

One Loan Does It All!

FHA's 203K Loan

for Purchase

Remodel, Rehab, or Repair




RehabLoanExperts.com

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You Can Start With This Home -



But With the FHA 203K Loan, End Up With This One.

The Good News for Buyers:

HUD's 203K loan program lets borrowers buy or refinance a property **plus include the cost of making repairs and upgrades up to 110% of the future value** of the home - with a minimum 3.5% down payment.

Whether you need to repair or replace roofs, flooring, plumbing or electrical systems, or just need new appliances, this loan will let you do it all. 203K loans are only for owner-occupied properties.



Even Better News:

Pick the Best 203K Loan for Your Needs

Choosing which loan suits you best will depend on the amount of improvements your property needs.

The **203K Streamline Loan** is best for *homes that need minor repairs*. It has no minimum for repair costs, with a maximum amount of \$30,000.

The **Standard 203K Loan** is best for *homes that need major rehabilitation*. The minimum loan amount for repairs is \$5,000, and the maximum is based on property type and location.

Remodel or Repair - it's up to you!

Information Source: U.S. Department of Housing and Urban Development - 203K Rehabilitation Mortgage

How Your 203K Loan Works:

1) Get Pre-approved for Your Loan

One of the most important steps is to work with a reputable realtor and a loan officer who can help you get pre-approved for your loan, so you know how much you can afford - for the kind of property you really want.

2) Find Your Property and Make the Offer

Your realtor will find the comps (comparable properties) in the areas you are looking to live to help you make the best offer. The contract will state that the buyer is seeking a 203K Loan and that the contract is contingent on loan approval. Once your offer is accepted, you fill out the loan application and start to interview potential contractors to perform the work your property needs.

3) Find an FHA-approved Lender and Contractor

Finding an FHA-approved 203K lender and contractor is key. At this point, you will need your contractor to develop a detailed proposal showing the scope of work to be done, including a detailed cost estimate for all the repairs or improvements necessary.

4) Independent Appraisal of the Property

The appraisal is performed by an independent real estate appraiser to determine the value of the property after renovation.

5) 203K Loan Approved and Closed

The requested loan amount (including estimates for repairs and improvements) is approved; also including contingency an additional 10% to 20% of the total remodeling costs. The contingency fund is used to cover any unexpected work that may be necessary, but was not in the original proposal. Closing is the same as any other type of mortgage: the seller is paid and the escrow account holds the remaining funds - in this case, for the repairs and improvements during the rehabilitation period.

6) Property Repairs/Upgrades Begin

The mortgage payments and remodeling begin after the loan closes. The borrower can have **up to six mortgage payments (PITI) rolled into the loan amount**, if the property is not going to be occupied during the rehab/construction. The number of months financed cannot exceed the length of time estimated to complete the work. This option frees your out-of-pocket expenses during construction when you are living elsewhere!

7) Disbursement of Funds for Construction

Depending on the loan type (Streamline or Standard), escrowed funds are released for construction payments through a series of draw requests after work is completed. 10% of each draw is held back, and repaid after the lender determines there will be no liens on the property. This practice ensures completion of the work.



The Two Types of 203K Loans

1. Features of the 203K Streamline

The 203K Streamline is a **limited repair loan to make improvements or upgrades up to \$30,000**. There is no minimum for financed repair costs and the buyer must occupy the property. Investors are not eligible. Because of the lower repair amount, it is often used to finance renovations like kitchen, bathrooms, garages, or almost any other kind of repair. Homeowners can use the 203K program to finance work including painting, room additions, decks and other types of home improvements, even if the home does not need any other rehabilitation. Major appliances can also be financed. All health, safety and energy conservation items must be addressed prior to completing general home improvements.

Eligible Properties

Most owner-occupied properties are eligible for the 203K loans:

- The property must be a one-to-four family dwelling that has been completed for at least one year.
- The number of units on the site must conform to local zoning requirements.
- All newly constructed additions must be attached to the existing structure, and cooperative units are not eligible.
- Homes that have been demolished, or will be as part of the rehabilitation, are eligible if a portion of the existing foundation remains.

In addition to typical home improvement projects, this program can be used to convert a one-family dwelling to a two-, three-, or four-family dwelling. An existing multi-unit building could be decreased to a one-family unit (and up to a four-family unit). An existing structure (or modular unit) on another site can be moved to the mortgaged property. However, restrictions apply before the funds can be released: it must pass inspection for proper placement on the new foundation.

