



Home Reimagined

203(K) Limited - Program Guidebook



NHHousing.org

New Hampshire Housing

203(K)Limited - Program Guidebook

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Rehab Loans Overview

This guide will provide you with a clear understanding of what the 203(K) Limited Program entails and equip you with the knowledge to ensure a seamless transaction!

What is a 203(K) Limited Program Rehab Loan?

The Federal Housing Administration's (FHA) Section 203(K) Limited Program Rehabilitation Mortgage Program allows you to finance the purchase of a home that needs repairs or improvements or refinance your current home to fund renovations. Available through FHA-approved lenders, this program combines the acquisition of the property and rehabilitation into a single loan.

The 203(K) Limited Program is open to homebuyers and homeowners.

Why Choose the 203(K) Limited Program?

The 203(K) Limited Program simplifies the process of financing home improvements, whether you're purchasing a new home or upgrading your current one. Homebuyers often face limited loan options for renovation projects, but this program offers a flexible solution for both homebuyers and homeowners looking to make improvements.

Borrowers can finance the purchase or refinance of a property, along with renovations, based on the appraised value after improvements. Traditional home improvement loans often have high interest rates, short repayment terms, or balloon payments. However, the 203(K) Limited Program offers a solution that helps borrowers by insuring a single, long-term loan at a fixed rate that covers both acquisition and rehabilitation.

Benefits

- Saves time: Combines purchase or refinance, and rehabilitation of a property into a single loan instead of typical construction lending with two loans.
- Saves money: Offers a low downpayment, like all FHA-insured mortgages. Also, the rates may be lower than other forms of financing, such as a home equity line of credit or credit cards.

Examples of Eligible Improvements

- Repair or replace plumbing, heating, air conditioning, and electrical systems
- Complete kitchen and bathroom remodeling
- Repair or install new roofing, siding and gutters
- Create accessibility for persons with disabilities
- Renovate a garage
- Replace windows or flooring
- Make energy efficient upgrades

Resources

For more on FHA's 203(K) Limited program, visit https://hud.gov/program_offices/housing/sfh/203k/203k--df.

To find an FHA-approved 203(K) Limited Program Lender, visit NHHomeownership.org.

For more information, contact a HUD-approved housing counseling agency. Visit hud.gov/findacounselor or call (800) 569-4287.

Homebuyer Education

All homebuyers who are looking to obtain an FHA 203(K) Limited loan with NH Housing will be required to take our free, online education. These classes could include:

- HomeView Homebuyer Education Class
- Purchase Rehab Class
- Water wellness Class (suggested for homes with private wells)

These can be found at NHHomeownership.org.

The First Steps

Find A Lender

When considering a home purchase, it's essential to work with a lender who understands the intricacies of the 203(K) Limited Program. NH Housing partners with approved lenders across the state, all well-versed in the 203(K) Limited Program process. By choosing a NH Housing-approved lender, you'll gain access to a team of knowledgeable professionals to guide you through the financing journey. These lenders offer competitive rates and downpayment assistance options, making it easier to acquire your dream home.

Understanding Your Role

Your lender will help you understand the financing details of the 203(K) Limited Program, but there are several steps where you'll need to take the initiative. Below are some common responsibilities for homebuyers; however, your lender or Realtor® may request additional assistance. Remember, effective communication is essential!

- Find a Realtor® familiar with the 203(K) Limited Program process.
- Provide financial documents to your lender, including pay stubs, W-2's, bank statements, and sources of funds for the transaction.
- Select a contractor and agree on the scope of work.
- Understand the costs of a 203(K) Limited Program, as inspections and services may be more expensive than with a standard purchase.
- Obtain homeowners insurance and any necessary policies during the renovation period.

Find A Realtor®

Your 203(K) Limited Program team should include a lender, contractor, and Realtor®, all experienced with the 203(K) Limited Program process. It's recommended to interview at least three Realtor®s to assess their experience with this loan product. While recommendations from family and friends are helpful, conducting an online search and consulting with your lender are also excellent ways to find the right fit!

Understanding The Costs

Before making offers, it's essential to understand the resources available to support your transaction. This typically includes your downpayment and the closing costs. The FHA 203(K) Limited Program requires a 3.5% down payment, just like other FHA loans. However, closing costs may be higher due to the rehab process.

Consult with your lender to ensure that your savings and any downpayment assistance will sufficiently cover the anticipated costs. It is also wise to set aside a small buffer for any unforeseen expenses.



Vetting Your Contractor

Selecting the right contractor is one of the most important decisions you'll make for your project. Let's explore the necessary qualifications and some helpful tips to ensure you'll find the perfect fit!

