Your "Dream In Progress" Homebuyer's Guide

Buying And Improving A "Fixer-Upper" For An Enriched Lifestyle

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Welcome To The Renovation Generation!

Renovating Your Way To A Dream Home

Thinking of buying a home that needs some work, then turning it into a dream home? You're not alone. Renovation is becoming a national passion, and savvy buyers everywhere are searching for fixer-uppers with dream-home potential.

If you're one of those homebuyers who can spot a residential diamond in the rough and envision everything that home could become, you may open the door to a wealth of financial advantages:

- You may get a bargain by paying less than market price.
- Bargain prices can get you into a more expensive area than you could otherwise purchase.
- You may be able to buy a larger home than you imagined.
- Improvements you make will increase the fair market value of your home.
- The renovated property will be done just the way you want it, reflecting your tastes and serving your needs.

We have created this guide to help you make the most of your renovation project. Inside, you'll find a helpful overview of the purchase-and-renovation process, along with tips on how to recognize both great potential and possible red flags in the properties you're considering.

What You Should Know Before You Shop

Start By Getting Preapproved

A ***Priority*Buyer**® preapproval makes you a priority in the eyes of real estate agents and sellers. It establishes you as a serious buyer, strengthens your negotiating power, shortens the financing process, and helps define your price range. Once you know what you can spend, you can shop with confidence for the place that will become your dream home.

Shop Smart

Your "fixer-upper" can come in virtually any size, shape, or condition. For instance, you may find a property that just needs brightening and updating. Though you'll pay close to market price, your renovation costs may be minimal, and you can move in quickly.

On the other hand, the need for major renovations may put a bargain price tag on your dream home, giving you the potential to increase the home's market value once you've brought it up to the level of its neighbors.

Whatever the condition of the homes you consider — from quick fix to major makeover — you must be able to identify needs, estimate costs, weigh potential, and know when to make an offer. You also need to know when to make a quick exit. Asking yourself some questions can help:

- What renovations can you tackle on your own and which will you have to pay a professional to complete?
- How much money are you able to spend on renovation and repair?
- How long will the project take?
- Will you need to live somewhere else while the work is being done? If so, how will paying rent and a mortgage affect your budget?
- Will your completed dream home be comparable in value and amenities to neighboring homes, without being overvalued or over-improved for the neighborhood?

Recognizing A Diamond In The Rough

Few homes are perfect, and finding just the right one might not be an easy job. Perhaps you have your heart set on a certain town, but there just aren't many properties on the market there. Maybe you found a terrific home in a nice neighborhood, but the place is just one bedroom, bathroom, or great room shy of perfect. Or maybe you've discovered an antique beauty with great architectural detail that needs to be rejuvenated and brought up to code.

Whatever your taste in houses, you can find what you're looking for. All you need are perseverance, a clear understanding of your priorities, knowledge of current market values, and a sense of how much effort different types of renovation require. With these things on your side, you have the power to turn a "possibility" into a home that provides comfort, enhanced quality of life, and financial security.

Starting The Search

While you may be flexible regarding the condition of the homes you'll be considering, you should have some solid criteria to define the rest of your search. Do you want a certain community? Do you have your heart set on a certain style of home? Victorian? Arts and Crafts? Modern? Do you want to establish a set price range?

If your plan is to live in your dream home for the long term, you want to be sure the neighborhood offers the amenities you need now and in the future, as your lifestyle changes. That's important both in terms of your personal happiness, and in terms of protecting your investment property. According to the National Association of Realtors, here are the top three criteria homebuyers look for in considering where to live:

- Safe, low-crime neighborhoods.
- Good public schools.
- Strong local economy.

Other considerations that help decide where a family chooses to live include parks and open spaces, price range, and the absence of major traffic congestion.

For The Best Results, Expand Your Search

First of all, it makes good business sense to work with a real estate agent. They know their areas well and provide access to multiple listing service resources, both of which can really open up your field of choices. But there are some additional steps you can take on your own to help you find that perfect home. If you're motivated and a little creative, you can find what you're looking for.

- Ask your real estate agent to help you identify distressed properties that have been returned to lenders (banks and mortgage companies) after foreclosures.
- Inquire about FHA/VA repossessions.
- Check online foreclosure listings.
- Work by word-of-mouth — tell anyone and everyone you know that you're in the market for an investment in the area.
- Watch newspapers for estate sales — they can indicate homes that will be for sale in the near future.
- Check your tax assessor's office for out-of-state owners, and contact them to see if they're interested in selling.
- Ask residents in neighborhoods of interest for any leads they may have.
- Post "Wanted" ads in local papers, on bulletin boards in community centers and grocery stores, and on local community Web sites.

Some "House Rules" To Remember

As you view properties, keep in mind that you want to maximize the full potential of your purchase and renovation dollars. Here are a few simple rules that can help keep you on track:

- Buy in the most desirable neighborhood possible.
- Buy one of the less expensive houses on the block.
- Think about your return on investment when planning your renovations, focusing on areas that will result in the best resale potential.
- Be sure the purchase price of the home and the cost of renovations, when added together, do not over-improve the home and move it out of the neighborhood price range.

