



# A LOAN PROGRAM IN NEED OF REPAIRS:

*The Unmet Promise of FHA 203(k) Renovation Loans*

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The Consumer Federation of America (CFA) is an association of nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education. Today, nearly 250 of these groups participate in the federation and govern it through their representatives on the organization's Board of Directors.

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## Executive Summary

This report examines why use of the Federal Housing Administration’s (FHA) 203(k) renovation mortgage – a loan that allows homebuyers to buy fixer-upper properties – has fallen by 77 percent over the past decade. Drawing on 2024 Home Mortgage Disclosure Act (HMDA) data and 15 in-depth interviews, the analysis finds that structural and programmatic challenges sharply limit the reach of the 203(k) program: even as an aging housing stock and unmet repair needs make renovation financing more critical than ever.

First, the 203(k) program is not adequately serving the first-time homebuyers FHA intends to reach. Instead, the majority of 203(k) borrowers are 55 or older and rural communities in particular show extremely low or absent usage. Second, demand for the program is undercut by unusually high denial and withdrawal rates: more 203(k) loan applications are withdrawn (41 percent) than successfully originated (36 percent). Third, borrowers face steep structural barriers, including difficulty finding homes that both appraise and qualify for renovation financing, sellers who prefer faster conventional or cash offers, and lenders and

contractors unwilling to navigate the program’s complexity. Finally, a nationwide shortage of HUD-approved consultants (required for the standard 203(k) loan) renders the program effectively unavailable in many markets. Several states have only one or no consultants at all (such as North and South Dakota) and many consultants are aging out of the profession.

To address these challenges, the report offers several policy recommendations. FHA’s recent updates that raised the maximum “limited” 203(k) loan amount to \$75,000 and lengthened repair timelines are important first steps, but broader reform is needed. Recommendations include expanding borrower and industry familiarity with the loan program through targeted outreach; expanding the HUD consultant workforce, particularly in rural areas; and linking home repair grants and programs with 203(k) financing to help bridge appraisal gaps that currently prevent loan approval in distressed markets. Finally, the report recommends piloting an expansion of the HUD Mortgage program, a statutory program that enables qualified nonprofits and government entities to use 203(k) financing to rehabilitate homes and transfer the repaired home and mortgage to buyers.





# Introduction

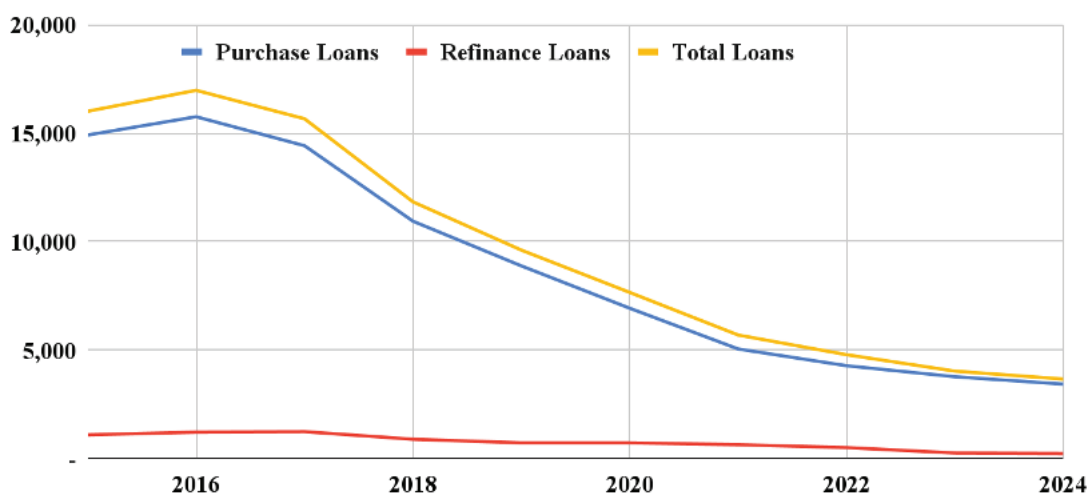
The United States is experiencing a historic affordable housing crisis, with a shortage of an estimated 3.7 million units.<sup>1</sup> To make matters worse, the average American home is approaching forty years old.<sup>2</sup> Repair needs are skyrocketing as many homes are nearing the end of their usable lifetime for roofs, plumbing, and HVAC systems.<sup>3</sup> Additionally, at least 1.7 million housing units sit vacant and face extensive repair needs before they can return to the market.<sup>4</sup> Building new housing is not enough to tackle a housing crisis of this magnitude: we must also prioritize preserving and rehabilitating our existing housing stock.<sup>5</sup>

One tool in our housing toolbox is the Federal Housing Administration's 203(k) home renovation loan. This loan enables borrowers to finance purchasing a home and doing renovations in one mortgage.<sup>6</sup> Renovations can include necessary upgrades to bring a property up to code such as a new roof, or desired updates like a new kitchen. These loans are part of FHA's mission to broaden access to homeownership, especially for lower-wealth and first-time homebuyers.<sup>7</sup>

The FHA 203(k) program carries great potential to contribute to multiple housing problems at once: to help upgrade our nation's housing stock, broaden homeownership opportunities for first-time homebuyers, and bring new capital into rural and urban communities. However, over the last decade, there has been a 77 percent decline in FHA 203(k) originations. **Figure 1** shows that while over 16,000 FHA 203(k) loans were originated in 2015 that number had dropped to only 3,666 loans by 2024.<sup>8</sup> Regular FHA lending has not experienced this decline.<sup>9</sup> Today only 0.5 percent of originated FHA loans are FHA 203(k) loans.

This report addresses the question of why so few FHA 203(k) mortgages are used today and what policy interventions could help expand this program. Drawing on an analysis of 2024 Home Mortgage Disclosure Act (HMDA) data and in-depth interviews with 15 key experts and stakeholders, it finds that while the FHA 203(k) program is a valuable tool in addressing the nation's housing crisis, programmatic and structural issues prevent its broader use.

**Figure 1: FHA 203(k) Loans Originated Nationwide Between 2015 and 2024**



Source: Consumer Federation of America analysis of FHA Annual Management Reports, 2015-2024.

Note: A small share of FHA 203(k) loans are refinance loans.

Key findings include:

- **The FHA 203(k) program does not adequately serve first-time homebuyers and other underserved groups and communities that FHA seeks to reach.** Analysis reveals that there are severe gaps in the national use of FHA 203(k), with rural communities remaining especially undeserved. Most homebuyers (64 percent) using this rehab loan are also 55 years or older, which indicates that this program may not be reaching the first-time and lower-wealth homebuyers that FHA statutorily seeks to target.
- **While there is broader demand for FHA 203(k), more mortgage applications are withdrawn or rejected than originated.** High denial and withdrawal rates for FHA 203(k) applicants contribute to the underutilization of this loan program. The most common outcome for FHA 203(k) applications was that applicants withdrew their applications (41 percent of applications); a withdrawal rate almost twice as high as those for regular FHA loans and non-FHA rehab loans (both at 21 percent).
- **Structural barriers and programmatic requirements make it difficult for most borrowers to use 203(k) loans.** Finding the right home that fits both a buyer's budget and their capacity for renovation is often a major hurdle, made more complicated by the appraisal gap. Many borrowers struggle to find lenders and contractors who are willing to work with the intricacies of this loan program. Structural barriers also plague renovation lending in general: for example, sellers tend to prefer selling to conventional buyers or cash investors over having to work with the longer closing timelines of 203(k) buyers.

