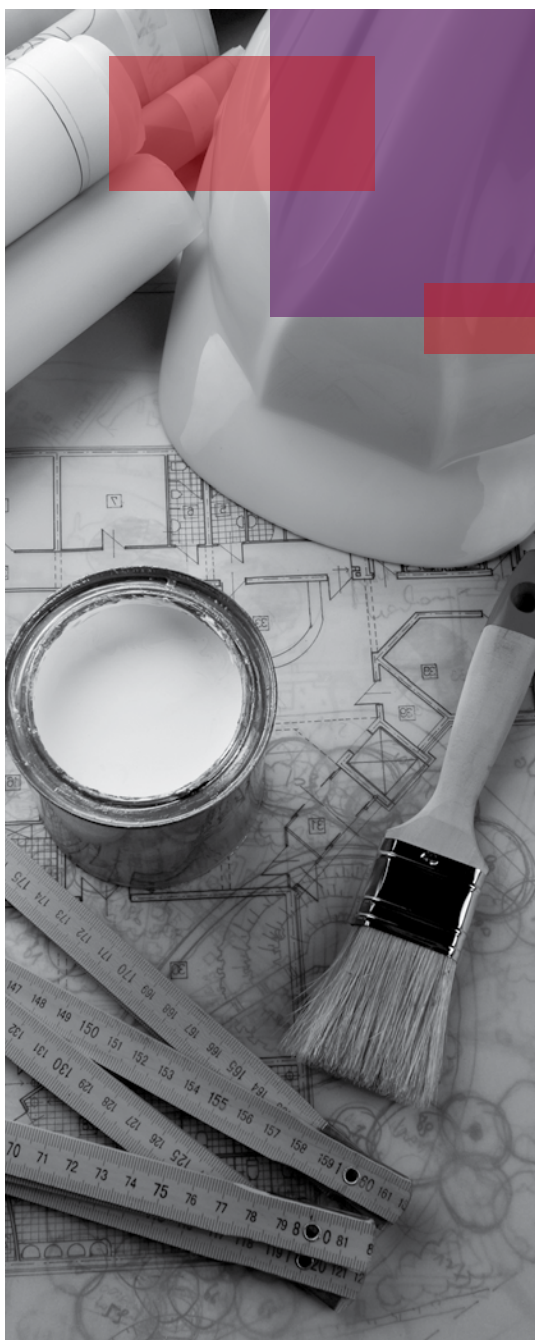


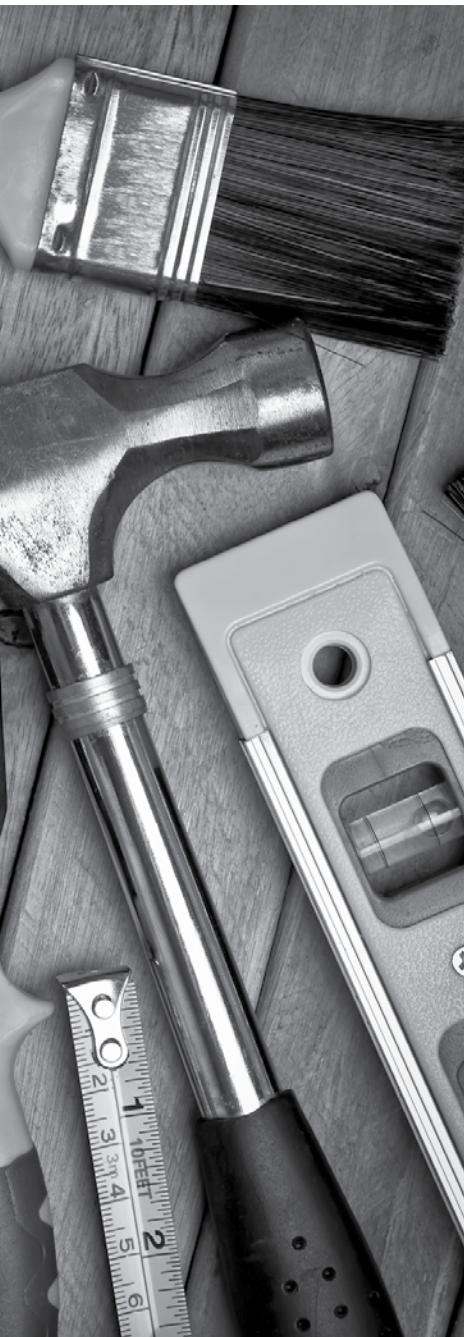
## A GUIDE TO AN FHA 203(K) LOAN







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## TABLE OF CONTENTS

Introduction To FHA 203(k) Loan .....	Page 02
Features of FHA 203(k) Loan .....	Page 03
Steps in Applying for an FHA 203(k) Loan .....	Page 05
Eligibility Criteria for FHA 203(k) Loans .....	Page 07
The Types of 203(k) Loans .....	Page 08
Improvements Funded by Streamlined 203(k) Loan .....	Page 10
Improvements Funded by Regular 203(k) Loan .....	Page 12







