

Many Loan Options Available

Home Improvements Turn Average Homes into Dreams Come True

If you're thinking about taking out a home improvement loan, there are several options to consider. First and foremost, your mortgage consultant needs to know why you want a home improvement loan. Here are some factors to take into consideration.

- How long have you been in the home?
- Will the improvements increase the property value?
- Are you making improvements to increase energy efficiency?
- Will improvements be made in one fell swoop, or in stages?
- What is the current outstanding balance on your mortgage?
- What is the appraised value of the home?
- How much will the improvements cost?
- What improvements will be tax deductible?
- Do you have other revolving debt that you would like to pay off at the same time?
- Are you making improvements because you plan to sell the property?

The New Tract Home Blues

Buyers of newly-built homes are often tapped out after making the initial down payment and closing costs, including upgrades to amenities and the inevitable need for new furniture. Shortly thereafter, they realize they'd like to make additional improvements to really have the home of their dreams.

If you're planning on putting down roots (pardon the pun), landscaping may be in order. The developer may have been kind enough to make the front yard a perky green, but if the back yard is a disturbing brown color sparse with weeds, you may be entertaining the vision of a pool or deck.

Look into the option of a Home Improvement Loan with a fixed interest rate as a 2nd Trust Deed. This type of loan does not require you to have equity built up in the existing mortgage. The maximum loan amount could go as high as 125% of the current appraised value of the home, and you can make the improvements yourself or go the extra mile and hire a contractor if the job requires architectural design, permits and inspections.

The Major Overhaul

If you have built up equity in your home and are geared up for some major renovation, the Home Equity Line of Credit (HELOC) is probably your best bet. This adjustable loan allows you to use your equity as a line of credit, so if you have improvements that are phased in over time you can simply write a check when you need to pay a bill.

It's like having a credit card with a much lower financing rate. In fact, the HELOC can be used for any reason at all – even paying off that credit card debt. In most cases, this action turns that revolving debt payment into a tax deductible payment with a lower interest rate. The HELOC is generally a 2nd Trust Deed, unless it is used to pay off and replace the 1st Trust Deed.

A construction loan is an alternative to the HELOC for borrowers who don't want to use or don't have equity, and this type of financing *can* be used for construction on an existing dwelling. The lender will ask a lot more questions about what the borrower wants to do with the money, and the home owner will need architectural designs, permits and a licensed general contractor on board.

Construction loans are short-term loans that usually require interest-only payments until completion of construction, but the balance is due when construction is done. Most often, that is managed up front by setting up construction-to-perm financing. In this scenario, the loan is automatically rolled over into permanent financing at a fixed rate when construction is complete, and a rate-lock agreement can be purchased to carry the borrower through that period of construction.

Another option – depending on the value of your home and local loan amount limitations – is the FHA 203(k) Program. This financing is designed for the purchase *or* refinance *and* rehabilitation of properties that meet FHA guidelines. This is worth looking into if you need to bring a property up to compliance standards, finance eligible energy efficient improvements, or turn a single-family owner occupied dwelling into a duplex to accommodate Mom or Dad!

Just a Facelift, Please!

If you want to sell your home and you simply want to improve the curb appeal, it makes sense to go with a HELOC. Make sure you are aware of the current market value of homes in your area to make sure you're not going over the limit on the fair market value of your home. You'll want to get a return on your investment!

If you've had your home on the market too long and have not been able to sell, you might want to make some changes to give it a fresh new look and bring back the passion you once had for your home. Your mortgage consultant will help you weigh out your options for financing based on your outstanding mortgage balance, income and credit score.

Regardless of your reason for home improvement, make sure you share your goals with your mortgage consultant. He or she can walk you through the various loan options and confer with your tax advisor to make sure you're getting the best deal possible.