- **A shortage of HUD-approved consultants makes the 203(k) standard loan untenable for many borrowers.** Large areas of the country, particularly rural areas, do not have an HUD consultant located nearby. States such as North Dakota and South Dakota have zero consultants, while in all of Nevada, the only HUD consultants are located in Las Vegas. HUD consultants often must travel large distances to reach properties in need of service. The shortage is made worse by the fact that many consultants are aging out of the profession.

Drawing on these findings, this report offers policy recommendations to improve the usability of FHA 203(k). In 2024, FHA already alleviated some of these burdens by significantly expanding maximum loan amounts for the “limited” program (from \$35,000 to \$75,000) and by lengthening the allowable repair timelines.<sup>10</sup> This brief further recommends that:

- **HUD should work to improve borrower and industry familiarity with the program.**



- **HUD should grow the HUD consultant workforce**, particularly in underserved rural communities.
- **To expand FHA 203(k) use, home repair programs and grants should be more closely linked to this financing tool.** Home repair programs could help their dollars go further, by allowing homebuyers link them to FHA 203(k) financing: combining grants for repair with additional renovation mortgage financing, specifically, would offer a type of “appraisal gap financing.”<sup>11</sup> The current appraisal gap – the gap between the combined costs of purchase and repair, and the appraised value of the fixed-up home – often prohibits FHA 203(k) underwriting in underserved rural and urban communities.
- **HUD should do a pilot to expand the HUD Mortgagor program.** This Congressionally-authorized program allows qualified non-profit and governmental entities to take out FHA renovation loans, fix up properties, and let borrowers “assume” FHA loans on updated homes.

Housing preservation and home renovation through the FHA 203(k) loan program is a low-cost, high-reward tool to return existing homes to the housing supply. A repaired FHA 203(k) program will make home renovation more accessible to the people and places that need it most.

## Research Methods

This work relies on mixed methods, combining quantitative and qualitative research. Research questions include:

- Who currently uses FHA 203(k) mortgages and where?

- What specific programmatic features and structural barriers prohibit more borrowers from successfully using this purchase and home repair mortgage?
- What can policymakers at HUD and in Congress do to improve the FHA 203(k)?

Quantitative findings are derived from an analysis of the 2024 Home Mortgage Disclosure Act (HMDA) dataset, one of the nation’s most comprehensive public datasets on mortgage applications.<sup>12</sup> This data was analyzed with a focus on the demographics of FHA 203(k) loans – compared to regular FHA loans and conventional renovation loans – as well as mortgage application outcomes.

The current structure of HMDA data does not offer an easy way to identify all FHA 203(k) loans. We selected all first-lien FHA loans for 1–4-unit properties, with as loan purpose “home improvement,” indicating FHA 203(k) loans. This means that all 203(k) refinance loans are excluded: the dataset’s structure does not allow for the loan purpose to be both “home improvement” and “refinance.” These limitations result in a dataset of 2,628 originated FHA 203(k) loans as opposed to the 3,666 purchase and refinance FHA 203(k) loans quoted in FHA’s annual report.<sup>13</sup>

This data was complemented by a qualitative analysis of interview data, to better understand the barriers to broader adoption of this loan. Over the summer of 2025, in-depth interviews were conducted with 15 policy experts and stakeholders, including national policy, advocacy, and housing research experts, loan officers, Realtors, HUD consultants, and homebuyers. The authors also analyzed previous research reports, public comment letters, and available HUD/FHA materials.



**Figure 2: Key Differences Between FHA 203(b) and FHA 203(k) Loans**

	FHA 203(b) Purchase Loan	FHA 203(k) Rehab Loan
<b>Purpose</b>	To purchase a property	To purchase a home and finance renovations
<b>Eligible Properties</b>	1-4 unit Any age Must meet insurance and occupancy standards	1-4 unit Must be over one year old Must meet insurance and occupancy standards <i>after</i> renovation
<b>Repair Finance</b>	Up to \$10,000 repair escrow can be written into the loan	Limited: up to \$75,000 Standard: up to maximum FHA loan limit for area
<b>Appraisal Requirements</b>	Appraised value based on property's current condition	<i>As-is</i> based on the property's current condition <i>After-improved</i> based on the completed repairs
<b>Total Mortgages in 2024</b>	763,276	3,666

Source: Consumer Federation of America analysis of HUD documentation.

## Background: How the FHA 203(k) Loan Works

On its face, 203(k) loan requirements are fairly similar to FHA purchase loans. Both programs have the same borrower eligibility rules and maximum mortgage limits. They require a minimum credit score of 580 (or 500 with a 10 percent down payment), a 3.5 percent down payment, and a debt-to-income ratio below 50 percent. Both loan programs provide lenders with mortgage insurance and are securitized through Ginnie Mae. While FHA purchase loans can be immediately securitized, FHA 203(k) loans are securitized after the renovation process is completed.<sup>14</sup> Borrowers and lenders also must abide by FHA's general underwriting appraisal, inspection, and insurance requirements.<sup>15</sup>

However, additional requirements specific to the renovation process make originating 203(k) loans different from FHA purchase loans.

**Figure 2** details these differences.<sup>16</sup> To ensure that renovations are warranted, 203(k) homes

must be more than one year old. Moreover, properties are not required to meet insurance and occupancy standards until after the renovation is complete. To ensure these standards will be met post-renovation, a work write-up is completed by a HUD consultant or contractor detailing the extent and costs of all the renovations.<sup>17</sup> This write-up is included in the underwriting process. Because of the renovation process, 203(k) homes are appraised in two different ways: *as-is*, based on the property's current condition, and *after-improved*, based on the write-up's expected repairs. After the renovation process is complete, the 203(k) becomes an FHA purchase loan. These extra requirements ensure that renovations are warranted, conform with approved modifications, and mitigate renovation risk.

The specific requirements vary depending on the type of 203(k) loan: standard or limited.

