

FHA 203(k) Program

Many neighborhoods are still blighted by abandoned, foreclosed homes due to the recession. These homes often have gutted kitchens, missing bathroom fixtures, broken windows, and other damage that make them uninhabitable. The principal buyers of these properties are real estate professionals who can buy for cash and who don't need a bank appraisal to evaluate a property's condition.

The FHA 203(k) loan is designed to help individuals who want to purchase, repair, and live in these homes. The loan is endorsed by FHA to encourage lenders to make loans on what they would normally consider risky investments. Interest rates are generally higher because of the increased risk.

The loan lets the buyer include the money needed for purchase along with money needed for repairs, such as materials, labor, and permits. The loan also can include a contingency reserve for unexpected expenses, as well as up to six months of mortgage payments so that the borrower does not have to make a double mortgage payment during the repairs.

The down payment is 3.5% of the purchase price plus the cost of repairs. The maximum mortgage amount is the lesser of the as-is value of the property, plus rehab costs, or 110% of the expected value of the house after rehab. All persons who can qualify to make the mortgage payments are eligible to apply for a 203(k) loan.

Buyers of these homes should work only with lenders who are experienced with this type loan, because the process is complicated. The program details are complex, and the homebuyer should review them carefully. The loans usually take much longer to close. These considerations aside, the extra effort might be well worth the chance to buy the right house at the right price. The neighbors will be very happy, also.