Putting The Contract In Writing

Once you have selected a contractor, have him/her write up a specific contract for your job. Check the contract carefully for work content, materials, and warranty. The most efficient way to do this is to make a list of all the things you feel should be done in the course of the job. Then check what you know should be included against what is in the contract.

If you are financing the work through a home improvement loan, have the contract checked by a knowledgeable lawyer, your mortgage company, or someone in the home improvement section of your bank.

Sign the contract only when you are fully satisfied that it details everything you want done, including complete specifications on the work to be performed, the materials to be used, and the estimated starting and completion dates. Insisting on a detailed contract does not mean that you don’t trust your contractor. But once you have a contract, each of you knows the limit of your responsibility before the job begins. Never depend on verbal promises.

Paying For The Remodeling

Savings on household incomes are one source of funds for remodeling projects. If you must receive outside financing, you have a variety of options.

Banks, savings and loan associations, and credit unions offer personal loans and home improvement loans. However, before you settle on a loan of either of these types, you should investigate the alternatives for lower interest rates.

Some communities have their own housing rehabilitation program which is funded from Community Development Block Grant funds and other sources. These programs vary considerably from community to community. The local housing authority or community development office can give you details. They may also be able to alert you to state programs.

If you do not qualify for these programs, you may want to consider borrowing against your life insurance. The interest rates are usually low. FHA Title I improvement loans are another possibility. These loans are administered through local lending institutions and the rates are just below market rates.

Or, you may be able to extend your present mortgage to get money for home improvements. If a large loan is required, existing equity in a house is a possible source of collateral.

References

Checkpoint by Eleanor Walls, Arkansas Cooperative Extension Service.
Remodeling Older Minnesota Homes by William Angel, Minnesota Cooperative Extension Service.
The Decision To Remodel by Robert Mayo, Mississippi Cooperative Extension Service.
• **FINANCIAL SECURITY**—A contractor who has a good credit record is most likely to be able to complete the job and to pay subcontractors and material suppliers.

• **RELATIONS WITH SUBCONTRACTORS**—Subcontractors and their state trade associations can tell you (usually in a guarded fashion) about contractor's performance.

• **ASSOCIATION MEMBERSHIP**—Membership in the National Association of Home Builders, the National Home Improvement Council, or other trade associations indicates the contractor's interest in improving the ethical practices and standards of the profession.

• **LICENSED AND BONDED**—Certain types of contractors must be licensed and bonded according to state law.

• **ESTABLISHED**—A contractor with an established office in the community is more likely to be available to correct any problems after being paid.

• **WORKMAN'S COMPENSATION AND LIABILITY INSURANCE**—Consider only those contractors who carry, and are willing to provide evidence that they carry, adequate insurance.

• **BIDS**—Asking a contractor to provide a written bid is important; however, it should not be requested until the contractor has been checked according to the above items. Request no more than three bids and tell the contractors this fact. Feeling that they have a good chance of getting the job, all contractors will give their best and most accurate bids. Remember—each contractor should have a complete, identical set of plans and specifications. Choose the contractor based upon his or her record, the interest in you, and the job as well as the reasonable bid. Remember that the lowest bid is not always the best bid.

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**Home Remodeling**

Improving rather than moving makes good economic sense for many home owners today. This is especially true if moving means that a family must give up a low-interest mortgage and plunge into the maze of alternative mortgages.

The American dream of home ownership has suffered severe setbacks recently with the skyrocketing costs of land, materials, and labor. Traditionally, families moved when they outgrew their homes or when they found the homes unsuitable for their changing lifestyles. However, recent developments in the housing industry have prompted many families to delay making a housing change.
The Advantages And Disadvantages Of Remodeling

Many factors must be considered before making a decision to remodel. In each individual situation, the advantages should be weighed against the disadvantages.

Advantages

• A family does not have to disrupt neighborhood and school ties nor endure the stresses and uncertainty of moving.
• The financial costs of selling, moving, and buying are avoided.
• If a homeowner has a mortgage with a relatively low fixed interest rate, he or she will not be forced to finance another house at a higher rate.
• Because a large portion of remodeling costs are for labor, a homeowner may choose a do-it-yourself plan.

