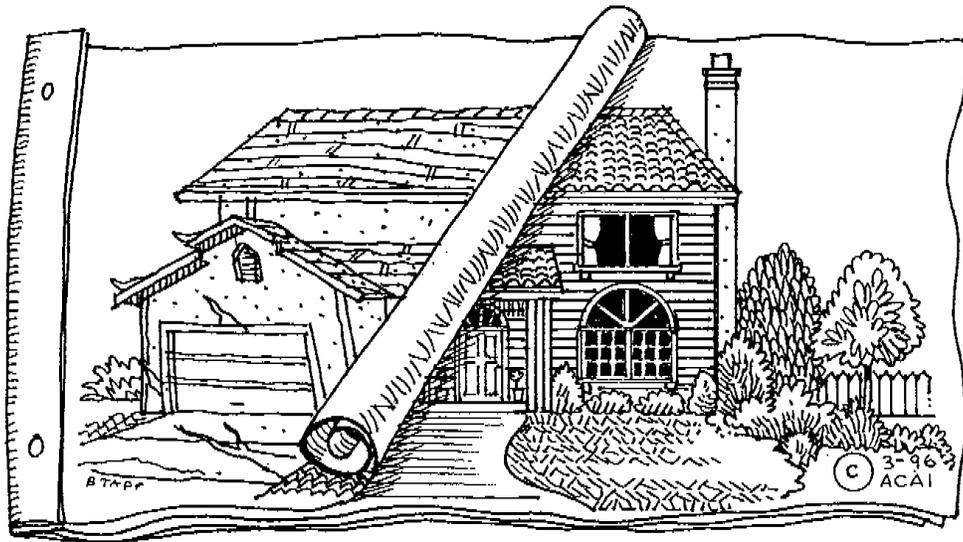


The Mike Young Team

203k Consultant

877.207.6565

www.203kOnLine.com



“The American Dream Machine”

203(k) Basics & Other Options



203k Basics
Renovation Loan Basics

WHAT IS A 203 (k) LOAN?

The 203(k) loan is a fully disbursed loan, which allows a borrower to purchase or refinance a property and finance the cost of rehabilitation with one loan. Because it is fully disbursed at closing, HUD can insure the 203(k) loan as soon as the loan closes. The mortgage amount for these loans is based on the projected value of the property with the work completed, taking into account the cost of the work. HUD has taken a strong position to encourage this program and the loan is now easier to originate and close than ever before.
Use a consultant.

203(k) Advantages

- Up-front MIP can be financed
- Non-profit organizations are eligible with only 5% down payment and can buy multiple properties once approved
- Finance up to 6 months mortgage payments [during construction]
- Special HUD down payment programs available - \$100 & \$500
- Most closing costs can be financed
- An FHA loan is assumable
- Gain 10% on the appraised value for qualifying
- Limited 203k has no minimum loan amount but the \$35,000 max includes costs and fees as well as 10-20% contingency in many cases, check with your lender. Real life max is about \$28,000 for construction.
- No construction cost limit other than the maximum loan amount in your county. We have done them up to \$544,000 construction amount.

THE FHA 203 (K) PROGRAM

Which Properties are Eligible?

1. Any one to four unit properties, which have been completed (with a certificate of occupancy) for at least one year, are acceptable according to the provisions of local zoning requirements.
2. Homes that have been demolished or razed as a part of the rehabilitation process can be rehabbed as long as the existing foundation system is not effected and remains in tact. (as long as there is a portion of the original foundation)
3. A home can be moved onto a foundation on the mortgaged property, provided the proceeds from the sale of the previous location are not released until the foundation is properly inspected and the home is satisfactorily attached to the new foundation.
4. Any property the buyer wishes to convert either from single family into a two to four family or from a two to four family dwelling into a single family unit. Let's take this one a little farther - You can take a 5-8 plex and turn it into a 1-4 unit. i.e. make an 8 plex into a fourplex and use this program.
5. A manufactured home that was built AFTER June 15,1976, and has been on a permanent foundation for over one year. The unit must have been delivered to the site when it was new, prior to being occupied.
6. A 203(k) can be used on a "mixed use residential property provided it meets the following requirements:
 - The floor space used for commercial purposes does not exceed 49%. This is a recent change in the guidelines (9/14/2015)
 - The commercial use must not affect the health and safety of the residential occupants.
 - The rehabilitation funds will only be used for the residential functions of the dwelling and areas used to access the residential part of the property.
7. Condominiums are eligible for homeowners only.
8. There is a seven (7) rental unit limitation within a two block area. Two fourplexes could be purchased and qualify as long as the buyer will be living in one of the units since that unit isn't counted as part of the seven.

