



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: June 23, 2026

Mortgagee Letter 2026-06

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

Subject Increase in the Maximum Number of Draw Requests for Limited 203(k) Rehabilitation Mortgage Insurance Program

Purpose This Mortgagee Letter (ML) increases the maximum number of allowable draws under the Limited 203(k) program and clarifies draw disbursement procedures to strengthen risk controls and reduce administrative burden.

Effective Date The provisions of this ML are effective immediately.

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

Affected Programs The provisions of this ML apply to Section 203(k) Rehabilitation Mortgage Insurance Program transactions.

Background On July 9, 2024, FHA increased the maximum rehabilitation amount under the Limited 203(k) program from \$35,000 to \$75,000 and extended the rehabilitation period from six months to nine months through [ML 2024-13](#), *Revisions to the 203(k) Rehabilitation Mortgage Insurance Program including updates to the 203(k) Consultant Requirements and Fees*. With no

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changes to the draw structure or maximum number of allowable draws accompanying these changes, FHA's Mutual Mortgage Insurance Fund (MMIF) was put at risk through larger disbursements of funds for work yet to be completed.

Further, the existing draw framework under the Limited 203(k) program has become increasingly challenging for Mortgagees as the two-draw limit does not align with the higher total rehabilitation costs now permitted. Specifically, Mortgagee feedback notes that this limitation disrupts contractor cash flow, which increases the risk of delays and in some instances project abandonment. For this reason, both FHA and industry stakeholders believe it is in the program's best interest to increase the number of allowable draws for the Limited 203(k) program.

FHA is updating its Limited 203(k) program draw request policy to allow a maximum of four draws per contractor and to clarify the treatment of initial, intermediate, and final draws. A scheduled intermediate draw may have two separate disbursements if needed without increasing the total number of draws permitted. While FHA has not increased the number of allowable draws under the Standard 203(k) program, FHA is clarifying that multiple disbursements per draw are allowed.

FHA believes these operational changes will streamline rehabilitation escrow administration, strengthen risk controls, bring FHA requirements in line with industry standards, give Mortgagees clearer guidelines for draw requests, and ensure rehabilitation loan funds are managed more appropriately.

Summary of Changes

This ML:

- updates Limited 203(k) Ineligible Improvements/Repairs (II.A.8.a.vii(B)) for rehabilitation activities that require more than two payments per contractor;
- clarifies that multiple disbursements per draw are allowed under Standard 203(k) Release of Funds (II.A.8.a.xviii(C)(1)(d)(i));
- clarifies that a draw may include two separate disbursements under Limited 203(k) Release of Funds (II.A.8.a.xviii(C)(1)(d)(ii)); and
- increases the maximum number of draw requests under Limited 203(k) Release of Funds (II.A.8.a.xviii(C)(1)(d)(ii)).

The Handbook 4000.1 sections impacted by this ML are provided in [Attachment 1](#), with changes tracked in redline to help users clearly identify the policy requirements being revised or removed from the Handbook.

**FHA Single
Family Housing
Policy
Handbook
4000.1**

The policy changes will be incorporated into Handbook 4000.1 as follows:

Limited 203(k) Transactions (II.A.8.a.vii)

(B) Limited 203(k) Ineligible Improvements/Repairs

**Origination
Through Post-
Closing/
Endorsement**

The Limited 203(k) mortgage proceeds **may not** be used to finance major rehabilitation or major remodeling. FHA considers a repair to be “major” when any of the following are applicable:

- the repair or improvements are expected to require more than nine months to complete;
- the rehabilitation activities require more than **four draws** per contractor;
- the required repairs arising from the appraisal:
 - necessitate a Consultant to develop a specification of repairs/Work Write-Up; or
 - require plans or architectural exhibits; or
- the repair prevents the Borrower from occupying the Property for more than a total of 30 Days during the rehabilitation period.

Release of Funds (II.A.8.a.xviii(C)(1))

(d) Timeliness of Release

The Mortgagee must release funds within five business days after receipt of a properly executed draw request and title update when necessary.

(i) Standard 203(k) Release of Funds

Maximum **Number of Draw Requests**

The Mortgagee may approve a maximum of five draw requests (four intermediate and one final). **Each draw may include multiple disbursements. A draw with multiple disbursements counts as one draw.**

Contingency Reserve

To allow use of contingency funds for improvements other than health and safety when rehabilitation is incomplete, the Mortgagee must determine that it is unlikely that any health or safety deficiency will be discovered, and that the Mortgage will not exceed 95 percent of the After Improved Value.