Standards A Property May Need To Meet

Check With Your Lender

You may be tempted to purchase a property regardless of its condition. Maybe the price is within your range or perhaps you can envision the place as absolutely perfect with just the right work done to it. When you're dealing with homes that need significant repairs, it may be difficult in some cases to obtain financing.

That doesn't need to be the case if you work with a lender who specializes in renovation lending. Explore a variety of workable financing options with your lender, and determine which type of home financing best meets your needs. If you're looking at a traditional lending source, you'll need to find a property that meets some minimum standards. These can include:

- Structural soundness.
- Working smoke detectors.
- Acceptable interior air quality.
- No lead-based paint.
- Proper sanitation.
- Safe water supply.

Inspect, Inspect, Inspect

Not every fixer-upper looks like a haunted house from a horror movie. Some properties may look just fine on the surface, when they're actually hiding costly problems. The problems you can see — water stains, peeling paint, drafty windows, and such — are easy to detect. It's the hidden problems — like outdated heating systems, faulty wiring, or asbestos insulation — that can add up to some very expensive repairs.

Depending on the home financing you obtain for your home purchase, you may be required to have a professional home inspection. Even if it's not a requirement, you should consider hiring an inspector on your own. Investing $200 to $500 in the services of a professional may save you a lot more than that in the long run.

The inspection will cover interior and exterior components of the property, including roof and gutters, electrical work, plumbing, cooling and heating systems, insulation, smoke detectors, foundation, kitchen, and bath. Any health, safety, or environmental hazards will be flagged. If a specific problem is identified, the inspector may recommend additional inspections by specialists (e.g., pest-control expert, structural engineer).

The more you know, the better your decisions will be. Your home inspector's findings may also help you negotiate your best price, because you can ask sellers to make repairs themselves or give you credit for work that needs to be done.

Visible Vs. Invisible Improvements

Most of the work needed in a home falls into two categories:

- **Renovations:** These are "visible" improvements made to modernize and upgrade the home. A kitchen update, second bath, additions and extensions make the home more functional and increase its value. Cosmetic renovations, such as paint, carpeting, and landscaping, can also add value with substantially less cost and effort.
- **Structural Repairs:** These are "invisible" but highly critical improvements that bring a property up to local safety and health standards. These can include foundation repairs, roof replacement, and new plumbing and electrical systems. Corrective projects can be costly, but add relatively little value to your home, compared to the neighboring properties that may already have sound roofs and foundations.

If your prospective property has such problems, consider negotiating with the seller to take the repair costs off the purchase price.

Both kinds of improvements can add value to your home during the years that you own it — and when the time comes to sell. So don't skimp — do what it takes to make your home comfortable, secure, and safe.

A Knowledgeable Home Team Makes Your Dream Home Come True

Renovating your dream home isn't an experience you have to tackle on your own. There are professionals who can assist you every step of the way in making the most of this very important investment.

Real Estate Agents

They make it their business to know everything about communities and the homes within them. A good real estate agent can:

- Establish what you want in a home — communicating your desire to look at fixer-uppers is essential for your real estate agent to understand.
- Search the Multiple Listing Service (MLS) and other resources for homes that match your needs.
- Show you appropriate homes.
- Provide valuable information on communities, comparable values of neighboring homes, tax rates, and building code regulations.
- Help you formulate an offer on the home you wish to purchase.
- Act as an intermediary between you and the seller, smoothing the negotiating process.

Appraisers

Even though you don't plan to sell your dream home right away, an appraiser will help you determine if you're making a prudent financial investment. In fact, most lenders will require a full appraisal of any property to assure that they're making a sound investment in funding your purchase. By providing recent sales prices on similar homes, an appraiser can help you determine a current market value for the home you've got your eye on. The appraiser will usually review at least three similar homes recently sold in the area, comparing their square footage, the number of bedrooms and baths, age, improvements, location, and condition. This provides a clear picture of your home's current market value and its value after it's renovated. Your purchase price, plus any improvement costs, should be equal to (or less than) the selling price of those comparable homes.

Renovation Financing Specialists

Just as contractors can make the renovation process smoother, so can your home mortgage consultant. They are here to help you make all the right choices.

Renovation financing specialists can customize a mortgage to your individual needs, drawing from a wide variety of home financing products. In addition to all the conventional options, special programs that overcome obstacles such as credit issues or lack of savings are also available.

Whatever your financial profile, a renovation specialist can help you capitalize on purchase opportunities through faster approvals, higher loan-to-value (LTV) ratios, and streamlined processing. Consider this innovative solution.

- **Purchase and Renovate℠ Loan**
  This solution is specially designed to provide a single loan that covers both the purchase price of a less-than-perfect property, and the costs of renovating it. The loan amount is based on the estimated increased value of your property *after* your planned improvements are made. That means you can start enjoying your home in the very near future, because you'll have the funds you need to make your necessary repairs right away.

Program advantages include:

- ✓ More Money: The loan covers the purchase plus renovation costs.
- ✓ Faster Completion: Renovation work can begin immediately after closing.
- ✓ Low Monthly Payments: Improvement costs are spread out over the term of the loan.
- ✓ Simplicity: One application, one closing, one monthly payment.

