VABASSO MORTGAGE

The Renovation Loan Guide

Purchase and refinance renovation
Scope, bids, draws, contingency
Appraisals based on completed work

Edition 1.0 · Last reviewed July 2026

VABASSO MORTGAGE

The Renovation Loan Guide

A practical guide to purchase and refinance renovation financing, scope of work, contractor bids, draws, contingencies, and appraisals based on the completed project.

Version 1.0 · Published 2026-07-31 · Last reviewed 2026-07-31
Written by Vabasso Mortgage Editorial Team · Reviewed by Vabasso Mortgage Licensed Advisory Team
Read online: https://vabasso.com/resources/guides/renovation-loan-guide

In short

> A renovation loan combines the financing of a property with the cost of improving it into a single mortgage, underwritten against an appraisal that assumes the described work is finished. On a purchase, the loan funds the acquisition and the renovation together. On a refinance, it retires the existing mortgage and funds the work. Improvement money is held and released in draws as the work is completed and inspected rather than disbursed at closing, and the lender reviews the scope of work, the contractor, and the bid alongside the borrower's credit, income, and assets.

Key takeaways

- Renovation financing combines property financing and improvement costs in one mortgage.
- Loan sizing is based on an appraisal that assumes the described work is complete.
- Appraisers do not credit renovation spending dollar for dollar.
- Improvement funds are released in draws after inspection, not disbursed at closing.
- A defined scope of work and a detailed contractor bid are central to the file.
- A contingency inside the budget is what absorbs conditions discovered after work begins.
- Eligible improvements, contractor requirements, and occupancy rules vary by program.

Who this guide is for

- Buyers considering a property that needs work before or after closing
- Homeowners planning improvements financed against the completed value
- Borrowers comparing renovation financing with a HELOC or cash-out refinance
- Owners addressing deferred maintenance, roofing, systems, or storm hardening
- Investors evaluating rehabilitation financing on a non-owner-occupied property
- Self-employed borrowers planning a renovation while documenting variable income
- Anyone who wants to understand draws, contingencies, and contractor review first

Table of contents

01

What is a renovation loan?

A renovation loan is generally a mortgage that combines the financing needed to acquire or refinance a home with additional funds set aside for repairs or improvements, rather than requiring a separate loan for the work. Renovation funds are typically not handed directly to the borrower; they are commonly held in a controlled escrow account and released as work is completed and verified.

Most renovation programs require a defined scope of work, sometimes supported by contractor bids, plans, or specifications, before closing. Lenders and investors generally want to understand what will be done, by whom, and at what estimated cost, since that scope drives both the appraisal and the draw schedule that follows.

Appraisals on a renovation transaction commonly consider two figures: an as-is value reflecting the property's current condition, and an as-completed value reflecting the property's estimated value once the proposed improvements are finished. Neither figure is guaranteed, and the as-completed estimate depends heavily on the quality and completeness of the scope provided to the appraiser.

Many programs also build in a contingency reserve, periodic inspections during construction, a series of draws paid to the contractor as milestones are met, and an expected completion framework agreed to at closing. The exact structure, number of draws, inspection requirements, and completion expectations vary by lender, investor, program, and property, and none of those specifics should be assumed to apply universally.

> Renovation financing structures vary widely by lender, investor, program, property type, and borrower profile. This guide is educational and does not describe any single program's requirements.

02

How does a purchase-renovation loan work?

A purchase-renovation loan is generally used when a buyer wants to acquire a home that needs work and finance both the purchase price and the estimated renovation budget within a single closing, rather than closing on the purchase and separately arranging financing for repairs afterward.

Underwriting typically looks at the total acquisition cost, meaning the purchase price plus the estimated cost of the planned improvements, against the property's estimated completed value. Lenders commonly want to see that the combined cost is reasonably supported by what the home is expected to be worth once the work is finished, though the appraiser's as-completed opinion is never guaranteed to match projected costs.

Depending on the program, a borrower contribution toward the purchase, the renovation budget, or both may be required, and the specific amount varies by lender, loan type, property, and borrower qualification. Renovation funds are generally not disbursed at closing; instead, they are placed into a draw account and released over the course of construction.

