

FHA 203(k) Loans

What's An FHA 203(K) Home Rehab Loan?

An FHA 203(k) loan is a rehabilitation loan that can help you buy or refinance a home that's in need of repair or modernization. In addition to the cost of the home, the loan also covers the cost of qualified repairs. FHA 203(k) home loans are offered by Federal Housing Administration (FHA) approved lenders. Loans are insured by the U.S. Department of Housing and Urban Development (HUD).

What Are The Benefits of FHA 203 (k) Loans?

Buying a house that needs rehabilitation can often be a complicated and costly process. Repairs can drain your savings or investments. Interim acquisition and improvement loans often have relatively high interest rates, short repayment terms and a balloon payment. An FHA 203(k) loan can save you time and money because it combines the purchase cost and the repair cost into a single fixed rate or adjustable-rate mortgage.

An FHA 203(k) home loan may allow you to consider a home that needs rehab if you're looking to purchase. With this type of loan, you may benefit from lower interest rates and costs associated with repairs and modernization as compared to financing repairs through other methods like home equity lines of credit, credit cards or personal loans. The interest you pay on your mortgage may be tax deductible, and repairs aren't stretched out over months or years. You can customize the home to meet your needs. Improvements may also increase home value and resale marketability. However, more parties and steps are involved with FHA 203(k) loans, including appraisers, consultants, contractors, and inspectors. Additional costs may apply.



What are Different Types of FHA 203(k) Loans?

Limited FHA 203(K) loans

The Limited 203(k) home loan lets you tap into funds quickly and easily to make less extensive repairs and improvements. No minimum repair costs are required, and the maximum repair amount is \$35,000. A variety of repairs and replacements can be financed with this program, including: a roof, gutters, downspouts, existing HVAC systems, plumbing and electrical systems, flooring, minor remodeling (not involving structural repairs), interior and exterior painting, and weatherization (insulation, storm doors, windows, and weather stripping). Major or lengthy repairs and remodeling, like new construction or landscaping, are ineligible.

Standard FHA 203(K) loans

The Standard 203(k) requires a minimum of \$5,000 in repairs but has no maximum. Unlike the Limited 203(k) loan, the Standard 203(k) requires a HUD consultant who inspects the property, consults on the repairs and the associated costs, manages the project and provides a work write-up. Standard 203(k) repairs include all those eligible with the Limited 203(k), as well as certain structural alterations and reconstruction, rehabilitation of garages, modernization of bathrooms and kitchens (including new appliances), removal of health and safety hazards, aesthetic appeal changes, installation of wells or septic systems, and handicapped accessibility improvements.

Are You Eligible or Ineligible for an FHA 203 (k) Loan?

Eligible Borrowers:

- U.S. Citizens
- Permanent resident aliens
- Qualified non-profit organizations
- Qualified non-permanent resident aliens
- State and local government agencies

Ineligible Borrowers:

- Foreign Nationals
- Corporations or limited liability companies (LLCs)

Eligible vs. Ineligible Properties

The property must have been completed for at least one year.

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Eligible Borrowers:

- 1 to 4-unit attached and detached single family homes residences and planned unit developments
- FHA-approved condos
- Mixed-use developments (conditions apply)
- Modular homes

Ineligible Borrowers:

- Cooperatives
- New Construction
- Manufactured Homes
- Properties with non-conforming construction that cannot be remedied

What are Requirements for FHA 203 (k) Loans?

Homes must be occupied by the owner. No second homes or investment properties. Transaction must be a purchase loan or refinance. Identity of interest (buying from a relative or business partner) is not permitted. Loans are subject to certain appraisal and construction requirements

Eligible major structural home repairs include:

- Structural alterations
- Chimneys and skylights
- Additional bathroom installation
- Attic and basement finishing
- Termite damage repair
- Existing detached garage repair
- New attached garages
- Bathroom and kitchen modernization
- Health and safety hazard removal
- HVAC repair or replacement
- Electrical and plumbing systems
- Major landscaping improvements
- Grading and drainage improvements
- Swimming pool repairs (Greater than, or equal to, \$1,500)

Eligible major structural home repairs include:

- Roofs, gutters, and downspouts
- Existing HVAC systems
- Plumbing and electrical systems
- Flooring and carpeting
- Interior and exterior paint
- Appliances (purchase and installation)
- Accessibility improvements
- Exterior decks, patios, and porches
- Basement finishing (non-structural)
- Basement waterproofing
- Weatherization upgrades
- Window and door replacements
- Wall residing
- Septic and well systems