancing borrowers' financing options, this policy change seeks to increase investment in home rehabilitation in QOZs, where the need to rehabilitate homes is great.

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## HUD Single Family Housing Policy Handbook 4000.1

### Limited 203(k), II.A.8.a.i(A)

#### 2) Limited 203(k)

The Limited 203(k) may only be used for minor remodeling and non-structural repairs. 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 \$35,000. For the first 15,000 mortgages secured by properties in Qualified Opportunity Zones (QOZ) during each calendar year, the total rehabilitation costs must not exceed \$50,000. FHA will provide advance notice via mortgagee letter suspending such increase prior to the 15,000 mortgage limit being reached. There is no minimum rehabilitation cost.

### 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 non-structural repairs. The total rehabilitation costs may not exceed \$35,000. For the first 15,000 mortgages secured by properties in Qualified Opportunity Zones (QOZ) during each calendar year, the total rehabilitation costs must not exceed \$50,000. FHA will provide advance notice via mortgagee letter suspending such increase prior to the 15,000 mortgage limit being reached. There is no minimum repair cost.

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**HUD Single  
Family  
Housing  
Policy  
Handbook  
4000.1**

**Maximum Mortgage Amounts for Energy Efficient Mortgages,  
Weatherization Items, and Solar Energy Systems, II.A.8.a.xi**

The Mortgagee must calculate the maximum mortgage amount without factoring in the cost of Energy Efficient Mortgage (EEM) items, weatherization items, and solar energy systems. 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 \$35,000 limit on total rehabilitation costs, or in addition to the \$50,000 limit on total rehabilitation costs for the first 15,000 mortgages secured by properties in Qualified Opportunity Zones (QOZ) during each calendar year. FHA will provide advance notice via mortgagee letter suspending such increase prior to the 15,000 mortgage limit being reached.

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**Questions** For additional information on this ML, please visit [www.hud.gov/answers](http://www.hud.gov/answers) or call FHA's Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Relay Service at 1-800-877-8339.

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**Signature** Brian D. Montgomery  
Assistant Secretary for Housing  
-Federal Housing Commissioner