MORE OPPORTUNITIES  
FOR LOW INCOME FAMILIES  
TO OWN THEIR OWN  
HOMES



## INTRODUCTION To FHA 203(k) LOAN

The 203(k) loan is an all-in-one home loan endorsed by the FHA (Federal Housing Administration) under the Department of HUD (Housing and Urban Development). If you wish to buy a home that needs a lot of repairs, you can fund both the purchase and remodeling costs using the 203(k) loan. This loan program was initiated by the FHA to drive up the sales of broken houses and help moderate or low-income families buy their own homes.

Generally you will not be approved for a loan on a property that needs a lot of repairs. Since most lenders refuse loans for purchase of broken homes, the FHA initiated the 203(k) program.

The loan includes purchase costs, refinancing, repair expenses, and home improvement costs. You need to make a low down payment of a 3.5 percent on the principal amount. The total cost covered by the loan sums up to nearly 110 percent of the property including the improvements.

The main aim of this loan is to increase property ownership opportunities for families with low incomes. It focuses on those homes that require repairs and rehabilitation.

It is a great solution for first-time buyers who wish to buy foreclosed properties or government-owned properties. These loans are available at low interest rates and flexible terms of payment. They do not have rigid eligibility criteria, which makes it appealing to buyers from all classes of the society, who have varying credit scores.





## FEATURES OF FHA 203(K) LOAN





Typically, most mortgage loans are provided only if the property is in good shape and has an adequately good market value. If you wish to purchase a home that requires repairs, the lender would insist that you fix up the home before providing the mortgage loan.

Repair costs for heavily damaged houses can be quite expensive. You cannot proceed with the rehabilitation before you purchase the house. Initially, a buyer had to acquire a housing loan to purchase a property, another loan to cover rehabilitation costs, and a new mortgage to refinance the existing loans if required. This entire process could deplete a buyer's savings for long periods of time.

The FHA 203(k) program was initiated to aid this problem and combine all the costs in a single loan. The interest rates can be fixed or adjustable and exist for a long term when you can make monthly payments to clear the debt. The loan is provided on the basis of all the costs of purchase and rehabilitation including manual labor and materials.

The loan can be used for property purchase. After the seller is paid, the rest of the funds are added to an escrow account from which you can pay the contractor for the improvements.



# STEPS IN APPLYING FOR AN FHA 203(k) LOAN

You can get an FHA 203(k) loan very easily provided you know all the factors involved in the loan approval process. There are no rigid eligibility criteria except for the expectation that you should be able to make monthly payments and not default on the loan. Just like any other loan, the FHA 203(k) loan approval requires income proof, good credit score, tax returns proof, etc., to verify your personal and financial information.

## Property Hunt

You can locate a suitable broken property and negotiate prices with the owner. Draw up a purchase agreement.

## Estimate Repair Costs

Hire a contractor and estimate the costs for remodeling the property. You have to document all the damages and make a detailed list of the costs for each of the repairs.

## Lender Hunt

Look for lenders who are FHA approved and provide 203(k) loans. If you find this difficult, you can take the help of a mortgage broker or your real estate agent.

## Loan Approval

Provide all the necessary documents to the lender. After reviewing them, the lender will approve the loan.

## Property Rehabilitation

You can have six months of mortgage payments added to the loan amount. This will help you concentrate on the renovations and will not burden you during the rehabilitation. After the six months, you have to begin paying the monthly mortgage installments.





# NO RIGID ELIGIBILITY CRITERIA

## ELIGIBILITY CRITERIA FOR FHA 203(k) LOANS



Depending on your necessities, you can use the loan in three ways. The obvious choice would be to finance the purchase and rehabilitation costs of a broken property. You could choose to purchase a home at a different site and move it to a new foundation. Then you could use the remaining loan amount to rehabilitate the unit. You could use this loan to refinance an existing mortgage loan and also rehabilitate your home.

The long list of improvements includes structural and non-structural repairs to fix your home. You can view the lists in the following chapters.