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When the rehabilitation is complete, the Borrower may use the Contingency Reserve account to fund additional improvements not included in the original Work Write-Up.

The Mortgagee must obtain a change order detailing the additional improvements, including the costs of labor and materials.

The Mortgagee must inform the Borrower in writing of the approval or rejection of the request to use funds from the Contingency Reserve account for additional improvements within five business days.

Method of Payment

The Mortgagee will release escrow funds upon completion of the rehabilitation in compliance with the Work Write-Up.

The Mortgagee must issue checks to both the Borrower and contractors as co-payees, unless the Borrower provides written authorization, at each draw, to issue the check directly to the contractor.

The Mortgagee may issue the check directly to the Borrower alone if the release is for:

- materials for work performed under a self-help agreement; or
- materials for items prepaid by the Borrower under contract with the supplier.

(ii) Limited 203(k) Release of Funds

Maximum Number of Draw Requests

The Mortgagee may approve a maximum of **four** draw requests per contractor or for the Borrower (if acting as the contractor). **These consist of the initial draw at closing, no more than two intermediate draws during the rehabilitation process, and release of the final draw.**

Each draw may include up to two separate disbursements. A draw with two disbursements counts as one draw.

Total Repair Costs Less Than or Equal to \$15,000

The Mortgagee must ensure that the repairs and/or improvements have been completed by obtaining contractor's receipts or a signed [Borrower's Letter of Completion](#). The Mortgagee is not required to perform or have others perform inspections of the completed work.

The Mortgagee may choose to obtain or perform inspections if they believe such actions are necessary for program compliance or risk mitigation. If the Mortgagee determines that an inspection by a third

party is necessary to ensure proper completion of the proposed repair or improvement item, the Mortgagee may charge the Borrower for the costs of no more than two inspections per contractor.

Total Repair Costs Exceeding \$15,000

The Mortgagee must ensure that the repairs and/or improvements have been completed by performing an inspection or by obtaining an inspection by a third party to determine that the repairs have been satisfactorily completed. The Mortgagee must obtain a signed [Borrower's Letter of Completion](#).

Contingency Reserve

The Mortgagee must ensure funds escrowed in the Contingency Reserve are used solely to pay for the proposed repairs or improvements and any unforeseen items related to these repair items.

Method of Payment

The Mortgagee will release rehabilitation escrow funds upon completion of the rehabilitation in compliance with the work plan.

The Mortgagee may issue checks solely to the contractor, or issue checks to the Borrower and the contractor as co-payees.

The Mortgagee may issue the check directly to the Borrower alone if the release is for:

- materials for work performed under a self-help agreement; or
- materials for items prepaid by the Borrower under contract with the supplier.

**Paperwork
Reduction Act**

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0328; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-0610; and 2502-0611. In accordance with the PRA, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

Feedback or Questions

HUD welcomes feedback from interested parties and will consider feedback in determining the need for future updates. Any feedback or questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342), answers@hud.gov, or www.hud.gov/answers. The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

Signature

Joseph M. Gormley, performing the delegable duties of the
Assistant Secretary for Housing - FHA Commissioner

Attachment 1
Handbook 4000.1 Pages Impacted by this Mortgage Letter

The Handbook 4000.1 sections impacted by this Mortgage Letter (ML) are provided in this Attachment 1, with changes tracked in redline to help users clearly identify the policy requirements being revised or removed from the Handbook.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

A. Title II Insured Housing Programs Forward Mortgages

8. Programs and Products – 203(k) Rehabilitation Mortgage Insurance Program (04/10/2025)

- creating accessibility for persons with disabilities;
- installing or repairing fences, walkways, and driveways;
- installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven, and washer/dryer;
- repairing or removing an in-ground swimming pool;
- installing smoke detectors;
- installing, replacing or repairing exterior decks, patios, and porches; and
- covering lead-based paint stabilization costs (above and beyond what is paid for by HUD when it sells REO properties) if the Structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule and EPA’s [Renovation, Repair and Repainting Rule](#).