NH Housing Contractor Requirements

Hiring the right contractor can be overwhelming, but starting with a list of qualified candidates will make the process easier. Once you've gathered a few names, ensure they meet your lender's minimum requirements. Building a good rapport is essential. After interviewing your candidates, make sure they also meet these guidelines:

- **Experience:** 3 years of relevant experience.
 - If the business is less than 12 months old, references must show experience over the past three years.
- **Insurance:** A minimum of \$1 million in general liability coverage.
- **Licensing:** Must carry all required licenses by the state of New Hampshire.
- **Project Funding:** Willing to start the project with a maximum 35% initial disbursement at closing.
- **Documentation:** Able to provide detailed plans, specs and contracts.
- **References:** Must provide at least one credit reference and one past client reference.
- **Agreements:** Willing to sign agreements required by NH Housing.
- **Reputation:** Maintain a "B" or higher accreditation with the Better Business Bureau or a comparable reputation.
- **Timeline:** Committed to completing the work in 9 months.



Guidelines for Asking the Right Questions

Here are some key questions to consider asking your contractor to help you assess their suitability. Hiring someone with the right fit is essential, and these questions will guide you toward making the best choice.

- Are you comfortable with accepting payment directly from my lending institution rather than me directly?
- Are you able to start work within 30 days of loan closing and complete it within 9 months?
- Can you provide an itemized contract with a draw schedule?
- Are you okay with receiving only two disbursements for this project?
- Do you hire subcontractors, or do you have your own team of employees?
- Do your projects typically finish on the timelines you provide your clients?
- Can you provide client references?
- Are permits required for this project? Will you be handling the permit process?
- Are you fully licensed and insured?

Resources

If you don't know anyone who can recommend a contractor, several excellent resources are available in New Hampshire. Here are a few options to get you started:

Realtor/Lender

As experts in the industry, your chosen agent and lender are excellent sources of information to meet qualified builders and contractors.

NH Homebuilders Association (NHHBA)

Known as "The Voice of New Hampshire's Housing Industry," the NHHBA strives to keep consumers up-to-date with all the latest issues concerning buying, building, remodeling, or maintaining their home! You can find a list of association contractors by visiting their website, NHHBA.com.



(603) 228-0351
PO Box 951
Concord, NH 03302

Online Resources

Another way to find contractors is by reviewing sites like the Better Business Bureau and aggregators like Google Search or Angi's List. While we cannot officially endorse these platforms, they are good starting points for conducting your own research.

Eligible Renovations

While the 203(K) Limited Program Covers Most Home Repairs, It Has Limits.

Many buyers are unsure if the home they're interested in will qualify for the 203(K) Limited Program. Below are the eligible property types and the types of repairs this loan can cover.

How Much Does the 203(K) Limited Program Cover?

The FHA 203(K) Limited Program offered by NH Housing enables buyers to include up to \$75,000 for home rehabilitation directly into their mortgage financing. Eligible repairs can include any combination of improvements, as long as the total costs and contingencies do not exceed \$75,000.

Eligible Repairs

- Replace or repair existing HVAC systems
- Replace or repair roofs, gutters, and downspouts
- Replace or repair plumbing systems
- Update floor and/or flooring treatments
- Interior and/or exterior painting
- Appliance updates
- Waterproofing basements
- Home weatherization
- Door and/or window replacement
- Enhance home accessibility
- Update electrical wiring
- Replace or repair the home's exterior
- Make energy-efficient improvements
- Install a septic system or well

Improvements Not Allowed (But Not Limited To):

- Structural repairs or major rehabilitation
- New construction, such as adding a room or ADU
- Repairs taking longer than 9 months
- Repairs requiring more than 2 draws

Luxury Items Are Not Eligible:

- Landscaping
- Swimming pools
- Hot tubs
- Tennis courts

Eligible Property Types

To use a 203(K) Limited Program to finance your property, it must meet the following criteria:

- Single-family dwellings are eligible.
- 1-4 unit homes (such as townhouses or detached homes) must have been completed for at least one year.
- Condos (1-4 units): Only interior improvements are allowed.
- Modular Homes that have not be moved from initial installation.
- Manufactured homes on their own land.

Additionally, the 203(K) Limited Program allows you to convert single-unit properties into 2-4 unit dwellings.



Things to Consider

Prior to diving headfirst into a 203(K) Limited Program, it's important to be prepared for a more complex process than a standard mortgage. Along with additional paperwork and planning, keep the following in mind.

You're Working Against a Timeline

With a 203(K) Limited Program, renovations must be completed within nine months of closing. This means you'll need to carefully monitor progress and coordinate with all parties involved.

Clarify Your Goals

Your renovation plans will ultimately determine the loan amount, so it's crucial to finalize these details before seeking approval. Renovations should commence within 30 days of closing, so ensure everything is ready in advance.

Assistance is Necessary

You may need expert help to prepare plans and obtain contractor bids before closing. Keep in mind that all modifications must meet code requirements, and contractors must be licensed and insured.



The Advantages of the 203(K) Limited Program

The 203(K) Limited Program offers more than just a simplified repayment process for both new homebuyers and current homeowners. Let's explore some key benefits:

Low Down Payment

Many buyers struggle to save a 20% downpayment and cover renovation costs. The 203(K) Limited Program combines the mortgage and renovation expenses, requiring, requiring as little as 3.5% down.

Reduced Interest on Renovations

Traditional rehab loans often carry higher interest rates and shorter terms. The 203(K) Limited Program eases the financial burden with competitive interest rates and longer repayment terms.

