

# Real Estate Intelligence

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## The 203k Mortgage

Real estate consumers today can find ample value in distressed homes – properties that are under a foreclosure order or up for short sale. In many cases, however, “distressed” speaks more for the condition of the homes than their recent financial histories, as they’ve sat empty for extended periods and have been subject to vandalism and theft. Those considering homes in need of repair and renovation should consider a 203k mortgage, which enables homebuyers to finance both the acquisition and rehabilitation of the property with just one loan.

“FHA 203k purchase loans are the perfect financing vehicle for homeowners seeking the value proposition offered by REO homes,” said David Wind, president and board chairman of White Plains, N.Y.-based Guaranteed Home Mortgage Company, in a company statement this June. “Home buyers’ ‘perfect’ home can be purchased in less than perfect condition with a single-close loan product that allows repairs and remodeling.”

There are two types of 203k loans: the 203k streamline and the full 203k. The 203k streamline is the most popular among homebuyers and lenders. “The maximum allowable in repairs is \$35,000 under the 203k streamline and it does not allow any structural repairs to be done to the home, unless [the repairs are] a result of an unforeseen circumstance,” explained David Krushinsky, a certified mortgage planning specialist for Mesa, Ariz.-based AmeriFirst Financial Inc. “The full 203k allows structural repairs and will allow the buyer to exceed the \$35,000 in home repairs. Both loans allow up to \$1,500 in swimming pool repairs.”

Contractors chosen to perform repairs must be licensed, bonded and insured, and they usually must provide the lender with a resume and two client-reference letters. “After the close of escrow is when all the rehabilitation work begins,” said Krushinsky. “Funds usually aren’t released immediately so it’s important for your contractor to start work in a timely manner. Typically, if they’ve been in business, they have existing relationships with vendors so they can order materials and begin work. If not, the project may take longer than anticipated.”

Since the 203k mortgage is based on the home’s potential value after repairs – not its existing value – you can be approved for a higher loan amount. The mortgages also carry long-term-fixed rates, are insured as soon as they fund, and include escrow accounts for the scheduled repairs. Loan amounts are capped according to local FHA limits.

Only owner-occupied properties of one to four units qualify for 203k mortgage financing; homes also must be at least one year old.

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