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Photo courtesy: Westchester Home Building

It's not a snap, but the Federal Housing Agency's [203k program](#) enables homeowners to finance home improvements as part of their FHA-insured purchase or refinance loan.

How much? It depends. How does it work? It depends.

Yup... it's a government program. But even with record-low mortgage rates, the FHA, which guarantees owner-occupied mortgages made by private lenders, has become the [mortgage of choice](#) for risk-averse lenders. That alone makes the 203k program worth checking out.

The key factors you will have to chase down include:

- *Your new best friend is the 203k inspector.* Because the renovation funds are wrapped into the total loan (not issued separately), an FHA-approved inspector must examine the house and the proposed project to make sure that it all supports the total value of the loan. These inspectors are typically home inspectors with FHA superpowers, so working with them is an extreme version of working with the average home inspector.

- *How the process works changes all the time.* As a civilian, you can't possibly keep up with all the nuances of proposed, adopted, canceled and reinstated changes. The bad news is that lenders can't keep up with it

either. The key, says 203k consultant Randy Navarro (of [The Complete Inspection Company](#) in suburban Seattle) is to choose a loan officer who regularly handles 203k loans. Don't go just for a lender who handles these loans—there might not be a single experienced loan officer in the entire building. Grill potential loan officers on exactly how many 203k loans they handle annually and speak with the 203k inspectors they work with. A bumbling loan officer can hopelessly tangle an already complex process. "Don't be a guinea pig for a loan officer," says Navarro.

- *Real estate agents are not a reliable source of information on 203k loans.* They have even less incentive to stay abreast of complicated rules. And most important, real estate agents have no say in the loan process.

- *How much you can borrow varies [by region](#),* but a good rule of thumb is that the total value of the loan cannot exceed the FHA maximum loan for your region. That means that to make the finances work, you must buy low and substantially improve the market value of the house with moderate, market-appropriate improvements. Bingo! That's the whole point of the program.

The contractor will not get funds up front. The lender will release the funds only when the work is complete and approved. That's bad news for contractors with cash flow problems, but it's good news for competent contractors who like the guarantee that the money is waiting for them at the end of job well done. (Homeowners have been known to run out of money and not tell their contractors.)

Your loan application will stay on track if you remember that the 203k is a blended loan, which means that your renovation project is subject to much more oversight by the lender than would a normal cash-out refinance or home improvement loan. "You can't do whatever you want with the money," notes Navarro. "If you are a rebel and have Uncle Billy do the roof instead of a qualified contractor, you'll be in trouble. But if you are willing to comply with the rules, things will go well."

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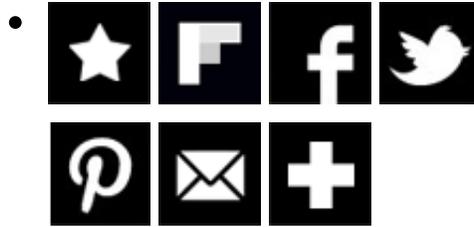
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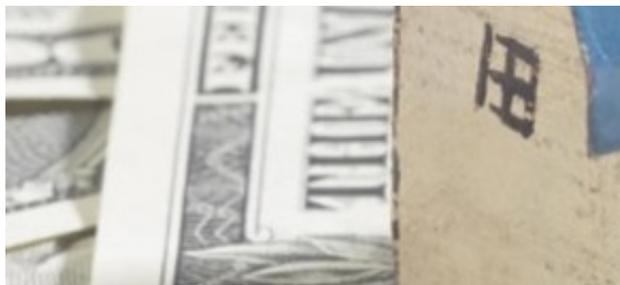
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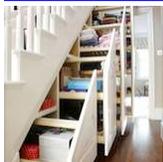


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