CONSUMER GUIDE: FINANCING A RENOVATION WHEN YOU BUY

You've found a house that has great bones, but it needs work. Don't let the thought of renovation costs scare you away. There are mortgage options that let you fold in the cost of renovations or repairs. Renovation financing can help you compete in low-inventory markets, customize a home to your needs and build equity faster. Your real estate professional can help you identify the right loan options and connect you with experienced lenders.

What are the options for rolling a renovation into a home-purchase mortgage?
There are several government-backed mortgage programs that may be offered by your lender:

- **Federal Housing Administration (FHA) 203(k) loan**—The 203(k) loan allows buyers to make major renovations and structural additions provided that the total value of the property still falls within the FHA mortgage limit for the area. The minimum repair cost must be $5,000, you must use an FHA-approved 203(k) consultant, and projects must be completed within 12 months. A **limited 203(k)** version allows buyers to finance up to $75,000 into their mortgage to cover minor/non-structural repairs and improvements. Projects must be completed within nine months.
- **Fannie Mae HomeStyle Renovation or Freddie Mac CHOICE Renovation —** Through these **conventional loan** products, buyers can borrow up to 75% of the purchase price plus renovation costs or the "as-completed" appraised value, whichever is lower.
- **VA Renovation Loan —** Available to veterans, active-duty military or surviving spouses, this option is for primary residences only to make renovations that improve accessibility or safety, such as a new HVAC system or mold remediation, and not for cosmetic upgrades.
- **USDA Renovation Loan —** Available to eligible buyers in qualifying rural areas, this option combines the purchase price and renovation costs into a single mortgage with no down payment, financing up to 100% of the "as-improved" appraised value. Buyers can choose a limited version for non-structural repairs up to $35,000, or a standard version for structural changes and larger-scale improvements.

What types of properties qualify for these loans? Generally, these programs can be used to purchase single-family homes; two- to four-family units; townhomes; eligible condominium units (improvements are limited to the unit's interior for the 203k); manufactured homes titled as real estate; **HUD Homes** (real-estate-owned properties); or mixed-use properties that are at least 51% residential. For more information, check out the FHA's **Program Comparison Fact Sheet** or Fannie Mae's **Homestyle** site.

What renovations are eligible for the FHA Standard 203(k) Mortgage loan?

- Convert one-family unit to 1- to 4-family units
- Convert multiunit structure to 1- to 4-family homes
- Make structural changes or repair structural damage
- Repair, reconstruct or elevate existing foundation
- Buy an existing structure and move to another site

What types of renovations are eligible for the FHA Limited 203(k) mortgage loan?
This isn't a comprehensive list, but you can use the limited 203(k) to:

- Repair or replace plumbing, HVAC, electrical systems, wells and/or septic systems
- Finish attics and basements
- Remodel kitchens and bathrooms
- Renovate or construct a garage
- Repair or install new roofing, siding, gutters or downspouts
- Create accessibility for persons with disabilities

Why not just get a home-improvement loan after the purchase? Home-improvement loans and home equity lines of credit often carry higher interest rates and shorter repayment timeframes. The government-backed financing options allow you to secure a single loan that is long-term, with a fixed or adjustable rate, to cover both the purchase and renovation of the home.

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