**Figure 3** demonstrates how these loans differ by repairs and costs.<sup>18</sup> If the renovation costs over \$75,000 or impacts any structural part of the home, a 203(k) standard is required. The standard's renovation process is longer, allows

**Figure 3: Comparing FHA 203(k) Standard and Limited**

	FHA 203(k) Standard	FHA 203(k) Limited
Repair Finance	Up through area's FHA mortgage limit	Up to \$75,000
Structural Repairs Allowed	Yes	No
Consultant Requirements	Consultant required	Consultant recommended
Documents	Work write-up by consultant Applicable architectural exhibits	Work write-up or contractor estimate
Number of Money Draws	5 including final draw	2 including final draw
Time Constraints for Repairs	12 months	9 months (cannot displace occupants for more than 30 days)
Contingency Requirements	10-20% of renovation cost dependent on property age	Not required

*Source: Consumer Federation of America analysis of HUD Documentation.*

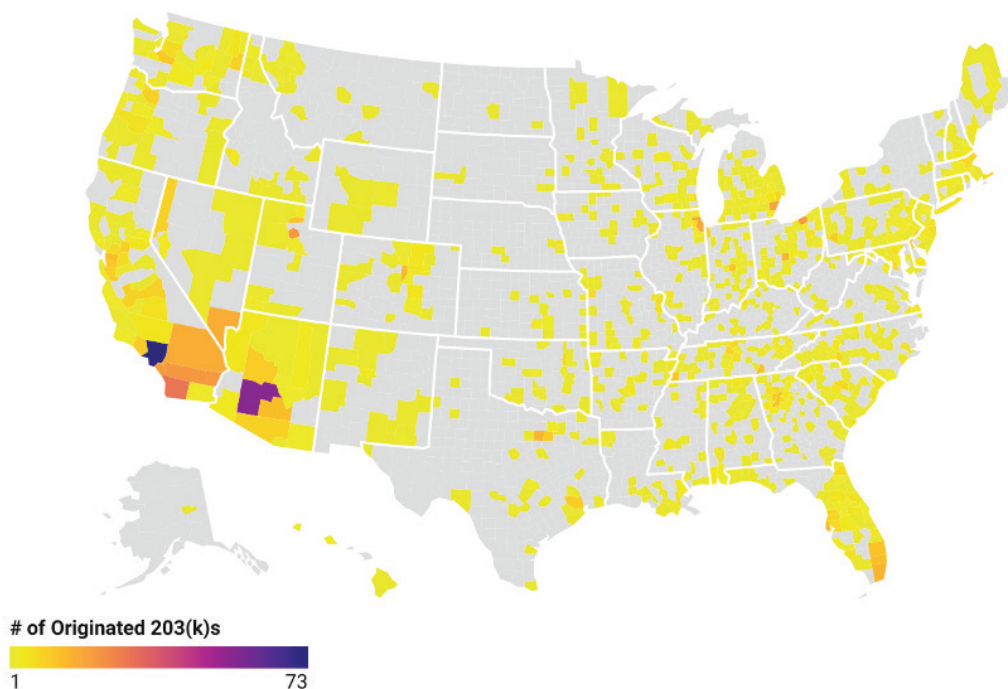
for more draws, and requires the use of the HUD consultant. Otherwise, a 203(k) limited loan can be used. By offering two types of renovation loans, FHA ensures that the loan requirements address the potential risks of each project without creating too much red tape.

After determining the appropriate 203(k) loan, buyers must navigate many steps between house shopping and a completed renovation. Imagine that a buyer finds a property where they want to put an addition on the back and renovate the kitchen; they need to use a 203(k) standard. First, they must find a lender who originates 203(k) loans. Then, they must bring in a HUD consultant to create an estimated write-up of mandatory and desired upgrades. Upon inspection, the consultant may find that the roof must be replaced. The buyer uses this write-up to find a contractor who will complete the mandatory roof replacement as well as the desired addition and kitchen renovation. They must then submit the final work write-up,

a contractor bid with appropriate licensing, and an appraisal, to the lender for loan underwriting.

Once all the documents are in place, the lender completes the underwriting, the closing occurs, and the escrow is created. Now, the first phase of renovation can begin. After each phase, the consultant inspects the progress and writes up a draw proposal to release the corresponding funds to the contractor. A final inspection is conducted when the renovation is complete. Consultants send a final draw to release the remaining funds owed to the contractor.<sup>19</sup> The loan officer closes the renovation escrow account, and the loan can be bundled and securitized by Ginnie Mae. Finally, buyers can enjoy their newly renovated home and continue to pay their mortgage, which has now become a regular FHA mortgage. **Appendix Figure A-1** offers a detailed flow chart of this process.

**Figure 4: Number of 203(k) Loans Originated by County in 2024**



Map: Consumer Federation of America • Source: HMDA • Created with Datawrapper

## Quantitative Findings

### Underserved Regions and High Withdrawal Rates

An analysis of 2024 HMDA mortgage data reveals gaps in the national use of FHA 203(k), surprisingly high rejection and withdrawal rates, and misalignment with the target demographic for FHA loans.

In 2024, FHA 203(k) loans were issued in every state. **Figure 4** shows a county-level map of 203(k) origination, revealing that most counties recorded zero or only one loan. The top counties for 203(k) use were Los Angeles County (CA), Maricopa County (AZ), San Diego County (CA), and Cook County (IL) – all large urban areas with high overall loan volumes.

Clusters of 203(k) loans in the Southwest and Sunbelt may reflect rapidly rising housing costs in these areas, driving more first-time homebuyers there to purchase fixer-upper homes,

as well as the need for climate retrofitting. The map also reveals concentrations of FHA 203(k) in cities in the Midwest, including in Chicago, Detroit, Cleveland, and Philadelphia, urban areas with a high number of vacant and dilapidated homes. The map also points to untapped potential for expanding FHA 203(k) usage in rural communities, where housing supply shortages often coexist with a vacant and disrepaired housing stock.<sup>20</sup>

Interest in the FHA 203(k) program is stronger than origination numbers alone indicate. **Figure 5** compares outcomes for 203(k) and comparable loans.<sup>21</sup> In 2024, only about *one in three* FHA 203(k) applicants (36 percent) ended up using this loan. By comparison, 68 percent of FHA loan applications and 44 percent of conventional home improvement loan applications resulted in originations.

The most common outcome for FHA 203(k) loans was that borrowers withdrew their application. FHA 203(k) applicants were almost



**Figure 5: Comparing Loan Origination, Denial, and Withdrawal Rates**

	FHA 203(k) Rehab Loan	FHA 203(b) Purchase Loan	Non-FHA Rehab Loan
Loans Originated	2,628	606,132	119,482
Origination Rate	36%	68%	44%
Denial Rate	24%	11%	35%
Withdrawn Rate	41%	21%	21%

Source: Consumer Federation of America analysis of HMDA 2024.

**Figure 6: Borrower Demographics of FHA 203(k) and FHA 203(b)**

	FHA 203(k) Rehab Loan	FHA 203(b) Purchase Loan
Borrowers Younger than 45	18%	73%
Borrowers 55 and Older	64%	39%
White Borrowers	63%	39%
Median Loan Value	\$400,000	\$335,000

Source: Consumer Federation of America analysis of HMDA 2024.

two times more likely to withdraw their loan application than regular FHA applicants. This high withdrawal rate indicates that aspects of the 203(k) program may be driving borrowers away, such as not being approved for sufficient funds. Other reasons may include not wanting to proceed with the renovation or facing a large gap between renovation cost and the home's expected post-renovation value.

