



203K Loans. Get the Facts.

When a homebuyer wants to purchase a house in need of repair or modernization, the homebuyer usually has to obtain financing first to purchase the dwelling; additional financing to do the rehabilitation construction; and a permanent mortgage when the work is completed to pay off the interim loans with a permanent mortgage. Often the interim financing (the acquisition and construction loans) involves relatively high interest rates and short amortization periods. The Section 203(k) program was designed to address this situation. The borrower can get just one mortgage loan, at a long-term fixed (or adjustable) rate, to finance both the acquisition and the rehabilitation of the property. To provide funds for the rehabilitation, the mortgage amount is based on the projected value of the property with the work completed, taking into account the cost of the work.

What is a streamline 203k mortgage? HUD has developed an FHA insured mortgage, called the "Streamline (K)" Limited Repair Program that permits homebuyers to finance an additional \$35,000 into their mortgage to improve or upgrade their home before move-in. With this product, homebuyers can quickly and easily tap into cash to pay for property repairs or improvements, such as those identified by a home inspector or FHA appraiser.

Is the Section 203(k) program restricted to single-family dwellings? No. The program can be used for one-to-four unit dwellings.

What is the minimum amount of rehabilitation required for a non-streamlined Section 203(k) mortgage? There is a minimum \$5,000 requirement for the eligible improvements on the existing structure on the property. Minor or cosmetic repairs by themselves are unacceptable; however, they may be added to the minimum requirement.

What eligible improvements are acceptable under the \$5,000 minimum requirement?

- Structural alterations and reconstruction
- Changes for improved functions and modernization (e.g., remodeled bathrooms and kitchens)
- Elimination of health and safety hazards (lead-based paint problems on homes built prior to 1978, etc)
- Changes for aesthetic appeal and elimination of obsolescence

- Reconditioning or replacement of plumbing, heating, air conditioning and electrical systems
- Installation of well and/or septic system
- Roofing, gutters and downspouts
- Flooring, tiling and carpeting
- Energy conservation improvements
- Major landscape work and site improvement
- Improvements for accessibility for a disabled person

Is there a time period on the rehabilitation construction period? The work must begin within 30 days of execution of the Agreement. The work must not cease prior to completion for more than 30 consecutive days. The work is to be completed within the time period shown in the Agreement (not to exceed six months).

Is a contractor required to do the work? No. However, if the borrower wants to do any work or be the general contractor, they must be qualified to do the work, and do it in a timely manner.

More Frequently Asked Questions and in-depth information about this program on the US Department of Housing and Urban Development website:
<http://www.hud.gov/offices/hsg/sfh/203k/203kabou.cfm>
<http://www.hud.gov/offices/hsg/sfh/203k/faqs203k.cfm>