You cannot buy just any property and expect to be approved for an FHA 203(k) loan. There are certain factors that count for the loan approval process that may prove useful to you on your property search. Ideally, FHA 203(k) loans are provided for one-four unit homes that are at least a year old. When you use the rehabilitation loan, you can convert your single unit homes into two-, three- or four- unit homes. Similarly, you can also reduce the number of units in your home.

The eligibility criteria for the 203(k) loan are given below.

- The loan must only be used to rehabilitate residential property.
- The property should not have more than a quarter of its total floor area involved for commercial use.
- Commercial use of the property must not be a hazard to the health of the residents.







## THE TYPES OF 203(k) LOANS

Depending upon your necessity, 203(k) loans are classified into two types. The basis of classification involves the extent of rehabilitation necessary for the property.

Regular 203(k) loan is provided for those houses that require structural rehabilitation. It is an all-in-one loan that includes construction, landscaping, and interior repairs. If the renovation costs for your property exceed USD35000, you can opt for this loan. You are obligated to reside on the property after the rehabilitation if you opt for the regular 203(k) loan. The minimum limit for repairs is USD5000, which is set on the basis of the kind of property and its location.

Streamlined 203(k) loan is again an all-in-one loan that is provided for properties that require non-structural improvements or minor remodeling. In this case, there is no minimum limit for repairs that is set to borrow the loan. You can borrow up to USC35000 to make repairs and remodel, aside from the costs to purchase the house. Like in the previous case, you must occupy the house after the renovations.

Depending upon your necessities, you can opt for a regular or a streamlined 203(k) loan. An FHA 203(k) loan is the best alternative for low income families who wish to own a home. In case of government-owned properties, the HUD recommends an FHA-203(k) loan. You can get low interest rates on these loans and you do not have to make a very large down payment.





REHABILITATION CAN TAKE UP TO  
**SIX MONTHS**  
FROM THE DAY  
OF THE LOAN INITIATION





## IMPROVEMENTS FUNDED BY STREAMLINED 203(k) LOAN

There are quite a few home improvements that can be financed by a streamlined 203(k) loan. However, there are also a few that cannot be funded by the loan.

The eligible list of improvements for streamlined 203(k) loan includes repairs and replacements for roofs, floors, septic system, electrical system, plumbing system, HVAC (heating, ventilation and air conditioning) systems, patio, porch, dock, windows, doors, etc. Other improvements like installation of electrical appliances like refrigerator, washer, dryer, minor kitchen and bathroom remodeling, painting, waterproofing, etc., are also funded by this loan.

Ineligible improvements include structural renovations like reducing number of units, adding more units, constructing rooms, landscaping, etc. Any renovation that takes more than six months to complete will not be funded by this loan. You will also not be allowed to use this fund to add swimming pools, sauna, tennis courts, and other luxurious features to your property.

Your contractor must be licensed and should have credible proof for his services. The construction or rehabilitation can take up to six months from the day of the loan initiation. You will be allowed to make only two payments to your contractor. The first payment can include an advance that should cover the material costs for the home improvements. This amount can go up to 50 percent of the estimated repair expenses. The second installment will pay the rest of the money including labor charges, additional material costs, taxes, etc.

The lender will inspect the property after the renovation to estimate the value of the property. The remaining funds in the escrow account after purchase and rehabilitation will be used to repay the principal amount of the debt.







## IMPROVEMENTS FUNDED BY REGULAR 203(k) LOAN



A regular 203(k) loan covers all expenses. It is ideal if you have to borrow over USD35000 for home improvements. The minimum costs for repairs must be USD5000. If it is less than this amount, this loan will not be provided. You are in luck if you purchase a broken house that requires complete renovation, as this loan funds for such situations.

You can take full advantage of a regular 203(k) loan to rehabilitate a demolished house. The eligibility criteria include all non-structural improvements listed under the streamlined 203(k) loan with additional structural improvements. You can make alterations to your house like adding units, rooms, complete kitchen remodeling, furniture remodeling, bathroom remodeling, renovations to the basement, etc. You could also make landscaping improvements, plumbing improvements, and repairs to sewage system, gardens, driveway, etc.

Similar to the streamlined 203(k) loan terms, your construction work must end within six months since the loan closes. Here, you can withdraw up to a maximum of five times from the escrow account to pay your contractor. There is a contingency amount that is reserved for any health or safety issues that may rise during the six month renovation period. This amount is about ten to twenty percent of the total principal.

After you carefully analyze your options, you can choose which loan is best suited for your necessities.



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