



An elevated home above the base flood elevation (BFE) in Rhode Island. Photo credit: Association of State Floodplain Managers

## Using Federal Housing Administration's 203(k) Rehabilitation Program to Reduce Flood Losses for Homeowners

Floods are one of the costliest disasters for homeowners. Homes in a high-risk area (also known as a Special Flood Hazard Area), have a 1 in 4 chance of flooding during the life of a 30-year mortgage. That's higher than the chance of a fire.

One way to combat flood losses is by elevating a home higher than where flood waters are estimated to reach in a major flood. This is known as the Base Flood Elevation (BFE).<sup>1</sup> Building or renovating a home higher than the BFE will reduce future flood damage, and may help reduce your flood insurance costs.

### Using 203(k) for Purchase or Refinance

Elevating a home or other flood protection (mitigation) activities can be expensive. One affordable solution for homeowners and homebuyers is to finance the mitigation activities over time with FHA's 203(k) loan program. This allows the purchase (or refinance) a flood-prone house and the

cost of its rehabilitation through a single mortgage.

Benefits of Building or Renovating Above the Base Flood Elevation (BFE) <sup>2</sup>
May reduce NFIP insurance premiums (up to 70%)
Reduces flood damage
Easier and faster clean-up after a flood
Increase home value
Safer home for current & future owners

### An Affordable Solution

FHA's 203(k) program fills an important need. When buying or repairing a house, a borrower usually has to follow a complicated and costly process, including the separate financing for the required rehabilitation work. These separate acquisition and rehabilitation loans often have relatively high interest rates, short repayment terms and a balloon payment. Traditional lending requires Loan-to-Value

<sup>1</sup> BFE is the elevation where flood waters have a 1% chance of equaling or exceeding in any given year. BFEs are typically shown on a Flood Insurance Rate Map (FIRM): <http://bit.ly/2ECATMt>

<sup>2</sup> Building Higher in Flood Zones: Freeboard—Reduce Your Risk, Reduce Your Premium (2015): <http://bit.ly/2ATdUdK>

ratios that may prohibit financing of mitigation activities.

### How it Works

A 203(k) loan helps borrowers by ensuring a single, long-term, fixed or adjustable rate loan that covers the acquisition and rehabilitation of a property. 203(k) loans offer:

- lower loan-to-value requirements
- competitive rates
- low down payments
- lower credit standards

And by using the program to mitigate flooding, the borrower may reduce flood insurance premiums.



Home elevation is one technique to protect against future flood damage and loss. Photo credit: Association of State Floodplain Managers

### Eligible Mitigation Activities

The extent of the rehabilitation covered by a 203(k) loan may range from minor repairs to total reconstruction. Where structural repairs or alterations are made, the cost of the rehabilitation must be at least \$5,000. The loan amount must fall within the FHA mortgage limit for the area and must be supported by a property appraisal.

Eligible flood mitigation activities\* include but are not limited to:

- Structural elevation of the home above BFE

- Relocation of the home to a non-flood prone site
- Dry floodproofing (e.g., make structure water-tight)
- Relocating utilities and systems out of a basement or elevating the utilities
- Overhead sewers and/or backflow prevention
- Wet floodproofing (e.g., installing flood vents)
- Structural alterations and reconstruction
- Adding or replacing roofing, gutters and downspouts

*\*Eligible activities are subject to state and local code requirements*

### Getting Started

Check with your local floodplain administrator to determine flood mitigation alternatives and code requirements. For ideas, visit: <http://bit.ly/2DCKICu>. If you're considering elevation, and need a contractor visit: [www.iasm.org](http://www.iasm.org) and click "Find a Mover." If you are considering dry floodproofing, make sure products meet the ANSI/FM Approvals 2510 standard! For qualified products, visit: <http://nationalfloodbarrier.org/>.

To apply for the 203(k) program, applications must be submitted through an FHA-approved lender, which can be found at <http://bit.ly/2EvbntJ>.

For additional information on FHA's 203(k) Rehabilitation Program, please visit: <http://bit.ly/2mmStwv>.



Assn. of State Floodplain Managers

[www.floods.org](http://www.floods.org)

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