## A Mismatch with FHA's Target Demographics

**Figure 6** compares the demographics of 203(k) borrowers with those of regular FHA purchase loans. FHA's target demographic includes lower-wealth and first-time homebuyers who

cannot qualify for conventional loans or afford larger down payments; these buyers tend to be younger. In fact, 73 percent of regular FHA borrowers were under 45 years old. By contrast, 203(k) borrowers skew older, with 64 percent of borrowers over the age of 55. The prevalence of older borrowers – who are more likely to have prior homebuying experience – suggests that 203(k) loans are not effectively reaching first-time homebuyers.

Findings also show that homebuyers of color are less likely to use FHA 203(k) loans compared to regular FHA loans. While white borrowers take out 39 percent of regular FHA loans, they comprise 63 percent of all FHA 203(k) borrowers. Finally, the median loan

value of FHA 203(k) loans (\$400,000) is significantly higher than that of FHA purchase loans (\$335,000), which is unsurprising given the high costs of renovations. Renovating is hard to do for any homebuyer, let alone first-time homebuyers. As a result, structural challenges – even beyond programmatic details – also shape the broad demographic mismatch between who tends to use FHA 203(k) and the target population of FHA.

## Qualitative Findings: Great on Paper, Hard in Practice

The FHA 203(k) loan is like a puzzle, one where the pieces rarely all fall into place. To make it work, a borrower must find the right house, a willing seller, a well-resourced contractor, a HUD-approved consultant, and a lender willing to take the time to underwrite the loan and see it through the renovation. This section draws on in-depth interviews with 15 policy experts and stakeholders to analyze the barriers that borrowers face. Any single hurdle might be manageable, but together they create a complex, time-consuming process that limits the program's wider use.

### Finding the Right Home

Borrowers who plan to use the 203(k) loan must start their search by looking for a home that meets FHA criteria and ensure that the renovations are both manageable and financeable. Finding the right home that fits both a buyer's budget and their capacity for renovation is often a major hurdle.

In theory, many properties could qualify, ranging from uninhabitable homes to those only needing minor upgrades like a new HVAC system or energy-efficient appliances. In practice, buyers need to determine which renovations they can stomach and afford. One Realtor

noted that buyers are drawn to the program for “sexy” upgrades like a brand-new kitchen but often discover they can only afford an HVAC replacement. Interviews with policy experts and HUD consultants revealed that common reasons buyers walk away from 203(k) loans include underestimating how much renovations cost, not qualifying for enough money, or being turned off by big renovations.

Another complication in the home search is the appraisal gap that buyers in economically depressed or stagnant areas often encounter. For a 203(k) loan, this gap occurs when the combined cost of the purchase price and renovations exceeds the home's appraised fair market value after repairs. Currently, FHA 203(k) allows for mortgages up to 110 percent of the future (post-renovation) appraised value: while this provides an important buffer for homebuyers, it also limits the use of this program in places where the appraisal gap is larger. As one loan officer explained, “too many [homes] won't appraise because they are in market areas where improvements [...] will exceed the fair market value of the property when it [is] completely rehabilitated.”

This challenge is particularly acute in struggling urban neighborhoods and rural areas where property values are low.<sup>22</sup> Disinvestment and vacancy have left many of these homes in need of expensive renovations before they are considered inhabitable. This appraisal gap often blocks the 203(k) from being used in the urban and rural communities that need it most.

### A Seller Willing to Wait

FHA borrowers often face another hurdle: finding a seller who is willing to work with them.

In hot housing markets, 203(k) buyers face competition from buyers with cash or conventional loans. Sellers tend to prefer fast, uncomplicated sales and so often prefer cash buyers or those with conventional financing who



can waive contingencies.<sup>23</sup> This can create a perfect storm where sellers avoid buyers with 203(k) financing.

Competition by investors for fixer-upper properties varies by market. One D.C.-based loan officer noted that investors typically look for larger or more expensive properties than the 203(k) program allows, such as those with more than four units. However, another loan officer said he often sees investors pursuing the very types of properties suitable for the limited 203(k), where a quick, less rigorous flip can yield a large profit. A former FHA official emphasized that competition is market-specific, and if 203(k) borrowers “are buying a super distressed property, it’s possible they may be competing against a cash buyer, but there are plenty of times where a 203(k) borrower is going to compete against another homebuyer.” In any case, competition can be fierce, with even conventional buyers able to waive contingencies or simply outbid FHA borrowers.

FHA 203(k) buyers also lose out on some properties due to longer loan closing times. Delays are due to a combination of increased loan officer paperwork and the need to finalize renovation plans.<sup>24</sup> D.C.-based Realtor Harrison Beacher explained that because of the longer 203(k) closing time, he recommended one client take a more expensive private loan: “It was needed to be able to even get the bid in on time and to perform and close as quickly as we did. That extra month of time [to get the renovation planned out] would have lost the opportunity completely.” At the same time, experienced loan officers who regularly work with 203(k) say that they can close in as little as three weeks, provided that all the paperwork is submitted promptly, and buyers know exactly what renovations they want. Still, even the perception of longer closing times can lead sellers to choose conventional or cash offers over 203(k) buyers.<sup>25</sup>

Some sellers may prefer to work with borrowers with FHA 203(k) financing, particularly if they want another owner-occupant to live in the home or if their house has been on the market for a while. According to a former FHA official, sellers may consider “the benefit that the homebuyer brings is that because they care about the home, plan to live there, and make it their home, [they] often pay more for a property than a cash buyer does.” A policy expert shared that a FHA 203(k) buyer she knows was intentional about finding “a seller who was willing to wait,” and “didn’t really have as many options.” To combat some of the difficulties on the seller side of the transaction, informed buyers can look for properties where sellers will work with 203(k) financing, such as by identifying homes that have been listed longer.

## A Qualified and Well-Resourced Contractor

Buyers often struggle to find a qualified and well-financed contractor who will oversee the renovations. This is made more difficult by



the growing contractor shortage.<sup>26</sup> Qualified contractors are more expensive, which reduces the renovation options available to the borrower.

Renovations are difficult under the best of circumstances, with consumers often facing delays and unexpected costs, and with home improvement scams and shoddy work abound. To best protect consumers and the taxpayers that support FHA as a government-backed mortgage, FHA 203(k) contractors face strict qualification requirements: eligible contractors need to be state licensed, carry liability insurance, and offer a detailed bid. One potential borrower, whose partner is a contractor still navigating licensing, decided against the 203(k) loan because her partner was likely ineligible for the loan underwriting. Amid a general shortage of contractors – let alone those who meet these strict criteria – borrowers struggle to find success in the FHA 203(k) program.

