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A White Paper on... Remodeling and Financing

Remodeling and Financing Can Help Financial Health

When most homeowners consider a home improvement, they think about the beauty and utility that the renovation adds to their home. What many may not realize is that a remodeling project can also have a positive impact on their financial outlook.

Most people have the largest portion of their net worth tied up in their primary residence. It stands to reason then why people take care of their homes, maintaining them and making improvements that protect and enhance their investment. Done properly, a home improvement project and the accompanying financing can provide a real boost to a homeowner's personal balance sheet by increasing the value of the investment and providing some tax relief along the way.

Use Financing as a Tool.

Most people finance the purchase of their home with a long-term mortgage, spreading the payments over 15 or 30 years. In this way, a mortgage becomes a valuable financial tool that provides a couple of benefits: it makes a new home affordable, and the interest paid on the mortgage may become a tax deduction. Understandably, home mortgages are such a useful financial tool that very few people pay cash for their home. Even for those who can, many financial advisers suggest that it's better to use the flexibility of a mortgage than it is to tie up all of your available cash, which can often be invested for a higher return than the cost of the mortgage.

Your Home is a Long-Term Investment.

A remodeling project is a long-term investment in the value, convenience, and marketability of your home, paralleling the importance of the original investment. Therefore, it makes sense to use the same type of financial tool—a mortgage—to help make that investment. Using a second mortgage for a remodeling project provides several benefits. With a long-term mortgage, payments are low, which means a homeowner can afford a larger project or add options such as fencing or landscaping. Financing means you don't have to deplete your savings account and can have cash available for emergencies or other uses. And because the loan is secured by your property, the interest on the loan will most likely be tax-deductible.

Finding the right lender for you.

First off, it's very important to find a lender who is familiar with home improvement lending because financing an improvement requires some specialized knowledge of the remodeling process. Among the things you should look for is a lender who:

- **Is ready to move quickly.** When you want to start your project, you don't want to wait two or three weeks for your financing. Find a lender that can get you a quick approval, and who knows how to expedite the paperwork.

- **Doesn't require an appraisal.** A full property appraisal can take time, and can add hundreds of dollars in costs to your loan. Find a lender who will determine your home's value by its purchase price or from a recent tax assessment.

- **Doesn't require equity or a down payment.** Some lenders want you to have built up the equity in your home or require you to put down a substantial down payment. Lenders who specialize in home improvements, however, understand that the project increases the value of your home, and therefore will not require equity or a down payment.

- **Offers flexibility.** Each home improvement project is unique, and every homeowner's situation is unique. Some people want a short loan term; others need a longer term situation with lower payments. Some people just want to pay for the project; others may want to use the loan to pay off some other bills as well and increase their cash flow. Make certain your lender can tailor your loan to fit your particular needs.

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