



The FHA 203(k) Renovation Loan: Buy the Fixer-Upper and Finance the Repairs



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FHA LOANS

The FHA 203(k) Renovation Loan: Buy the Fixer-Upper and Finance the Repairs

Coltrain Mortgage Team · October 8, 2026 · 8 min read

You know the house. Great block, good schools, priced under everything else on the street, and still wearing its original kitchen, roof, or boiler. A lot of Long Island went up in the post-war building boom, so after more than 20 years of helping buyers here, we see this situation constantly. The good news: an FHA 203(k) loan lets you buy that house and pay for the repairs with one mortgage, one closing, and as little as 3.5% down. Let's walk through how it works, what it covers, and how to estimate what you'd actually be financing.

What Is an FHA 203(k) Loan?

A 203(k) is an **FHA-insured mortgage** that rolls two things into a single loan: the price of the home and the cost of fixing it up. Instead of buying with one loan and then scrambling for a personal loan, credit cards, or a second mortgage to pay the contractor, the repair money is built into your mortgage at closing.

That repair money doesn't go into your checking account. It's held in an escrow account and released to your contractors in stages (called draws) as the work gets done and inspected. That structure protects you, the lender, and FHA: nobody pays for work that hasn't been completed.



**Purchase + Repairs in
One Loan**



As Little as 3.5% Down



**Up to \$75K on the
Limited Version**



**Repair Funds Held in
Escrow**

Limited 203(k) vs. Standard 203(k)

There are two versions, and which one you'd use comes down to how big the job is and whether it touches the structure of the house. Tap each one to compare.

Limited 203(k)

Repair budget	Up to \$75,000 in total rehab costs
Type of work	Non-structural repairs and upgrades
203(k) consultant	Optional
Time to finish	Up to 9 months
Contractor draws	Up to 4 per contractor (raised from 2 in June 2026)
Best for	Kitchens, baths, roof, windows, HVAC, flooring, paint

Standard 203(k)

Repair budget	At least \$5,000; top end set by FHA loan limits and the home's value
Type of work	Structural work, additions, major system replacements
203(k) consultant	Required, from HUD's approved roster
Time to finish	Up to 12 months
Can't live there during work?	Up to 12 months of payments can be financed into the loan
Best for	Gut renovations, foundation repair, moving walls, adding rooms

\$35K → \$75K

FHA more than doubled the Limited 203(k) repair cap in 2024 and stretched the completion window from six months to nine, which put most kitchen-and-bath style renovations within reach of the simpler version.

What a 203(k) Can (and Can't) Pay For

The line between the two versions is mostly about structure. If the job involves the bones of the house, it's a Standard 203(k). If it's cosmetic, mechanical, or energy-related, the Limited version usually covers it.

LIMITED: USUALLY ELIGIBLE

Kitchen and bathroom remodels, a new roof, windows and doors, furnace or boiler replacement, water heaters, flooring, painting, insulation and other energy upgrades, accessibility improvements.

LIMITED: NOT ELIGIBLE

Structural repairs, moving load-bearing walls, room additions, and anything needing a consultant's full work write-up or longer than nine months to finish. Those move you into a Standard 203(k).

STANDARD: ALSO COVERS

Foundation and framing repairs, additions, full gut renovations, and major system replacements, as long as the home ends up meeting FHA's property standards.

NEITHER COVERS

Pure luxury items like a brand-new swimming pool or outdoor entertainment features. The goal is a safe, sound, livable home, not a resort upgrade.

What Changed in 2026

On June 23, 2026, HUD issued Mortgagee Letter 2026-06, which raised the number of draws allowed on a Limited 203(k) from two to four per contractor. That sounds like paperwork, but it matters in practice: with a \$75,000 budget and only two payouts, contractors were waiting a long time between checks, which led to delays and even abandoned jobs. More draws means steadier contractor cash flow and a smoother project. It was one of several FHA updates this year, which we cover in **our breakdown of FHA's 2026 rule changes**.

How the Loan Amount Is Figured

This is the part that trips a lot of people up, so let's slow down for a second. Your 203(k) is based on two numbers, and FHA uses whichever is lower:

- **The total project cost:** the purchase price plus all rehab costs, including the contingency reserve, consultant and inspection fees, and permits.
- **110% of the after-improved value:** what the appraiser says the home will be worth once the work is done (100% for a condo).

FHA's standard loan-to-value then applies to that number, which is where the 3.5% down payment comes from for borrowers who qualify. The loan also has to fit under FHA's limit for your county. Nassau and Suffolk sit among the highest-limit areas in the country, and our **FHA loans page** covers the current numbers.

About the contingency reserve: for homes 30 years or older (which describes most of Long Island), FHA requires a contingency reserve of 10% to 20% of the repair costs, set aside for surprises found once the walls come open. If it isn't used, it goes toward paying down your loan balance, so it's not money lost.

INTERACTIVE ESTIMATE

Estimate Your 203(k) Total

Go ahead and plug in some rough numbers to see the full project cost, your estimated down payment, and which version of the 203(k) your repair budget points to.

