

How to finance a Home Renovation or Construction

The more you know, the better your decisions.

Decide your loan need.

Construction-to-permanent

The lender releases money to the builder as phases of the construction are completed.

Construction only

A stand-alone construction loan. The homeowner takes two loans. The first loan finances the construction of the home and the second refinances the construction loan into a long-term mortgage.

Renovation construction

These loans are available to people who want to do a renovation, but do not have the money to finance it themselves. You have many options to pay for home improvements, including personal loans, lines of credit or government-insured loans.

Talk to a lender.

Know what you can afford

Find out how much money you can borrow and the necessary down payment for the loan. Ask a lender to walk you through the process from short-term to long-term financing.

Understand interest

Know how the interest will be paid during construction and how it will change when you convert to a long-term mortgage.

Ask how loan will be paid out

Construction loans are typically paid on a set schedule or as a percentage of project completion. Find out how your lender does payments and communicate that information to the builder before hiring them.

Choose a builder.

Make a list of possibilities

Call your local home builders association. Talk to your real estate agent and get references from people you know and trust.

Do your homework

Once you have a list, find out what kind of insurance the builders and their contractors have. Get references and call all of them. Tour model homes and pay attention to details.

Stay involved

Depending on your loan type, your lender will monitor the progress of the project to ensure invoices are paid for work completed. Good communication is key to a successful renovation or home construction project.