

BORROWING IN A TOUGH MARKET

Envisioning your dream home, complete with architectural drawings, is one thing. Financing it is quite another — especially in the current market.

“It’s going to be tough,” said Natasha Lovas of Triton Funding Group in San Francisco. “A lender is going to lend on the current value of the property. To find a lender willing to lend on the future value, you need to get a construction loan, where the rates are higher and the bank assumes a lot of control over the whole process.”

Not that long ago, a homeowner could get a loan for all the value of the property without proof of income and with poor credit. Today that’s not the case.

The best option for any renovation is a home equity line of credit. Such loans draw their funding from the unused equity on your home. But if you’ve just purchased the property and put 10 percent down, you don’t have the option of borrowing the \$500,000 or more necessary for a mega-remodel or a tear-down, Lovas said.

For that sort of financing, you need a jumbo loan, said Rick Olson, owner of Peregrine Lending in Walnut Creek. Because jumbo loans are bought and sold on Wall Street, those loans are taking a hit in the current mortgage crisis. Don’t expect to get a loan like that without great credit and documented income. Even then, you may have trouble finding a lender; Olson and Lovas said many lenders have folded. The ones that remain are rewriting their rulebooks.

That leaves mega-remodelers with construction loans. The advantage of them is that they aren’t traded on the open market and therefore are unaffected — as of today — by the mortgage crisis. The disadvantage is that they can be difficult to get and require stringent documentation, and it can feel as if the bank is the project manager, instead of you or the contractor, Lovas said. She recommends that before committing to a construction loan, homeowners get references from the bank in question to ensure that they pay out on time.

“I would urge anyone looking for this type of loan to get in touch with a mortgage broker early on in the process — before even hiring an architect or contractor — to make sure financing is in place,” she said. “I’ve been e-mailing with a past client now. She just bought a place in San Jose and wants to make improvements to it. She asked me how much she could pull out, and I found she could only get \$120,000 to \$130,000. That’s not enough for her to do what she wants.”