

Purchase Rehabilitation Loans

A purchase rehab loan allows you to borrow additional money to repair and improve the home you are buying. If you are buying a home in need of repairs or improvements this may be the best option for you.

This Fact Sheet was developed to help you understand some of the benefits and limitations of purchase rehab loans. This is a general overview and much of the information will vary by lender. To decide if a purchase rehab loan is right for you contact a housing counselor in your area.

Purchase Agreement

Before you submit a purchase agreement, it's important to have an idea of what work needs to be done and how much it will cost. **Most lenders allow your rehab cost of \$5,000 - \$35,000.** Be sure you can cancel the purchase agreement if the rehab costs end up being higher than you expect. Also make sure you request enough time to complete inspections and get estimates from contractors.

Lender Walk-Through

Most lenders conduct a walk-through. The purpose of the walk-through is to identify what rehab work needs to be done to make the property livable and safe. **Any rehab work identified by the lender must be completed.** Structural repairs, major remodeling/renovation and luxury improvements are generally not allowed with rehab loans.

Contractor Bids (estimate)

Once you and the lender decide what rehab work will be done, you are responsible for getting at least two estimates from licensed contractors. The lender reviews and approves the contractor and estimate. **Rehab work must be done by a licensed contractor.**

Property Appraisal

Once the lender approves the contractor and the estimate, they will have the property appraised. This is done to determine the "expected market value" of the home. This is the value of the home after the rehab work is complete. **The purchase price of the home plus the rehab cost should be reasonable compared to the value of other homes in the area.**

Rehabilitation Timeline

Generally rehab work has to begin 10 days after closing and be completed within 60 days. **You are responsible for paying your mortgage while the rehab work is being done.** Also, consider your living arrangements and if you are going to be able to live in the home while the rehab work is being done.

Completed rehab work is generally inspected by the lender before the contractor is paid. Both you and the lender are required to approve payments to the contractor. Only approve payments if you are satisfied with the work.

For additional information, speak with a Housing Counselor in your area by contacting the Minnesota Home Ownership Center today: 651-659-9336 or 866-462-6466 or www.hocmn.org