# FHA - 203K AND RENOVATION LOANS

Overview



# WHAT IS A 203K FHA LOAN OR A RENOVATION LOAN?

Both loan types enable homebuyers and homeowners to finance both the purchase (or refinancing) of a house and the cost of its rehabilitation through a single mortgage.

203K loans may be used to rehabilitate existing one- to fourunit Structures, which will be used primarily for residential purposes.

These insured loans can finance the rehabilitation of the residential portion of a **mixed-use property**. However, the 203K loan can only be utilized to update the residential section of the building.

Please see the HUD 4000.1 Handbook for additional criteria on mixed-use properties.



# A CONVENTIONAL RENOVATION LOAN:

Is almost the same as a 203K loan except that an "as is" value may not be required. Nor does the appraisal need to adhere to FHA requirements. However, any health and safety issues found by an appraiser will need to be addressed.



### **RENOVATION LOAN-203K APPRAISAL**

An appraisal by an FHA Roster Appraiser is always required to establish the After Improved Value of the Property on a 203K appraisal.

The appraiser must review the bids and or construction plans, for improvements being made to the subject.



### **AS-IS VALUE**

If the subject is under contract with as a pending sale, then as is value is the agreed upon purchase price.

If assignment type is for a FHA refinance, then an appraisal indicating the "as is" value of the subject in it's current condition will be required.

The subject property in as is condition may not met the minimum property requirements of FHA, this is a known and accepted fact for a 203K assignment.

If the assignment is for an renovation loan, the client may ask the appraiser to provide the "as is" subject value within the written addendum of the subject to appraisal report.



The as is appraisal will reflect the current conditions of the subject improvements

Under the subject improvement section of the form, as shown below, the subject was rated in C4 condition and has not had any kitchen or bath remodeling.

Describe the condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.).	C4;No updates in the prior 15 years;See attached
addenda.	



The comparables selected will be in similar condition or adjusted based upon the subjects condition rating.

Below, the subject is in it's current condition, is rated by the appraiser as a C4 condition and has selected comps of same rating or adjusted to reflect subject's current condition.





Under the Reconciliation of the form, the subject's value will be an as is value with that box checked. Note: If this is for an FHA report, the appraiser will not make the report subject to any normally required FHA repairs.

4		Indicated Value by: Sales Comparison Approach \$ 105,700 Cost Approach (if deve
		Most weight is given the Sales comparison Approach. Income Approach was is not an investor. The Cost Approach, if applicable to the scope of the assign
	Z	is not an investor. The Cost Approach, if applicable to the scope of the assign
	Ĕ	
		This appraisal is made 🖾 "as is", 🗀 subject to completion per plans and specifications on
	SONC	completed, subject to the following repairs or alterations on the basis of a hypothetical cor
	<u>8</u>	following required inspection based on the extraordinary assumption that the condition or deficient
	2	Deced on a complete viewel increation of the interior and exterior erece of the cubicat
		Based on a complete visual inspection of the interior and exterior areas of the subject conditions, and appraiser's certification, my (our) opinion of the market value, as defined
		\$ 105,700 , as of 11/02/2016 , which is the date of inspection



# **SUBJECT TO VALUE**

An appraisal valuing the subject as improved; will be based upon the hypothetical condition that any repairs and/or alterations are complete. The subject to appraisal report will reflect the subject as improved. The subject is now rated a C3 with both the kitchen and bathrooms remodeled less than a year.

	Exterior Description	materials/condition	Interior	materials/condition	-
_	Foundation Walls	Slab/Good	Floors	Carpet/Tile/Good	
	Exterior Walls	Concrete Block/Gd	Walls	Drywall/Good	
1	Roof Surface	Comp Shingle/Good	Trim/Finish	Wood/Paint/Good	
5	Gutters & Downspouts	Aluminum/Good	Bath Floor	Tile/Good	
_	Window Type	DblHung/Insul/Good	<b>Bath Wainscot</b>	Tile/Good	
	Storm Sash/Insulated	None	Car Storage	None None	
	Screens	Aluminum/Good	Driveway	# of Cars 1	
t	Amenities	Woodstove(s) # 0	Driveway Surfa	ce Concrete/Good	
	Fireplace(s) # 0	Fence Wood	Garage	# of Cars O	
	Patio/Deck None	Porch Screened	Carport	# of Cars O	
	Pool None	Other Cvd Entry	Att.	Det. Built-in	
	Washer/Drue	r Other (describe)			

Additional features (special energy efficient items, etc.). Granite kitchen counters.	
Describe the condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.).	C3;Kitchen-remodeled-less than one year
ago;Bathrooms-remodeled-less than one year ago;See attached addenda.	



Note within the sales comparison approach grid. The properties selected as comps now have same C3 condition rating as the subject.

Quality of Construction	Q4			Q4				Q4				Q4				
Actual Age	46			38			0	22			0	50			0	
Condition	C3			C3				C3				C3				
Above Grade	Total	Bdrms.	Baths	Total	Bdrms.	Baths		Total	Bdrms.	Baths		Total	Bdrms.	Baths		

The selection of comparables are based upon the hypothetical condition that the subject is improved.



The box check is subject to completion based upon the hypothetical condition the repairs and alterations have been completed.

The appraised value now reflects the subject as improved!