Occupancy timing is another consideration. Some purchase-renovation structures assume the borrower will occupy the property once work reaches a habitable stage, while others may allow occupancy to be deferred until improvements are substantially complete. These expectations should always be confirmed with the specific lender and program being used.

03

How does a refinance-renovation loan work?

A refinance-renovation loan generally allows an existing homeowner to pay off a current mortgage while also securing funds earmarked for repairs or improvements, combining both needs into a single new loan rather than pursuing a separate home improvement loan on top of the existing mortgage.

The transaction typically works by paying off the existing mortgage balance with part of the new loan proceeds, while the remaining renovation funds are held for release as work is completed. An appraisal is generally required and commonly considers both the property's current condition and its estimated value once the planned improvements are finished.

Because renovation funds are tied to a defined scope of work rather than distributed as unrestricted cash, a refinance-renovation loan is generally treated differently from a standard cash-out refinance, even though both draw on a property's equity. Available equity, program guidelines, and appraisal findings all factor into how much renovation financing may be supported.

As with any refinance, this structure replaces the prior mortgage and resets the loan term and amortization schedule for the full new balance. Borrowers considering this option often value the ability to keep a defined scope of work under lender oversight rather than managing renovation funds independently.

04

Cosmetic versus structural renovation: what is the difference?

Renovation projects are often grouped into cosmetic and structural categories, and this distinction matters because it commonly affects which loan programs may apply, how detailed the required documentation is, and how long underwriting and construction review may take.

Cosmetic improvements generally involve surface-level or finish-related updates that typically do not affect the structure or systems of the home in a major way. Structural improvements generally involve the bones of the property, such as the foundation, framing, or major systems, and commonly require permits, licensed specialty contractors, and more detailed engineering or plan review.

Some renovation programs are built primarily around limited or cosmetic scopes, while others are designed to accommodate more complex structural work, additions, or even properties requiring substantial rebuilding. Program eligibility for structural work varies significantly by lender and investor, and a scope that mixes cosmetic and structural items may need to be evaluated carefully to confirm program fit.

General categories. Actual classification and program eligibility vary by lender and scope of work.

Category	Commonly included items	General complexity implications
Cosmetic	Flooring, paint, cabinets, appliances, fixtures, minor repairs	Often faster review; may fit limited-scope programs
Structural	Foundation work, additions, load-bearing wall changes, roof replacement	Typically requires permits, plans, and specialty contractors
Structural	Major plumbing or electrical replacement, room conversions	May require engineering review and phased inspections
Structural	Repair of existing structural damage	May require specialized assessment before scope is finalized
Mixed scope	Combination of cosmetic and structural items	Program fit depends on the full scope, not any single item

05

How does FHA renovation financing generally work?

FHA-backed renovation financing generally combines the purchase or refinance of a primary residence with funds for approved improvements, insured through the Federal Housing Administration. These programs are commonly structured to allow borrowers to address needed repairs without arranging separate financing after closing.

Some FHA renovation structures are designed for more limited scopes of work, while others accommodate more extensive projects and may involve a HUD-approved consultant to help develop the scope, review contractor bids, and inspect progress. Which structure applies, and whether a consultant is required, depends on the scope of work and current HUD requirements at the time of the loan, and this guide does not state specific thresholds.

As with other FHA-insured loans, mortgage insurance generally applies, and an appraisal considering the property's condition and planned improvements is typically required. Contractors are commonly reviewed for licensing and qualifications before work begins, and funds are usually released through a draw process tied to completed work and inspections.

Occupancy expectations, contractor requirements, consultant involvement, and documentation standards are all governed by current HUD requirements, which are updated periodically. Borrowers and advisors should always confirm present-day program details rather than relying on general descriptions.

06

How does conventional renovation financing generally work?

Conventional renovation loans generally follow conventional underwriting standards while adding a mechanism for financing repairs or improvements alongside a purchase or refinance. These programs are commonly available for a primary residence, and depending on the investor and program, may also extend to a second home or an investment property.