In addition, lenders want to see that contractors have access to enough credit to carry the project between draws.<sup>27</sup> Sean Lyon, a Maryland-based loan officer, explained that a contractor must be able to finance at least 25 percent of the renovation cost upfront. In addition, Sean Lyon holds back 10 percent of each draw as a contingency to ensure the contractor continues to carry the project: this offers an additional protection against contractor scams. The contractor receives the contingency as a part of the final draw. Some contractors may be unwilling to take on a project where they must go through such a draw process to be paid.

The requirements of licensure and cost carrying are precautions to protect lenders and borrowers from poor or incomplete work. George Antequera, a HUD-approved consultant in New Jersey, advises borrowers that if a contractor provides very low quotes, they will probably not complete high-quality work, or worse, walk away with the borrower's money. Many consultants and lenders have horror stories about contractors who took upfront

funds and abandoned projects. For the 203(k) program, changing contractors is cumbersome because the lender must rerun the approval process. Contractors willing to work with the financing and renovation schedule frequently have a premium cost, which can be prohibitive for lower-income borrowers. As Realtor Harris Beacher pointed out, contractor “sticker shock is another deterrent that makes 203(k) not make sense for folks.” Altogether, it is difficult to find a contractor who meets all the HUD and lender requirements, while still being affordable.

## A Shortage of FHA 203(k) Lenders

As loan officers guide their clients through the FHA 203(k) process, homebuyers need a lender who is well-versed in the loan requirements and willing to have a hands-on engagement with the loan.

Due to 203(k)'s many steps, lenders take on a larger role in the 203(k) process than is usual in mortgage lending. They ensure that all the documentation needed for underwriting – HUD consultant certification, contractor license and credit lines, work write-up, the two appraisals, and borrower information – is accurate. Additionally, they are responsible for setting up and administering the renovation funds through an escrow account. This includes verifying each draw request and administering the payments. Perhaps most unattractive to many lenders is the necessity to carry the loan during the renovation period in order to administer the escrow. The 203(k) loan can become securitized through Ginnie Mae **only after** the renovation is completed.

As most loans today are originated to be securitized – with non-depository independent mortgage banks originating the bulk of mortgages – many lenders simply do not want to touch this program. FHA 203(k)'s biggest lender, Wells Fargo, stopped offering the loan in 2018, leaving a gaping hole in the market.<sup>28</sup>

To recoup the costs of the difficult underwriting and carrying the loan through the renovation process, the 203(k) loan's interest rate is frequently a few basis points higher than other FHA loans.<sup>29</sup> But this higher cost does not always fully compensate for the extra lender involvement.

Lenders who are less experienced with this product may direct clients toward other loan options. One policy expert noted there are “a lot of informational frictions that the lender would need to solve.” In reference to gathering all the information for 203(k) loans, one lender admitted, “I know that a lot of my colleagues and myself almost steer away from it, because it is a pain for us.”

The lenders who offer 203(k) loans often specialize in the product, allowing them to be efficient throughout the process. Larger loan originators who frequently originate 203(k) loans may have dedicated teams that exclusively underwrite renovation loans. These offices may handle loans from borrowers and consultants across the country – particularly in rural areas where local lenders cannot scale a 203(k) business. Chad Dunham, a HUD consultant in Illinois, said that after a local lender stopped offering 203(k), he has been “working with [a lender] out of state, and [he has] never had a face-to-face conversation with them.” Some lenders enjoy offering the product because it is a departure from their everyday routine. Loan officer Sean Lyon shared about 203(k): “It is probably my favorite thing to do. I just think it's a lot of fun. It can be a little tedious for a loan officer, but I don't mind that level of detail and all the moving parts. It's actually kind of fun to me.”

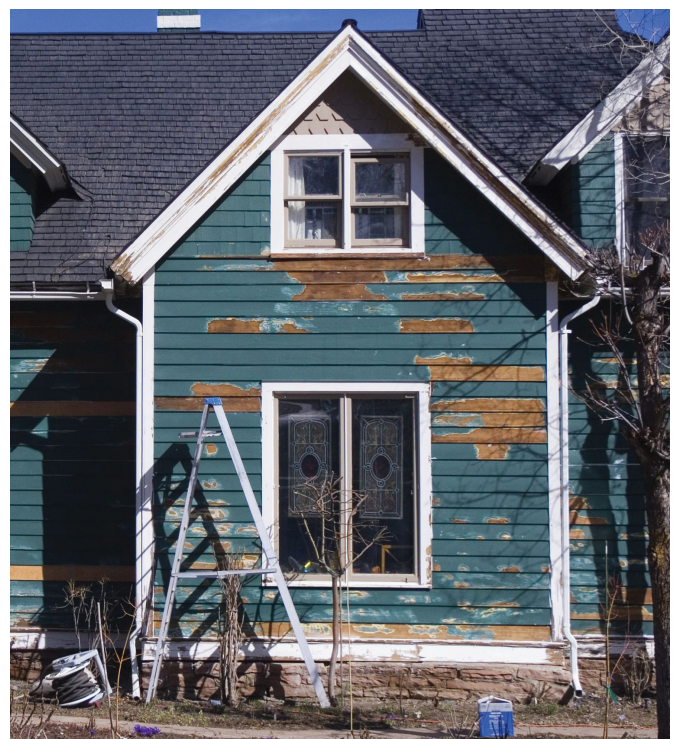
The difficulties of managing the 203(k) loan contribute to the stigma against the product. One former FHA official said, “Most lenders would prefer to do just a plain loan. [Renovation lending] is more work. It is more risky. Not necessarily because the borrower is risky, but because things can go wrong in

renovations. Most lenders don't want to deal with that.”

