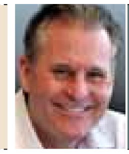

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# Rebounding and Rebuilding After Disaster Strikes

## The FHA's 203(h) program can help clients recover from property losses

This past October, Hurricane Sandy hit the eastern seaboard and affected more than a dozen states from Florida to Maine. New Jersey and New York were hit the hardest, causing flooding in the streets, tunnels and subways, as well as causing power outages that lasted days, and in some cases, weeks. Damage in New York and New Jersey alone has been estimated at more than $71 billion.

Many people have the perception that these types of disasters are becoming more common. People stay tuned to their televisions and the Internet to get minute-by-minute updates of whatever storm or event may be occurring. Fear and concern often overwhelm the country as the loss of homes, property and even lives dominate the news. In reality, however, these types of disasters have been happening at about the same rate for years. In 2012, the Federal Emergency Management Agency (FEMA) declared 112 disasters, including 47 major disaster declarations. Through this past April, FEMA already has declared 16 disasters, including 13 major disasters and three emergency declarations.

Although awareness of natural disasters has gone up steadily over the years, the awareness and understanding about a specific loan program designed to help victims of these disasters remains low. With that in mind, mortgage brokers and originators would do well to familiarize themselves with the Federal Housing Administration (FHA) 203(h) loan product, a mortgage program designed for disaster victims living within directly impacted areas of a presidential-designated disaster.


Illustration: Dennis Wunsch

This loan works in conjunction with the FHA 203(b) program and provides displaced homeowners and renters with the ability to rebuild — but not rehabilitate — their homes. In lieu of rebuilding on the site of the previous property, eligible borrowers also can use the 203(h) to purchase a new home within the affected area or any other part of the United States.

### Know the basics

Mortgage professionals interested in learning more about this program should begin with the basics. For starters, they should know that the 203(h) allows for 100 percent financing of a loan's downpayment, although allowable closing costs and prepaid expenses will need to be paid by the borrower in cash. A seller contribution of up to 6 percent of the sales price can be used to offset closing costs and prepaid costs. Additional key details of the 203(h) include:

- **Loan limits:** The U.S. Department of Housing and Urban Development sets FHA loan limits depending on the area where the property is located.
- **Availability:** The program is immediately available after a presidential declaration of disaster.
- **Eligibility:** The program is available to homeowners — and renters — who have been displaced from their properties within a designated presidential disaster area. Borrowers must have been permanent residents of a destroyed or damaged residence in the disaster area. Mortgage professionals and consumers alike can view a list of these areas online at fema.gov/disaster.

Lending institutions that work directly with the FHA — including banks, mortgage companies and savings-and-loan associations — are eligible to administer 203(h) loans. What some mortgage professionals

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don't realize, however, is that borrowers can use the 203(h) program to purchase a new home in an area outside of the area in which they're currently residing.

For instance, let's say that you have a former client who lives in an area of the country that experiences many earthquakes. And, sure enough, let's imagine that an earthquake damages that client's home to the extent that it's declared uninhabitable and must be rebuilt. If that client wants to leave the state for an area of the country where earthquakes aren't a problem, the 203(h) program can be used for exactly that, financing a new home in a different state.

## Keep informed

Many people simply don't know about the 203(h) program, and thus it doesn't get used as often as it could. Considering that, it's largely up to mortgage professionals to keep their clients informed about their full range of options.

When assisting their clients with the 203(h) program, mortgage brokers and originators should keep the following details in mind:

- **Time frame:** The borrower's application for a 203(h) loan must be submitted to the lender within one year of the president's declaration of the disaster.
- **Restrictions:** Applications can be made only through FHA-approved lending institutions. A borrower can be an owner or renter, but must be able to provide documentation of residency (i.e., a driver's license, voter registration card or utility bills).
- **Credit history:** Borrowers should know that their credit does factor into their ability to secure a 203(h) loan. If a borrower has a poor credit history prior to the disaster, that data still will be taken into account when applying to the 203(h) program.
- **Property types:** One-unit detached primary residences, detached planned-unit developments and FHA-approved condos are all eligible for 203(h) loans. Two-, three- and four-unit properties cannot utilize this program.
- **Proof:** Some lenders may require proof that a home has been destroyed or damaged in a disaster. Forms of proof may include insurance reports, inspection reports and conclusive photographs.
- **Insurance:** Finally, borrowers should know that 203(h) loans require mortgage insurance just like most other mortgages. The upfront mortgage-insurance premium may be financed, but monthly premiums may be added to the monthly mortgage payment.

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Disasters are big news and garner a lot of headlines. Naturally, when a disaster occurs, one question that's often on many people's minds is the question of how the victims will get back on their feet and recover. Fortunately, 203(h) loans can provide a way for homeowners to replace one of the most important pieces of their lives: their homes. Mortgage brokers and originators who know the ins and outs of this FHA loan program can help their clients move on and move ahead. ●