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Your Home Team

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I'm proud to announce that I have completed the real estate industry's most comprehensive training in the use of the U.S. Government's FHA 203k Home Purchase and Renovation Loan program. With this designation, I became a member of RE-buildUSA, a nationwide organization of real estate, lending and home improvement professionals, working in partnership with several groups, is dedicated to helping more Americans achieve the dream of home ownership, improving our communities and contributing to the health of our economy.



What is an FHA 203k Loan?

The FHA 203k renovation loan program provides funds for both the purchase and renovation of a home packaged into one mortgage loan. Once the purchase of the home is closed, renovation funds are held in escrow to pay for pre-determined renovation work done by approved renovation contractors.

The purchase of a house that needs repair is often a catch-22 situation, because the bank won't lend the money to buy the house until the repairs are complete, and the repairs can't be done until the house has been purchased.

HUD's 203(k) program can help you overcome this obstacle by enabling you to borrow funds for the purchase or refinance of a property plus the cost of making the repairs and improvements in one mortgage. The FHA-insured 203(k) loan is provided through approved lenders nationwide and is available to owners who will occupy the home themselves.

Down payment, credit qualification, loan limits and other requirements are the same as standard FHA loans. Additional guidelines are set forth specific to 203k loans to provide for renovation of the home.

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FHA 203k loans are available in two types:

1. **The Standard 203k** is intended for more complicated projects that involve structural changes, such as room additions, exterior grading and landscaping, or renovation that would prohibit you from occupying the residence. A Standard 203k is also used if your project requires engineering or architectural drawings and inspections.
2. **The Streamlined 203k** is designed for less extensive improvements and for projects that will not exceed a total of \$35,000 in renovation and related expenses. This version does not require the use of a consultant, architect, and engineer or as many inspections as the Standard 203k. As a result, when applicable, the Streamlined 203k generally becomes the simpler, less costly option.

Your RE-buildUSA 203k Specialist™ and your FHA approved lender will help you determine which loan is the best choice to meet your needs.

What improvements are eligible under the Streamlined 203k?

The Streamlined 203k program is intended to facilitate uncomplicated rehabilitation and/or improvements to a home for which plans, consultants, engineers and/or architects are not required. This program allows discretionary improvements and/or repairs shown below:

- Repair/Replacement of roofs, gutters and downspouts
- Repair/Replacement/upgrade of existing HVAC systems
- Repair/Replacement/upgrade of plumbing and electrical systems
- Repair/Replacement of flooring
- Minor remodeling, such as kitchens, which does not involve structural repairs
- Painting, both exterior and interior
- Weatherization, including storm windows and doors, insulation, weather stripping, etc.
- Purchase and installation of appliances, including free-standing ranges, refrigerators, washers/dryers, dishwashers and microwave ovens
- Accessibility improvements for persons with disabilities
- Lead-based paint stabilization or abatement of lead-based paint hazards
- Repair/replace/add exterior decks, patios, porches
- Basement finishing and remodeling, which does not involve structural repairs
- Basement waterproofing
- Window and door replacements and exterior wall re-siding
- Septic system and/or well repair or replacement

What items are ineligible for the Streamlined 203k?

Properties that require the following work items are not eligible for financing under the Streamlined 203k:

- Major rehabilitation or major remodeling, such as the relocation of a load-bearing wall;
- New construction (including room additions);
- Repair of structural damage;
- Repairs requiring detailed drawings or architectural exhibits;
- Landscaping or similar site amenity improvements;
- Any repair or improvement requiring a work schedule longer than six (6) months; or
- Rehabilitation activities that require more than two (2) payments per specialized contractor.

Mortgagors may not use the Streamlined 203k program to finance any required repairs arising from the appraisal that do not appear on the list of Streamlined 203k eligible work items or that would:

- Necessitate a “consultant” to develop a “Specification of Repairs/Work Write-Up”;
- Require plans or architectural exhibits;
- Require a plan reviewer;
- Require more than six months to complete;
- Result in work not starting within 30 days after loan closing; or Cause the homeowner to be displaced from the property for more than 30 days during the time the rehabilitation work is being conducted. (FHA anticipates that, in a typical case, the homeowner would be able to occupy the property after mortgage loan closing).

Can the 203k program be used on only single-family homes?

No. This program is eligible for use on 1 to 4 unit buildings, including the conversion of a building from a larger number of units down to 4 or less. Following specific guidelines, the 203k mortgage can also be used on a condominium unit for improvement of the interior only. Provisions also allow for financing mixed-use buildings, such as those with retail or commercial space combined with residential. In these cases, the 203k loan can only be used for the residential portion of the building.

How is the home appraised?

The appraiser is given a copy of the contractor's bid documents to identify the repairs and remodeling to be done along with their costs. The appraiser then determines the value of the home after completion, “subject to” the improvements to be made. In some cases, up to 110% of this value may be used for loan approval purposes.

Can a 203k be used to purchase a HUD-owned property?

A 203k loan can be used to purchase a HUD-owned property that is determined by HUD to be eligible for a 203k. If other funds are used for the purchase, a 203k loan can be made up to six months following the purchase, allowing cash back to the owner.

Is the 203k program allowed for use by investors?

A 203k loan can be used only by owner occupants, local governments or eligible non-profits. However, an owner occupant can use a 203k loan to purchase and renovate up to a 4-unit building as well as multi-use building in conformance with certain guidelines.

Can an Energy Efficient Mortgage (EEM) be used in conjunction with the 203k?

Yes – the FHA allows the use of an EEM, which provides funds beyond the FHA loan limits and the buyer's approved loan amount for improvements that increase the energy efficiency and lower the utility costs of the home. An energy audit must be conducted by an approved home energy rater to assure that the energy savings over the useful life of the improvements will exceed their costs. The total amount of an EEM mortgage can be up to 5% of the value of the property.

How are loan funds disbursed for the purchase and renovation?

At the loan closing, funds are disbursed for the home purchase and, based on previously submitted and accepted contractor bids, renovation funds are placed by the lender in an escrow. These renovation funds are then paid in draws to the contractors as the work proceeds with final payments following inspection at completion. The actual disbursement schedule, inspections and paperwork required are determined by the lender for each project and in conformance with FHA guidelines.

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Is a borrower allowed to do the rehabilitation work?

Where a buyer can demonstrate professional expertise in a given activity, it is allowable. However, the borrower cannot be paid for labor, only materials used. Prior to loan approval, the cost estimate must reflect the cost for a contractor to do the work in the event the borrower is unable.

What if there are extra funds after renovation?

Any funds left over following completion of the renovation can be used to make additional allowable improvements to the property. If not used for this purpose, left over funds will be applied to pay down the principal balance of the mortgage.

Is there a time limit for the renovation?

The renovation must begin within 30 days of the closing of the loan and must be completed within the time frame established in the loan agreement. The total time for renovation must not exceed six months.

What if the home is not habitable during renovation?

The Standard 203k loan does allow for up to six mortgage payments to be included in the renovation funds to cover the period when the home is uninhabitable during renovation. A Streamline 203k, however, cannot be used if the home will not be habitable at any time during the renovation.

Do you know someone ready to buy or sell? We appreciate your referrals.



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