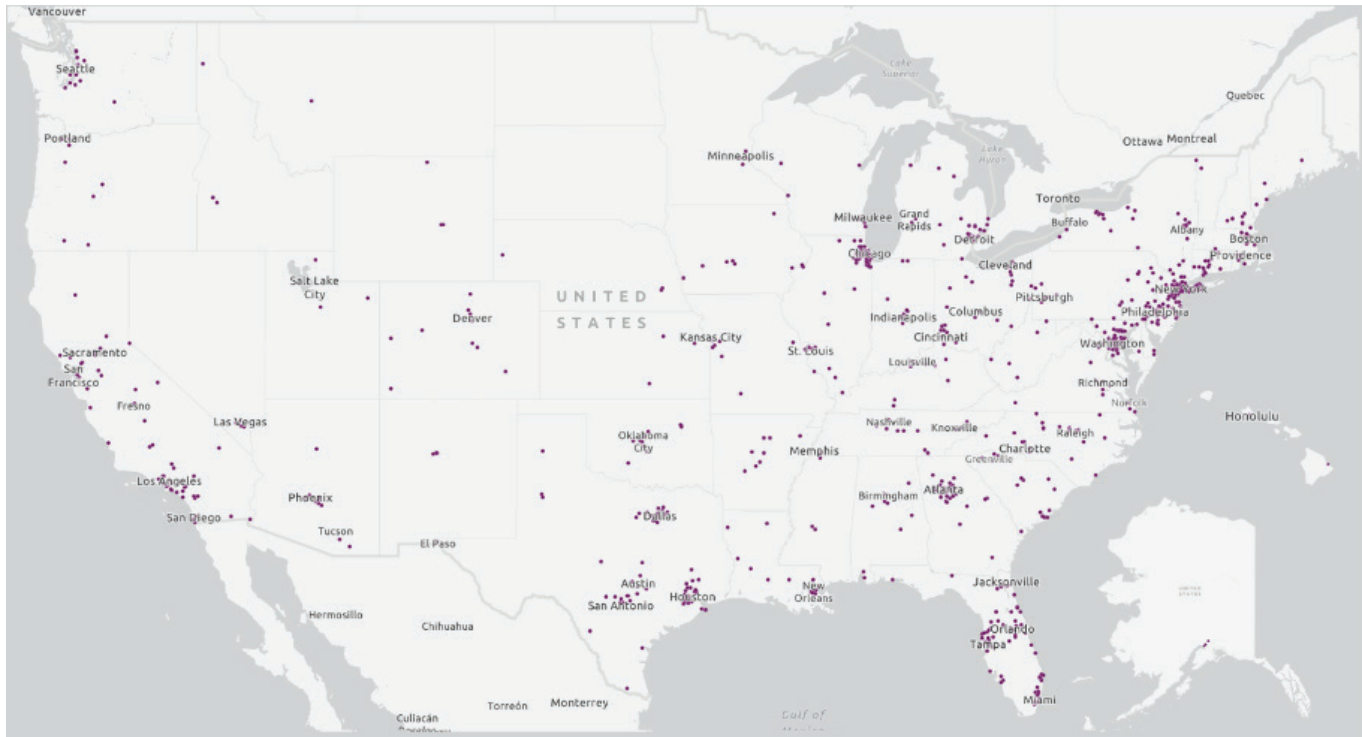
The renovation risk is not the only aspect driving lenders away. Brad McMullin, the VP of Renovation at Prime Lending said, “back in the day, the 203(k) loan was tougher. Now it's not. It's not hard, but it's got a bad reputation.” Today, lenders cite the loan's complexity when deciding against offering it. One D.C.-based lender said, “Lining all that [documentation and licensing] up is just an extra step to [the] process,” which discourages him from 203(k) lending. However, a few lenders continue to specialize in FHA 203(k) and renovation lending.

## HUD Consultants, Missing Pieces

HUD-approved consultants, another critical part of the 203(k)-loan program, are difficult to retain in many parts of the country. There are simply not enough HUD consultants to support 203(k) loan usage, particularly in rural areas. Only the FHA 203(k) standard loan requires the use of a HUD consultant. However, lenders mentioned they have also seen consultants



**Figure 7: Locations of HUD Consultants**



Source: Consumer Federation of America 2025. Made with ArcGIS Web.

Note: Each dot represents the address of a certified 203(k) HUD consultant; consultants may work in multiple states.

used for FHA 203(k) Limited, HomeStyle renovation, and VA rehab loans, making the HUD consultant shortage impact the broader renovation mortgage market. This section's findings draw on five interviews with practicing HUD consultants across the country.<sup>30</sup>

HUD consultants are individuals with at least three years of construction-related experience who submit their licensure and liability insurance to HUD for certification. While engineers and architects are eligible, the field is primarily comprised of contractors and inspectors. For HUD consultants, consulting can be a primary employment or an offering as part of a larger business. They must be recertified by HUD every 2 years and can be certified in any state where they hold licensure.

Consultants are a type of consumer protection for the buyer, as they help buyers understand their renovation options and appropriate

costs. They act as an intermediary between the buyer, lender, and contractor. George Antequera, a New Jersey-based consultant, explained that, “you wear a lot of hats as a 203(k) consultant,” navigating the relationships between all parties. Their impartiality ensures that buyers are not persuaded to agree to unnecessary or steeply overpriced renovations. They also protect lenders by ensuring that the renovation will make the home serviceable for the life of the mortgage. Finally, consultants support contractors by submitting the draw requests. The counseling and mediation that consultants provide are critically important to ensure all parties are protected.

There is an acute consultant shortage. **Figure 7** above shows the location of the 835 HUD consultants, highlighting that consultants are unavailable in huge swaths of the country.<sup>31</sup> There are no consultants in North and South Dakota. Alaska only has consultants in



Anchorage, while the only consultants in all of Nevada are located in Las Vegas. Consultants from nearby locations may provide services to underserved regions, but the long distance limits how deeply consultants can engage with each project. They cannot just “do a random drop in on a location,” like Paul Parsons, a D.C.-based consultant said he does for local projects. Without enough consultants, using the standard 203(k) is unfeasible in many parts of the country.

Even this online HUD list may overstate consultant availability, complicating the shortage. Some individuals may maintain their certification without taking on any consulting work. Chad Dunham, an Illinois-based consultant, explained that while he is also licensed in Indiana, Iowa, Missouri, and Wisconsin, he only works in Central Illinois. Another individual reached on the HUD list said he no longer consults. These inaccuracies make it even harder for buyers and lenders to find an HUD consultant.

Finally, the shortage is aggravated as many consultants are aging out of the workforce. Several consultants cited their age as a reason they take on fewer projects. An Oklahoma-based consultant said, “I’m old at my age. I’m not out there like I would have before.” A young husband and wife consultant duo, “August Inspections,” said they do not mind the travel: “As a young couple, [...] being able to travel to multiple states, driving four-to-ten-hour days, is not too tiresome.” They pointed out that many of their older mentors are no longer able or willing to make these trips. Without attracting younger people to become HUD consultants, the consultant shortage will only get worse.

## Conclusion and Policy Recommendations

The FHA 203(k) loan remains deeply underused, despite its potential to address critical housing needs. Builders simply cannot build fast enough and in all the places where housing is needed. Without maintaining and upgrading existing units, we lose homes every year. Housing preservation and repair is a key strategy alongside housing production to tackle our housing crisis at scale.<sup>32</sup> For that, homebuyers need accessible financing options to purchase and renovate fixer-uppers: the FHA 203(k) program could be an important tool to fill that gap.

To truly scale up FHA 203(k), no one solution will do. This research identified broader structural barriers, such as the shortage of contractors and rising costs of renovations, which have hampered renovation lending more generally. However, the findings also identified programmatic challenges, which may be easier to address.

This report offers the following policy recommendations:

### **1. HUD should work to improve borrower and industry familiarity with the program.**

Last updated in 2024, the new “limited” loan maximum of \$75,000 and extended renovation timelines could attract more homebuyers to this product – but only if the industry and buyers know about it. HUD should ensure that all information on its website accurately reflects the latest program requirements. We also recommend that HUD works directly with industry groups and its housing counseling network to tackle misinformation and educate key stakeholders on this mortgage product. For example, HUD marketing materials and social media could specifically highlight the kinds of renovations that this product enables buyers to do and feature success stories.

