



203(k) loans

# A Loan for the 'Handyman's Special' FHA 203(K) MAY BE THE RIGHT TOOL FOR THE JOB.

By Cedric Johnson

## DO THE WORDS "has potential," "fixer-upper," or "handyman's special" send your clients running for the door?

Help them to create the home of their dreams by introducing the Department of Housing and Urban Development's FHA 203(k) loan. This product allows a customer to purchase or refinance a property, and finance the cost of rehabilitating it with one loan and one closing. Are your buyers interested in a property that does not meet FHA appraisal standards? Do the buyers want to do additional work to meet their personal needs? All of this can be addressed with the 203(k) loan. HUD strongly encourages the 203(k) program; the loan is now easier to close than ever before.

Several simple guidelines apply to the 203(k) loan. First, mortgage proceeds must be used in part for rehabilitation and/or improvements to a property. There is no minimum cost of repairs and/or improvements to be done. Acceptable repairs include those that may affect the health and safety of the property and/or that may improve functionality and modernization of the property.

Luxury items and improvements that do not become a permanent part of the real property are not eligible for financing through this program. For example, installation of a barbecue pit, bathhouse, dumbwaiter, exterior hot tub, sauna, spa, outdoor fireplace, photo mural, swimming pool, gazebo, television antenna, satellite dish or tennis court would not be permissible.

Visit [HomeBridge.com](http://HomeBridge.com) to learn more.

### Fannie Mae HomeStyle Loan

The Fannie Mae "HomeStyle" loan mirrors the FHA 203(k). It is underwritten with FNMA credit, property and loan limit guidelines. Some of the differences include:

1. 95 percent loan to value ratio (LTV)
2. 80 percent down – no mortgage insurance (MI)
3. 85 percent LTV investor product
4. Prior certificate of occupancy is not required
5. Maximum renovation allowed is 50 percent of the sales price
6. Luxury improvements are allowed.

Learn more at [go.nvar.com/Homestyle](http://go.nvar.com/Homestyle)

### 203(k): How Does it Work?

- Loan amount is based on the Sales Price plus Improvements (Acquisition cost)
- Higher loan amounts are allowed on two- to four-unit buildings
- The projected value (Future Value) of the property must support the Acquisition cost
- Loan amount may equal 110 percent of the Future Value of the appraisal
- The rehab/improvement work is completed after the loan closes; current property condition is not an issue in closing the loan
- The funds for the work to be completed are placed in escrow with construction draws to follow
- The program is available only to an owner-occupant
- Standard FHA down payment, credit guidelines and loan limits apply for owner-occupants
- If the house is not habitable during the renovation, up to six months of mortgage payments may be financed, and no cash payment is required from the borrower during construction
- The 203(k) program may be assumable for qualifying customers.

### Permissible Properties:

- One- to four-unit properties that satisfy local zoning requirements and were completed at least one year prior to closing
- Homes must have a certificate of occupancy older than one year
- Homes demolished or razed as part of the rehabilitation process, if part of the existing foundation system remains intact
- Any property the buyer wishes to convert from a single-family dwelling into a two- to four-family dwelling or vice versa
- A "mixed use" residential commercial property, provided it meets certain requirements. Case by case at HomeBridge.
- Condos that satisfy specific guidelines; cooperatives are not eligible.



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## Acceptable Improvements:

- Structural alterations and reconstruction
- Changes to improve functionality and modernization
- Elimination of health and safety hazards
- Changes for aesthetic appeal and elimination of obsolescence
- Reconditioning or replacement of plumbing, heating, air conditioning and electrical systems
- Installation of a well or septic system
- Roofing, gutters and down spouts
- Flooring, tiling and carpeting
- A conservation improvements
- Major landscape work
- Improvements for handicapped accessibility.

## 203(k) Advantages

- Purchasers are burdened with the cost of only one closing
- Allows brokers, agents and other parties to the transaction to be paid before the renovations are completed
- Purchasers can create their dream home with a small down payment and a minimum of hassle.



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