



Bookend Lending

Covering every chapter of homeownership
NMLS# 2557411

Understanding FHA 203(k) Loans

How to Buy and Renovate a Home with One Mortgage

With an FHA 203(k) loan, you can buy and renovate your home all in one loan. Use this guide to understand the process, requirements, and tips for a smooth project from start to finish.

1. Purchase Contract

- The contract should clearly state that you are using an **FHA 203(k) Renovation Loan**.
- This makes sure the seller, title company, and appraiser all know the financing will include renovation funds.

2. Initial Scope and Cost Guesstimate

Before hiring a contractor, the borrower and REALTOR should:

- Walk through the property together.
- Make a list of **required repairs** (for health, safety, or FHA Minimum Property Standards).
- Make a list of **optional improvements** (items the buyer would like to upgrade).
- Estimate the cost of each repair and the total budget.
- Provide a **preliminary write-up** describing their renovation plans and the estimated cost. This helps set expectations and makes loan setup more accurate and is very important and often required by the Lender before an application can be submitted.

3. Contractor's Bid

Before the loan can be approved, you must submit a detailed bid on official contractor letterhead:

- Include the contractor's name, address, phone, email, and contact person.
- The bid must be **signed** by the contractor.
- The bid must **clearly list labor and material costs** for each part of the project.

4. Contractor Requirements

The contractor must meet the following:

- **Licensing:**
In New Hampshire, general contractors are not required to have a license. However, any licensed trade work (such as electrical, plumbing, or HVAC) must be performed by properly licensed professionals.
- **Insurance:**
The contractor must carry general liability insurance, typically with at least \$1 million in coverage.
- **Experience:**
The contractor should have at least two years of experience and be familiar with FHA renovation requirements.
- **Cooperation**
Contractors must agree to:
 - Sign all forms required by FHA and the lender.
 - Provide a current IRS Form W-9.
 - Share insurance certificates and references if asked.
 - Update bids if the FHA appraiser or HUD consultant requests changes.
 - Identify all licensed subcontractors and either provide their insurance certificates or list them as additional insured under the contractor's policy.
 - Allow inspections by the FHA 203(k) consultant and appraiser during the project.
 - Submit invoices and signed lien waivers with each draw request to show subcontractors and suppliers have been paid.

5. Permits

Some projects require permits from the local town or city.

The borrower or contractor must:

- Check which permits are needed.
- Find out what they cost.
These permit costs can be included in the renovation loan budget.
- Lenders may have specific forms to use for verifying permitting requirements & costs

6. Contingency Reserve

In addition to the contractor's bid, the lender will add a **contingency reserve** to the renovation account.

- This reserve is usually **10–15% of the total bid**.
- It is used to pay for unexpected costs or price increases during the project.
- If the contingency funds are not used, they will be deducted from the final loan amount.

7. Important Notes and FHA Requirements

- Minimum credit score is **580** for 3.5% down payment, or **500–579** with 10% down.
- To use **NH Housing**, credit score must be at least **620**.
- The borrower must plan to live in the home as their **primary residence**.
- Project completion timelines:
 - **3 months** for Limited 203(k).
 - **9 months** for Standard 203(k).
- FHA mortgage insurance applies (upfront and monthly).
- The home must meet **FHA Minimum Property Standards** when the work is done.

8. Lead Paint Rules for Older Homes (Pre-1978)

If the property was built before 1978, it may contain lead-based paint. FHA and federal regulations require special handling in these situations:

- If there is any evidence of chipping, peeling, or deteriorated paint, repairs must be completed using [lead-safe work practices](#).
- If renovation work will disturb painted surfaces totaling more than 6 square feet per room (interior) or 20 square feet (exterior), the contractor must be EPA Lead-Safe Certified. You can learn more here: [EPA Lead-Safe Certification](#).
- If the appraiser notes a potential lead paint hazard, the lender will require documentation confirming the contractor's EPA certification.

- If your home was built prior to 1978, be sure to ask any contractors bidding on the project whether they are Lead-Safe Certified. If your chosen contractor is not certified, you may need an independent third party or subcontractor to ensure lead paint is addressed safely and properly.
- You also have the option to conduct lead paint testing in advance to confirm whether lead is present.
- If lead paint is determined to be a hazard, the cost of testing, containment, and remediation can be included in the renovation loan budget.

For detailed guidance, see:

- HUD Guidelines for the Evaluation and Control of Lead-Based Paint Hazards
- [EPA Lead-Based Paint Program Overview](#)

9. Renovation Cost Determines the FHA Loan Type

You must know your total estimated cost before applying.

Limited (Streamline) 203(k)

- For **non-structural repairs only**.
- Renovation costs can be **up to \$75,000**.
- An FHA consultant is **not required** but can be used if desired.
- Labor and materials must be listed separately.

Standard 203(k)

- For **structural repairs or major renovations**.
- Minimum repair cost is **\$5,000**.
- Requires an **FHA-approved 203(k) consultant** from HUD's roster.
- Labor and materials must be listed separately.

✘ FHA 203(k) Consultant Role

A 203(k) consultant is required for Standard 203(k) loans and optional for Limited loans.

Their duties include:

1. Inspecting the property and creating a detailed list of required and recommended repairs.
2. Providing an independent cost estimate to confirm that contractor bids are reasonable.
3. Conducting inspections during the project to approve draw payments.
4. Reviewing and approving any changes to the scope of work.

Consultant Fees:

- Limited 203(k): The consultant fee can be included in the loan if a consultant is used.
- Standard 203(k): Fees typically range from **\$750 to \$2,000**, depending on the project size.

✔ Summary Comparison

Feature	Limited 203(k)	Standard 203(k)
Renovation Cap	Up to \$75,000	Min \$5,000, no max limit
FHA Consultant Required?	No (optional)	Yes
Licensing Required	Licensed subcontractors	Licensed contractor + subs
Project Timeline	3 months	9 months
Consultant Fees	Optional, can be financed	\$750–\$2,000, can be financed
Structural Changes Allowed	No	Yes
Offered through NH Housing	Yes	No

✔ Next Steps

If you have questions please reach out to Renee Duval at 603-345-5644 (call or text)