

# Fixing Your Home

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# Fixing Up Your Home and How to Finance It

## Protect Your Housing Investment

- ▶ Your home is an investment in living as well as in savings. If neglected, it will pay no dividends. If properly maintained and improved, it will pay a high yield in comfort and usefulness for your family and in avoidance of costly repair bills.
- ▶ Home improvements also tend to raise neighborhood standards and, as a result, property values. From an economic standpoint, home improvements mean higher employment, increased markets for materials and home products-and therefore a more flourishing community.



# Fixing Up Your Home

## If You Do It Yourself

- ▶ If you are handy with tools and have the experience, you can save money by doing many jobs yourself. But unless you are skilled in wiring, plumbing, installing heat systems, and cutting through walls, you should rely on professionals for such work.
- ▶ When you buy the required materials, it pays not to skimp. Good materials are not necessarily the most expensive. What you need are products that look good, are easy to maintain, and last a long time. Buy only from reliable dealers.



# Fixing Up Your Home

## If You Use a Contractor

- ▶ If you plan to use the services of a dealer or contractor, take care to choose one with a reputation for honesty and good workmanship. There are several ways to check on a contractor:
  - ▶ Consult your local Chamber of Commerce, the Better Business Bureau, State Attorney General or Local Consumer Protection Agency.
  - ▶ Talk with people for whom he has done work.
  - ▶ If your contractor is going to arrange for financing your loan, find out which lender he uses. Call the lender and inquire as to his record with the lender.
  - ▶ Check his place of business to see that he is not a fly-by-night operator.
  - ▶ Find out, if you can, how he rates with known building-product distributors and wholesale suppliers.
  - ▶ Ask friends and relatives for names of firms that they could recommend.



# Compare Contractor Offers

- ▶ Before deciding on a contractor, you may want to get bids from two or three different firms. Make sure that each bid is based on the same specifications and the same grade of materials. If these bids vary widely, find out why.
- ▶ Many contractors offer package plans that cover the whole transaction. Under such a plan the contractor provides all materials used, takes care of all work involved, and arranges for your loan.
- ▶ Your contractor can make the loan application for you, but you are the one who must repay the loan, so you should see that the work is done correctly.



# Understand What You Sign

- ▶ The contract that both you and the contractor sign should state clearly the type and extent of improvements to be made and the materials to be used. Before you sign, get the contractor to spell out for you in exact terms:
  - # How much the entire job will cost you?
  - # How much interest you will pay on the loan.
  - # How much you will pay in service charges.
  - # How many payments you must make to pay off the loan, and how much each of these payments will be.



After the entire job is finished in the manner set forth in your contract, you sign a completion certificate. By signing this paper you certify that you approve the work and materials and you authorize the lender to pay the contractor the money you borrowed.

# Beware of Fraud

Most dealers and contractors conscientiously try to give their customers service equivalent to the full value of their money. Unfortunately, home improvement rackets do exist. Here are a few commonsense rules to follow:

- ✓ Read and understand every word of any contract or other paper before you sign it.
- ✓ Never sign a contract with anyone who makes fantastic promises.
- ✓ Reputable dealers are not running give-away businesses.
- ✓ Avoid wild bargains. The best bargain is a good job.
- ✓ Never consolidate existing loans through a home improvement contractor.
- ✓ Do not let salespeople high-pressure you into signing up to buy their materials or services.
- ✓ Be wary of salespeople who try to scare you into signing for repairs that they say are urgent. Seek the advice of an expert as to how urgent such repairs are. High-pressure and scare tactics are often the mark of a phony deal.
- ✓ Avoid salespeople who offer you trial purchases or some form of bonus, such as cash, for allowing them to use your house as a model for any purpose. Such offers are well-known gimmicks of swindlers.
- ✓ Never sign a completion certificate until all the work called for in the contract has been completed to your satisfaction. Be careful not to sign a completion certificate along with a sales order.
- ✓ Proceed cautiously when the lender or contractor demands a lien on your property. Most lenders do not require a lien if the loan amount is less than \$7,500.



# Financing Improvements

- ▶ As a rule, the thriftiest way to finance improvements is to pay cash. But if you lack the funds even for immediate repairs such as replacing a worn-out roof or a broken-down furnace, you should weigh the cost of borrowing against the cost of delaying the work. If you have to borrow, you want to do it in the least expensive way. Use caution when using credit card borrowing because of interest rates.
- ▶ If you borrow money for the improvements, you should go to your bank or other lender and apply for a loan. After checking to see if your credit is satisfactory, the lender defines the terms of the loan and you must agree to them before signing the note. Do not proceed with home improvement plans until you understand all of the costs involved.
- ▶ Today there are a number of good plans for financing home improvements on reasonable terms. What kind of loan is best for you depends primarily on the amount of money you need to borrow.