Take A Look At All Your Options

Toward the end of this guide, you'll find a quick comparison of some of the most popular investment financing choices. A home mortgage consultant will be happy to give you complete details on all the options available to you.

Which Renovations Make Worthwhile Investments?

Investing Your Renovation Money

Over-improving a property is never a sound investment, even if it's going to be your home forever. In creating your wish list of improvements, keep in mind that you want to get the greatest value from every improvement dollar you spend.

Your real estate agent can give you an accurate idea of what the return on investment (ROI) would be for your specific area. These guidelines, from *Remodeling Magazine*'s 2005 cost vs. value report, offer the national averages on rates of return on some common home improvements:

Remodeling	Replacement	Addition
Bathroom – 102%	Siding – 104%	Bathroom – 86%
Kitchen – 99%	Windows – 90%	Family Room – 83%
Basement - 90%	Roof – 85%	

Do It Yourself, Or Hire Professionals?

You've found a property with great potential and you'd like to make an offer. The first thing you'll need is a comprehensive picture of what it will cost to make the necessary improvements. To do that, go through the house on your own, room by room, and put together a list of the renovations you'd like to make. Even if you're a skilled do-it-yourselfer, you may want to bring a professional along at this point. Having an extra set of trained eyes with you helps to ensure that you don't miss anything.

Once you have your list, it's time to decide whether you'll be making the renovations or working with professionals. You'll want to consider not only how handy you are, but how much time you'll have to take on the repairs versus how quickly you'd like to get into the home and start enjoying it.

If the home needs purely cosmetic or routine repairs, you can probably tackle them yourself. But experience is a prerequisite for extensive projects like kitchen remodeling, installing wiring, or adding an extra room. So before you tie on that tool belt, make a realistic assessment of your time and talent. This do-it-yourself (DIY) test from the National Association of the Remodeling Industry can help you decide:

- Do you enjoy physical work?
- Are you patient and persistent; once the project is started, will you see it through to finish?
- Do you have the skills and tools necessary for the job?
- Do you have the time required to complete the project? Always double or triple the estimated time for a DIY project unless you are highly skilled and experienced.
- Will it matter if the project remains unfinished for a period of time?
- Can you and your family handle the stress this project will create at home?
- Do you know all the steps involved in the project?
- Can you do the job entirely on your own, or will you need help? If so, what level of assistance will you need? Do you have access to a skilled labor pool?
- Are you familiar/in compliance with local building codes and permit requirements? Some jurisdictions require that all work be done by licensed professionals.
- Is it safe for you to do this project? Never jeopardize your health or safety.
- Will you be able to get the necessary materials? Who will be your supplier, and will they deliver?
- If you're doing it yourself for financial reasons, have you considered all your costs, including materials, your time, and the tools you may need to buy? Don't forget to consider the cost of correcting any mistakes you may make. Will you still be saving money?
- If you're going to DIY purely for satisfaction, can you be positive your job will be as "well done" as a professional would make it? If it doesn't come out perfect, how will you feel? Will you be able to afford redoing any unacceptable work?

According to the survey, if you answered "yes" to more than half of the above questions, you may be in good shape for tackling a do-it-yourself project. But before you start, take another look at the questions you answered with a "no" and carefully consider any potential problems you might come across in those areas. Hiring a professional may prove to be your most cost-effective alternative.

Hiring a contractor may be your most cost-effective alternative. If you decide to hire a professional, it would be helpful to call in at least two qualified contractors for free estimates regarding the changes you'd like to make. Later on, you can decide which one you want to hire for the job. But right now, your priority is getting ballpark figures and time lines.

Calling In The Professionals

Many buyers simply don't have the expertise or time required to turn their fixer-upper into a dream home. A good contractor may actually provide cost savings through economical purchase of materials, coordination of subcontracting work, and time saved.

Doing your homework can ensure that you find the right contractor for your needs. Begin by asking around. In addition to family and friends, you can ask colleagues, lenders, architects, your real estate agent and materials suppliers for referrals. You can also contact your local NARI chapter, attend home shows, and check the papers for local remodelers. Make sure the contractors being recommended meet these criteria:

- Always choose a contractor who has an established business in your area.
- Make sure the contractor meets your state's requirements to be licensed or bonded.
- Check with your Better Business Bureau® for any complaints.
- Ask contractors to show you a copy of their insurance certification.

Select at least three contractors to submit written bids for your job, each using the same plans and specs. Be careful of a bid that is significantly lower than the others are. There may be omissions or mistakes. The lowest bidder may not be the best choice. Go with the professional you feel most comfortable with.

Here are some questions to ask when interviewing potential contractors:

- How long have you been in business?
- What percentage of your business is repeat or referral?
- How many projects of similar scope have you completed in the past year?
- May I have a list of referrals and suppliers from these projects?
- Who will be working on the project? Do you have regular employees or subcontractors that you work with?
- Will you be on-site to supervise the job?
- What steps will you take with this renovation project?
- How long will the project take?

