

When should I start the pre-approval process?

The sooner, the better. Even though you may not have finalized plans for your project, it's good to start the conversation and get an idea on what the financing options are. The best way to do this is to become pre-approved. There is no cost to you to do a pre-approval with First Commonwealth. Pre-approval will help lay out the financing options you have to consider to complete your project.

What types of financing are available? What is the best option and can they be combined?

The two most common means of financing a renovation project would be:

1. Home Equity Line/Loan - utilizes the current equity you have in your home, based on how the property currently looks.
2. Renovation Loan - utilizes the "as-completed" value based on what the home will be worth once all the work has been completed.

Although these are two different options, they can generally not be combined. However, a HELOC can be utilized in multiple steps. For example, if you have some value in the home as it is now, you could consider financing a portion of the project with a HELOC now, then once that's completed if you have additional value to the home, you could consider re-structuring the HELOC with a new HELOC that would pay off the one you currently have and raise the line amount so that you could finance the next phase of the project.

Most banks will lend 80%-90% of the current home value. If you assume 80% as a low, that would allow you to work with \$200,000. Since you already have a current mortgage balance of \$50,000, that leaves you with \$150,000 you can borrow on the current equity in your home. You utilize that \$150,000 to get a portion of the \$300,000 total renovation project complete.

Current home value:	\$250,000
<u>Current mortgage balance:</u>	<u>\$50,000</u>
Home's equity:	\$200,000
80% of the home's equity:	\$150,000
Total renovation project cost:	\$300,000

You now owe \$50,000 on the primary mortgage + \$150,000 on the HELOC to = \$200,000 you currently owe. After the \$150,000 renovation is complete, you now have a new home value of \$400,000 and you owe the \$200,000 combined (and assume the bank will again lend up to 80% of the current \$400,000 value) you now have an additional \$120,000 you can use towards the renovation costs, which puts you very close to having all you need to finish the total project.

The additional funds could be funds you've saved over the course of time, additional equity which you've paid down on the current mortgage or even a small consumer loan that could be utilized to make up the difference.

If the above is not an option, which in many cases not everyone has the equity in their current home to do this, the Renovation Loan is good tool to utilize for getting larger-scale projects finalized. The Renovation Loan uses the "as-completed" value of your home. For example, using the same scenarios as we used in the HELOC option, if you have an 1,800 square foot home now and you are doing a renovation/addition which will put you at 2,500 square feet once complete, we will use the 2,500 square feet to base/determine your home value. That generally allows you to borrow more money because we know that you will have a larger house, once the project is complete.

Current mortgage balance:	\$100,000
Total Renovation Project cost:	\$300,000
As-completed home value:	\$425,000

We can lend up to 95% of the as-completed value, which would give you a total of up to \$403,750 we can lend (95% of \$425,000). In which case, you would have enough equity in the as-completed value to fund the entire renovation loan project. Your current mortgage gets refinanced and we add in the \$300,000 of the renovation project cost to give you a new mortgage of \$400,000. Your old mortgage gets paid off and you're now left with one new loan that includes your previous mortgage and the renovation costs.

What information and documentation do I need to obtain financing?

In addition to a completed mortgage application, you will need to provide income and asset documentation, such as your paystubs, W2's/tax returns and bank statements. Qualifications at First Commonwealth are generally no different than a traditional mortgage, with the exception of providing the completed/executed contract, project specs & final plans for your project. These documents aren't needed to gain an initial pre-approval, however will be needed once you're ready to proceed with the finalization of your financing if you choose a Renovation Loan.

What can I do if my equity loan is not enough for my project?

There are several options to consider:

1. If you are financing your project with a Home Equity Line of Credit (HELOC), and you don't have enough funds/equity to pay for all of the renovation costs, you can also consider paying cash for the remainder of the project or consider gift funds from a family member.
2. If you don't have enough equity to finance the entire project on a HELOC and you don't want to use cash/additional funds of your own, you can also consider a Renovation Loan. Generally, when utilizing a Renovation Loan, a bank will use the "as-completed" value of your home on a transaction like this, which can generally get you additional funds that may be needed.

How do I know how much I can expect to get back from this project, when the cost is X and my home value is Y?

This would depend on several factors. One would be how long you plan to be in the house. For example, if you're only planning to be in your home for 2-3 years and you are close to maxing out the equity or you would already be over the current value, you may not get a dollar for dollar return on the project. This is not uncommon in most markets, however in many areas of Central Ohio home prices have been on the rise. If you plan to be in your house for 5+ years, it may be more realistic that you will eventually see the value increase and your return to be better on what you've put in to the property. Another determining factor would be to look at what homes are selling for that are comparable to what your "end project" will be. For example, if you currently owe \$250,000 (assuming a value of approx. \$350,000) on a 1,800 square foot home and you are putting a 700 square foot addition with updates and improvements on to your home and the project cost is \$250,000, what are the homes in your area selling for that are 2,500 square feet? If \$500,000 or more, then you would be at a par value for what current homes are worth.



Natalie Moore

Senior Mortgage Loan Originator

655 Metro Place South, Suite 300
Dublin, OH 43017

Cell Phone: (614) 264-4154

NEMoore@fcbanking.com

fcbanking.com/nmoore

facebook.com/nataliemooreloanofficer



NMLS# 728210 FCB NMLS # 479240