# The Title I Property Improvement Loan Program

- ▶ If the equity in your home is limited, the answer may be an FHA Title I loan. Banks and other qualified lenders make these loans from their own funds, and FHA insures the lender against a possible loss. This loan insurance program is authorized by Title I of the National Housing Act.
- ▶ FHA-insured Title I loans may be used for any improvements that will make your home basically more livable and useful. You can use them even for dishwashers, refrigerators, freezers, and ovens that are built into the house and not free-standing. You cannot use them for certain luxury-type items such as swimming pools or outdoor fireplaces, or to pay for work already done.
- ▶ Title I loans can also be used to make improvements for accessibility to a disabled person such as remodeling kitchens and baths for wheelchair access, lowering kitchen cabinets, installing wider doors and exterior ramps, etc. Another use is energy conserving improvements or solar energy systems.
- ▶ Improvements can be handled on a do-it-yourself basis or through a contractor or dealer. Your loan can be used to pay for the contractor's materials and labor. If you do the work yourself, only the cost of materials may be financed.



## Some of the advantages of the Title I loan insurance program are:

- You do not have to live in any particular area to get one of these loans.
- You seldom need any security for loans under \$7,500 other than your signature on the note, and you don't need a cosigner.
- You do not have to disturb any mortgage or deed of trust you may have on your home.
- To obtain a loan, you only need to own the property or have a long-term lease on it; fill out a loan application that shows you are a good credit risk; and execute a note agreeing to repay the loan.
- Your loan can cover architectural and engineering costs, building permit fees, title examination costs, appraisal fees, and inspection fees.
- You are not hampered by a lot of red tape. Usually only the lender has to approve your loan, and can give you an answer in a few days. When the work is finished, you will need to furnish the lender with a completion certificate.
- You receive some protection from the wrong kind of dealer, because FHA requires that any dealer who arranges a loan for you must first be approved by the lender.



# Title I Property Improvement Loan Program

## Maximum Loan Amounts and Terms

- ▶ HUD/FHA does not set the interest rate. Interest rates are negotiated between the borrower and the lender.
- ▶ The maximum amount for a Single Family property improvement loan for the alteration, repair or improvement of an existing single family structure is \$25,000 and the maximum term is 20 years.
- ▶ The maximum amount for a property improvement loan for the alteration, repair or improvement of a Manufactured (Mobile) Home that qualifies as real property is \$25,090 and the maximum term is 15 years.
- ▶ The maximum amount for a property improvement loan for the alteration, repair, or improvement of an existing Manufactured (Mobile) Home classified as Personal Property is \$7,500 and the maximum term is 12 years.
- ▶ The maximum amount for a Multifamily Property Improvement loan for the alteration, repair, improvement or conversion of an existing structure used or to be used as a dwelling for two or more families is \$60,000, but not more than \$12,000 per dwelling unit and the maximum term is 15 years.
- ▶ The maximum amount for a Nonresidential Property Improvement loan for the construction of a new nonresidential structure, or the alteration, repair, or improvement of an existing nonresidential structure is \$25,000 and the maximum term is 20 years.

# Finding a Title I Lender

- ▶ To find an FHA-approved lender in your area, call HUD's Customer Service Center toll-free: (800) 767-7468 (TTY: (800) 877-8339) for a list of lenders in your state.
- ▶ Complaints about contractor fraud under the Title I program can be made by calling toll-free: (800) 569-4287.

# Equal Opportunity in Housing

- ▶ The Fair Housing Act prohibits discrimination in housing and related transactions--including mortgages and home improvement loans.
- ▶ Lenders may not deny funds or offer less favorable terms and conditions in lending on the basis of the borrower's race, color, religion, sex, national origin, familial status (i.e., the presence or number of children in a household) or disability.
- ▶ In addition, lending decisions may not be based on the race, color, sex, religion, national origin, familial status or disabilities of persons associated with the borrower or with the area surrounding the property.
- ▶ If you believe you have been the victim of discrimination in mortgage lending on one of the prohibited bases, you may file a fair housing complaint by contacting a local fair housing advocacy group, the Office of Human Rights for your state or local government, or by calling the national Fair Housing Hotline at (800) 669-9777 (TTY: (800) 927-9275).