An appraisal typically considers the property's as-is condition and its estimated value once the proposed work is complete. A licensed, vetted contractor is commonly required, along with a defined scope of work, and funds are generally released through a series of draws tied to inspections confirming completed progress.

Loan-to-value limits, contingency requirements, and mortgage insurance treatment for conventional renovation loans vary by investor, program, occupancy type, and property, and no single figure applies universally. Property type eligibility, such as single-family homes, certain attached properties, or condominiums, also depends on the specific program guidelines in effect.

Because conventional renovation programs are offered by multiple investors with differing guidelines, the specifics of any given transaction should be confirmed directly with the lender rather than assumed from general descriptions of how these loans typically work.

07

How does jumbo renovation financing generally work?

Jumbo renovation financing generally applies to higher-value properties where the total loan amount exceeds conventional or agency limits, and it commonly follows a similar structural concept to other renovation loans: a mortgage combined with escrowed funds for improvements, released through a draw process.

Appraisals on jumbo renovation transactions are often more complex, since higher-value and unique properties may have fewer directly comparable sales, and appraisers must account for both current condition and the effect of proposed improvements, including custom finishes or luxury materials that can be harder to value with certainty.

Lenders offering jumbo renovation financing commonly place additional emphasis on borrower liquidity and reserves, given the larger loan amounts and construction risk involved. Contractor review may also be more detailed for large or custom projects, and second homes, coastal properties, or properties with unique construction considerations often receive additional scrutiny.

Because jumbo renovation programs are less standardized than agency programs and are offered selectively by individual lenders, terms, documentation, and eligibility vary considerably from one lender to another.

08

How does renovation financing work for investment properties?

Renovation financing for investment properties is generally structured as business-purpose lending rather than consumer mortgage financing, and it is commonly tied to a specific rental strategy, such as preparing a property for lease-up or repositioning an existing rental.

Underwriting for these loans often considers projected rental income, the property's path to stabilization once renovation work is complete, and the borrower's intended exit strategy. A common exit is a takeover, or takeout, into longer-term financing such as a DSCR loan once the property is renovated and generating income, though this outcome depends on market conditions and the property's performance and is never guaranteed.

Property condition at acquisition is closely reviewed, since investment renovation projects often involve properties that are not immediately rentable. Financing may be structured through private money or short-term bridge lending during the renovation phase, with entity ownership, such as an LLC, commonly used rather than individual borrower title.

Because these transactions blend renovation risk with investment underwriting, terms, required documentation, and available exit paths vary considerably by lender, market, property condition, and the borrower's experience with similar projects.

09

What is private money rehabilitation financing?

Private money rehabilitation financing generally refers to short-term loans from non-institutional or specialty lenders used to acquire and repair a property quickly, often in situations where a conventional or agency-backed renovation loan would not fit the timeline or property condition.

These loans are commonly used for fast acquisitions, properties requiring major repairs, uninhabitable properties that would not qualify for standard financing, auction purchases, and investor projects where speed and flexibility matter more than the lowest possible cost.

Structures are typically short-term, sometimes described as bridge-to-sale, where the plan is to renovate and sell, or bridge-to-DSCR, where the plan is to renovate and refinance into longer-term rental financing. Neither path is guaranteed, and market conditions, renovation outcomes, and future underwriting all affect whether a planned exit is achievable.

Private money financing generally carries meaningfully higher cost and risk than conventional or agency-backed renovation loans, reflecting the speed, flexibility, and reduced documentation these lenders typically offer. Borrowers should weigh that added cost and risk carefully against the benefit of faster access to funds and should not assume favorable terms or guaranteed refinancing at the end of the project.

10

What is an as-completed appraisal?

An as-completed appraisal generally estimates a property's value as if proposed improvements were already finished, based on the current property, submitted plans, and a defined scope of work, rather than reflecting the property's condition on the day of inspection alone.

Appraisers typically develop this estimate by reviewing the plans and scope alongside comparable sales of similar, already-renovated or already-built properties in the area. The reliability of an as-completed estimate depends heavily on the availability of relevant comparables and on how clearly the scope of work is documented.

