

203K Renovation Loans

Top 10 Ways Renovation Loans Create HUGE value for buyers!

The FHA 203K Renovation loan allows a buyer to purchase (or refinance) and renovate a property with one loan and one closing. With one loan, there is only one application, one set of fees, one closing and one monthly payment.

Improvements can include anything that adds value to the home, such as room addition, new carpeting, landscaping, plumbing, roofing or a new kitchen. The loan can also be used for energy-efficiency improvements.

A 203K loan can create huge value for home shoppers looking to:

1. Buy a home in a neighborhood that they could not ordinarily afford purchasing a fixer-upper.
2. Include all their upgrades and repairs in one loan.
3. Purchase a home with only 3.5 percent down payment on the total sales price plus the cost of repairs.
4. Streamline the process because closing occurs first, and then repairs are done after closing. You receive your commission and the seller receives their payoff sooner.
5. Replace anything from carpet, paint and appliances, to fixtures, windows and more, and include it in the financing.
6. Upgrade by adding additions and putting in landscaping.
7. Fix damaged homes – new roof, fire damage, termite removal and mold remediation.
8. Maximize a property's potential. The loan is based on the after-improved value – what the house will be worth once the renovations are complete.
9. Customize the home to the buyer's taste.
10. Purchase and rehab a foreclosure.

Frequently Asked Questions

What is the difference between a “Standard 203k” and a “Limited 203k”?

Standard 203k requires the help of an approved HUD Consultant and is for projects that meet the following criteria:

- Total renovations costs exceed \$35,000
- Projects requiring structural changes, or having severe mold problems

There is a minimum \$5,000 worth of work on the property for a Standard 203k.

How many bids do I have to get?

While it is wise to get bids from several contractors, it is not required. Please only provide the bid from the contractor whom you have chosen to work with.

What about self-help, does this mean I do the work myself, and borrow less money?

Shining Star Funding does not allow any self-help.

Can my relatives do the work?

No. Shining Star Funding requires an arm’s-length transaction.

Who picks the contractor?

You will decide which contractor you prefer to do the work.

Does the contractor have to be licensed?

Shining Star Funding’s policy is to follow state or county requirements with regard to licensing of contractors. In addition, all contractors need to be insured, bonded, and have trade references.

How long does it take to close my 203k loan?

We recommend that you allow 60 days from your contract date to close your loan. We will work diligently to close it as quickly as possible, but the 203k is a complicated loan with many variables and unforeseen events which can impact the time it takes to close.

Can I purchase appliances with a 203k loan?

Yes. But, be aware you will have to have cash or credit to complete the purchase of the appliances, and you will be reimbursed in the second draw once the work is complete.

How does the renovation money get paid? (i.e., when does my contractor get the money?)

On a Standard 203k, the project and the renovation are divided into not more than five phases. Funds are paid in equal disbursements (if there are 5 phases, the renovation amount is divided into five equal amounts).

The HUD consultant will meet with you and the contractor to inspect and verify that all the work for this phase has been completed. A draw request is made, and the payment for 90% of the phase amount is paid. Each subsequent draw will have a 10% hold back until the final inspection and draw at which time the entire balance will be paid.

Do I have to borrow a contingency reserve?

All renovation loans require a contingency reserve to be established at the time the loan closes. The contingency reserve must be at least 10% of the bid amount, although it may be as high as 20% if the property is in a severe state of disrepair, or if the utilities are not turned on at the time of the appraisal. *If the utilities cannot be turned on for the appraisal inspection and you are using FHA financing, HUD requires a minimum 15% contingency reserve.*

What happens to the contingency reserve?

If a situation arises that requires the contingency reserve, you will have to get bids for the additional work, and your HUD consultant will have to request the release of the funds.

At the completion of the proposed renovation, you may elect to either do more work using the contingency reserve, or you may request that it be applied to reduce your principal loan amount; however, this will not lower your payment.

Can I get extra cash to pay off debt with a 203k loan?

No. 203k loans only allow for purchase price plus renovation amount, and closing costs if you are refinancing to renovate your house and your project qualifies. Cash-out is not allowed on 203k loans.

When can I refinance to get to a lower rate?

If you are qualified and elect to refinance to a conventional mortgage with new appraisal, you can initiate your refinance transaction once your renovation work is complete, the title work has been updated, all of the renovation funds have been disbursed, your FHA loan file has been closed in FHA Connection, and you have made at least 4 monthly payments.

If you elect to keep your FHA mortgage, you will need to wait for 12 months from your closing date before you can order a new appraisal and refinance. Otherwise, the value will be determined by the subject-to value appraisal obtained when you closed your 203k loan.

What if I want to change my project during construction?

Discuss the desired changes to your project scope with your HUD Consultant. They will review the plan and they have the authority to withdraw funds from your contingency reserve. If necessary they will complete a change order form which they will submit with the draw request to the Renovation Draw

Department.

Where can I get more information?

For information on FHA 203k loans visit:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k

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