



## **Funding Repairs on a Short Sale or Bank Owned Property Purchase**

It used to be that you bought a home and then applied for a home equity loan to fix it up, resulting in two loans. But many lenders won't make rehab loans anymore.

So the FHA has the Streamlined 203K program. The benefits of this program are the mortgage balance can exceed the purchase price of the property. Borrowers are not required to hire professional consultants, licensed engineers or architects. An appraiser or home inspector can put together a list of recommended repairs / improvements.

The Streamlined 203K allows up to \$35,000 for repairs. These must be documented, and the appraisal must justify the expenditures, meaning the repaired home must be worth as much or more than the mortgage amount. Like a standard FHA loan, the buyer is required to put 3.5% of the mortgaged amount down. So if you were buying a home for \$90,000, and borrowing an additional \$20,000 for repairs, you'd be required to put down 3.5% of the total, \$110,000.

The Streamlined 203K loan allows for simple repairs that can be easily estimated and completed. Many are considered light cosmetic repairs, but some will require hiring a licensed contractor if it falls out of the borrower's area of expertise.

This is a partial list of repairs and improvements from HUD; Roofs, gutters and downspouts, HVAC systems, plumbing and electrical, minor kitchen and bath remodels, flooring: carpet, tile, wood, interior and exterior painting, new windows and doors, energy efficient improvements, stabilizing or removing lead-based paint, decks, patios, porches, basement completion and the purchase of new kitchen appliances or washer / dryer.

Some of the special conditions & terms are that the borrowers must occupy the property, work must be completed within six months and if the job requires a permit, borrowers must get a permit and a sign-off.

Major repairs and remodeling are **not** allowed under to Streamlined 203K program. That includes moving load-bearing walls, room additions or fixing structural damage. That falls under the standard FHA 203K loan program.

Requirements to for completing the work allow borrowers to select among licensed contractors. The lender will review the contractor's experience, background and referrals. They'll also want a copy of the contractor's estimate and the agreement between the contractor and borrower. You can arrange to do some or all of the work some or all of the work under a "self help" arrangement. If it's going to be DIY you'll be required to provide the lender with documentation supporting the knowledge, experience and ability to perform the necessary work. And DIY allowances will not include labor, only materials.

I am a REALTOR®. I am not a loan officer or mortgage professional, nor do I play one on TV. I have several mortgage experts that I've worked with, and will refer specific questions about this loan program to them.