A Well Written Contract Is Key To A Successful Renovation

Once you've selected a contractor, and you've decided on the scope of your renovations, you're ready to put it in writing. A good contract prevents mistakes, avoids misunderstandings, and keeps your project on-time and within budget. It's a good idea to have an attorney write, or at least review, the contract for you. Here are some sample topics the contract should include:

- The contractor's name, address, phone and license number.
- The approximate start and completion dates.
- Exactly what the contractor will and will not be doing.
- A list of all materials and products, including models and brand names.
- The procedure for handling change orders.
- Clear explanations of all financial terms, including the total price, and any charges for change orders or cancellation.
- Handling the release of payment of funds and timing.
- How disputes will be handled.

Keeping Your Renovation Legal: Permits And Building Laws

There are a number of legal issues to keep in mind as your dream home takes shape.

- **Building Permits:** Building permits are generally required if you're undertaking structural work, or if the home's basic living area is changed. These permits ensure that the improvements meet minimum safety standards and local zoning requirements. Before you even buy a property, be sure the sellers obtained necessary permits for any modifications they made to the home. You'll also want to be sure to obtain permits for the work that you'll be having done on the home. Permits are your assurance that past work was done to code and that the work done for you in the renovation will also be done to code. Violations may cost you a lot of money in fines and may also result in the removal of modifications that don't meet standards.
- **Zoning:** Before you make your offer, be certain you understand what you can and cannot do with the property. Checking your area's land-use laws will tell you whether you can add on that home office, dig the swimming pool, or put up a basketball hoop. A zoning map will tell you about setbacks (minimum distances from property lines, sidewalks, and streets), side yards, and other local requirements. Contact the town offices for information, speak with your attorney, or go to www.municode.com to access local codes.
- **Change Orders:** Practically no remodeling job goes exactly according to contract. Change orders are routine, and usually occur because:

  ✓ You change your mind about a product or design.
  ✓ Your contractor recommends changing some aspect of a project.
  ✓ Changes are required due to the discovery of unexpected damage (such as termites) or a previously undetected code violation.
  ✓ You add extra projects to the renovation.

  Almost all change orders add cost to the project. As recommended above, you will protect yourself by specifying the procedure and charges for change orders in your written contract. In addition, be sure:

  ✓ All changes to the project are specified in writing and signed before work begins on the changes.
  ✓ Pricing is agreed upon prior to acceptance.
  ✓ You understand how the change will affect the timetable.

  The best way to avoid these expensive cost overruns is to take the words "We'll decide later" out of your vocabulary. Make your plan up front and stick to it.
- **Lien Waivers:** Let's say you paid your contractor 100% for a project, but the contractor never paid the vendor. That unpaid vendor — painter, plumber, electrician, etc. — has the legal right to ask you for payment. To avoid that situation, ask your contractor to sign an unconditional lien waiver and release form, then get copies of releases from each supplier and subcontractor. Your attorney should be able to supply you with the forms and the policies that protect you. Also ask the person you're buying the property from for copies of any lien releases for any work done on the property within one year of your purchase. If those vendors haven't been paid, they can try to collect the money from you.

The Renovation Experience

Although every renovation project is unique, here's is a basic overview of what you can expect:

Before Work Begins

- You develop a broad plan of the renovations you'd like made.
- You consult with an architect or designer, if needed, to determine whether you'll be modifying an existing space or building an addition.
- You establish a construction budget, including material and labor cost estimates. This determines whether you can make all the renovations you want.
- You select a contractor who in turn obtains all necessary building permits and coordinates all the necessary work.

While Work Is Being Done

- Demolition: The portion of your home to be renovated may be either torn down or partially demolished.
- Framing: New walls and ceilings begin to take shape.
- Rough-In: All the mechanics of your home are installed, including HVAC, electrical, and plumbing. When completed, a local building inspector approves the work.
- Plastering: Insulation goes in, followed by drywall, then plastering. Every decision must be finalized now, including lighting fixture placement, tile, countertops, kitchen and bathroom cabinets, and more.
- Finish work: This includes things like kitchen cabinets, various fixtures, floor refinishing, and paint.

Putting Yourself To Work Can Save Money

Even with an army of specialists working on your home, you can still make very real contributions. Taking on the tasks of painting and wallpapering, doing the landscaping, or installing window treatments will enhance your home's value, while saving you money. If you're not at all handy, taking on the simple responsibility of sweeping up after the workers leave every day can save time and keep the project moving smoothly.

Preparing For Your Loan Closing

1. Appraisal

Your lender will find a professional appraiser to determine the value of the home you want to purchase. The appraisal will provide an estimate of the home's value by comparing it to others that have recently sold in the area. Lenders generally require an appraisal to ensure that the property backing the loan will cover the loan amount in case of default.

2. Home Inspection

As discussed earlier in this guide, a professional home inspection is recommended for every homebuyer, not just for people seeking to renovate a property.

In some cases, a home inspection may be required as part of your home financing approval process. At minimum, the inspection should cover all the home's major systems and structural elements, including the foundation, electrical system, heating and cooling systems, insulation, roofing, plumbing, and all exterior features.