## **2. HUD should grow the HUD consultant workforce.**

There is a shortage of HUD-approved consultants, particularly in rural communities. Many current consultants are older and aging out of the profession. One way to tackle the shortage of HUD consultants – construction experts who mediate on FHA 203(k) projects – is to more broadly advertise licensure opportunities, offer online training opportunities through HUD, and create an online form to apply for and renew eligibility. Being a HUD-approved consultant could offer a great complimentary income stream for contractors, architects, home inspectors, and others with qualified experiences.

HUD could work with state licensure agencies to easily advertise and enable contractors and inspectors to add certification when reverifying their state license. In addition, HUD could work on building and offering an online training course, that helps potential consultants get (and stay) familiar with FHA 203(k) requirements: for example, see the International Association of Certified Home Inspectors (interNACHI) or 203(k) in a box, as well as the National Association of FHA Consultants.<sup>33</sup> Currently, the expectation is that consultants will just “read up” on the FHA Single-Family Housing Policy Handbook. Finally, HUD should enable an online application form for consultant (re)certification, and automatically alert consultants when their qualification is about to expire. Currently, consultants have to mail physical copies of all forms, creating additional barriers to licensure and renewal.

## **3. To expand FHA 203(k) use, existing home repair programs and grants should be more closely linked to this financing tool.**

Home repair programs and grants could help their dollars go further, by allowing homebuyers to link them to FHA 203(k) financing. This would help the FHA 203(k) program better

reach underserved rural and urban communities in particular. Currently, the appraisal gap – the gap between how much it costs to purchase and repair a home, and the post-renovation appraised value – often prohibits FHA 203(k) underwriting in these areas, as the program allows underwriting up to a max of 110% of post-renovation appraised value. Combining grants for repair with renovation mortgage financing, specifically, would offer a type of “appraisal gap financing.”<sup>34</sup>

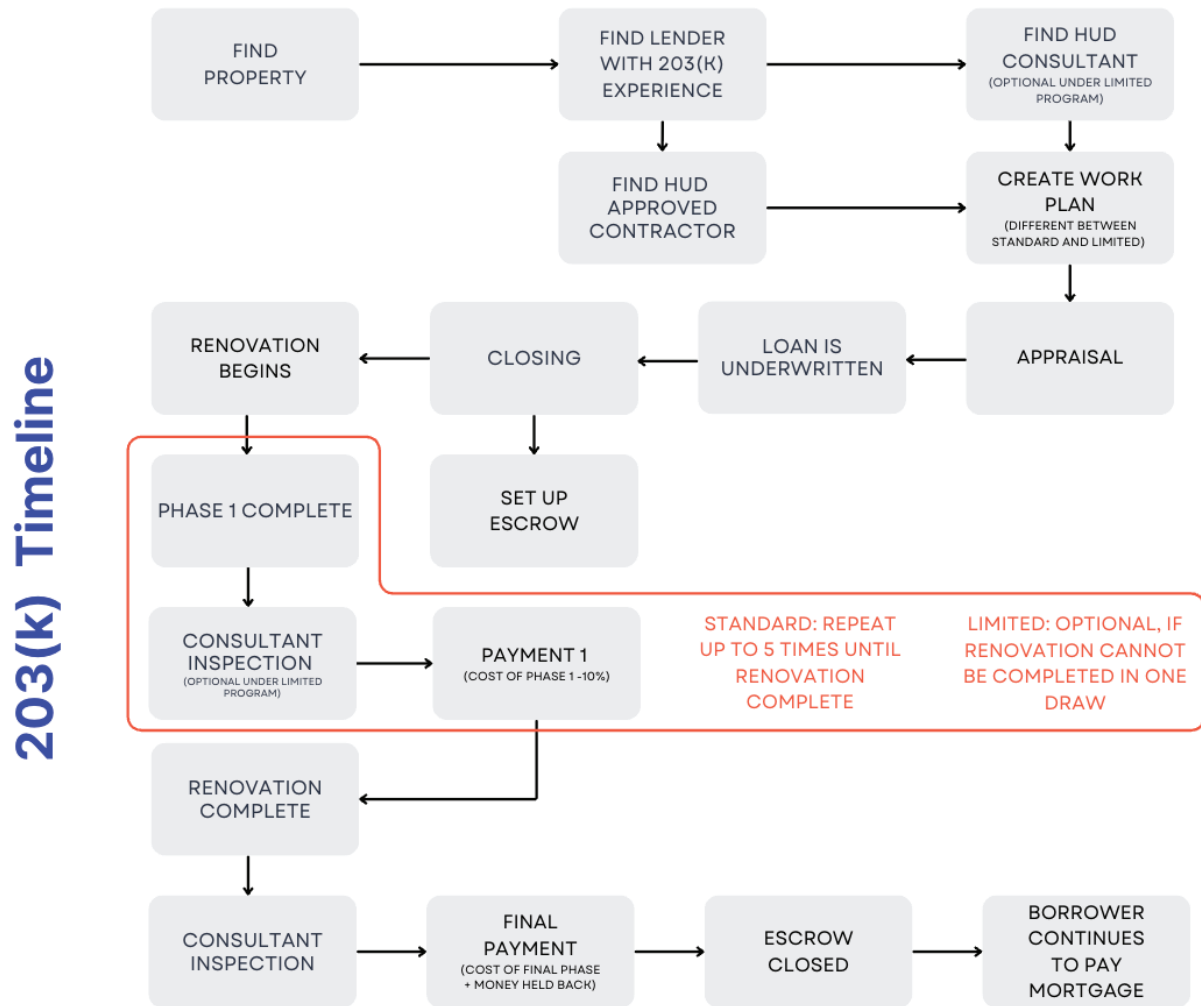
Helping consumers combine FHA 203(k) and a home repair grant (much like down payment assistance programs for lower-to-moderate income consumers) can help close this gap. Enabling more first-time homebuyers access fixer-uppers would not only unlock a greater share of the affordable housing stock for these homebuyers but also help them build equity from the start.

## **4. HUD should do a pilot to expand the HUD Mortgage program.**

This Congressionally authorized program allows qualified non-profit and governmental entities to take out FHA renovation loans, fix up properties, and let borrowers “assume” FHA loans on updated homes. While authorized by Congress since the 1970s, it has fallen out of use. We recommend that HUD start a pilot with a small number of non-profits and government agencies to expand this program, as it could offer a helpful source of capital to fix up our nation’s vacant and dilapidated housing stock.

The goal of the FHA 203(k) program has been to bring “fixer-upper” homes within reach of first-time homebuyers. Difficulties of using the program have frustrated this goal. Revitalizing this long-standing program could not only help homebuyers but also strengthen entire communities by preserving and upgrading our nation’s existing housing stock. Any comprehensive housing supply strategy must also address our nation’s home repair crisis.