A *mixed use residential property* can have a 203K mortgage when:

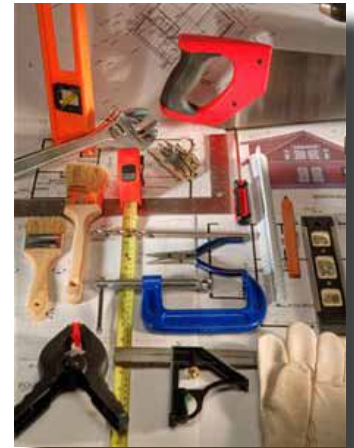
1. The property's floor area used for commercial (store-front) purposes cannot be greater than 25% (for a one-story building); 33% (for a three-story building); and 49% (for a two-story building).
2. The intended commercial use will not affect the health and safety of the occupants of the residential property.
3. The rehabilitation funds for construction must only be used for the residential functions of the dwelling and areas used to access the residential part of the property.



203K Streamline Eligible Improvements

203K Streamline Loan is intended to facilitate uncomplicated rehab construction and/or improvements to a home. This means that plans, consultants, engineers and/or architects are not required. These improvements include:

- Minor remodeling, such as kitchens & baths, which do not involve structural repairs
- Painting, both exterior and interior
- Weatherization, including storm windows and doors, insulation, weather stripping, etc.
- Purchase and installation of appliances, including free-standing ranges, refrigerators, washers/dryers, dishwashers and microwave ovens
- Accessibility improvements for persons with disabilities
- Lead-based paint stabilization or abatement of lead-based paint hazards
- Repair/replace/add exterior decks, patios, porches
- Basement finishing and remodeling, which does not involve structural repairs
- Basement waterproofing
- Window and door replacements and exterior wall re-siding
- Septic system and/or well repair or replacement
- Repair/Replacement of roofs, gutters and downspouts
- Repair/Replacement/upgrade of existing HVAC systems
- Repair/Replacement/upgrade of plumbing and electrical systems
- Repair/Replacement of flooring



Before and After



203K Streamline continued:

Ineligible 203K Streamline improvements include:

1. Major rehabilitation remodeling, such as the relocation of a load-bearing wall.
2. New construction (including room additions).
3. Repair of structural damage.
4. Luxury items, such as hot tubs, pools, saunas, gazebos, or any improvements related to commercial use.
5. Landscaping or similar site amenity improvements, including fencing.
6. Any repair or improvement requiring a work schedule longer than six (6) months.

OR Rehabilitation activities that require more than two (2) payments per specialized contractor. That would necessitate a “consultant” to develop a “Specification of Repairs/Work Write-Up” and move you into the 203K Standard Loan option.

6. Repairs requiring detailed drawings plans or architectural exhibits, or require a plan reviewer.

8. Result in work not starting within 30 days after loan closing; or cause the mortgagor to be displaced from the property for more than 30 days during the time the rehabilitation work is being conducted. FHA anticipates that, in a typical case, the borrower would be able to occupy the property after mortgage loan closing.



Licensed Contractors Are Required for All 203K Loans

It is very important that the rehab/repairs be done in a time frame that ensures the work is completed by the agreed-upon date in the Rehabilitation Loan Agreement (signed at closing). Most lenders require that the contractors doing the work are licensed and insured. The lender must approve the proposed contractors, as well.

2. Features of the 203K Standard Loan

The Standard 203K Loan has the **same features and benefits as the Streamline Loan, but it also includes different restrictions.** There are several differences - the biggest is that it can also cover the purchase or refinancing **plus** the rehabilitation of a home that is at least one year old. The cost of the rehab work must be at least \$5,000, and loan limits are based on the property type and value after repair. The buyer must occupy the property. Investors are not eligible. A portion of the loan proceeds is used to pay the seller, or if a refinance, to pay off the existing mortgage. The remaining funds are placed in an escrow account and released (through disbursements) as rehabilitation is completed.

FHA/HUD-Approved 203K Consultants

All Standard 203K loans must use a FHA/HUD-Approved Cost Consultant. The approved Cost Consultant helps to determine the scope of the renovation and the budget. Once the project scope has been set, the Cost Consultant gives the borrower a “work-write up” and a package with three contractor bids. The Cost Consultant will also carry out the funds disbursement and final inspections needed to pay the contractors. The Cost Consultant knows the FHA regulations, to help you to manage the construction process, and verifies all work is completed satisfactorily and as stated. Your lender will provide you with a list of FHA/ HUD-Approved Inspectors.