You may also want to get a pest inspection to look for any issues related to termite or mold infestations. You should make every effort to be present during the inspection, so you can see any problems firsthand.

3. Homeowners Insurance

Did you know that most mortgage lenders, at closing, require proof that you've purchased homeowners insurance?

In the event of a loss such as a fire, tornado, or burglary, homeowners insurance can pay for damages to the home, as well as for costs to repair or replace contents. If the home is damaged and becomes uninhabitable, homeowners insurance can cover additional living expenses for a period of time while your home is being repaired. Homeowners insurance can also protect you from loss if someone is injured or their personal belongings are damaged while on your property.

4. Title Insurance

There are two types of title insurance: one protects the lender and one protects the borrower from claims against your ownership of the property.

Such claims may be made by: undisclosed spouses, heirs of previous owners, creditors holding liens against previous owners, or other parties. Your lender will most likely require you to purchase a title policy, which will cover their interest in the property.

It's up to you if you would like to purchase a policy to protect your interest in the home. Your home mortgage consultant will be able to recommend a title insurance company who can provide you with additional information about the policies available in your area.

Potential Home Checklist

Print out a few copies of this checklist to use as you visit prospective homes.
Having a record of what each home offers can make your final decision much easier.

Date Seen ______________________________

Address ______________________________ Price __________ Property Taxes __________

Seller ______________________________ Age of Home _____ Neighborhood __________

Style of Home

❑ Two Story ❑ Ranch ❑ Split Level ❑ Traditional
❑ Contemporary ❑ Cape Cod ❑ Townhouse ❑ Condo

Type of Construction

❑ Wood ❑ Brick ❑ Stone ❑ Stucco
❑ Vinyl Siding ❑ Aluminum Siding

Exterior Features

Roof __________ Landscape __________ Fenced __________ Porch __________
Paint __________ Trees __________ Patio __________ Deck __________
Expansion Ability __________________ Other ______________________________
Garage ❑ 1 Car ❑ 2 Car ❑ 3 Car ❑ Detached
Roof Condition ❑ Good ❑ Fair ❑ Poor
Sidewalks ❑ Yes ❑ No
Well-Maintained Neighborhood ❑ Yes ❑ No

Interior Features

Kitchen Eat-In _______ Size _______ Walls _______ Floor _______ Appliances _______
Cabinets _______ Ceiling _______ Windows _______ Other ______________

Dining Room Size _______ Walls _______ Carpet _______ Ceiling _______ Lighting Fixtures ____
Other ____________________

Living Room Size _______ Walls _______ Carpet _______ Ceiling _______ Lighting Fixtures ____
Fireplace ______________ Other ______________

Den Size _______ Walls _______ Carpet _______ Ceiling _______ Lighting Fixtures ____
Fireplace ______________ Other ______________

Hallway Walls _______ Carpet _______ Linen Closet _______ Other ______________

Total Bedrooms _______

Bedroom 1 Size _______ Walls _______ Carpet _______ Ceiling _______ Closet _______
Other ____________________

Bedroom 2 Size _______ Walls _______ Carpet _______ Ceiling _______ Closet _______
Other ____________________

Bedroom 3 Size ________ Walls _______ Carpet _____ Ceiling _____ Closet ______
Other ______________________

Total Bathrooms ______

Master Bath Size ________ Walls _______ Floor _______ Tub __________ Fixtures ________

Guest Bath Size ________ Walls _______ Floor _______ Tub __________ Fixtures ________

Laundry Room Location _________________ Washer _______ Dryer _________ Other _________

Good Closet Space ❑ Yes ❑ No

Basement ❑ Yes ❑ No ❑ Finished

Flooring ❑ Carpet ❑ Hardwood ❑ Tile

Utilities

Type of Heating

❑ Hot Water ❑ Gas ❑ Electric ❑ Oil

Insulation

❑ Fiberglass ❑ Cellulose ❑ Foam ❑ None

Central Air ❑ Yes ❑ No

Plumbing Condition ❑ Good ❑ Fair ❑ Poor

Sump Pump/Drainage System ❑ Yes ❑ No

Connected to Sewer System ❑ Yes ❑ No

Age of Heating System _____ Age/Capacity of Water Heater _____ Age of Electrical Wiring ______

Easy Proximity to:

❑ Work ❑ Schools ❑ Shopping ❑ Airport Area ❑ Industry

❑ Highways ❑ Houses of Worship ❑ Train Station ❑ Public Transportation

❑ Doctors/Dentists

Recent sales in neighborhood:

Address ____________________________ Size _________ Price _________ Terms ________

Address ____________________________ Size _________ Price _________ Terms ________

Address ____________________________ Size _________ Price _________ Terms ________

Address ____________________________ Size _________ Price _________ Terms ________

