

Is a “Rehab Mortgage” *Right for Me?*

If you're interested in buying a home that requires significant repairs or upgrades, you may need help financing these additional expenses. The Federal Housing Administration (FHA) offers a unique program that may be a good fit for your needs, called Section 203(k) Rehab Mortgage Insurance.



Traditionally, buyers have needed to fund these repairs themselves, or secure a home improvement loan (usually at a higher borrowing rate) in addition to a mortgage for the house purchase. With the 203(k) program, however, borrowers can wrap the purchase and rehabilitation costs into a single mortgage offered at a competitive rate. Borrowers can select between a fixed- or variable-rate loan, up to 30 years. Like other FHA loans, the down payment can be as low as 3.5 percent.

Several features and limitations of the program:

- Only owner/occupants and nonprofit organizations can use a 203(k) loan; investors aren't eligible
- A wide range of eligible improvements are covered, from relatively minor work (costing at least \$5,000) to virtual reconstruction of the home (as long as the existing foundation system remains)
- The total value of the property must fall within the FHA mortgage limits for your area (found at entp.hud.gov/idapp/html/hicostlook.cfm)
- Your property's value is considered the lesser of these two calculations: 1) the value before rehabilitation, plus the rehab costs; or, 2) 110 percent of the appraised property value after rehabilitation
- Section 203(k) loans can also be used to convert a property of any size into a one- to four-unit structure; while the program is primarily intended for independent structures, owners of condos and townhomes can use it for interior projects
- All work must be completed by contractors that have been pre-approved by FHA, called 203(k) Consultants. (This program is not intended for do-it-yourselfers)
- Properties must meet certain energy efficiency and structural standards
- Applications for a Section 203(k) loan must be submitted through an FHA approved lender; your buyer's representative can help you find one in your area

Limited 203(k) Mortgages

The FHA also offers a streamlined program that provides financing of up to \$35,000 in rehabilitation costs on top of an existing mortgage. It's a simpler process that helps buyers make their home move-in ready. Or, current homeowners can use the funds to make repairs or improvements to prepare their home for sale.

To learn more about either 203(k) program, visit hud.gov/program_offices/housing/sfh/203k. Like any mortgage decision, shop around and compare costs before deciding on a loan that works best for you.

The Accredited Buyer's Representative (ABR®) designation is awarded by the Real Estate Buyer's Agent Council (REBAC), a subsidiary of the National Association of REALTORS® (NAR).

To learn more about REBAC and access various home buyer resources, please visit REBAC.net.