Disadvantages

• A family may be dissatisfied with its home due to factors that cannot be changed by remodeling such as a bad neighborhood, inconvenient location, or zoning regulations that prohibit desired additions or improvements.
• Remodeling is complex. Home owners seldom realistically estimate the costs and time required for remodeling projects.
• The dust, dirt, clutter, and inconvenience associated with remodeling may create stress on the family.
• Financing for home improvements usually requires a higher interest rate than a home mortgage.
• Home improvements such as wiring, plumbing, and structural work should not be attempted by inexperienced remodelers.
• Financial over-improvement is a common error, especially when serious structural, exterior, and mechanical deficiencies exist or when the neighborhood has irreversibly declined. In such situations, it is sometimes impossible to get home improvement expenses back through a higher resale value.

When Is Remodeling Desirable?

Investing in home remodeling may not be wise for everyone. For some families, it would be better to select or build another house that more closely meets their needs and resources. When considering home improvements, measure the desirability of remodeling against both personal and financial reasons.

Remodeling For Personal Reasons

Most families remodel for personal reasons such as the desire to improve comfort, convenience, and prestige; the desire to save a house that is architecturally unique; the desire to improve an old family homestead; or simply because the family has grown and styles of living have changed. If personal reasons are a strong motive behind your desire to remodel, consider these questions:

1. How long will you or other family members continue to live in the house and enjoy the desired improvements? For example, if you want to finish the basement so your children can entertain friends, this will be worth the cost only if your children will continue to live at home for several years.
2. Will the desired improvements achieve basic goals or only remedy symptoms of the real problems? For example, it will be practical to finish your basement only if you take care of any existing problems.
II. Take room or house measurements and record them on a rough sketch.

1. Make a rough sketch of the floor plan—include closets, stairs, halls, and porches. Show the location of windows, doors, chimneys, and other features. Indicate the number of stair steps and show up or down with an arrow. Take the outside measurements first.

2. Measure and record on your sketch the overall length, width, and height of each room.

3. Locate doors and windows by recording on the sketch the exact size to 1/4 inch of each wall space and opening. Include the width of door and window facings in the measurements of the openings. Also, record the size of the window or door.

4. Make a line (right angle) to show the door swing. If you are working with only one room, indicate where all doors lead.

5. Measure and record each separate wall section between doors, windows, or other architectural changes. Total these measurements to see if they match the overall measurement.

6. Indicate electric lights and outlets, heating equipment, or registers.

7. Record wall thickness if it is not approximately 6 inches exterior and 4 inches interior.

8. Note the roof style.

9. Note supporting walls if wall changes are planned.

10. If there is a basement, indicate the size and exact location.

Remodeling For Financial Reasons

Although homeowners seldom recover 100 percent of their total financial investment when selling a remodeled home, certain types of remodeling may affect the resale value more favorably. The following factors can affect the financial aspects of remodeling:

**The Location.** When remodeling, you invest in a neighborhood and community as well as in a house. Some of the desirable location factors to consider are:

- Does the neighborhood contain, or is it close to, desirable natural and scenic features such as a lake, mountain, or trees?
- Does the neighborhood contain, or is it close to, desirable features such as homes of unique architectural design or historical significance, good schools, shopping centers, places of employment, cultural facilities, and are there few vacant lots?
- Does the neighborhood contain a desirable mix of human features such as strong neighborhood organizations and a high or increasing proportion of home owners?

**The Comparative Condition.** Most buyers expect a house to meet a standard similar to other homes of the same age, price, location, and size. Therefore, if remodeling is planned to correct foundation, structural, or mechanical deficiencies and to bring the home up to the expected standard, only a minimum proportion of the remodeling costs will be recovered through a higher resale value. Such improvements, however, may be necessary to make the home safe and saleable at any price.

**The Improvement.** If the improvement being planned is something that buyers desire in homes that are similar in age, price, and location, then the improvement will have a more favorable impact on resale value. Some improvements such as a swimming pool can make the house more difficult to sell because it eliminates some of the potential market.

**The Value.** Money and the time spent remodeling your home will not necessarily increase its value. One way to understand the effects of various remodeling projects on the resale value of your home is to look at the methods that residential appraisers use to determine appraised values. They typically use the method of market comparison. The appraiser will identify a number of recently sold properties in the same neighborhood and your home will be compared with these homes feature by feature. The value of your home will then be based on how it compares with these other homes. Principles of residential appraisal that can help you figure the value of remodeling projects include:

**Principle of contribution.** The value of any remodeling project is not determined by cost but by how much it increases the market value. For example, suppose you add a fireplace that costs $4,000. The comparative analysis may indicate that fireplaces contribute only $500 to the value of comparable homes. In this case, the fireplace can only be expected to add $500 to the sale price of your home.

