



Grow Your Business with the FHA 203(k) Rehabilitation Program

When buying a house that needs repair or modernization, homebuyers may face a complicated and costly process or may be excluded from certain loan programs. The Federal Housing Administration's (FHA) 203(k) Rehabilitation Mortgage Insurance Program (203(k) Program) is a rehabilitation and repair mortgage program for homebuyers and existing homeowners. The 203(k) Program offers the affordability and flexibility of FHA-insured financing. The program allows individuals, local government agencies, and HUD-approved non-profit agencies to:

- Purchase a home and finance rehabilitation costs into the same mortgage; or
- Refinance and repair a current residence.

With an aging housing stock, there are more homes in the market that need repairs. Also, with the high cost of housing, more people are searching for homes with lower sales prices and those tend to need repairs. Homeowners who are not ready or able to move may want to remodel instead. The 203(k) Program allows HUD-approved lenders to tap into these trends and expand their business to offer rehabilitation loans.

As the rehabilitation funds are included in the primary mortgage, lenders may be able to offer a single-loan program alternative to typical construction lending with two loans, opening a new channel of business that may provide an advantage over traditional construction lending programs. The 203(k) Program covers both the acquisition and rehabilitation of a property, saving borrowers time and money. For lenders, it:

- Offers protection by allowing the loan to be insured prior to completion of rehabilitation.
- Protects them in all stages of renovation in the event of default, making these mortgages less financially risky than similar mortgage products.
- Allows for securitization prior to the completion of rehabilitation, lowering lenders' capital costs.
- Supports the need for affordable housing and addresses challenges with an aging housing supply.
- Provides the opportunity to help address climate change by insuring the financing of cost-effective energy efficient improvements.



Resources

SF Handbook: FHA's *Single Family Housing Policy Handbook* 4000.1, (SF Handbook) section II.A.8 available at https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1.

203(k) Calculator: The 203(k) Calculator, available in FHA Connection, will determine the maximum base mortgage amount and the Loan to Value (LTV) ratio for maximum mortgage eligibility; calculate the LTV for application of the annual Mortgage Insurance Premium; and establish the details of the 203(k) escrow account. For users who do not have access to FHA Connection, a public version of the calculator is available at <https://entp.hud.gov/idapp/html/f17203k-look.cfm>.

203(k) Consultant: As required for a Standard 203(k), the Lender must select an FHA-approved 203(k) Consultant from the list of consultants searchable at <https://entp.hud.gov/idapp/html/f17cnsldata.cfm>.

FHA RESOURCE CENTER

Online FAQ: www.hud.gov/answers

Email: answers@hud.gov

Phone: (800) CALL FHA (225-5342)

The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech and communication disabilities. Information on how to make an accessible phone call is available at:

<https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

Types of FHA 203(k) Rehabilitation Programs

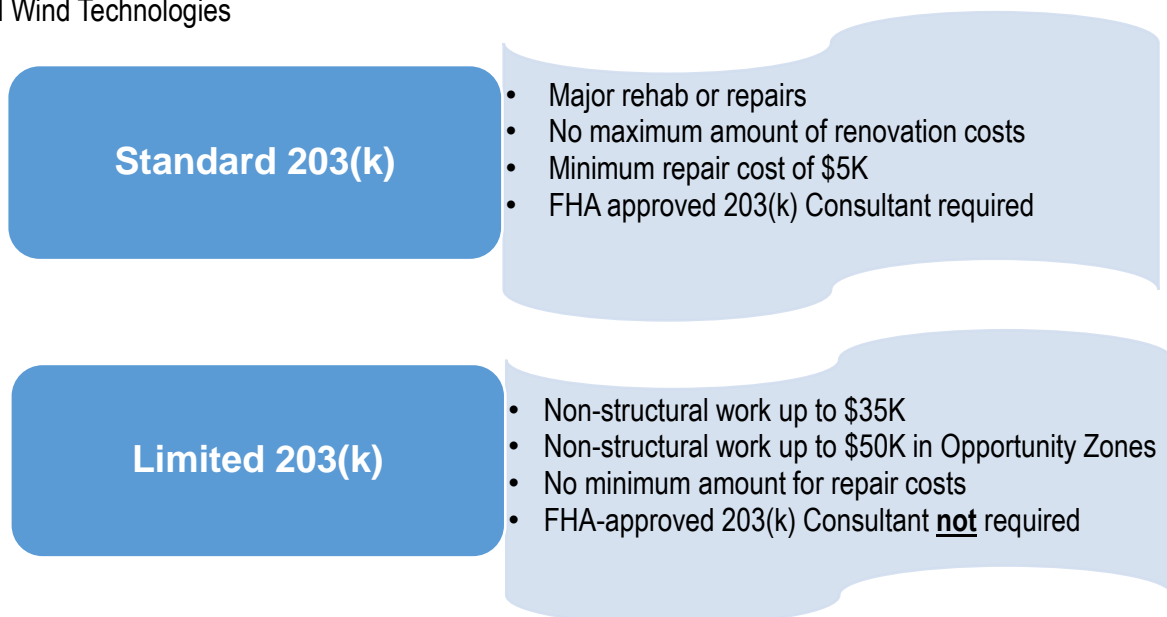
Standard 203(k): Suitable for a home that requires structural repairs or major remodeling, including improvements that increase energy efficiency or minimize damage during natural disasters.

If the home will not be habitable during renovation, the lender can include sufficient funds in the mortgage amount to pay the mortgage principal, interest, property taxes and insurance (PITI) for up to six months, so the homeowner is not burdened with the need to pay mortgage payments while obtaining alternative housing.

Limited 203(k): Suitable for less extensive repairs that are non-structural in nature like minor remodeling, home improvements, energy efficient improvements, new appliances, or replacing dated carpeting.

203(K) mortgage may be combined with these programs:

- Section 203(h) Mortgage Insurance for Disaster Victims
- Energy Efficient Mortgages
- Solar and Wind Technologies



Eligible Property Types

- Single family homes
- 2 - 4 family units
- Townhomes
- Manufactured homes titled as real estate
- Mixed use properties that are primarily residential (at least 51%)
- Eligible condominium units and site condo units
- HUD Real-Estate Owned properties