Some Things You Can Do:

- Mixed Use properties - You can renovate a mixed use property provided the commercial space represents less than one floor of the structure. The commercial uses cannot affect the health and safety of the occupants. [FHA 203k only]
- Non residential to residential or mixed-use properties. [FHA 203k only]
- Convert larger properties into 3 or 4 unit property. [FHA 203k only]
- Home buyers and non-profits that refinance a property using the 203(k) within six (6) months of the purchase, it is treated the same as if the buyer purchased the property with a 203(k) insured loan to begin with.
- The borrower will be eligible as a first time home buyer without the three year waiting period if they are legally separated or divorced, even if they had an interest in a home with their spouse, provided the individual no longer has an interest in the home.
- Non-profits can purchase a property, rehabilitate it and sell it or keep it. If the non-profit intends to keep the property as a rental then they should keep the acquisition and rehab costs at the lowest possible number to increase the cash flow.



Eligible Improvements

There is a minimum requirement of \$5,000 in eligible (necessary) improvements on the subject property on a Standard 203k. Improvements to a detached garage, a new detached garage, or the addition of an attached unit (if allowed by local zoning ordinances) can also be included in this first \$5,000.

The mortgage must include one or more of the items listed below:

Structural repairs and alterations

Items such as additions to the structure; repairing any and all structural damage.

Improvement in the functionality or modernization

Such items as remodeled kitchens and bathrooms.

Changes for aesthetic appeal, and the elimination of obsolescence

New exterior siding doors.

Repair or replacement of plumbing, heating, air conditioning or electrical system. Installation of new plumbing fixtures are acceptable, including interior whirlpool type bathtubs.

Installation of Well and/or Septic System

Must be installed or repaired prior to beginning any other repairs to the property. Properties less than one acre in size can be limited on this item. This is automatically considered a full or Standard 203k

Replacement of flooring, carpeting or tiling

Energy conservation improvement

New dual pane windows and doors, storm windows, insulation, and solar domestic water heating systems.

Major landscape work and site improvement

Patios and terraces that improve the value of the property equal to their cost, or that are needed to preserve the property from erosion.

Improvements for easier accessibility to the handicapped

Handicapped retrofitting can be included in the cost of rehab. This is particularly good to get this information into the hands of vocational rehab companies and companies that deal with disabilities. They may have a list of clients for you.

The following items can be included in addition to the minimum \$5,000 requirements:

New cooking ranges, refrigerators and other stand alone appliances.

Painting and other cosmetic repairs.

Fencing, new walks and driveways, and general landscape work (trees, shrubs or seeding).

Repair of an existing swimming pool, no \$ limit.

NOTE: Items that will not become a permanent part of the property are not eligible. Luxury items are not eligible. These items include, but are not limited to new swimming pools, exterior hot tubs, saunas, spas, tennis courts, and barbecue pits.

203(k) “Look Alikes” for INVESTORS

Investors can purchase SFRs with 25% down on the purchase price and rehabilitation amount.

Fannie Mae product is only for 1-4 units

Freddie Mac product is for 2 - 4 units

Portfolio Products by some of our lender partners – SFR only (Single Family Residence) but they go up to \$3,000,000 in total loan amount. One is under 3% interest at this writing and includes construction.

These loans are available all over the USA.



New Construction – not a problem

We also consult on new construction and can help you in all the same ways we have been for renovation construction.