Market acceptance matters as much as the physical improvements themselves. A renovation that significantly exceeds what buyers in that market typically expect or pay for, sometimes called an over-improvement, may not translate fully into added value, even if the work is high quality. Unique features can also be difficult for an appraiser to support with comparable data.

Borrowers should also be aware of the possibility of an appraisal gap, meaning the as-completed value comes in lower than the total cost of the property plus the planned renovation. This can affect loan sizing and may require the borrower to contribute additional funds or revise the scope of work.

> Renovation cost does not guarantee an equal increase in appraised value.

11

How are contractors reviewed for a renovation loan?

Most renovation loan programs require some form of contractor review before draws begin, since the lender is relying on that contractor to complete the work that supports the loan's as-completed value. Review commonly includes verifying an active license, appropriate insurance coverage, and relevant experience with similar projects.

Lenders and consultants may also ask for references from prior clients, evidence of financial capacity to carry a project through completion, and a clear, itemized bid or proposal describing the work and its cost. A contractor's proposed schedule and general approach to project management are often reviewed as well, particularly for larger or more complex scopes.

Where subcontractors are involved, lenders commonly want visibility into how those relationships are managed and how payments flow, since unresolved subcontractor payments can lead to liens against the property. Lien waivers, which document that a contractor or subcontractor has been paid for completed work and waives further lien rights for that portion, are a standard part of many draw processes.

A written warranty covering workmanship, in addition to any manufacturer warranties on materials or systems installed, is also commonly requested and can matter to the homeowner well after the loan itself has closed.

12

What makes a strong scope of work?

A scope of work is generally the document that defines exactly what will be done, with what materials, and at what cost, and it forms the basis for both the appraisal and the draw schedule. A vague or incomplete scope is one of the more common causes of delay or disagreement during a renovation transaction.

Strong scopes typically break work into detailed line items rather than broad categories, specifying materials, labor, quantities, and product specifications where relevant. Where certain selections have not yet been finalized, an allowance, meaning a budgeted placeholder amount, is commonly used so the total budget still reflects a realistic figure.

A well-prepared scope also generally references an estimated timeline for each phase of work, identifies which items require permits, and describes how change orders, meaning adjustments to the original scope after work begins, will be documented, priced, and approved.

Lenders and consultants reviewing a scope of work generally compare it against contractor bids and the appraiser's as-completed analysis, so consistency across these documents matters as much as the completeness of any single one.

Example of what a strong scope line item typically includes. Format varies by lender and program.

Element	Purpose
Description of work	Identifies exactly what is being done
Materials and specifications	Defines the product, grade, or brand where relevant
Quantities	Ties cost to a measurable amount of work or material
Labor cost	Separates labor from materials for review
Allowance (if applicable)	Budgets for selections not yet finalized
Permit requirement	Flags items needing local permitting
Estimated timeline	Supports the overall draw and completion schedule
Change-order reference	Documents how later adjustments will be handled

13

How do contractor bids and renovation budgets work?

Homeowners are often encouraged to obtain multiple bids from qualified contractors for a proposed scope of work, since bids can vary meaningfully based on a contractor's approach, materials, overhead, and current workload. Comparing bids line by line, rather than only by total price, generally gives a clearer picture of what is actually being proposed.

Contracts are commonly structured as either fixed price, meaning the contractor agrees to a set total for the defined scope, or cost plus, meaning the homeowner pays actual costs plus a contractor fee or markup. Each structure shifts risk differently between homeowner and contractor, and the right choice depends on how well-defined the scope is and how much cost certainty the homeowner wants.

A complete renovation budget generally accounts for more than the construction contract itself. It commonly includes allowances for undecided selections, any owner-supplied materials, labor, applicable taxes, permit fees, a contingency reserve for unexpected conditions, design or consultant fees where applicable, and, in some cases, temporary housing costs if the property will not be livable during construction.

Because a budget built on a single, optimistic bid can leave little room for the unexpected, lenders and experienced contractors alike generally recommend building a realistic, itemized budget before finalizing loan amounts or committing to a project timeline.

General comparison. Specific contract terms vary by contractor and negotiated agreement.

