Home Improvement Loan Program

In a Nutshell

A Home Improvement Loan Program provides funds for homeowners to maintain and upgrade their property. Loan programs are usually targeted to low-income homeowners, and are effective at mitigating the downward, self-reinforcing cycle of deteriorating housing stock. Approved repairs or replacement should bring houses up to at least minimum code standards. Homeowners apply for home improvement loans through state and local housing agencies and nonprofit organizations.

The "How To"

Since the housing bust of 2007, housing inadequacy has been on the rise. Neighborhoods have many vacant and abandoned homes due to mortgage delinquencies that led to foreclosures. Minimal investment in aging housing stock results in deteriorating communities. HVAC and energy efficient homes are common needs when deciding to buy a home. Without adequate housing supply, aging neighborhoods become unattractive. To incentive the rehab and rental of these properties, federal programs were made to help state and local governments and housing authorities. Renovating foreclosed, abandoned, and aging housing stock benefits the community.

HUD offers the Section 203k Rehab Program, which insures loans to finance the rehabilitation or purchase and rehabilitation of one- to four-family properties. The rehab program includes mortgage insurance and rehab loan insurance. The Federal Housing Administration administers the program to FHA approved lending institutions. Lenders can partner with state and local governments and housing agencies and nonprofit organizations to rehabilitate properties. Section 203(k) can be combined with HUD's HOME, HOPE, and Community Development Block Grant Programs.

Home Improvement Loan Programs encourage lenders to let people borrow with fully-insured mortgage loans. For traditional financing for rehabilitation, lenders require improvements to be finished before a long-term mortgage is made. Traditional homebuyers wanting to purchase a home in need of repair would 1) obtain financing to purchase the dwelling unit 2) additional financing for the rehabilitation, 3) permanent mortgage when work is completed to pay off loans. This process involves high interest rates and short amortization periods. Home Improvement Loan Programs allow a person to borrow one long-term fixed or adjustable rate loan to finance the acquisition and rehabilitation of a property. To minimize the risk for the lender, HUD fully endorses the mortgage loan, and an escrow account would be established to for the rehabilitation.

Resident Programs

The St. Charles Home Improvement Loan Program and the St. Louis County Home Improvement Program provides qualified homeowners loans for housing repairs. These programs provide $5,000 loans with 0% interest and forgivable after 5-years. Homeowners can only receive these loans once.

The HOME St. Charles Program is an effort by the County to provide zero-interest down payment loans to income-eligible homebuyers within the participating jurisdictions of the St. Charles Urban County, Cottleville, Dardenne Prairie, Lake St. Louis, St. Paul, St. Peters, Weldon Spring, Wentzville, or the unincorporated area of St. Charles County. Loan amount is available up to $5,000.

The St. Charles Emergency Repair Program will provide 0% interest 5-year forgivable $5,000 loans to income qualifying households for emergency repairs. Emergency repairs could include water, sewer and HVAC repairs. The household must qualify as low income with priority given to those households meeting very low-income guidelines.

Illinois Housing Development Authority provides funds for low-income Illinois homeowners to remain living in their homes by providing grants/forgivable loans to repair their homes, through the Home Repair and Accessibility Program.

Planning & Zoning

State & Local Governments

State and local governments should first make or revise their consolidation plan. Next, they should apply for the CBDG and HOME programs and contact their local HUD office. More information about these programs is provided below.

Community Development Block Grants (CDBG), available to state and local governments, allow for the acquisition of real property and rehabilitation of residential property. The CDBG's Section 108 Loan Guarantee Program provides economic resources for home improvements and rehabilitation. To apply for the program, contact the local HUD office in Missouri or Illinois. There are pre-submission and citizen participation requirements.

States and local governments and nonprofit groups can take advantage of the HOME grants that allow for the purchasing, building, and rehabilitation of affordable housing. States are automatically eligible for HOME funds. HOME's requirement that participating jurisdictions match 25 cents of every dollar in programs funds mobilizes community resources in support of affordable housing.

HUD also offers Title I Home Improvement loans. HUD inures private lenders against loss on property improvement loans the lenders originate. Title I is used in conjunction with 203k Rehabilitation Mortgage.

Dollars & Cents

The cost of each project may differ due to various repair and rehabilitation needs. Most loans are forgivable. Please check with your program for details. For example, a participant in the Home Improvement Program for Saint Louis County may receive up to 100% of the cost of correcting authorized repairs, based on a maximum benefit limit of $5,000. Homeowners are required to sign a 5-year Forgivable Loan Agreement that provides for an annual reduction of 20% of the amount of the grant, as long as they continue to own and occupy their house.

Projects require participants to own their home. If a participant moves or sells their home, they may be required to repay a partial amount of the loan.

Measuring Success

State and local governments should use HUD'sConsolidated Plan to assess their affordable housing and community development needs and market conditions. Through consolidated planning, communities can identify housing and community development priorities. HUD offers the eCon Planning Suite, including the Consolidated Plan template in IDIS OnLine and CPD Maps website. The Consolidated Plan template in IDIS provides housing and economic data. CPD Maps allow users to analyze and compare housing and economic conditions within and across jurisdictions.