(2) Improvements Standards

(a) General Improvement Standards

All improvements to existing Structures must comply with HUD’s MPR and meet or exceed local building codes.

(b) Specific Improvement Standards

Patios and decks must increase the As-Is Property Value equal to the dollar amount spent on the improvements.

(B) Limited 203(k) Ineligible Improvements/Repairs

The Limited 203(k) mortgage proceeds **may not** be used to finance major rehabilitation or major remodeling. FHA considers a repair to be “major” when any of the following are applicable:

- the repair or improvements are expected to require more than nine months to complete;
- the rehabilitation activities require more than ~~two~~ **four draws** ~~payments~~ per **specialized** contractor;
- the required repairs arising from the appraisal:
 - necessitate a Consultant to develop a specification of repairs/Work Write-Up; or
 - require plans or architectural exhibits; or
- the repair prevents the Borrower from occupying the Property for more than a total of 30 Days during the rehabilitation period.

Additionally, the Limited 203(k) mortgage proceeds **may not** be used to finance the following specific repairs:

- converting a one-family Structure to a two-, three- or four-family Structure;
- decreasing an existing multi-unit Structure to a one- to four-family Structure;

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(c) Holdbacks

The Mortgagee must hold back 10 percent of each draw request prior to release of funds from the rehabilitation escrow account.

Exception

When a subcontractor is 100 percent complete with a Work Item, the work completed is acceptable to the inspector, and the contractor and subcontractor provide the necessary Lien Waivers, or equivalent, the Mortgagee is not required to hold back funds; the Mortgagee has discretion to hold back funds if not required.

(d) Timeliness of Release

The Mortgagee must release funds within five business days after receipt of a properly executed draw request and title update when necessary.

(i) Standard 203(k) Release of Funds

Maximum Number of Draw Requests

The Mortgagee may approve a maximum of five draw requests (four intermediate and one final). Each draw may include multiple disbursements. A draw with multiple disbursements counts as one draw.

Contingency Reserve

To allow use of contingency funds for improvements other than health and safety when rehabilitation is incomplete, the Mortgagee must determine that it is unlikely that any health or safety deficiency will be discovered, and that the Mortgage will not exceed 95 percent of the After Improved Value.

When the rehabilitation is complete, the Borrower may use the Contingency Reserve account to fund additional improvements not included in the original Work Write-Up.

The Mortgagee must obtain a change order detailing the additional improvements, including the costs of labor and materials.

The Mortgagee must inform the Borrower in writing of the approval or rejection of the request to use funds from the Contingency Reserve account for additional improvements within five business days.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

A. Title II Insured Housing Programs Forward Mortgages

8. Programs and Products – 203(k) Rehabilitation Mortgage Insurance Program (04/10/2025)

Method of Payment

The Mortgagee will release escrow funds upon completion of the rehabilitation in compliance with the Work Write-Up.

The Mortgagee must issue checks to both the Borrower and contractors as co-payees, unless the Borrower provides written authorization, at each draw, to issue the check directly to the contractor.

The Mortgagee may issue the check directly to the Borrower alone if the release is for:

- materials for work performed under a self-help agreement; or
- materials for items prepaid by the Borrower under contract with the supplier.

(ii) Limited 203(k) Release of Funds

Maximum Number of Draw Requests

The Mortgagee may approve a maximum of ~~two~~ **four** draw requests per contractor or for the Borrower (if acting as the contractor). **These consist of the initial draw at closing, no more than two intermediate draws during the rehabilitation process, and release of the final draw.**

Each draw may include up to two separate disbursements. A draw with two disbursements counts as one draw.

~~When necessary there are specialized contractors, the Mortgagee may arrange a payment schedule, not to exceed two releases, per specialized contractor (an initial release plus a final release.~~

Total Repair Costs Less Than or Equal to \$15,000

The Mortgagee must ensure that the repairs and/or improvements have been completed by obtaining contractor's receipts or a signed [Borrower's Letter of Completion](#). The Mortgagee is not required to perform or have others perform inspections of the completed work.

The Mortgagee may choose to obtain or perform inspections if they believe such actions are necessary for program compliance or risk mitigation. If the Mortgagee determines that an inspection by a third party is necessary to ensure proper completion of the proposed repair or improvement item, the Mortgagee may charge the Borrower for the costs of no more than two inspections per contractor.