A Comparison Of Some Popular Financing Options

Option	Benefits	Drawbacks
Renovation Loan This is a single purchase loan that includes the cash you need to renovate your property.	• The amount you are permitted to borrow is based on the after-improved projected value of the home once renovations are made. • Renovation can start immediately. • Renovation costs are amortized over the life of your purchase loan, making the increase to your monthly mortgage payment relatively small. • Recommended for small to large renovations. • Potential tax deductibility.[1]	• Renovations may not be done on your own. You must hire a contractor.
Home Equity Line of Credit[2]	• The amount you may borrow is based on the existing value and the projected value of the renovations. • You can draw money as needed to cover renovation costs. • Renovation can start immediately. • Renovation costs may be repaid over the life of your home equity line of credit. • Recommended for small to large renovations. • Potential tax deductibility.[1]	• The home equity line of credit reduces your unused equity. If you have recently purchased your home, you may not have a great deal of unused equity.
Home Equity Loan[2]	• You can borrow up to 100% of the home's current value, before renovations are made. (For Texas homestead accounts, the maximum combined loan to value is 80%). • Improvements may be made with or without a contractor. • Recommended for small to large renovations. • Potential tax deductibility.[1]	• The home equity loan reduces your unused equity. If you have recently purchased your home, you may not have a great deal of unused equity.
Personal Savings	• No loan or interest to repay.	• Your personal resources are tied up, so it might not be a sound money management option. • Loss of interest income. • Difficult to keep track of expenditures.

1. Consult a tax advisor regarding deductibility.
2. Home equity loans and lines of credit are available through Wells Fargo Consumer Credit Group, a division of Wells Fargo Bank, N.A., an Equal Housing Lender.

Option	Benefits	Drawbacks
Credit Card[3]	• Line of credit with the flexibility to be paid in full each month, or repaid over time. • Loan is not taken out as part of your home equity. • Bills can help keep track of expenditures. • Recommended for smaller improvements only.	• Interest is often higher than a home equity loan and may not be tax deductible.[4]

Note To New Jersey Homeowners: Due to state lending statutes, not all home improvement lending programs are available. Contact your home mortgage consultant to learn more about how you can finance your home improvement.

3. Subject to credit qualification.
4. Consult your tax advisor regarding tax deductibility.

Exterior House/Yard

AC	Acre
ALUM	Aluminum Siding
ANQ	Antique House
ATT	Attached Garage
CLPD	Clapboard
COL	Colonial
CONT	Contemporary
CRPT	Carport
DET	Detached Garage
DK	Deck(s)
FEN	Fenced Yard
GZBO	Gazebo
IGPL	Inground Pool
MED	Mediterranean
RNCH	Ranch
RR	Raised Ranch
SCPD	Landscaped
SHNGL	Shingle
SPLT	Split Level
STY	Style of House
TWNHS	Townhouse

Interior Rooms

BA	Bath (with #BA)
1/2B	Half Bath
BR	Bedrooms (with #BR)
BSMT	Basement
DR	Dining Room
FIN	Finished (attic, basement)
FOY	Foyer
FR	Family Room
GTRM	Great Room
KIT	Kitchen
LAW	In-Law Apartment
LDY/UT	Laundry/Utility Room
LIB	Library
LR	Living Room
MBR	Master Bedroom
MBRB	Master Bedroom Bath
OFF	In-Home Office
PT/FIN	Partially Finished
REC/PL	Recreation/Play Room
RM	Room
UNFIN	Unfinished (attic, basement)

Appliances/Utilities

APPL	Appliances
CAC	Central Air Conditioning
CK/TP	Cooktop
CMPT	Compactor
C/VAC	Central Vacuum
DRY	Dryer
DSP	Disposal
D/W	Dishwasher
ELEC	Electric (with #amps)
FRZ	Freezer
HT/PMP	Heat Pump
HT/WTR	Hot Water Heater
ICE	Ice Maker
MICRO	Microwave
RAD/HT	Radiant Heat
REF	Refrigerator
RNG	Range
SEC/SYS	Security System
SWR	Sewer or Septic
WAR	Warranty
WASH	Washer
WHLPL	Whirlpool Tub
W/OVN	Wall Oven(s)
WTR	Water (city or well)

Interior Features

BAL	Balcony
BLT	Built-Ins
BRK	Brick
CER	Ceramic Tile Floors, Walls
CLST	Closet (often with #)
FLR	Floors
FML	Formal (often DR)
FPL	Fireplace
HDWD	Hardwood Floors
HMOD	Handicap Modifications
PNLD	Paneled
SKYLT	Skylight(s)
SP/ENT	Separate Entrance
VLT/CL	Vaulted Ceiling(s)
WI/CLST	Walk-In Closet
WU/ATT	Walk-Up Attic
WBF	Wood-Burning Fireplace

Mortgage Terms

ASMT	Tax Assessment
ASSUM	Assumable Mortgage
FHA/VA	Financing Available

Renovation Checklist

Duplicate this page for use as you inspect prospective homes for improvements needed.

Room/Location	Problem Area	Renovation Needed

Glossary[5]

***Absentee Landlord* –** An investment property owner who does not live in the building or take an active part in the normal running of the property.

***Adjustable-Rate Mortgage (ARM)* –** A mortgage in which the interest rate is adjusted periodically according to a pre-selected index.

***Alternative Financing* –** A home financing program that accommodates borrowers with special qualifying factors, including poor credit histories.