HUD provides a Section 203k checklist for rehabilitation. Items include

- Siding
- Gutters & Downspouts
- Painting
- Driveway
- Walks
- Roof
- Caulking
- Fencing
- Windows

Discover More

The City of St. Louis offers a Healthy Home Repair Program.

The Ferguson Neighborhood Improvement Program offers an Exterior Home Improvement Matching Fund.

The Gateway Neighborhood Fund makes obtaining financing for rehab projects easier.

Case Studies

Custom Home Improvement Loans (CHIL)

Contact

City of Ferguson
314-524-5196

Description

This loan program is operated through the Ferguson Neighborhood Improvement Program (FNIP), a not-for-profit housing corporation, in partnership with UMB Bank. Homeowners must meet lending requirements, but there is no restriction on household income for participation. UMB Bank provides the home equity loans at a below-market interest rate of 3%. Homeowners may borrow up to $25,000 for a period of up to seven years. The loans may be used for a variety of home improvements, including bathroom additions, roofs, new windows, new floors, kitchen remodeling, and basement finishing. After loan approval, the City will inspect the exterior of the property for violations. All violations must be repaired, and may be financed by the CHIL loan funds.

Home Improvement Loan Propgram

Contact

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Description

The City of University City's Home Improvement Loan Program offers loans and grants to income eligible households for rehabilitation work. The maximum loan or grant is $5,000 per calendar year per household. Only low-income seniors are eligible for 100% grants. Low-income households may qualify for a 50/50 loan-grant combination, or for a 100% loan. The loans may be repaid over 5 or 10 years, and have a 3% interest rate. Funding for the program is limited, and priority is given to applicants who are senior citizens or have a disability.

Lessons Learned

The program has been successful in assisting low to moderate income individuals in making critical repairs, however, the payback rate is low. Specifically, the program has not become a true revolving loan program. The City has plans to evaluate and restructure the program to increase its efficacy.

Housing Enhancement Loan Program (HELP) and Housing Rehabiliation Loan

Description

HELP – The Home Enhancement Loan Program provides loans to homeowners at three percentage points below the market rate. The program provides loans for both owner occupied and investment properties, including single-family, two-family, and multi-family dwellings. The loans are available to all homeowners regardless of income level, however for single- and two-family dwellings the home value must be less than $250,000. Loan amounts of $3,000 to $200,00 are available, and the loans may be used for a variety of home maintenance and improvement projects. Five banks participate in the program. Housing Rehabilitation Loan Program – This program serves low-and-moderate income homeowners, and provides loans at 0%, 2%, or 4% interest rate, depending on the household income. Senior citizens with low-incomes may qualify for a deferred loan, which means they do not need to repay the loan until the property is sold or transferred.

Cost

Housing Rehabilitation Loan Program – This program serves low-and-moderate income homeowners, and provides loans at 0%, 2%, or 4% interest rate, depending on the household income. Senior citizens with low-incomes may qualify for a deferred loan, which means they do not need to repay the loan until the property is sold or transferred.

MARC Home Remodeling Loan Program

Description

This loan program is provided through a partnership between the Mid-America Regional Council (MARC) and CommunityAmerica Credit Union. Because of the partnership, the loans are provided at a discounted interest rate. Homeowners must meet lending standards and their home value may not exceed $250,000. The loan type is a fixed-rate home equity loan, with loan amounts ranging from $5,000 to $30,000 and loan terms from 1 to 10 years. The loans may be used for window and door replacement, roof repair or replacement, plumbing and electrical upgrades, energy efficiency improvements, and add-ons such as new rooms, decks, porches and fences. The program was created in 2006 by MARC's First Suburbs program, and originally served 16 inner suburbs. Due to the program's success 18 additional communities have joined, and now 34 communities in the Kansas City metro area participate in the program.

Owner Occupied Loan Program

Contact

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Description

The City of Springfield has provided home improvement loans through two methods. In the mid-2000's the City provided funds earned through HUD's Dollar Homes initiative to the Urban Neighborhoods Alliance, a local nonprofit, for administration of the loan program. The UNA provided loans to homeowners at a below-market interest rate. The program worked well, with the City's first $40,000 investment leveraging over $370,000 in private home improvements. In the late 2000's the City began operating its own loan program, called the Owner Occupied Loan Program, funded though CDBG. The program provides low-income homeowners with home equity loans that may be deferred for lower-income applicants. The loan funds may not be used for cosmetic improvements. The interest rate is set at 5%, which is similar to some market-rate loans, but the program provides much more flexibility than commercially available loans.

Lessons Learned

In Springfield, home owners are walked through the entire loan and repair process, and the city offers free inspections. Because of the high level of support provided, the program requires significant staff time. However, the program is worthwhile because it enables reinvestment in current housing while also providing funding for future projects (via the loan repayments). The program has a backlog of applicants, and is temporarily suspended for new applicants.