**Principle of proportionality.** This means that parts of a house should be in proportion with each other. Three baths in a two bedroom house will probably be out of proportion. As a rule, kitchen improvements should not exceed 10 percent of the value of the home.
Principle of conformity. The value of a home is affected by the size, condition, and features of homes around it. If all the homes on your block are well maintained except for yours, the value of your home will be higher than if it were on a block of homes in equally poor condition. The principle of conformity should also influence the amount of remodeling you consider. It is generally unwise to improve your home to the extent that it has substantially more rooms or features than neighboring homes.

Functional obsolescence. To the extent that remodeling modernizes your home, it is probably a good investment. Because of this, appraisers recommend putting remodeling efforts into the kitchen and bath. The concept of functional obsolescence should be considered from another viewpoint. An addition will be given the same life expectancy as the original structure. This means that if a house is seriously outdated or is given a low value because of neighborhood conditions, the value of the addition will be depreciated accordingly.

Market price vs. curb appeal. An improvement may not increase the price that your home brings, but it can make it sell faster. Exterior painting and interior decorating will not increase the price your home brings, but it can result in a quicker sale.

Making The Remodeling Decision

Ask yourself the following questions before making a decision on remodeling your home:

Financial Considerations
Yes  No Will the cost of improvements be less than 60 percent of the cost to build a new home of equal quality?
Yes  No Will the value of the house after improvements be less than 20 percent greater than the average home in the neighborhood?

Neighborhood
Yes  No Is the neighborhood attractive, pleasing, and well maintained?
Yes  No Is the neighborhood free from heavy traffic, dust, noise, and other forms of pollution?
Yes  No Is the neighborhood free from the threat of flooding?

Property
Yes  No Is the property graded so that moisture will drain away from the house?
Yes  No Is the house situated so that protection is provided from sunlight, wind, and rain?
Yes  No Is the view from the house pleasant and likely to remain unchanged?
Yes  No Is the pedestrian and automobile access direct, simple, and easy?

Foundation
Yes  No Does the alignment of the foundation appear to be straight and true?
Yes  No Is the foundation free from large cracks and deterioration?

Preventing A Remodeling Plan

To work out plans for remodeling and/or expanding the space in your house, a scale drawing of the present room or house will be needed. To prepare the plan, you will need to:

1. Collect the supplies and tools you will need.
2. A steel tape or a folding rule (NEVER use a tape measure).
4. Graph paper—use sheets 17 x 22 inches with four squares to the inch.
5. A good ruler.
6. Eraser and sharp pencils.
Determining Monthly Costs

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Current Expenditure</th>
<th>Estimated Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage principal and interest</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Home improvement loan (proposed)</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Property taxes</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Utilities</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Maintenance-repair</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Other (e.g., credit life insurance for loan, etc.)</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

**Average Monthly Costs**

**Income Situation**

<table>
<thead>
<tr>
<th>Monthly Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of household's gross income</td>
</tr>
<tr>
<td>Spouse's gross income</td>
</tr>
<tr>
<td>Other household gross income</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
</tbody>
</table>

- How secure is this income situation?
- To what degree is this income situation likely to increase?
  % to decrease: __________%

**Debt Situation**

<table>
<thead>
<tr>
<th>Amount of debt pay-back (including existing mortgage and installment payments)</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional debt pay-back anticipated</td>
<td>$</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$</td>
</tr>
</tbody>
</table>

- Does the total appear reasonable (maximum averages 30 to 35 percent of gross income)?

**Future Expenditures**

- Do you have anticipated educational expenses that should be considered?
- Do you have any other expenditures that should be considered?
- Remember: If a home improvement does not contribute to the quality of life you desire, it's not worth it!

**Conserving Energy**

When you are remodeling a home, you have a golden opportunity to be an energy conservationist. Almost every decision you make will affect the amount of energy required to operate your home. Making changes that help conserve this energy will save you even more money in the future. Before beginning, consider these do's and don'ts:

- Is siding at least 8 inches above the outside soil and is it free from decay?
- Are the floors sturdy and even? To check, jump up and down; the floor should not shake.
- Are doors and windows tightly fitted and snug, yet easy to open and close?
- Are the exterior painted walls free from excessive blistering and cracking? These could be signs of an improperly installed vapor barrier.
- Does the house have at least 3 inches of insulation in exterior walls and at least 6 inches in the ceiling?
- Is the roof free from sagging, bowed surfaces or missing shingles?
- Are the flashing, gutters, and downspouts in good repair; free from rust and holes?
- Is the house free from termite infestation?
- Does the electrical system include the following: 100 amp service or more (200 amps preferred): 12 or more 110-volt circuits; at least one 110-volt outlet on each wall; and enough 220-volt outlets for major appliances?
- Does the water pressure remain adequate when the toilets are flushed and when the bathroom faucets are turned on at the same time?
- Will the water heater be satisfactory after remodeling (at least 40 gallons for a four-member family with washing machine)?
- Will the source of water be adequate, especially if it is from a well and if a washing machine or dishwasher is to be added?
- Will the existing method of sewage disposal be adequate, especially if a dishwasher, garbage disposal, or washing machine is to be added?
- Are the plumbing fixtures in good condition?
- Will the present method of cooling and heating be adequate and efficient after improvements? Check with the utility company for rates in your area.

**Arrangement And Appearance**

The value of the house to be remodeled is strongly affected by the layout and appearance. However, achieving an ideal arrangement with a remodeling project can be very expensive. But, adequate living conditions may be possible with some sacrifice in arrangement. Ask yourself the following questions about arrangement and appearance:

- Is the house large enough to meet the family's needs?
Yes__ No__ Does the house provide all of the different kinds of living spaces your family needs?

Yes__ No__ Does the house have rooms arranged in three areas—kitchen, living, and sleeping?

Yes__ No__ Is the traffic pattern through the house direct and uncluttered with a minimum amount of floor space devoted to traffic lanes?

Yes__ No__ Are the rooms large enough?

Yes__ No__ Are there adequate, well-planned storage spaces?

Yes__ No__ Is the appearance of the house pleasing to you? Although appearance is important, taste is largely a personal matter.

**Final Evaluation**

Now review your answers. If you have quite a few no's, either remodeling is of questionable value or you are willing to spend a great deal of money and time to achieve personal satisfaction. However, your no answers may indicate items that you should consider improving, repairing, or remodeling.

**Reasons Not To Remodel**

There are several factors which could make it impractical for you to remodel your home. The foundation may be unrepairable or the entire frame of the house may be out of square. You may also decide against remodeling if the house is decayed or termite-infested and if many items must be replaced or repaired.

**Guidelines For Making The Final Decision**

If the foundation and frame of the house are in reasonable condition, and repair and replacement items do not appear excessive, base a final decision on the following factors:

- **Cost.** A general rule-of-thumb is that the cost of remodeling should not exceed two-thirds of the cost of a comparable new house. And, the value of the house after improvements should not exceed by 20 percent the fair market value of other houses in the area.
- **Location.** A particularly good location would be justification for spending more money. An undesirable or deteriorating location would indicate that much less than two-thirds the cost of the new house should be spent.
- **Sentimental Value.** If there are sentimental attachments, the value of the remodeled house must be decided by the individual. However, neither the finance company nor a prospective buyer will allow anything for sentimental value.

**Assessing The Cost Of Remodeling**

**Step One**—Estimate the itemized costs of the desired home improvements.

- **Material (including sales tax)** $ ____
- **Labor** + ____
- **Contractors’ overhead and profit (unless you plan to do the work yourself)** + ____
- **Building permit fees** + ____
- **Other (attorney, temporary housing, etc.)** + ____

**Total Initial Improvement Costs** (add above lines) = $ ____

**Step Two**—Estimate the itemized costs of buying or building another house which will be similar to what you desire (i.e., your present home with improvements).

- **Purchase price** $ ____
- **Change in interest rate** + ____
- **Initial costs (taxes, financing, etc.—about 1 to 2 percent of purchase price)** + ____
- **Moving costs** + ____
- **Other related costs (appliances, draperies, etc.)** + ____

**Total Costs Of Moving** (add above items) = $ ____

- **Subtract selling price of present home**
- **Add selling costs (they range from about 3 to 8 percent of the selling price)** + ____

**Net Outlay Of Moving To Another House** (total) = $ ____

**Step Three**—Request an appraisal of your home as is and an estimate of the market value after improvements.

- **Market value after improvements** $ ____
- **Market value as is** = ____

**Net Change In Value** (subtract as is from improved value) = ____

**Initial Cost Comparison**—Compare the following items:

- **Total Initial Improvement Costs** (1) $ ____
- **Net Outlay Of Moving To Another House** (2) $ ____

If initial improvement costs (1) are less than the net outlay of moving (2), then, financially, remodeling is justified.

**Investment Comparison**—Compare the following items:

- **Total Initial Improvement Costs** (1) $ ____
- **Net Change In Value** (3) $ ____

If the initial improvement costs (1) are less than the net change in value (3), then, financially, remodeling is justified.