Eligible Improvements

Eligible improvements can range from relatively minor (as long as it over \$5,000) to virtual reconstruction. For example, a home that has been demolished or will be razed as part of rehabilitation is eligible, provided that the existing foundation system remains in place. The borrower *must* use licensed contractors to complete rehab, unless borrower(s) can provide documented proof that they are qualified and licensed to perform all work, and are then approved by the lender.



The types of improvements that borrowers may undertake using FHA 203K financing include:

- **Structural alterations and reconstruction.** Repair or replacement of structural damage, chimney repair, additions to the structure, installation of an additional bath(s), skylights, finished attics and/or basements, repair of termite damage and the treatment against termites or other insect infestation, etc.
- **Modernization and improvements to the home’s function.** Such as remodeled bathrooms and kitchens, including permanently installed appliances, i.e., built-in range and/or oven, range hood, microwave, dishwasher.



203K Standard continued:

- **Changes for aesthetic appeal and elimination of obsolescence.** Including, but not limited to, new siding, adding a dormer, covered porch, attached garage or carport, adding a second story to the home, covered porch, stair railings, painting.
- **Reconditioning or replacing plumbing.** Including connecting to public water and/or sewer system, heating, air conditioning and electrical systems. Installation of new plumbing fixtures (including interior whirlpool bathtubs) is eligible.
- **Elimination of health and safety hazards.** Including the resolution of defective paint surfaces or lead-based paint problems on homes built before 1978.
- **Making energy conservation improvements.** Such as new double pane windows, steel insulated exterior doors, solar domestic hot water systems, etc.). HUD requires that properties financed under this program meet certain basic energy efficiency and structural standards for the dwelling. These can include including insulation, caulking and weather stripping.
- **Adding or replacing roofing, gutters, and downspouts.**
- **Adding or replacing floors and/or floor treatments.**



- **Major landscape work and site improvement.** Such as any work required to preserve the property from erosion. The correction of grading and drainage problems is also eligible. Patios, decks and terraces that improve the value of the property must equal the amount spent on the improvements. Tree removal is eligible if the tree poses a safety hazard. Driveway and sidewalk repair is eligible when it compromises the safety of the property.
- **Enhancing accessibility for a disabled person.** Remodeling kitchens and baths for wheelchair access, lowering kitchen cabinets, installing wider doors and exterior ramps, etc. to meet ADA accessibility standards are eligible. Related fixtures such as new cooking ranges, refrigerators, and other appurtenances, as well as general painting are also eligible; however, they must be in addition to the minimum \$5,000 requirement.

- Note: Luxury items, such as hot tubs, pools, saunas, gazebos, or any improvements related to commercial use are *not* eligible.

3. 203K Loans Timeline, Disbursements and Contingency Fee



Timeline

When the loan closes, the funds will be disbursed to pay off the seller of the existing property and the Rehabilitation Escrow Account will be set up. Construction may begin. The homeowner has up to six (6) months to complete the work depending on the extent of work to be completed. Some lenders may require less than six months.

Disbursement of Loan Funds

The renovation funds are paid in draws to the contractors. A maximum of 5 draws are allowed, with a fee for each draw. Draw amounts may vary, and are made as each phase of the project is completed, based on the draw paperwork provided by the Cost Consultant. Inspections are required prior to each disbursement. The actual disbursement schedule, required inspections and paperwork are determined by the lender for each project and in accordance with FHA guidelines. Funds are released after the work is inspected by a HUD-approved inspector.

Holdback Funds

A 10% holdback for each disbursement is required before release from the Rehabilitation Escrow Account. This fee:

- 1) Ensures that all work is completed - and to cover health, safety and unplanned issues that arise during construction.
- 2) Is a requirement for the Standard 203K, and recommended for the Streamline.
- 3) Is required on properties older than 30 years and/or with over \$7,500 in rehabilitation costs.
- 4) Is a minimum of 10% of the cost of rehabilitation and maximum of 20%. After all construction is completed satisfactorily and passes inspections, the remaining funds can be applied to the loan principal **OR** used to make other improvements (additional approval is required).

The total of all holdbacks may be released only after a final inspection of the rehabilitation and issuance of the Final Release Notice. The lender may keep the holdback for a maximum of 35 calendar days, or the time period required by law to file a lien, whichever is longer, to ensure that no liens are placed on the property.

Completion of Work and Final Inspection

When all work is completed, the borrower provides a letter indicating that all work is satisfactorily complete and ready for final inspection. If the HUD-approved Inspector agrees, the final draw may be released, minus the required 10% holdback.