Remodel a Fixer When You Don't Have Cash for Repairs

"A date becomes a Goal, A Goal broken down into steps becomes a Plan, A Plan, backed by Action, Makes Your Dreams Come True"

--- Greg Reid

Have you thought about buying a fixer-upper home? Maybe you have looked at dozens of homes in the paper or online and none of them look perfect for you. You can buy a less-than-perfect home and remodel it to fit your dreams. Or maybe you know you can get a fixer for a low price and then you know a contractor who can remodel it for you. Those costs together might end up being less than buying an already remodeled home. If you have a good eye for design and know what you want, buying a fixer might be the way to go. The main problem with buying a fixer is the upfront cost. You normally need to have enough cash for not just the down payment, but also enough to pay for the repair work. What if there was a way to roll the cost of the repairs into your home loan? Home buyers now are using a new loan program that does exactly that.

What Is A Fixer-Upper House?

In real estate, a fixer-upper is a property that will require repair, though it usually can be lived in or used as it is. They are popular with buyers who wish to raise the property's potential value to get a return on their investment, or as a starter home for buyers on a budget.

What is a Renovation Loan?

A loan for a home renovation or a home renovation mortgage is a loan that not only is based on the property's current value, but takes into account the value of the property after the renovations have been made. In other words, if a property is estimated to currently be worth $200,000, but after proposed renovations it will be worth $250,000, it is the higher amount that will be considered when acquiring the loan.

Types of Loans to Purchase & Renovate

New financing products have been created to help those who may otherwise be shut out of purchasing a home that is need of renovations. These renovations loans are helping many get their first home, a home in the area they want but cannot afford, or even back into a home. Below are a few types of renovation loans:

VA home improvement loan. If you're a veteran or active duty service member or even a surviving spouse of a someone who served in the U.S. military, and you have decent credit (preferably a credit score of 620 or higher), you might qualify for a VA home improvement loan. Guaranteed by the United States Veterans Administration (VA), these loans are typically offered by private lenders and banks, which confirm eligibility with the U.S. government. The loans cover the cost of purchase as well as the cost of renovations. Payments are disbursed to a VA-approved builder to improve the property. Eligible buyers have little or no down payment requirements and limits closing costs.

FHA 203(K). This program, run by the U.S. Department of Housing and Urban Development (HUD), allows buyers to borrow the money needed to fund repairs and improvements to a home as part of their mortgage, rather than requiring an additional repair loan on top of that used to purchase the property. A portion of the FHA 203(K) loan is used to pay the seller, while the rest goes into an escrow account to be paid out to the contractor making repairs. Buyers are subject to some limitations like minimum repair costs and types of repairs. But there are benefits, such as borrowers might be able to provide lower down payments upfront than they would with a conventional loan, and fees are limited as well.

Fannie Mae HomeStyle. The Federal National Mortgage Association offers its own renovation loan to fixer-uppers. This loan is open to buyers and owners of existing properties, and it allows for renovations to be made to a property, whether they enhance the value or not. Built like a conventional mortgage, this special loan allows borrowers to fund up to 75% of the as-completed appraised value of the property. Funds can be made available even before construction starts. You won't need to get your contractor pre-approved by Fannie Mae. While your lender will likely want pre-approval, contractors are only required to be licensed where state law applies.

Should I Buy A Fixer Upper?

Buying a fixer-upper is a good way to build equity. After repairs are completed on a fixer-upper, the home is typically significantly more valuable than it was at the time of purchase. Therefore, it's no surprise that many buyers opt for a fixer-upper house rather than a move-in ready home. However, a fixer-upper house comes with its own set of advantages and drawbacks. To assist you in finding the right loan program and finding the best fit fixer-upper for you, it's best to contact a Mortgage Loan Originator and a Realtor.

PROS

A Lower Purchase Price: Although you'll need to spend more on renovating it, a fixer-upper house will come at a lower purchase price.

Customize Your Home: Once you buy a fixer-upper house, you have the freedom to customize it how you like. You're in charge of the style and design.

Increase Value in Your Home: You are building equity as you complete the renovations on your fixer-upper.

CONS

Expensive Renovations: Depending on the renovations you choose, you may end up breaking even or even spending more money on a fixer-upper.

Budgeting: While you can run the numbers and estimate how much your renovations will cost you, there will always be surprise costs that pop up.

Unexpected Issues: Even if you get an inspection, there are almost always unexpected issues, especially if the house is older.

Additional Considerations to Make When Buying A Fixer-Upper

Before you take the plunge and buy a fixer-upper home, keep the following things in mind.

Home Inspection: A home inspection will cost you a couple hundred bucks. However, in the end, a home inspection can help you avoid unpleasant surprises that can affect your budget.

Estimate Renovation Costs: When you buy a fixer-upper house it's important to write down a list of every project you'll want to complete. Although you won't be able to come to an exact cost, you'll be able to estimate a general budget for renovations.

Determine If A Permit Is Required: There are some renovations that may require permits. Permits can be a costly aspect of the project depending on the renovation needed.

Your Final Decision

To sum up, there are a myriad of renovation loans to help you purchase & renovate your perfect fixer-upper. However, before you take the plunge and buy a fixer-upper home, keep the following things in mind. You will have to spend some serious time and cash on repairs and renovations. The good news is that a fixer-upper can give you the opportunity to purchase a home below market value and turn it into your dream home or eventually sell it for more than you paid.

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