



## 203(k) Rehab Mortgage

### **Summary:**

Section 203(k) insurance enables homebuyers and homeowners to finance both the purchase (or refinancing) of a house and the cost of its rehabilitation through a single mortgage or to finance the rehabilitation of their existing home.

### **Purpose:**

Section 203(k) fills a unique and important need for homebuyers. When buying a house that needs repair or modernization, homebuyers usually have to follow a complicated and costly process. The interim acquisition and improvement loans often have relatively high interest rates, short repayment terms and a balloon payment. However, Section 203(k) offers a solution that helps both borrowers and lenders, insuring a single, long term, fixed or adjustable rate loan that covers both the acquisition and rehabilitation of a property. Section 203(k) insured loans save borrowers time and money. They also protect the lender by allowing them to have the loan insured even before the condition and value of the property may offer adequate security.

For less extensive repairs/improvements, see [Streamlined 203\(k\)](#). For housing rehabilitation activities that do not also require buying or refinancing the property, borrowers may also consider HUD's [Title I Property Improvement Loan program](#).

### **Type of Assistance:**

Section 203(k) insures mortgages covering the purchase or refinancing and rehabilitation of a home that is at least a year old. A portion of the loan proceeds is used to pay the seller, or, if a refinance, to pay off the existing mortgage, and the remaining funds are placed in an escrow account and released as rehabilitation is completed. The cost of the rehabilitation must be at least \$5,000, but the total value of the property must still fall within the [FHA mortgage limit for the area](#). The value of the property is determined by either (1) the value of the property before rehabilitation plus the cost of rehabilitation, or (2) 110 percent of the appraised value of the property after rehabilitation, whichever is less.

Many of the rules and restrictions that make FHA's basic single family mortgage insurance product ([Section 203\(b\)](#)) relatively convenient for lower income borrowers apply here. But lenders may charge some additional fees, such as a supplemental origination fee, fees to cover the preparation of architectural documents and review of the rehabilitation plan, and a higher appraisal fee.

### **Eligible Activities:**

The extent of the rehabilitation covered by Section 203(k) insurance may range from relatively minor (though exceeding \$5000 in cost) to virtual reconstruction: a home that has been demolished or will be razed as part of rehabilitation is eligible, for example, provided that the existing foundation system remains in place. Section 203(k) insured loans can finance the rehabilitation of the residential portion of a property that also has non-residential uses; they can also cover the conversion of a property of any size to a one- to four- unit structure.

The types of improvements that borrowers may make using Section 203(k) financing include:

- structural alterations and reconstruction
- modernization and improvements to the home's function
- elimination of health and safety hazards
- changes that improve appearance and eliminate obsolescence
- reconditioning or replacing plumbing; installing a well and/or septic system
- adding or replacing roofing, gutters, and downspouts
- adding or replacing floors and/or floor treatments
- major landscape work and site improvements
- enhancing accessibility for a disabled person
- making energy conservation improvements

HUD requires that properties financed under this program meet certain basic energy efficiency and structural standards.