

RENOVATION/CONSTRUCTION LOANS

PROGRAM OVERVIEW

To be sure, Renovation and Construction loans are the most underutilized (and flexible) mortgage products available in the mortgage marketplace. The one similarity is that ALL mortgage products for Renovation and Construction are based and underwritten on the “future value” of the property (post Renovation or Construction).

While each product is specific and unique; there are common traits of all Renovation/Construction loans. Each requires a licensed contractor and adherence to all local, county and state building codes. The closing costs and interest rates are slightly higher due to 1). Increased processing and underwriting times, 2). Permits and 3). Inspections.

The real benefit of considering a Renovation/Construction is that it allows any qualified home buyer to customize their new home purchase or existing home to meet their specific needs and/or desires. The scope of the project can be as simple as new kitchen appliances to as involved as a complete new addition, or rebuild of the subject property.

The most popular Renovation loan for many years has been the FHA 203K loan (Streamline and Full). The down payment requirement is 3.5% and the loan qualifications are the same as with all FHA loans. The main difference between the two products is that the Streamline allows a maximum of \$35,000 and no structural alterations to the property. This is perfect for replacing appliances or HVAC, for example. The Full allows for anytime of construction and requires a general contractor.

HomeStyle Renovation loans are slightly more flexible in that they will allow for “luxury items” such as addition of a pool or outside kitchen/barbeque, as well as general construction. The product requires a 5% down payment, which still makes it very accessible to the average home buyer.

Other construction loans include “All in One” construction (financing for the construction period that will convert to long term financing at the end of construction) and straight Construction financing (which will require a full refinance at the end of the construction period). Both of these products generally require larger down payments and are slightly more restrictive in their underwriting criteria. For example, some lenders will not provide full Construction financing for First Time Home Buyers.

Customizing a home has many benefits in allowing a borrower the flexibility to choose a property location over current functionality when purchasing or making modification for changes within the family dynamic, needs, during the period of home ownership.