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Welcome to the world of Renovation loans

- What is a 203K loan?
- How can a 203K loan be used?
 - Advantages of 203K loans
- The process of obtaining a 203K loan
 - Why we are the experts



“Own it then make it your own!”

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A 203K is FHA's Rehabilitation Mortgage loan.

With this loan, a borrower can purchase or refinance a home and include additional money for repairs or renovations.

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What can a buyer or seller do with a 203K loan?

- **Purchase or refinance a property**
 - **“Modernize” a property**
 - **Fix a required repair**
- **Make optional improvements, like a room addition or landscaping**

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Example of Repairs:

- Replace Roof
- Room Addition
- Add a Garage
- New Carpet
- Upgrade to Central Heat/Air
- Repair Termite or Moisture Damage

- Energy Efficient Improvements
- Paint Interior or Exterior
- Landscaping (not on streamline)
- Handicap Accessibility
- Remodel Kitchen/Bath

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Types of properties:

- **Single family**
- **2-4 units**
- **Mixed use (commercial and residential in one building)**
- **Manufactured homes**

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Advantages:

- **Perfect solution to Handyman Specials (utilities DO NOT have to be on!)**
- **Close before repairs begin ... sellers love this**
- **Only one closing, with money disbursed on a draw basis after closing**

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More Advantages:

- **Loan amount can go as high as 110% of the “after-improved value”**
- **Up to six months to complete renovations**
- **Buyer can include optional renovations**
- **Can finance up to six months of payments**

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The Process



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Qualification for a 203K is the same as a normal FHA loan.

- Full documentation is required.
- At least a 600 mid credit score is required – restrictions do apply.
- No reserve requirements.
- Down payment can be in the form of “gift” funds.
- Qualifying amount includes the sales price (or existing debt) and the rehabilitation amount.

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Buyer selects a property

- Foreclosure or short sales are perfect for a 203K loan, and may get your borrower some added equity
- Consider the location of schools, employers, shopping, etcetera.
- No need to worry about “old” bathrooms or “outdated” kitchens – these are fixed with the 203K rehabilitation.

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Feasibility study is performed or bids from a Contractor obtained

- A HUD-approved 203K Consultant goes out to the property with the buyer to determine what work needs to be done.
- For a Consultant K - The FS includes any repairs required to correct health and safety hazards, as well as any additional changes for improved function and modernization requested by the buyer.

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Miscellaneous Inspections

Any additional report or inspection that may be required or wanted by the borrower is done at this time.
Well/Septic, termite, etc.

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Work write-up (Consultant K's only)

- If the 203k is to be a Consultant K; structural in nature, or complicated, then the Consultant creates a write-up on the property.
- The write-up begins with “1.Masonry” and goes through “35.Miscellaneous” listing the required *and* desired repairs.
- It breaks down what is required and/or desired under each category and lists an approximate cost.
- Once a final Work Write is accepted by the borrower, they then need to find and finalize a contractor for the work.

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Appraisal performed

- The Appraiser is given the Fixed price bids or the Work Write Up, and returns to us a standard FHA appraisal with an After-improved value.
- If the value of the appraisal comes in lower than what is needed, then HUD allows us to lend up to 110% of the after-improved value. This is very useful when the repairs are needed, but do not add much value.

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Loan is approved by Underwriter

- Now that all of our necessary documentation has been gathered (the sales contract for purchase, bids/write-up, misc. inspections, contractor's bid, and appraisal, the file is then sent to the Underwriter for final approval.

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Approved loan to closing attorney

At the closing table, the seller is paid their portion of the funds and the remaining renovation money is put into an escrow account.

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Rehab account is created, funds are disbursed as work is completed and inspected

- The lender establishes a “Rehabilitation Escrow Account” to hold the total amount necessary to finance the construction, plus the contingency reserve, inspection fees, and any mortgage payments, where applicable.
- A “Draw Request” form is signed off by the Contractor, the Homeowner, and the Consultant (if used) as the work is completed.
- A check is cut in the name of the Contractor *and* the Homeowner and is mailed to the Homeowner’s current address.
- Once the work has been completed and the final draw paid, any amount left over in the Escrow Account is used as principal curtailment (paid toward the principal).

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Example of Loan Amount Calculation:

Purchase Price	\$155,000.00
Total Rehabilitation Cost	\$ 40,000.00
Total Acquisition Cost	<u>\$195,000.00</u>
Maximum FHA Loan Amt.	\$188,150.00
Down payment	\$ 6,850.00

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We are the experts...

- We have dedicated 203k staff, both in sales and operations.
- We understand the 203k loan and process, and work to make it successful with every loan.

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Thank you for your time today.

For your next loan renovation loan call:

Joe Altobelli (301) 945-4325

Mark Zitelman (301) 945-4312

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