

The **FHA 203k loan** is a mortgage program insured by the Federal Housing Administration (FHA) that allows homebuyers to finance both the purchase of a property and the cost of its renovation with a single loan. It's also available to current homeowners who want to refinance their existing mortgage to fund home improvements. This type of loan is designed for properties in need of repairs or renovations, and it can be a great option for those looking to buy a fixer-upper or upgrade their current home.

## Key Features

1. **Combines Purchase and Renovation Costs:** The loan includes the cost of buying the property plus the expenses associated with renovations or repairs, simplifying the financing process.
2. **Low Down Payment:** Since it is an FHA loan, it requires a minimum down payment of 3.5% of the total loan amount (purchase price plus renovation costs).
3. **Flexible Credit Requirements:** FHA loans typically have more lenient credit score requirements compared to conventional loans, making it easier for borrowers with less-than-perfect credit to qualify.
4. **Government Insured:** The FHA insures the loan, which provides protection for lenders in case of borrower default.

## Types of FHA 203k Loans

There are two main types of FHA 203k loans:

1. **Standard 203k Loan** (also known as the Full or Consultant 203k)
  - For major renovations, structural repairs, or significant home improvements.
  - Requires a minimum of \$5,000 in eligible repairs, with no maximum repair limit.
  - Renovations must be overseen by an FHA-approved consultant who ensures compliance with program guidelines.
2. **Limited 203k Loan** (formerly known as the Streamline 203k)
  - For smaller projects and non-structural repairs.
  - Has a maximum renovation limit of \$75,000.
  - No FHA consultant is required for this type of loan.

## Eligible Renovations

- **Standard 203k Loan:** Can include structural changes, room additions, roof replacements, plumbing, electrical work, and major landscaping.
- **Limited 203k Loan:** Covers smaller projects like painting, new appliances, flooring, minor roof repairs, and energy-efficient upgrades.

## How It Works

1. **Property Selection:** Choose a home in need of renovation, or refinance an existing home.

2. **Consultant (if applicable):** For a Standard 203k loan, hire an FHA-approved consultant who will assess the project and create a detailed work plan.
3. **Loan Application and Approval:** Work with an FHA-approved lender to secure the loan.
4. **Renovation Funds Disbursement:** The funds are placed in an escrow account, with payments released to contractors in phases as the work is completed.
5. **Renovations Begin:** The work must start within 30 days of the loan closing and be completed within six months.

## Pros and Cons

### Pros:

- Allows you to finance both the purchase and renovation in one loan.
- Can increase the property value after improvements.
- May offer lower interest rates compared to other renovation loans.

### Cons:

- The loan approval process can be more complex and time-consuming.
- Limited contractors willing to work under FHA 203k guidelines.
- Requires mortgage insurance premiums (MIP), which adds to the loan cost.

The FHA 203k loan is a practical option for buyers or homeowners looking to make significant improvements while keeping financing manageable.

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