

Four financial lessons for remodeling your home

Georgia Knight, mortgage loan officer at Citizen's Bank, once had a man in her office with a little problem. Seems his credit card balances had gotten out of hand to the tune of \$100,000. Knight says that this was a very intelligent man, a good man who'd made one major mistake. He'd used his high interest credit cards to finance the remodeling of his home.

Lesson number one: Never use plastic to pay for a major remodeling job.

LeRoy R. Ostlund, a longtime area builder, has seen scores of people get in over their heads during remodeling jobs.

"A guy helped his father-in-law build his garage or helped his neighbor one weekend building an addition on his house, and suddenly says to himself, 'Gee, I can do that,'" said Ostlund.

Experience is a remarkable teacher. The reason you pay a contractor to perform a job for you is because he has likely done the job often enough to know how to

avoid mistakes — and how to ultimately save you time and money.

Lesson number two: Use common sense. Make sure you have the knowledge, correct tools and enough spare time to be a do-it-yourselfer.

That said, the current low interest rates make today the perfect time to remodel your home. And for those who are intimidated by the process of finding the money, people like Georgia Knight are available to walk you through the process.

"Okay, you own your home and want to do some sort of remodeling," said Knight. "There are a couple of ways to do it."

If you have quite a bit of equity in your home you can refinance and simply take cash out to do the job, said Knight.

"If it's a larger job and is going to cost more than the equity you have in your home, we would do a construction loan, as if you were building a new home. First thing that

happens after a construction loan is approved is that the first mortgage is paid off. Then there is a draw on the remainder of the funds. You draw the money out as you need it to do the remodeling."

One of the things a good mortgage loan officer like Knight does is to counsel clients, to try to encourage them to borrow only as much as they need. It's not uncommon for someone to borrow more against their equity than they actually need for a job.

Lesson number three: Deal with a mortgage loan officer you trust. Take time to discuss your financial options and to determine your actual need.

So what if you're dreaming of a new addition on your house, but your credit is less than perfect?

"It's not so important what has happened in the past," said Knight. "What matters is what you are doing right now. The first thing you need

to do is to work very hard to get your credit cleaned up. Pay bills faithfully and on time every month."

Knight says to give the "clean up" process 24 months, then have your credit looked at again.

"It's the last two years that are going to be looked at most closely," she said.

Lesson number four: Don't assume that remodeling is out of the question. It may not happen this month, but 24 months is really not that far in the future.

Okay, you have your financing and you're ready to get started. Do you do it yourself, or hire a licensed contractor? According to Ostlund, it depends.

It depends on the job, Ostlund said.

Is it something you're confident you can do on your own, have you had the training and experience?

If you're not sure, check out a company like Brown Lumber that offers books, videos and "how to" classes. Make sure you have the proper tools and the time to dedicate to the job. And talk to a contractor; find out if he can work within your budget.

"If he's (the contractor) been around long enough, he's going to talk with you about what's going on. He will sit down and ask you how much money you want to spend. He can tell you up front if you have enough for a particular job," said Ostlund.

So many decisions to make, but what could be more exciting than creating your dream home?

"The Traverse City area is an expensive market," Ostlund said. "It's often cheaper to remodel or enlarge your current home than to buy a new one."

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