***Annual Percentage Rate (APR)* –** A yearly percentage rate that expresses the total finance charge on a loan over its entire term. The APR includes the interest rate, fees, points, and mortgage insurance, and is therefore a more complete measure of a loan's cost than the interest rate alone. The loan's interest rate, not its APR, is used to calculate the monthly principal and interest payment.

***Appraisal* –** A report made by a qualified person setting forth an opinion or estimate of property value. The term also refers to the process by which this estimate is obtained.

***Appreciation/Depreciation* –** "Appreciation" refers to the increase in a property's value, except for inflation. A decrease inthe value of a property is called "depreciation."

***Assessed Value* –** The value that a taxing authority places on real or personal property for the purpose of taxation.

***Automated Underwriting* –** A computerized method of reviewing home mortgage applications for loan approval.

***Bridge Loan* –** A form of second deed of trust or mortgage that is collateralized by the borrower's present home (which is usually for sale) in a manner that allows the proceeds to be used for closing on a new house before the present home is sold.

***Broker* –** An individual employed on a fee or commission basis as a real estate agent to bring buyers and sellers together and assist in negotiating contracts between them for the sale of residential real estate.

***Buyer's Broker* –** Most real estate brokers and agents work only for the sellers. A buyer's broker serves the interest of the buyer and has no relationship with the seller.

***Capital Gains* –** Used for tax purposes, this is the capital gain you make when you sell your home. For example, if you purchase a property for $100,000 and sell it some years later for $150,000, your capital gain is $50,000.

***Closing* –** The consummation of a real estate transaction. The closing includes the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to complete the sale and loan transaction.

***Closing Agent* –** Usually an attorney or title agency representative who oversees the closing and witnesses the signing of the closing documents.

***Closing Costs* –** The costs paid by the mortgage borrower (and sometimes the seller) in addition to the purchase price of the property. These include the origination fee, discount points, appraisal, credit report, title insurance, attorney's fees, survey, and prepaid items such as tax and insurance escrow payments.

5. The terms in this glossary refer to your primary mortgage loan and do not necessarily apply to your home equity loans and home equity lines of credit.

Commission **–**Compensation for negotiating a real estate or loan transaction, often expressed as a percentage of the selling price or loan amount.

Commitment Letter **–** A formal offer by a lender stating the terms under which it agrees to loan money to a homebuyer.

Comparable Market Analysis (CMA) **–** A written analysis of houses having similar characteristics currently being offered for sale as well as comparable houses sold in the past six months. This enables you to determine if you are paying market value for a home, and to identify whether market prices are rising or falling.

Contingency **–** A condition that must be met.

Conventional Loan **–** A mortgage not obtained under a government insured program (such as FHA or VA).

Credit Report **–** A report detailing an individual's credit history.

Debt-To-Income Ratio **–** A formula lenders use to determine the loan amount for which you may qualify. Also known as the "back-end ratio." Guidelines may vary, depending on the loan program.

Deed **–** The legal document conveying title to a real property.

Down Payment **–** Money paid to make up the difference between the purchase price and the mortgage amount.

Equity **–** The ownership interest; i.e. portion of a property's value over and above the liens against it.

Escrow **–** An item of value, money or documents, deposited with a third party, to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate. In some parts of the country, escrows of taxes and insurance premiums are called impounds or reserves.

Fixed-Rate Mortgage **–** A mortgage in which the interest rate and payments remain the same for the life of the loan.

FICO Score **–** A numerical rating developed and maintained by Fair Isaac and Company that indicates a borrower's creditworthiness based on a number of criteria.

Float The Rate **–** This term is used when a mortgage applicant chooses not to secure a rate lock, but instead allows the note rate pricing to fluctuate until the applicant decides to lock in, usually no later than five days prior to closing.

Foreclosure **–** A legal procedure in which property mortgaged as security for a loan is sold to pay the defaulting borrower's debt.

Front-End Ratio **–** Also known as the housing expense-to-income ratio, it compares your proposed monthly house payment (PITI) to your total household gross monthly income.

Good Faith Estimate **–** A document which tells borrowers the approximate costs they will pay at or before settlement, based on common practice in the locality. Under requirements of the Real Estate Settlement Procedures Act (RESPA), the mortgage banker or mortgage broker, if any, must deliver or mail the GFE to the applicant.

Government Loan **–** A mortgage insured by a government agency, such as FHA, VA, Farmers Home Administration, or a state bond program. The loans are generally made by private lenders.

Home Mortgage Consultant **–** The representative a homebuyer initially consults about a mortgage loan. Sometimes called a loan officer, account executive, or sales representative.

Home Warranty **–** A kind of insurance that covers the cost of repairs to specific items in the home for a specified period of time.

Homeowners Insurance (also called Hazard Insurance) **–** A real estate insurance policy required of the buyer protecting the property against loss caused by fire, some natural causes, vandalism, etc. May also include added coverage such as personal liability and theft away from the home.

House Inspection **–** A thorough evaluation and written report of a home's condition both inside and out. The inspection is valuable in locating any problems in a property and helps you determine the extent of renovation needed. You can use the report to have the seller make repairs or reduce the purchase price. Always use your own inspector, and do not rely solely on the seller's inspection reports.

