FHA insurance premium during the first year would be $69.03. For a 203(k) loan in the same amount made for 10 years, the monthly payment would be $40.30.

Choosing Between 203(k) and Refinancing

When the costs will be large for a home improvement, the home owner should first decide whether he would be better off to buy another home rather than improve the one he has. He should give careful thought to whether the changes would add enough value and appeal to his property to merit their cost or whether they would over-improve his home. He should decide whether staying in his present house means enough to him to warrant the costs involved.

If he settles in favor of home improvement, he should then decide whether he would do better to obtain a long-term 203(k) loan or to refinance.

The first thing to consider is the existing debt on the property and the effect it would have on the amount that could be borrowed for improvements. Other factors include: what kind of loan the borrower has—conventional, FHA, or VA; what interest rate he is paying; how much equity he has in his home; whether the loan can be prepaid, and if so what prepayment premium is required.

With a 203(k) loan the borrower could get up to $10,000 if that amount, added to the outstanding debt on the property, did not exceed the dollar limit and loan-value ratio set by law for a mortgage insured under Section 203(b). He could pay off the loan over a period ranging from 3 to 20 years. His closing costs would normally be less than for refinancing, and on a long-term loan he would save in total interest paid.

The borrower who can afford the monthly payments of a 203(k) on top of his present mortgage will pay less in the long run than