

FHA.com - FAQs about the 203k Program

CAN I MAKE AN FHA HOME PURCHASE FOR A "FIXER-UPPER"?

Homebuyers don't always want to take out an FHA guaranteed loan to purchase a brand new home. There are plenty of bargains to be had purchasing "fixer-upper" properties, and you can save thousands of dollars on the purchase price of a home that has fallen into disrepair, been through foreclosure, government seizure, or a property sold in a non-traditional way like an auction.

CAN A HOMEBUYER TAKE ADVANTAGE OF THE BENEFITS OF AN FHA MORTGAGE ON A "FIXER UPPER?"

Absolutely. A program known as HUD 203(k) lets qualified buyers purchase fixer-uppers with FHA guaranteed loans, and even has built-in protection for the borrower should the repair and renovation process cost more than expected.

IS AN FHA "FIXER UPPER" LOAN DIFFERENT THAN A STANDARD FHA MORTGAGE?

A 203(k) has the same kind of application and approval process as other FHA home loans. You need to locate an FHA-approved lender and fill out the paperwork. The usual credit check and debt-to-income ratio considerations apply, and the low FHA mortgage down payment is also part of the deal. But with an FHA loan for a HUD 203(k), there are some additional requirements.

IS THERE EXTRA PAPERWORK REQUIRED TO APPLY FOR AN FHA INSURED HUD 203(K)?

Because the home must be repaired, the borrower is required to submit a detailed list of repairs and cost estimates with the application. That means putting in some extra research time prior to the FHA loan approval process. With the purchase of a new home with an FHA loan, the property appraiser does much of the work in determining how much the home is worth. In the case of a HUD 203(k), you need to have the property examined, labor and repair costs estimated, and have the repair list broken down so that your lender and the FHA can see how you plan to proceed once the sale is final.

WHAT DOES MY FHA "FIXER UPPER" LOAN PAY FOR?

Once you pass the usual credit check and you get approval for your FHA mortgage, you proceed to closing with a loan that not only covers the cost of buying the property, but also for remodeling expenses and closing costs allowed by the terms of your FHA home loan. The best part of these "fixer upper" loans? The approved FHA loan amount also includes a percentage of the total remodeling costs (as spelled out in your submitted plan) set aside just in case there is extra work needed. If you didn't foresee some additional expense or one kind of repairs lead to an additional requirement, you're covered with that extra money.

WHEN DO I GET THE MONEY?

When you're ready to close the deal, the FHA loan money isn't paid out all at once. The costs of the purchase are covered, but the remaining funds from your new FHA guaranteed loan are deposited into an escrow account and can be used to pay for the work done as you rehab or remodel the property.

WHAT ELSE SHOULD I KNOW ABOUT THIS TYPE OF LOAN?

It's understood that you may not be able to occupy your new home while you are having it fixed or remodeled. That's why the guidelines for this type of FHA home loan include the option to include up to six mortgage payments added to the cost of doing the rehab work. The amount of mortgage payments built into the loan must not exceed the number of months estimated to get the work completed. You can't add four months if the work will be done in three.

If you've got your eye on a fixer-upper property and you meet the FHA's income and other requirements, you can take advantage of lower interest rates and other advantages of an FHA guaranteed loan. You don't have to purchase a brand new property to get the benefit of an FHA mortgage.

