



203k Loans for Buying and Upgrading a Home

An affordable FHA loan that helps you buy and renovate the home you want to build a life in.

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FHA 203k loans give potential homebuyers the ability to combine home purchasing costs and significant renovation costs into one mortgage. It's popular among "fixer-upper" homes, where a home has future potential but requires important repairs or upgrades.

203k loans can also be applied toward present homeowners who wish to refinance their home along with necessary upgrades. Whether purchasing or refinancing, the repairs get put into the mortgage to be repaid over time.



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WHAT IS A 203K LOAN?

A 203k loan is for home buyers considering purchasing a fixer-upper property with the intent to improve the home before they move in. It's a big task, but often a more accessible mortgage option. Since it's government-backed it has more flexible requirements compared to traditional mortgages.

There are two types of 203k loans. Even though both apply to home renovations, they each have slightly different rules with what you can use the money for and how much you can borrow.

203K STANDARD LOAN:

Renovations with a standard 203k loan involve heavy amounts of paperwork and have a loan limit based on county maximums. The loan can be applied toward major structural repairs, long and labor-intensive projects, and larger upgrades such as room additions.

203K LIMITED LOAN:

Previously known as the FHA 203k Streamline, limited 203k loans have a maximum limit of \$35,000. The home must be habitable within the timeframe of renovations, and repairs must be minor or aesthetic (no major structural replacements).



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HOW 203K LOANS WORK

Because 203k loans are insured by the FHA (Federal Housing Administration), there are less rigorous standards for qualification. 203k's can take the form of 15 or 30-year mortgages. The mortgage amount includes the cost used to obtain labor and equipment for home renovations.

203k loans are a great way to pay off desired renovations over time. However, certain rules apply to these renovations.

- **Repairs must start within 30 days of closing and typically be completed by the end of 6 months.**
- **With a more intense Standard 203k loan project, a consultant from the HUD (Department of Housing and Urban Development) must oversee the project to make sure it adheres to government codes.**
- **Whether you're buying or refinancing a home that needs renovations, you'll need to talk with your mortgage lender or financial advisor about the best method to complete home upgrades.**



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QUALIFICATIONS FOR A 203K LOAN

To be considered for a 203k loan, you'll first need to meet the basic requirements.

CREDIT SCORE

You'll need a credit score of 620 or higher to qualify for most 203k loans. Some lenders will allow a score as low as 580, but good to great (640 and above) is ideal.

DOWN PAYMENT

FHA requires a minimum down payment of 3.5% for those with credit above 580. Unlike conventional loans, the total amount of your down payment is allowed to be from a gift (such as a family member or non-profit donation to you).

MAXIMUM LOAN AMOUNT

Loan limits vary among states and counties. For Standards 203k loans, you can borrow up to 110% of the selected property's future value. Typically, the maximum loan amount totals based on home price + renovation costs.

CONTRACTOR USE

Repairs must be done by professional contractors, not by homeowners, their relatives, or friends.

NO FORECLOSURES

Anyone with a foreclosure in the past three years will most likely not qualify for FHA 203k loans.



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KNOW THE PROS AND CONS OF 203K LOANS

PROS:

- Buy an affordable home while improving it to your preferences.
- Competitive interest rates that are lower than other FHA mortgages.
- Lenient requirements.
- Lower minimum down payment.

CONS:

- Strict loan limits for those looking to refinance.
- Excessive paperwork.
- You'll have to make FHA mortgage insurance premium payments.
- Larger renovation projects require you to hire a HUD consultant.



Often, the buying price of a home that needs some work done will be cheaper, and you can include the renovations in your mortgage with a 203k loan. Make sure you know the specific rules and regulations for 203k loans in your area.



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Is a 203k loan right for you? If you are thinking about buying a home in a particular area but assume you can't afford the cost, consider 203k loans. This type of FHA loan has helped millions of people become home buyers while fixing up the home of their dreams. Talk to your mortgage lender today to see how you can benefit from a 203k Standard of Limited loan.

Get a FREE Home Value Update at : SandyM.FreeValues4Home.com



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