



Rehab Financing

The FHA 203(k) Program

A Guide to Financing Your Home Improvement Project

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The Program:

This is a 1st mortgage program sponsored by the FHA and designed to provide home purchasers with low-cost financing to make improvements to their dream home. The “FHA 203k” program presently allows a homeowner to finance up to the County Limit for virtually any home improvement project. This includes repairs to the property, additions, upgrades to kitchens and bathrooms, new heating systems, windows, roofs, and much more (see detailed list on Page 3).

The program allows you to borrow up to **96.50% of the after-completion value of your home** (this is unique to this program). In most cases, this gives you the capacity to finance all of the improvements together with the purchase price of the property.

That means that you may borrow up to **96.50% of the total of the contract price for the property AND the cost of the improvements to be made.**

What It Means For You:

If you’ve been hesitating on moving forward with the purchase of your dream home because of concerns that you do not have sufficient cash resources to pay for the work you have planned, there’s good news! While it’s true that banks have cut back on their lending, FHA has stepped in with a special program to help homeowners purchase and improve properties.

In a purchase scenario, this FHA mortgage provides the funds to purchase the home, and sets aside the balance of the desired loan amount (with a maximum loan amount based on the County you live in) for your desired renovations. You may select either a 30-year or a 15-year fixed rate and the rates are similar to regular FHA mortgages.



Details on eligible improvements:

The FHA Streamline 203(k) program is designed specifically to make upgrades and improvements to existing square-footage in homes. Almost all rehab projects are allowable including additions and structural alterations. The following is a partial list of allowable items:

- Remodel Kitchen
- Bathroom remodel
- New roof
- HVAC systems
- Windows & Doors
- Flooring
- Plumbing upgrade
- Insulation
- Siding & Painting
- Exterior decks and walks
- Electrical upgrade
- Well & Septic
- Driveways
- Basement refinishing
- Waterproofing
- Mold abatement
- Handicap access improvements
- New Appliances
- Gutters & downspouts
- Additions

Details on Loan Program:

- The minimum amount for the home improvement budget is \$5k
- A 10% contingency is required to cover unanticipated costs
- The maximum mortgage amount (total of existing mortgage debts, closing costs, and rehab costs) is limited based on the county your home is located in (*see list below*)
- There are no income restrictions for this program
- Applicants must qualify based on income and credit

2014 County Limits for Connecticut

- Hartford = \$353,050
- Tolland = \$353,050
- Middlesex = \$353,050
- New London = \$280,600
- New Haven = \$305,900
- Windham = \$285,200
- Fairfield = \$601,450
- Litchfield = \$357,650

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How to Get More Information:

If you are interested in learning more about this program, please contact me either by phone at 860-989-3287 or via e-mail at kit@righttracfg.com.

To help me develop the best financing proposal, please be prepared to provide the following information:

- Your name(s) and address of the property
- Your Social Security number (s) to pull your credit report
- A description of the home improvement project and estimated budget
- Your employment information (company/position/income)

Thank you,

Crowne, CMPS

Kit

NMLS: 49595

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The Process:

The FHA 203k Program is very similar to a standard mortgage with several required additional steps. Once you have decided on a scope of work, the first step is for you to have a “203k Plan Consultant” meet with you to discuss the anticipated improvements you want to make to the house. They will inspect your property for any health and safety issues required to be included in the rehab and will then provide you with a “Work Write-up” for the project based on the work you would like to have done. This will also be the person who handles all of the draw request and inspections along the way.

The next step is for you to have your builder prepare the supporting documentation and provide all of the required breakdown of the project specification. Those materials are reviewed by the 203k Plan Consultant and a final set of submission documents are sent to the lender for their approval.

Once the project scope is finalized, an appraisal will be performed and a value of the property based on its condition after the improvements have been completed will be provided. It is this after-improved value that determines your loan-to-value.

Once all of the loan conditions have been cleared, the loan closes and you may begin your project.

A Couple of Important Points:

- There is a required ‘Contingency Fund’ of between 10% - 20% based on the scope of work to be performed.
- The builder will be paid for ‘work-in-place’ so there are no advance start-up funds. It is important that your contractor recognize this and that the proper expectations are set..



A Couple of Important Points (cont.):

- The 203k Consultant will charge a fee ranging from \$500—\$1,000 for their services.
- In addition, there will be “Draw Inspection Fees” of approximately \$150 per to cover his/her time to come to the site to approve the disbursements.

203k Consultant Contact List:

The following is a list of several consultants I have worked with:

- Robert Canty
33 Susquehanna Ave
West Haven, CT
203.671.1864
- Garrick Montana
226 Broad St
Wethersfield, CT
860.508.4107
- William (Bill) Neal
77 Meadowview Lane
Vernon, CT
860.871.1830
- For additional consultant options, please visit the following link:
<https://entp.hud.gov/idapp/html/fl7cnsldata.cfm>



Application Guide

I have assembled the guide below to help you gather the documents needed to complete the mortgage application. If you have questions about any of these materials or forms, please make sure to contact me.

Application Documents:

For each person who will be on the mortgage, I will need the following items:

- W-2's for the most recent 2-years (if self-employed or commissioned, complete tax returns)
- Paystubs for the most recent 30-days
- Bank statement for the most recent 2 months (all pages / all accounts)
- Most recent 401k or investment account statements
- Recent mortgage statement(s) (to help in obtaining payoffs)
- Contact info for your homeowners insurance agent
- Copy of your drivers license(s)

Renovation Project Documents:

For the General Contractor that you will be signing a contract with, I will need:

- A detailed bid / estimate for the work being performed. Please have the contractor sign and date this. I will also need you to sign and date it.
- A signed and dated "Homeowner/Contractor Agreement". Again, I will also need you to sign and date this form.
- The contractor must complete the attached Contractor Client References document and sign it
- The contractor must provide a copy of their Home Improvement (or specialty) Contractor's license
- The contractor must provide a resume of their building experience
- The contractor must provide evidence of insurance

(If your contractor has any questions or wants to speak with me, please encourage them to reach out to me directly.)



Application Guide (con't)

Mortgage Process:

Once you have selected the contractor(s) and are ready to move forward, here are the steps that we will be taking to complete the transaction:

- *Meet to complete and sign* the mortgage application documents. I am available to meet at your convenience, including evenings and weekends.
- *Order the appraisal.* I will need to obtain a credit card authorization for the cost of the appraisal at the time of application. That fee is typically in the range of \$500. The report will determine the value in the property's current condition as well as the after-completion of the proposed improvements. The report is generally completed within 2-weeks of the request..
- *Submit the package* to the lender for approval. This process typically takes from 4 – 6 weeks to get from submission to cleared-to-close.
- *Request and obtain title work* from your preferred attorney who will represent the bank and you at closing.
- *Schedule the closing.* This is established in the contract so it is important to make sure first, that there is sufficient time, and second, that all parties provide the information needed on a timely basis.
- *Draw Requests* from the contractor(s) are processed as the work progresses in accordance with your pre-planned schedule.
- *Final Disbursement Request* from the contractor(s). All work must be complete and a final inspection must be done before the final disbursement may be made.

Again, I have provided this breakdown to help you understand the process and (hopefully) clarify the steps we'll be taking together. If you have questions about any of the steps or need more information, please make sure to call or email me.

Yours in success!