Consideration	Fixed price	Cost plus
Total cost certainty	Higher, agreed in advance	Lower, depends on actual costs incurred
Risk of cost overruns	Generally borne by the contractor	Generally borne by the homeowner
Flexibility for changes	Typically requires formal change orders	Often easier to adjust scope as work proceeds
Transparency into actual costs	Limited; contractor margin is not itemized	Higher; costs and markup are itemized
Best fit	Well-defined, finalized scope of work	Scope with uncertainty or evolving decisions

14

Why does a renovation budget need a contingency?

A contingency reserve is generally a portion of the renovation budget set aside to cover unexpected costs that surface once work is underway, rather than costs that were anticipated from the start. Lenders and experienced contractors commonly recommend including one on nearly every renovation project.

Hidden conditions are a common source of unexpected cost, particularly in older homes where outdated wiring, plumbing, or structural issues may not be visible until walls are opened or systems are inspected during construction. What looked like a straightforward cosmetic update can sometimes reveal a structural issue that changes the scope.

Material cost changes, permit-related requirements uncovered during the process, and weather-related delays can also affect a project's final cost and timeline. A contingency reserve gives the project room to absorb these surprises without requiring the homeowner to seek additional financing mid-project.

Lenders generally maintain control over how contingency funds are released, similar to other draw funds, and typically require documentation before those funds are used. If contingency funds go unused by the end of the project, how any remaining balance is handled, such as being applied to the loan or returned, depends on the specific lender and program.

15

How does the draw process typically work?

Renovation funds are generally held in an escrow account and released to the contractor in stages, commonly called draws, as work is completed and verified, rather than being paid out all at once. This structure is intended to align payment with actual progress.

While the exact sequence and number of draws vary by lender and program, most draw processes share a similar general pattern intended to protect both the borrower and the lender's interest in the completed project.

Typical draw process sequence

General order of events. Specific requirements, number of draws, and timing vary by lender, program, and project.

- Contractor completes an agreed phase or milestone of the scope of work
- Contractor or borrower submits a draw request describing the completed work
- Lender or its representative schedules an inspection to verify completion
- Inspection confirms the percentage of work complete against the approved scope
- Contractor provides a lien waiver for the portion of work being paid
- Borrower reviews and approves the draw request where required
- Lender releases the draw payment from the escrow account to the contractor
- A portion of each draw may be held back as retainage until the project is fully complete
- Title is updated or re-checked periodically to confirm no new liens have been recorded
- Process repeats for each remaining phase until the scope of work is finished

16

What inspections are commonly involved in a renovation loan?

Renovation financing typically involves more than one type of inspection, and the specific mix depends on the lender, the program, the scope of work, and local jurisdiction. A progress inspection generally confirms that work associated with a particular draw request has actually been completed before funds are released, while a municipal inspection is performed by the local building department to confirm that completed work meets applicable code.

Programs that require a renovation consultant or draw administrator commonly use a consultant inspection to verify progress against the approved scope and budget before recommending a draw. A lender inspection may be ordered independently to protect the lender's interest in the collateral, separate from any municipal or consultant review, and the frequency of these inspections varies by loan size, program, and project complexity.

A final inspection is generally required once all work under the scope is reported complete, and this inspection typically supports both release of any remaining escrowed funds and confirmation that the project matches what was approved. Where structural, electrical, plumbing, or other permitted work occurred, a certificate of occupancy or a final code-compliance sign-off from the local building department is commonly required before a project can be considered finished for lending purposes.

Borrowers should expect some coordination overhead among these inspection types, since a lender draw and a municipal inspection do not always occur on the same schedule. Confirming with the contractor and the lender or servicer which inspections apply to a specific draw, and in what order, can reduce delay.

17

How do permits factor into a renovation loan?

Permit responsibility is generally assigned to the contractor or the property owner depending on local practice and the terms of the contractor agreement, and lenders commonly expect permits to be pulled before work begins on any scope item that requires one under local code. Permit plan review, where required, can add a review step before work starts, and the pace of that review is controlled by the local building department rather than the lender.

