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Extra cash for sprucing up

House shoppers on a tight budget may be faced with the realization that the only properties that they can afford are, to put it gently, something only the Munsters could love - dirty, broken and dismally out-of-date.

With a little bit of sprucing up, however, that fixer upper can become not only a comfortable place to live but a more valuable asset.

One option to consider is the "purchase plus improvement" type of mortgage, which allows the qualified purchaser to borrow additional money from the mortgage lender to pay for those renovations.

With this type of mortgage, a lender is willing to take into account the improvements made by the new owner and give credit based on the increased value of the property, up to 10 per cent of the purchase price.

For example, a house that costs $200,000 to buy would be eligible for a mortgage based on a property valued at up to $220,000 - provided the borrower meets the right criteria.

Rob Regan-Pollock, an independent **Invis mortgage broker** in Vancouver, says **this is an option that may appeal for buyers shopping for a first home - especially in a hot market where modestly priced houses get snapped up quickly**.

A purchase plus improvement mortgage can give such a buyer more ammunition in a competitive real-estate market, so they don't have to settle for something that's not right for them, he says.

"**If they like the location and the property has good bones, they can take the 10 per cent additional value that the purchase-plus- improvement plans allows, so that they can put in cosmetic renovations**," Regan-Pollock says.

By cosmetic, Regan-Pollock means paint, new carpeting, perhaps new bathroom fixtures or kitchen cabinetry rather than a major job that entails structural changes.

"**Basically spruce it up so they feel like they're getting a customized living arrangement, without having to find a new home per se**."

Mortgage planners or mortgage brokers can help consumers' comfort level and explore the different financing options available to them.

There are five factors that lenders look at when determining how much a consumer can borrow for their mortgage: the income of applicants, their credit history, the amount of down payment available, their net worth and the type of home they're buying.

The fifth point provides the lender with security if, for some reason, the borrower defaults and the property must be sold to cover the debt.

"**So, if push comes to shove and they have to foreclose, how marketable is that property?**" Regan-Pollock says.

With the purchase plus improvement type of mortgage, the lender recognizes that the marketability or resale value of the house can be increased by making a few well-chosen renovations.

In other words, prove to the lender's satisfaction with documentation and an inspection that you've spent $20,000 to renovate that $200,000 house and the size of the mortgage can be increased proportionately.

"**That's the nice thing. They're willing to do dollar-for-dollar on the improvement that you're planning to put into the property**," Regan-Pollock says.

But there are a few catches.

For instance, no matter how you slice it, the buyer is taking on a heavier debt load and that can have repercussions for the fees they must pay and the amount that lenders will provide towards the purchase.

Buyers who can't afford a down payment equal to at least 25 per cent of the purchase price must pay for mortgage insurance, available through Canada Mortgage and Housing Corp., which is a federal Crown corporation, and Genworth Financial Canada, a private- sector alternative.

These insurers protect the lenders, such as banks and trust companies, from the impact of borrowers that default on the mortgage payments. In turn, the insurers charge consumers an upfront fee or premium when they close their purchase.

However, a smaller downpayment could also bump up the amount the buyer must spend on the mortgage insurance premium.

Regan-Pollock suggests that buyers get a pre-approved mortgage before putting an offer on a house, so they know how much they can afford.

Another hurdle that buyers should note when it comes to a purchase plus improvement mortgage is that the mortgage lenders don't provide the fix-up money up front.

"**They'll basically refund it to the client after the renos are done**."

For buyers with limited financial resources of their own, that can also be a challenge, Regan-Pollock admits.

Sometimes that means getting a helping hand from family, who can pay some of the upfront costs.

In other cases, home improvement retailers or contractors might be willing to extend credit and provide time for the home owners to pay for the materials or work supplied by them.

"**Those actually fit quite nicely within the program**," Regan- Pollock said.

As long as the contractors or the retailers do the work quickly and efficiently "**we can then get the inspector in at the end to verify the work was done, as outlined, and the bank will then release the money to the consumer who can then pay off Home Depot, or Rona or the contractor or their parents**."