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The return of the FHA 203(k) home financing option

Since the downturn in the economy, many properties for sale have remained unsold for extended periods of time. Some of these properties are unoccupied and suffer damage as a result of decay or vandalism. Others are in need of general maintenance or repairs and sellers today do not have the extra funds available to pay for these items to attract homebuyers.

One solution has been the resurgence of the FHA 203(k) loan program. This program has been available since 1978 and was created by the federal government in an effort to preserve and restore America's existing housing stock.

Homebuyers today have been flocking to the 203(k) loan program in greater numbers since the economic downturn. In 2008, the FHA endorsed just 6,751 of these loans for the year. By the end of fiscal 2010, FHA endorsed 22,491 loans. In part the program has regained its popularity because of the ease that a homebuyer can obtain funds for repair projects relative to other financing options and the overall flexibility of the program to address both small and large repair projects.

What is the difference between traditional financing and the FHA 203(k) program? Traditional mortgage financing only provides financing based upon the current condition and value of the property. If a homebuyer needs or wants to repair, update or modernize a property, he has to either pay for the repairs out of pocket or obtain alternative financing after purchasing the property. In contrast, FHA 203(k) financing allows a homebuyer to purchase a property and include the cost of the repairs as part of one permanent loan. The lender provides the financing based on the projected value of a property after the proposed repairs are complete.

Contrary to popular belief, the program does not require a homebuyer to refurbish an entire property to qualify for the program. The FHA 203(k) program allows great latitude to the homebuyer for the amount and type of work performed on a property.

The homebuyer can use the eligible funds to repair, update or

modernize a property. Funds can be used for one small project up to rehabilitating an entire dwelling. Eligible work includes but is not limited to upgrading kitchens, bathrooms, heating systems, insulation, appliances (refrigerators, stoves, etc.), certain landscaping projects, painting and any structural repairs.

The program allows a homebuyer to finance costs relating to converting a property from a one-family home to a multi-family home, or vice versa. A homebuyer can also use the program to demolish an entire dwelling and rebuild it, as long as the existing foundation remains in place and is used in the rebuilt dwelling. The program even allows the cost of moving the entire dwelling to a new site.

The FHA 203(k) program, however, does have its limitations and extra requirements. Eligible properties must be a one- to four-family dwelling that has been complete for at least a year. Dwellings under construction and new construction are not eligible for this program. The program does not allow a homebuyer to use funds for luxury items such as swimming pools, hot tubs or barbecue pits.

There is a minimum of \$5,000 of eligible improvements required to be spent on a property and the homebuyer must use a licensed contractor for the proposed project. In addition, the homebuyer must otherwise financially qualify for the loan.

For a homebuyer who is purchasing that dated or defective property, the FHA 203(k) does offer a useful financing option. It offers good flexibility for purchasing not-so-desirable properties in a down economy. The increase in the FHA 203(k) program may not solve our country's housing problem, but hopefully it is a step in the right direction.

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