

# What is an FHA 203(k) loan?



**I**n a nutshell, an FHA 203(k) allows funds for repairs, renovations, additions or other modifications to be financed all in the same loan used to buy (or refinance) a property. If a scruffy fixer-upper captures your heart, but you don't have enough money to buy it and fix it up, this loan might be just the ticket. There are two versions of the loan available: the Streamline 203(k) and the Full 203(k).

First, some history behind the weird name. In an effort to encourage private credit for home construction and relieve the high unemployment of the Great Depression, Congress passed the National Housing Act of 1934 in (you guessed it) 1934. The Act created the Federal Housing Administration (FHA). Section 203 of the Act created a mortgage insurance program for one to four unit homes. FHA loans are all named after the paragraph of Section 203 under which they are authorized.

The "standard" (for lack of a better word) FHA program is technically the FHA 203(b), although you'll rarely see it referred to that way. The FHA renovation home loan is called the "203(k)". Because "FHA renovation home loan" is a mouthful, you'll almost always hear this program referred to as a "203(k)" or sometimes just a "K".

The Streamline K is aptly named and really does have a quicker, user-friendlier process. From a timeline standpoint it is generally the best solution for a purchase transaction, but it does impose some limitations on the amount of work (\$32,500 maximum bids) and scope of work (nothing structural allowed).

The Full 203(k) has a bit more involved process, requiring a HUD-approved consultant to prepare a Work-Write Up and Cost Estimate. On the other hand, the scope of work and budget are limited only by current FHA maximum loan amounts.

If you are interested in a 203(k), talk to us. We love this program and have decades of experience working with it. We'd be happy to help you sort out if a 203(k) is a good fit for your project and make sure you understand the pros and cons (and any potential alternatives). If you decide to pursue a 203(k), we'll be there every step of the way, guiding you through the process.



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