

Whether you want to fix a faucet or build an addition to your home, there are resources available to you through the U. S. Department of Housing and Urban Development. The Federal Housing Administration, a division of HUD, has two programs that help you secure home improvement financing: Title 1, Property Improvement Loan Insurance and Section 203(k) Rehabilitation Mortgage Insurance.

TITLE 1 PROGRAM

The Title 1 program insures loans to encourage lenders to make credit available to borrowers who would not otherwise qualify for conventional loans on affordable terms (such as first-time homebuyers) and to residents of disadvantaged neighborhoods (where loans may be hard to obtain).

Title 1 provides low interest loans, ranging from \$5,000 to \$25,000 for people who would not otherwise qualify for a first or second mortgage. It is HUD's most frequently used loan insurance product and has insured more than 35 million loans totaling \$43.6 billion.

Eligible borrowers include the owner of the property to be improved, a person leasing the property (provided the lease will extend at least 6 months beyond the date when the loan must be repaid), or someone purchasing the property under a land installment contract.

The loan may be to finance permanent property improvement that protect or improve the basic livability of the property - including manufactured homes, single-family and multi-family homes, non residential structures, the preservation of historic homes as well as for fire safety equipment.

SECTION 203(K) REHABILITATION MORTGAGE INSURANCE

While the Title 1 program enables financing of improvement, the Section 203(k) program permits homebuyers and homeowners to finance both the

purchase (or refinancing) of a house and the cost of its rehabilitation through a single mortgage or to finance the rehabilitation of their existing home.

When buying a house that is in need of repair, modernization, or modification to provide accessibility features, homebuyers usually must follow a complicated and costly process. First, homebuyers must obtain financing to purchase the property. Next they must secure additional financing for the rehabilitation work. Finally, they must find a permanent mortgage after the rehabilitation is completed to pay off the interim (construction) loan/s.

These interim or construction loans often have high interest rates and short repayment terms. 203(k) loans offer a solution that helps both borrowers and lenders by insuring a single, long term, fixed or adjustable rate loan that covers both the acquisition and rehabilitation of the property. A Section 203(k) loan saves the borrower time and money and also protects the lender by insuring the loan even before the condition and value of the property has been rehabilitated to offer adequate security.

203(K) PROGRAM REQUIREMENTS

The mortgage must be used in part for rehabilitation and/or improvements to the property. There is a minimum \$5,000 requirement for eligible improvements on the existing structure(s). The \$5,000 requirement may be used to rehab or improve an existing garage, add a new detached garage, or add to the existing structure. Any repair that affects the health and safety of the occupants may qualify. Cosmetic repairs may be included in the mortgage after the \$5,000 threshold is reached.

Eligible improvements include numerous categories. Structural alterations and reconstruction may include the repair or replacement of structural damage, chimney repairs, adding an additional bath or finishing an attic or basement. Changes for improved function or modernization would include remodeling bathrooms and kitchens as well as the upgrade of installed appliances. The elimination of

health and safety hazards within the home are eligible, such as the elimination of lead-based paint.

Work to improve the appearance of the property such as new siding, adding a second story, and a covered porch are eligible examples. Reconditioning or replacement of plumbing, heating, air conditioning, and electrical systems are allowable items for a 203(k) loan. Other examples include: roofing, gutters and downspouts, flooring, tiling, and carpeting as well as major landscape work and site improvement which improve the value of the property also qualify.

Lastly, improvement for accessibility for a disabled person(s) is allowed. Accessibility items may include: the lowering of kitchen cabinets, widening doors, access ramps and remodeling kitchens and baths for wheelchair access.

The HUD 203(k) program is an important tool for the rehabilitation and repair of single family properties. Unlike permanent financing, this program allows individuals, who otherwise could not obtain financing to borrow enough to purchase and/or rehabilitate an existing home. The program is particularly suitable to first-time homebuyers who desire a particular neighborhood but recognize the home may require some rehabilitation. By offering a 203(k) program HUD provides a powerful tool for neighborhood and community revitalization as well as a means of expanding homeownership opportunities.

IF YOU HAVE QUESTIONS:

If you have questions about the HUD's Title 1 or Section 203(k) programs, you may contact an FHA-approved lender in your area. Names of FHA-approved participating lenders may be obtained from their web site at <http://www.hud.gov>.

With HUD on your side, the 203(k) loan is a perfect vehicle for making your old home new again.



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



DEPARTMENT OF FINANCIAL INSTITUTIONS
Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204

FINDING THE FINANCES FOR HOME FIXES



**DEPARTMENT OF FINANCIAL
INSTITUTIONS**
Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
317-232-3955, 1-800-382-4880

