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## Funds for Handyman-Specials and Fixer-Uppers



***The purchase of a house that needs repair is often a catch-22 situation, because the bank won't lend the money to buy the house until the repairs are complete, and the repairs can't be done until the house has been purchased.***

### HUD's 203(k) program

HUD's 203(k) program can help you with this quagmire and allow you to purchase or refinance a property plus include in the loan the cost of making the repairs and improvements. The FHA insured 203(k) loan is provided through approved mortgage lenders nationwide. It is available to persons wanting to occupy the home.

The down payment requirement for an owner-occupant (or a nonprofit organization or government agency) is approximately 3% of the acquisition and repair costs of the property.

The 203(k) loan includes the following steps:

1. A potential homebuyer locates a fixer-upper and executes a sales contract after doing a feasibility analysis of the property with their real estate professional. The contract should state that the buyer is seeking a 203(k) loan and that the contract is contingent on loan approval based on additional required repairs by the FHA or the lender.

2. The homebuyer then selects an FHA-approved 203(k) lender and arranges for a detailed proposal showing the scope of work to be done, including a detailed cost estimate on each repair or improvement of the project.
3. The appraisal is performed to determine the value of the property after renovation.
4. If the borrower passes the lender's credit-worthiness test, the loan closes for an amount that will cover the purchase or refinance cost of the property, the remodeling costs and the allowable closing costs. The amount of the loan will also include a contingency reserve of 10% to 20% of the total remodeling costs and is used to cover any extra work not included in the original proposal.
5. At closing, the seller of the property is paid off and the remaining funds are put in an escrow account to pay for the repairs and improvements during the rehabilitation period.
6. The mortgage payments and remodeling begin after the loan closes. The borrower can decide to have up to six mortgage payments (PITI) put into the cost of rehabilitation if the property is not going to be occupied during construction, but it cannot exceed the length of time it is estimated to complete the rehab.
7. Escrowed funds are released to the contractor during construction through a series of draw requests for completed work. To ensure completion of the job, 10% of each draw is held back; this money is paid after the lender determines there will be no liens on the property.

For a list of lenders who are offering the 203(k) Rehabilitation Program, please see the 203(k) Lenders List. The interest rate and discount points on the loan are negotiable between the borrower and the lender.