Purchase price

550,000

Repair / renovation cost

60,000

Contingency reserve

10%



Estimated value after repairs (optional)

e.g. 650,000

CONTINGENCY

\$6,000

TOTAL PROJECT COST

\$616,000

EST. DOWN PAYMENT (3.5%)

\$21,560

EST. AMOUNT FINANCED

\$594,440

Points to a Limited 203(k). Your repair budget plus contingency is within the \$75,000 Limited cap, as long as the work is non-structural.

Estimate only, for illustration. Excludes FHA's upfront mortgage insurance premium, closing costs, consultant and permit fees, and any financed mortgage payment reserve. Actual eligibility depends on the appraisal, FHA county loan limits, and full underwriting.

Found a house that needs work? Let's run the real numbers.

The 203(k) Timeline, Step by Step

- 1 Find the home and get contractor bids.** You'll need written, itemized bids from licensed contractors before the loan can be sized. On a Standard 203(k), a HUD-approved consultant inspects the home and writes up the full scope of work.
- 2 Appraisal "subject to" repairs.** The appraiser values the home as it will be after the work, which sets the after-improved value.
- 3 Close on one loan.** The seller gets paid, and the repair money goes into an escrow account.

4 Work begins, draws get paid. As each stage is finished and inspected, funds are released to the contractor.

5 Final inspection. Once everything is done, the last draw is released, and any unused contingency is applied to your loan balance.

Fair warning: a 203(k) purchase usually takes a bit longer to close than a standard **home purchase**, mainly because of the bids and the consultant step. Knowing **what documents you'll need** ahead of time and reviewing **how the loan process works** helps keep it on track, and so does building the extra time into your contract and **rate lock**.

The Conventional Alternative: Fannie Mae HomeStyle

If your credit is strong or you're buying something other than a primary residence, a Fannie Mae HomeStyle Renovation loan is worth comparing. It works on the same idea (purchase plus renovation in one **conventional loan**), but with different rules:



FHA 203(k)

More forgiving on credit, 3.5% down, primary residences only, FHA mortgage insurance for the life of most loans, and a consultant required for bigger jobs.



Fannie Mae HomeStyle

As little as 3% down on a one-unit primary home, renovations up to 75% of the lesser of price-plus-renovation or as-completed value, allowed on second homes and investment properties, and mortgage insurance that can come off later.

Already own your home and just want to renovate? A renovation loan may be overkill. A **HELOC** or **home equity loan** lets you borrow against the equity you've built without touching your first mortgage.

Is a 203(k) Right for You?

In our experience, a 203(k) makes the most sense when the house you want is priced low because it needs work, you'd rather not drain your savings on repairs right after closing, and you're buying a home you plan to live in. It's a lot less appealing if you want to do the work yourself (FHA generally requires licensed contractors) or if you're on a very tight closing deadline.

One more thing you should know: not every lender offers 203(k) loans, and some that do add their own stricter rules on top of FHA's. As a broker working with a range of wholesale lenders, Coltrain can shop your renovation loan across lenders that actually want the business, rather than being limited to one bank's appetite for it.

COMMON QUESTIONS

How much can you borrow for repairs with an FHA 203(k)?

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The Limited 203(k) allows up to \$75,000 in total rehabilitation costs. The Standard 203(k) has a \$5,000 minimum and no fixed repair cap; the total loan is limited by the lesser of the total project cost or 110% of the after-improved value, and by FHA's loan limit for your county.

What is the difference between a Limited and a Standard 203(k)?

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The Limited 203(k) covers non-structural repairs up to \$75,000 with an optional consultant and up to nine months to finish. The Standard 203(k) covers larger and structural projects, requires a HUD-approved 203(k) consultant, and allows up to 12 months to complete the work.

Can I do the renovation work myself with a 203(k) loan?

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Usually not, sorry to say. FHA requires the work to be done by contractors, with written bids and inspections before funds are released. Self-help work is only allowed in narrow circumstances and at the lender's discretion.

What changed with the 203(k) program in 2026?

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HUD's Mortgagee Letter 2026-06, issued June 23, 2026, raised the maximum number of draws on a Limited 203(k) from two to four per contractor and clarified that multiple disbursements per draw are allowed on a Standard 203(k).

Is an FHA 203(k) better than a Fannie Mae HomeStyle loan?

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It depends on your situation. A 203(k) is usually easier to qualify for with lower credit scores and requires 3.5% down. HomeStyle allows as little as 3% down on a one-unit primary home, works for second homes and investment properties, and has mortgage insurance that can be removed later, which often favors borrowers with stronger credit.

SOURCES

- U.S. Department of Housing and Urban Development, **203(k) Rehabilitation Mortgage Insurance Program**
- HUD, **Mortgagee Letter 2024-13: Revisions to the 203(k) Rehabilitation Mortgage Insurance Program**
- HUD, **Mortgagee Letter 2026-06: Increase in the Maximum Number of Draw Requests for Limited 203(k)**

- HUD, **Standard 203(k) Contingency Reserve Requirements**
 - Fannie Mae Selling Guide, **HomeStyle Renovation Mortgages: Loan and Borrower Eligibility (B5-3.2-02)**
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READY WHEN YOU ARE

Looking at a house that needs work?

No pressure, no obligation - just a clear answer from a local loan officer on whether a 203(k) makes sense.



Ready to talk it through?

Scan to reach a loan officer, or call (631) 851-4420.
coltrain.com/our-staff

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