9 Things to Know About Using the FHA 203(k) Limited Loan for a Rehab Purchase

Your Path to Financial Growth,

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Transforming a Fixer-Upper into Your Dream Home

Thinking about buying a home that needs some work? The FHA 203(k) Limited Loan could be your ideal financing option! Whether you've found a property with great potential but outdated features or need to make minor upgrades before moving in, this loan allows you to combine the purchase price and renovation costs into a single mortgage.

With the renovation cap increasing to **$75,000** in 2024, homebuyers now have greater flexibility to modernize their space, enhance energy efficiency, and boost property value. If you're exploring homes that require improvements, here are nine key things to know about the FHA 203(k) Limited Loan.

1 Loan Purpose & Scope

Minor home improvements can significantly enhance comfort and property value. **The FHA 203(k) Limited Loan** is specifically designed for non-structural renovations, allowing homeowners to upgrade their homes without extensive construction.

Designed for minor, non-structural renovations.

Ideal for home improvements that enhance livability and home value without major reconstruction.

2 Eligible Property Types

Not all properties qualify for this loan. It applies only to specific residential properties that meet FHA guidelines. Homeowners must also reside in the property, as investment properties are not eligible.

Applies to 1- to 4-unit residential properties that are at least one year old.

Must be your primary residence—investment properties are not allowed.

3 Maximum Repair Costs

The FHA 203(k) Limited Loan covers a range of renovation expenses, helping homeowners finance upgrades more efficiently.

The loan limit has increased in 2024, making it even more beneficial for borrowers.

- As of 2024, the max renovation budget is $75,000 (previously $35,000).
- Covers materials, labor, and required contingency reserves.

4 Minimum Credit Score & Down Payment

Borrowers must meet certain financial requirements to qualify. A fair credit score and a reasonable down payment are necessary to secure the loan.

- Requires a minimum credit score of 580.
- Down payment: 3.5% (calculated on home price + renovation costs).

5 Determine the Best Scope of Work for Maximum Profit

The FHA 203(k) Limited Loan allows homeowners to finance a variety of essential and cosmetic home improvements. This loan is ideal for making functional upgrades that enhance your home's comfort, efficiency, and overall value.

Allowed Renovations:

- ✓ Kitchen & bathroom remodels
- ✓ Flooring replacement
- ✓ Interior & exterior painting
- ✓ Energy-efficient windows
- ✓ HVAC, plumbing, and electrical updates
- ✓ Appliance upgrades
- ✓ Accessibility improvements

Not Allowed Renovations:

✘ Structural repairs
✘ Foundation work
✘ Luxury upgrades (e.g., pools, outdoor kitchens)

While this loan provides flexibility for many home upgrades, it does not cover extensive structural work or high-end luxury enhancements.

Repairs involving major reconstruction, foundation modifications, or additions such as pools and outdoor kitchens are ineligible under this program.

6 Timeline for Renovations

- Work must begin within 30 days of closing and finish within 9 months.
- Factor in time for inspections and approvals—planning is key!

7 Appraisal & After-Improved Value (AIV)

The FHA 203(k) Limited Loan is based on the home's expected value after renovations. An appraiser evaluates the After-Improved Value (AIV) by assessing planned upgrades to determine the loan amount.

✓ Loan approval is based on the post-renovation value.

✓ An appraiser determines AIV based on planned improvements.

Max Loan Amount:

✓ **Purchase:** 110% of AIV or the lesser of AIV or acquisition cost.
✓ **Refinance:** 110% of AIV or the lesser of AIV or current mortgage + renovation costs.

8 Choosing Renovations for Maximum ROI

Maximize your home's value by prioritizing upgrades that align with buyer demand and offer the best return on investment.

Kitchen & Bath Upgrades – Modernizing cabinets & countertops boosts resale value.

Flooring Updates- Luxury Vinyl Plank (LVP) & refinished hardwood are in demand.

Curb Appeal – Fresh exterior paint & landscaping enhance first impressions.

Energy Efficiency – Windows, insulation, & LED lighting lower utility costs.

9 How to Choose the Best Renovations

Choosing the right renovations can help maximize your home's value while staying within budget. Focus on upgrades that enhance functionality, appeal to buyers, and align with neighborhood trends. Follow these steps to make informed decisions:

Step 1:
Compare to Local Homes – Research recently sold properties to avoid over-improving beyond neighborhood value.

Step 2:
Get a Pre-Renovation Inspection – Prioritize essential repairs (plumbing, HVAC) before focusing on aesthetics.

Step 3:
Appeal to Buyer Demand – Neutral color schemes, open floor plans, and modern lighting attract more buyers.

Step 4:
Budget Wisely – Leave room for unexpected costs and avoid high-end finishes unless the market demands them.

Ready to Transform Your Home with an FHA 203(k) Limited Loan?

Let's talk about your renovation goals and loan options!

📞 Call me at (916) 705-2557

📅 Schedule a consultation at talkingwithamy.com

🌐 Visit my website at amydebuskhomeloans.com