



The Section 203(k) Loan Program

Turning “Fixer-Uppers” into Dream Homes

About the Section 203(k) Loan Program

If you want to buy a home that needs repair or finance needed repairs to your current home, the Section 203(k)

loan program by the U.S. Department of Housing and Urban Development (HUD) may be a good option for you.

This program allows you to finance the purchase of a house—or refinance your current mortgage—and include the cost of its repairs through a single mortgage.



The Section 203(k) loan program is HUD’s primary program for the rehabilitation and repair of single family properties. Section 203(k) loans are provided through HUD-approved mortgage lenders nationwide and insured by the Federal Housing Administration (FHA), which is part of HUD. “Section 203(k)” refers to the law, part of the National Housing Act, which allows FHA to make this mortgage insurance available. The loans are beneficial for low- and moderate-income individuals or families since the loan downpayment can be as little as 3 percent. While individuals, local governments, and non-profit organizations may participate as borrowers in the program, the

property must be used as a principal residence by an individual or family.

How the Loan Works

You can take out a Section 203(k) loan as a 15- or 30-year fixed-rate mortgage or as an Adjustable Rate Mortgage (ARM) from a HUD-approved lender. The total amount of your mortgage will be based on the projected value of your home after the renovation is completed, taking into account the cost of the work. A portion of your loan is used to pay for the purchase of the home, or in the case of a refinance, to pay off any existing debt. The remainder is placed in an interest-bearing account on your behalf and released in stages as rehabilitation is completed.

FHA requires that you use a minimum of \$5,000 toward eligible repairs or improvements and that you complete the repairs within six months after the loan’s closing depending on the extent of work to be completed. This first \$5,000 primarily covers eliminating building code violations, modernizing, or making health and safety-related upgrades to the home or its garage. You may add minor or cosmetic repairs after this requirement is satisfied, if applicable. You cannot include improvements for commercial use or luxury items, such as tennis courts, gazebos, or new swimming pools.

Eligible Homes

You may use a 203(k) loan to finance the rehabilitation of the following types of properties. Cooperative units and investment properties are not eligible.

- 1 A one- to four-unit residence that has been completed for at least one year. Examples include detached homes and townhouses.
- 2 Condominiums in one- to four-unit buildings (interior improvements only; additional restrictions apply).
- 3 Mixed-use residential properties that include commercial space.
- 4 Conversion of a one-unit residence to a two-, three-, or four-family dwelling.

5 Conversion of an existing multi-unit dwelling down to a one- to four-family unit.

6 An existing house or modular unit on another site that can be moved onto the mortgaged property. Release of loan proceeds for the existing structure on the non-mortgaged property is not allowed until the new foundation has been properly inspected and the residence has been properly placed and secured to the new foundation.

7 Homes that have been demolished or will be razed as part of rehabilitation work if some of the existing foundation remains in place.



Eligible Home Improvements

The Section 203(k) loan covers a range of home improvements. These include, but are not limited to, the following:

- Remodeling bathrooms or a kitchen, including new built-in appliances
- Replacing a roof, gutters, and downspouts
- Adding a family room, bedrooms, or bathrooms
- Replacing flooring, tiling, or carpeting
- Completing a basement or attic conversion or adding a second story
- Expanding or building a garage or carport
- Renovating a deteriorating property, such as repairing a chimney, termite damage, or structural problems
- Upgrading plumbing, heating, air conditioning, or electrical wiring
- Eliminating health and safety hazards, such as removing lead-based paint
- Making the home accessible to the disabled
- Installing a well or a septic system
- Adding a porch, deck, or patio
- Adding or repairing siding or repainting
- Installing energy efficient windows or doors
- Repairing an existing swimming pool

Helpful Options

If you are not planning to live in the home during construction, you may finance up to six months of mortgage payments during the renovation period. In addition, you may act as your own general contractor or do the actual repair work yourself, if you are qualified. Any money you save this way can be used for cost overruns or additional



improvements. You can be reimbursed only for actual material costs, not for your own labor.

How to Apply and Get More Information

Once you find the property that you wish to purchase and conduct a preliminary feasibility analysis with your real estate professional, or if you are already living in the residence you plan to repair, you should find a HUD-approved lender who will help you understand the next steps and details of the 203(k) loan program. Because many borrowers need professional help in determining needed repairs or improvements, your lender will assign a 203(k) consultant to assist you in planning the work and developing cost estimates. The consultant will perform the home inspection, identify needed repairs or improvements, including health and safety problems, and provide a work write-up and cost estimate to you. You also can contact a HUD-approved housing counseling agency or check the HUD website to get more information about the program.

Information Resources

Internet

www.hud.gov or espanol.hud.gov.

More details about the Section 203(k) loan program are on the HUD website in English and Spanish.

HUD-Approved Housing Counseling Agency

Locator

HUD supports a network of approved housing counseling agencies that provide counseling services across the

nation. For a complete list of HUD-approved agencies in your area, call the HUD housing counseling referral line toll-free at 1-800-569-4287 or visit the HUD website at www.hud.gov.

HUD-Approved Lenders

A searchable database of HUD-approved lenders, including banks, mortgage companies, and credit unions, is available on the HUD website at www.hud.gov.