## Appendix Figure A-1: Flowchart of Originating an FHA 203(k) Loan



Source: Consumer Federation of America, 2025.

# Endnotes

1. Freddie Mac, “Housing Supply: Still Undersupplied by Millions of Units.” (Blog) November 16, 2024. <https://www.freddiemac.com/research/insight/housing-supply-still-undersupplied>
2. Laurie Goodman et al., “How Do We Rehabilitate the FHA’s 203(k) Rehabilitation Program?,” Housing Finance Policy Center, Urban Institute, April 2023. <https://www.urban.org/research/publication/how-do-we-rehabilitate-fhas-203k-rehabilitation-program>.
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4. Chris Bruen, “Debunking NIMBYism: A Closer Look at Vacant Housing Units,” National Multifamily Housing Council, Research Notes (Blog), December 2022. <https://www.nmhc.org/research-insight/research-notes/2022/debunking-nimbyism-a-closer-look-at-vacant-housing-units/>
5. Carlos Martín et al. “Catalyzing a Movement to Produce Greater Public, Private, and Civil Resources to Improve Housing Conditions Through Home Repair Programs.” Harvard Joint Center for Housing Studies, August 27, 2024. <https://www.jchs.harvard.edu/research-areas/working-papers/catalyzing-movement-produce-greater-public-private-and-civil>
6. Less commonly, homeowners can take out an FHA 203(k) refinance loan to help pay for home renovations or energy upgrades. This report focuses on 203(k) purchase loans.
7. Sharon Cornelissen and Austin Harrison, “Outcompeted: Challenges of FHA Buyers in Tight Housing Markets,” Consumer Federation of America, August 2024. <https://consumerfed.org/reports/outcompeted-challenges-of-fha-buyers-in-tight-housing-markets/>
8. FHA Annual Management Report, 2017; 2020; 2021; and 2024. See for example <https://www.hud.gov/sites/dfiles/Housing/documents/FHAFY2024ANNUALMGMNTRPT.PDF>
9. Regular FHA loan volume is countercyclical to conventional loans. Borrowers turn to FHA loans during markets with tight credit availability. See Ibid.
10. Federal Housing Administration, “Mortgagee Letter 2024-13,” July 9, 2024. <https://www.hud.gov/sites/dfiles/OCHCO/documents/2024-13hsgml.pdf>
11. Habitat for Humanity International, “Appraisal Gap Financing and Small-Balance Loans in Legacy Cities,” April 2025. Report available by request.
12. The Home Mortgage Disclosure Act (HMDA) requires all lenders that meet a minimum origination threshold to report on their mortgage application decisions every year. As a result, loans from small lenders and CDFIs who do not meet minimum reporting requirements are missing from the dataset.
13. Federal Housing Administration, “Fiscal Year 2024 Annual Management Report,” November 2024 (p. 20) <http://hud.gov/sites/dfiles/Housing/documents/FHAFY2024ANNUALMGMNTRPT.pdf>
14. Open FHA renovation loans can switch servicers or be sold between lenders. However, they can only be securitized by Ginnie Mae after the renovation is complete and they have become regular FHA 203(b) loans.
15. See “FHA Single Family Housing Policy Handbook (Handbook 4000.1),” US Department of Housing and Urban Development, January 10, 2025, p. 157-199. <https://www.hud.gov/hud-partners/single-family-handbook-4000-1>
16. FHA Single Family Housing Policy Handbook 4000.1, 2025; FHA Annual Management Report, 2024.
17. For standard 203(k) loans, a consultant completes the write-up. Either a consultant or contractor can complete the write-up for limited 203(k) loans.
18. “FHA Single Family Housing Policy Handbook (Handbook 4000.1).”
19. Any unused funds in the escrow, such as from the contingency costs, are applied to the principal of the mortgage.



20. Sharon Cornelissen and Katie McCann, “Rural Homeownership Challenges: A Perspective from Eastern Kentucky,” Consumer Federation of America, April 2025. <https://consumerfed.org/wp-content/uploads/2025/04/Rural-Homeownership-Challenges-Eastern-Kentucky-Report.pdf>
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22. Aditya Mukundan et al., “Homes Too Cheap for a Mortgage: Learning from Baltimore and Eastern Kentucky about Small Mortgages and National Solutions,” Consumer Federation of America, September 2024, <https://consumerfed.org/reports/homes-too-cheap-for-a-mortgage-learning-from-baltimore-and-eastern-kentucky-about-small-mortgages-and-national-solutions/>.
- See also Habitat for Humanity International, “Appraisal Gap Financing and Small-Balance Loans in Legacy Cities,” April 2025. Report available by request.
23. Sharon Cornelissen and Austin Harrison, “Outcompeted: Challenges of FHA Buyers in Tight Housing Markets.” Consumer Federation of America, August 2024, <https://consumerfed.org/wp-content/uploads/2024/08/Outcompeted-Cornelissen-and-Harrison-CFA-prelease-version.pdf>
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25. See Sharon Cornelissen and Austin Harrison, “Outcompeted: Challenges of FHA Buyers in Tight Housing Markets.” Consumer Federation of America, August 2024.
26. Eric Holt and Bill Ray, “The Skilled Labor Shortage and America’s Housing Crisis: How the Skilled Labor Shortage Impacts Building Costs and Cycle Times,” National Association of Home Builders, June 2025, <https://www.nahb.org/news-and-economics/press-releases/2025/06/new-study-reveals-significant-economic-impact-of-housing-industry-labor-shortage>.
27. The amount of money needed to carry depends on the type of 203(k) chosen. In a 203(k) standard loan, contractors do not get any money upfront, while in 203(k) limited they can get up to 50% of the materials cost. See “FHA Single Family Housing Policy Handbook (Handbook 4000.1).”
28. See Bonnie Sinnock, “Lack of consultants stymies FHA purchase-rehab loan program,” National Mortgage News, April 2023. <https://www.nationalmortgagenews.com/list/fhas-203k-program-stunted-by-lack-of-consultants-trade-groups-say>
29. Laurie Goodman et al., “How Do We Rehabilitate the FHA’s 203(k) Rehabilitation Program?,” Housing Finance Policy Center, Urban Institute, April 2023. <https://www.urban.org/research/publication/how-do-we-rehabilitate-fhas-203k-rehabilitation-program>
30. Interviewed consultants were from Georgia, Illinois, New Jersey, Oklahoma, and Washington D.C. and worked in 16 states.
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32. Carlos Martín et al. “Catalyzing a Movement to Produce Greater Public, Private, and Civil Resources to Improve Housing Conditions Through Home Repair Programs.” Harvard Joint Center for Housing Studies, August 27, 2024. <https://www.jchs.harvard.edu/research-areas/working-papers/catalyzing-movement-produce-greater-public-private-and-civil>
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