Immediate Equity

Depending on the property and renovations, you could gain substantial equity in your home shortly after moving in.

Personalize Your Home

Rather than settling for someone else's design choices, or waiting to save for desired renovations, this loan empowers you to make immediate improvements after purchasing the home.

Potential Savings

Mortgage rates are typically lower than credit card rates, making the 203(K) Limited Program a more cost-effective way to finance repairs and renovations.

Setting Your Budget

Establishing a realistic understanding of your personal budget is crucial for successfully obtaining a 203(K) Limited Program Loan. Let's delve into the various components of a budget before you utilize the budgeting tool included in this guidebook.

Budget for Renovation Costs

Creating a budget for a 203(K) Limited Program is critical, as renovation expenses can accumulate rapidly. Unlike a standard mortgage, a 203(K) Limited Program finances both the property purchase and renovation costs, making it essential to grasp the potential expenses involved. These may include materials, labor, permits, and unexpected repairs. A well-structured budget helps you prioritize essential work while avoiding financial strain, ensuring funds are available for every stage of the renovation. Effective planning can streamline the process, especially when navigating the complexities of property rehabilitation.

Account for Mortgage-Related Expenses

In addition to renovation costs, you'll need to factor in mortgage-related expenses specific to the 203(K) Limited Program. These may include:

- Origination fees
- The cost of hiring a HUD-approved consultant
- Adjustment fees during the renovation process

Including these in your budget provides a comprehensive understanding of your total financial commitment. Proper planning minimizes the risk of unexpected expenses that could delay your project and disrupt loan payments.

Set Aside a Reserve

NH Housing requires a 10% reserve within your 203(K) Limited Program budget to prepare for unforeseen challenges. Renovation projects often present unexpected expenses, and having a financial cushion helps keep everything on track. This reserve provides peace of mind, prevents delays, and reduces the need for additional financing.

NH Housing's \$15,000 Downpayment Assistance

The \$15,000 Downpayment Assistance (DPA) program can significantly alleviate the financial strain of a 203(K) Limited Program. It helps cover closing costs and lowers the required down payment, allowing you to reserve more savings for renovation expenses. This support is especially valuable for first-time homebuyers, making budget management easier and ensuring you have sufficient funds to complete your project.

How NH Housing Downpayment Assistance Works

DPA enhances the affordability of your purchase and 203(K) Limited Program from the start. You can utilize the DPA to cover closing costs, downpayment, certain upfront fees, and mortgage-related expenses permitted by the insurer.

NH Housing's DPA is offered as a 0% APR second lien, with no monthly payments. Repayment becomes due if you sell, refinance, stop using the home as your primary residence, or after the 30-year term.

This program enables homeowners to buy a property while ensuring the repayment process is as flexible as possible!



Setting Your Budget

Project Address: _____

Lender Name

Name: _____
Address: _____
Email: _____
Phone #: _____

Realtor ® Name

Name: _____
Address: _____
Email: _____
Phone #: _____

Contractor Name

Name: _____
Address: _____
Email: _____
Phone #: _____

Name: _____
Address: _____
Email: _____
Phone #: _____

Budget Review

Below is an example budget form to be used for informational purposes to help you chart the expenses and costs of rehabing a home.

Property Purchase Costs

Purchase Price: \$ _____
Closing Costs: \$ _____
Downpayment (Typically 3.5% for FHA): \$ _____
Inspection Fees: \$ _____
Appraisal Fees: \$ _____
Title Fees: \$ _____
Other Fees (e.g., loan origination, attorney fees): \$ _____
Total Property Purchase Costs: \$ _____

Renovation Costs

Estimated Cost of Repairs/Renovations: \$ _____
Contingency Reserve (10% of renovation costs): \$ _____
Inspection Fees for Renovation Draws: \$ _____
Permit Fees: \$ _____
Total Renovation Costs: \$ _____

Mortgage-Related Costs

203k Loan Origination Fees: \$ _____
Upfront Mortgage Insurance Premium: \$ _____
Monthly Mortgage Insurance: \$ _____
Prepaid Property Taxes: \$ _____
Homeowners Insurance: \$ _____
Total Mortgage-Related Costs: \$ _____

Reserves and Savings

Emergency Fund (3-6 mo of expenses): \$ _____
Post-Closing Reserves Required by Lender: \$ _____
Total Reserves and Savings: \$ _____

Funds Needed

Total Costs (Sum of Sections 1-4): \$ _____
Less Estimated Loan Amount: \$ _____
Other Available Funds (e.g., DPA, savings): \$ _____
Total Out-of-Pocket Funds Needed: \$ _____

This budget tool helps estimate the costs of a 203(K) Limited Program Purchase Loan, including the property purchase, renovation expenses, mortgage fees, and reserves. Input estimated amounts based on research and professional advice. The tool provides a general overview, as actual costs may vary. Collaborate closely with your lender and contractor for accurate quotes and to finalize your budget.

Contacts & Notes

My Notes

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New Hampshire Housing promotes,
finances, and supports housing solutions
for the people of New Hampshire.