HUD-1 Settlement Statement **–** A standard form used to disclose costs at closing.

Index **–** A published interest rate, such as the prime rate, LIBOR, T-Bill rate, or the 11th District COFI. Lenders use indexes to establish interest rates charged on mortgages or to compare investment returns. On ARMs, a predetermined margin is added to the index to compute the interest rate adjustment.

Interest Rate **–** The percentage of an amount of money which is paid for its use for a specified time.

Interim Interest **–** The interest that accrues, on a per-diem basis, from the day of closing until the end of the month.

Investment Property **–** Real estate owned with the intent of supplementing income and not intended for owner occupancy.

Leverage **–** Using credit or borrowed money to increase the rate of return from an investment. For example, by purchasing a $100,000 home with 10% down, you are using just $10,000 to control the investment.

Lien **–** A legal claim or attachment against property as security for payment of an obligation.

Loan Conditions **–** These are terms under which the lender agrees to make the loan. They include the interest rate, length of loan agreement, and any requirements the borrower must meet prior to closing.

Loan Payment Reserves **–** A requirement of many loan programs that, in addition to funds for the down payment and other purchase-related costs, you have saved enough money to cover one or two months of mortgage payments after your closing.

Loan Settlement **–** The conclusion of the mortgage transaction. This includes the delivery of a deed, the signing of notes, and the disbursement of funds necessary to the mortgage loan transaction.

Loan-To-Value (LTV) **–** The ratio between the amount of a given mortgage loan and the lower of sales price or appraised value.

Margin **–** The set percentage the lender adds to the index rate to determine the interest rate of an ARM.

Mortgage **–** The conveyance of an interest in real property given as security for the payment of a loan.

Mortgage Insurance (MI) **–** See ***Private Mortgage Insurance (PMI)***.

Mortgagee **–** The lender on a mortgage transaction.

Mortgagor **–** The borrower in a mortgage transaction who pledges property as security for a debt.
Mortgage Specialist **–** The employee responsible for collecting the completed application and all

supporting documents before the entire loan packet is submitted to underwriting. Also known as a "processor."

Multiple Listing Service – A computer-based service for real estate agents that provides descriptions of most of the houses listed for sale in an area.

Nonconforming Loan – Conventional home mortgages not eligible for sale and delivery to either FNMA or FHLMC because of various reasons, including loan amount, loan characteristics or underwriting guidelines.

Note – A general term for any kind of paper or document signed by a borrower that is an acknowledgment of the debt, and is, by inference, a promise to pay. When the note is secured by a mortgage, it is called a mortgage note and the mortgagee (lender) is named as the payee.

Origination Fee – The amount charged for services performed by the company handling the initial application and processing of the loan.

Points – A one-time charge by the lender to increase the yield of the loan; a point is 1% of the amount of the mortgage.

Preapproval – A written commitment from a lender, subject to a property appraisal and other stated conditions, that lets you know exactly how much home you can purchase.

Prepaids – Closing costs related to the mortgage loan which are collected at loan closing — including per diem prepaid interest and initial deposits of monthly escrows of taxes and insurance.

Primary Residence – A residence which the borrower intends to occupy as the principal residence.

Principal – The amount borrowed or remaining unpaid; also, that part of the monthly payment that reduces the outstanding balance of a mortgage.

Private Mortgage Insurance (PMI) – Insurance written by a private company protecting the mortgage lender against loss resulting from a mortgage default.

Processing – The preparation of a mortgage loan application and supporting documentation for consideration by a lender or insurer.

Property Manager – Person or company that takes over the repair and maintenance of a property for a percentage of the gross income. Services may also include collecting rents and leasing the property.

Rate Cap – The limit of how much the interest rate may change on an ARM at each adjustment and over the life of the loan.

Rate Lock – The borrower and the lender agree to protect the interest rates, points, and term of the loan while it is processed.

Real Estate Agent – A salesperson, usually licensed by the state, and supervised by a broker. Agents work solely on commissions earned by selling properties.

REALTOR® – Person licensed to sell or lease real property acting as an agent for others and who is a member of a local real estate board affiliated with the National Association of Realtors.®

Rental Agent – A real estate agent who specializes in working with renters to locate potential properties for lease.

Return On Investment – The percentage of capital gain that you make on an investment. For example, say you invest $1,000 into a property, and a year later it is worth $1,500. Your return on investment equals the profit ($500) divided by the initial investment ($1,000) or 50%.

Termination **–** Notice from the landlord that the lease has been terminated and the tenant must move out by a certain date.

Title Insurance **–** An insurance policy that protects a lender and/or homebuyer (only if homebuyer purchases a separate policy, called owner's coverage) against any loss resulting from a title error or dispute.

Truth-In-Lending Statement **–** A Federal law requiring full disclosure of credit terms using a standard format. This is intended to facilitate comparisons between the lending terms and financial institutions.

Underwriting **–** Analysis of risk, determination of loan eligibility, and setting of an appropriate rate and terms for a mortgage on a given property for given borrowers.

VA Funding Fee **–** The amount charged on VA mortgages to cover administrative costs.

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