	Indicated Value by Sales Comparison Approach \$ 238,000
	Indicated Value by: Sales Comparison Approach \$ 238,000 Cost Approach (if developed) \$ 243,849 Income Approach (if developed) \$
	Most weight is given the Sales comparison Approach. Income Approach was considered but discarded as the typical buyer for such properties
1	is not an investor. The Cost Approach, if applicable to the scope of the assignment, is supportive but given no weight.
	This appraisal is made 🗌 "as is", 🛛 subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been
	completed, 🗌 subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed, or 🗌 subject to the
5	following required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair. The appraisal is made subject to
	completion of the attached "Proposed Renovations".
	Based on a complete visual inspection of the interior and exterior areas of the subject property, defined scope of work, statement of assumptions and limiting
	conditions, and appraiser's certification, my (our) opinion of the market value, as defined, of the real property that is the subject of this report is
	\$ 238,000 , as of 11/02/2016 , which is the date of inspection and the effective date of this appraisal.



A buyer, may obtain a Renovation Loan or 203K Loan to cover the cost to purchase plus the cost to remodel a home.

A current owner, may obtain a Renovation Loan or 203K Loan to cover the cost to remodel a home. There are 2 types of 203K insured loans.







An FHA approved 203(k) Consultant is required for all Standard 203(k) Mortgages and may be used for Limited 203(k) Mortgages. Any Consultant who performs work on a 203(k) must be listed on the FHA 203(k) Consultant Roster. The Consultant inspects the Property and prepares the architectural exhibits, the Work Write-Up and Cost Estimate. (There is minimum rehabilitation cost of \$5,000).



# FHA CONSULTANTS MUST INSPECT THE PROPERTY TO ENSURE:

- there are no defects that will affect the health and safety of the occupants;
- there exists adequate structural, heating, plumbing, electrical and roofing systems; and there are upgrades to the Structure's thermal protection (when necessary);
- there are no rodents;
- dry rot;
- termites and other infestation on the Property;
- prepares the work write up and cost estimate;
- and more;



### STANDARD 203K ELIGIBLE IMPROVEMENTS

- Structural alterations and reconstruction
  - Whole new structure (part of foundation must remain)
  - Additions
- Modernization and improvements to the home's function
  - Moving walls
- Elimination of health and safety hazards
- Changes that improve appearance and eliminate obsolescence
- Reconditioning or replacing plumbing; installing a well and/or septic system
- Electrical upgrades
- Enhancing accessibility for a disabled person
- Making energy conservation improvements
- HUD requires that properties financed under this program meet certain basic energy efficiency and structural standards.
- This list is not all inclusive



### **ELIGIBLE IMPROVEMENTS UNDER A LIMITED 203K**

- Miscellaneous Repairs required to meet FHA Requirements
- Remodeling of the kitchen
- Remodeling bathrooms
- Replace flooring
- Purchase appliances

#### Eligible improvements under a Limited 203K - Continued ...

- Replace windows
- Replace roof shingles
- Replace furnace or **air** conditioning
- Paint interior/exterior
- This list is not all inclusive

The 203(k) mortgage proceeds may not be used to finance costs associated with the purchase or repair of any luxury item, any improvement that does not become a permanent part of the subject Property, or improvements that solely benefit commercial functions within the Property, including: recreational or luxury improvements, such as:

- swimming pools (existing swimming pools can be repaired)
- an exterior hot tub, spa, whirlpool bath, or sauna
- barbecue pits, outdoor fireplaces or hearths
- bath houses
- tennis courts
- satellite dishes
- tree surgery (except when eliminating an endangerment to existing improvements)
- photo murals
- gazebos; or
- additions or alterations to support commercial use or to equip or refurbish space for commercial use.





Would both be available for Standard 203K finance? Putting a dwelling on a existing Foundation or an addition including a garage?

Yes, both would be allowed as long as some part of the foundation is at least one year old.

# Which project is allowed through a Standard 203K loan?





Could you finance a remodel that changed a single family dwelling into a multi-family?

Yes, however, FHA requires the owner to live in one of the units.

#### SINGLE FAMILY



## **FOUR-PLEX**





FHA's Limited 203(k) program permits homebuyers and homeowners to finance up to \$35,000 into their mortgage to repair, improve, or upgrade their home. (There is no minimum rehabilitation cost.)



Yes a Condominium will qualify for a 203K insured loan. The subject unit must be located within an FHA-approved Condominium Project.

Improvements are limited to the interior of the subject unit, except for the installation of firewalls in the attic.



The appraiser MUST also be supplied with the Contractor bids, indicating in detail what improvements are being made and final cost, labor and materials



Statement State



Required extra documents the appraiser MUST be supplied from the time of assignment acceptance. Please ensure you have been supplied with any blue prints if the subject is having major improvements such as full dwelling construction, addition or change in floor plan.





Purchase Price or As-Is Value of Subject: \$25,000

**Cost of Work:** +\$250,000

Typical Subject to Value: \$280,000

#### **From This**



Yes, the borrower may put more money into the renovation than what the as is value is.

#### To This



The appraised value will be "subject to" the proposed improvements along with any health and safety repairs not addressed in the bids.

The bids and/or construction documents need to be included as additional addenda.

All Photos of the subject, as of the time of on site observation need to be included as well.



The subject improvements will be reflected throughout the appraisal report "as improved".

This includes:

- Improvements section of the form
- Cost Approach, if completed
- Sales Comparison Approach
- Selection of Comparables
- Quality and Condition ratings
- Appraised value



For additional information on 203K Loans, please use this link to FHA.

https://www.hud.gov/program\_offices/administration/hudclips/handbooks/hsgh

For additional information on Fannie Mae Renovation Loans, please follow use this link to FHMA.

https://www.fanniemae.com/content/guide/selling/b5/3.2/03.html



If you have any questions or concerns, please contact us at (866) 333-8311