In Florida, permitting for renovation work is often shaped by wind-load, flood-zone, and coastal-construction requirements that do not apply uniformly across the state, and by county or municipal amendments to the Florida Building Code. A property in a coastal high-hazard area or a designated flood zone may face additional review for roofing, window, opening protection, or structural scope items, and requirements vary by jurisdiction and property location.

Homeowners association approval, where applicable, is generally a separate requirement from municipal permitting and does not substitute for it; some associations also require review of exterior changes even where no permit is otherwise required. Properties in a historic district may face additional design review before a permit is issued, which can affect scope, materials, or timeline in ways that are locally determined.

Work performed without required permits can create complications for a renovation loan, since a lender or appraiser may be unable to verify or value unpermitted scope, and unpermitted work discovered later can affect the file, the appraisal, or eventual resale of the property. Addressing permit status early, and confirming with the local building department what is required for the specific scope, generally reduces the risk of issues surfacing at closing or during a draw.

Because permit rules vary so widely by county, city, and property type, no general description substitutes for confirming requirements directly with the local jurisdiction and coordinating that confirmation with the lender before work begins.

18

What types of improvements are commonly eligible for renovation financing?

Renovation loan programs generally define a range of eligible improvement categories, though the specific list, and what falls inside or outside it, varies by program, lender, investor, and sometimes by property type or occupancy. The table below outlines categories commonly considered across renovation programs, offered for general orientation only.

Eligibility for any specific item depends on the program guidelines in effect, the lender's overlays, the appraiser's treatment of the improvement, and sometimes state or local rules affecting the property. A category appearing in general industry discussion does not guarantee that a specific lender or program will finance it for a specific borrower or property.

Some categories, such as pool construction, septic or well work, and certain landscaping, are eligible under some programs and excluded under others, and treatment can differ between purchase and refinance transactions. Energy-related and accessibility improvements are increasingly discussed within renovation financing, though availability and treatment still vary by lender and program.

Borrowers with a specific project in mind should confirm eligibility for that exact scope with a licensed advisor before assuming financing is available, since assumptions based on a general category can be inaccurate for a particular program.

Improvement categories commonly considered under renovation financing; eligibility varies by program, lender, investor, and property.

Category	Examples commonly considered
Kitchen	Cabinetry, countertops, appliances integrated into the renovation, layout changes
Bathrooms	Fixtures, tile, plumbing updates, layout or accessibility changes
Roof	Replacement or repair of roofing materials and related components
HVAC	Replacement or upgrade of heating, ventilation, and cooling systems
Electrical	Panel upgrades, rewiring, and related code-driven work
Plumbing	Pipe replacement, fixture upgrades, and related system work
Flooring	Replacement of flooring materials throughout the property
Windows and doors	Replacement for efficiency, safety, or code compliance
Accessibility	Ramps, widened doorways, grab bars, and similar modifications
Energy improvements	Insulation, efficient systems, and related upgrades where eligible
Structural repairs	Foundation, framing, or load-bearing corrections
Additions	Square-footage additions where permitted and supported by the program
Landscaping	Limited hardscape or landscaping tied to the overall project, where eligible
Septic	Repair or replacement of a septic system where eligible
Well	Repair or replacement of a private well system where eligible
Pool	Construction or repair where the specific program allows it
Storm-hardening	Impact windows, reinforced garage doors, roof strapping where eligible
Flood mitigation	Elevation or drainage work addressing flood exposure where eligible

> This table is illustrative only. Confirm eligibility for a specific project with a licensed advisor and the applicable program guidelines.

19

Are any improvements generally restricted or ineligible?

Some categories of work are commonly restricted or excluded across renovation loan programs, though this discussion is general and is not a universal or complete list; restrictions vary by lender, investor, program, and sometimes by property or occupancy type. Items considered purely luxury in nature, or improvements unrelated to the property's habitability or value, are sometimes limited or excluded depending on the program.

Non-permanent items and personal property, such as furniture, freestanding appliances not integrated into the structure, or decor, are commonly treated differently from permanent improvements and may not be eligible for financing under a renovation loan even when they relate to the same overall project. Work completed before loan approval or before the required inspections and permits are in place can also create eligibility problems, since the lender generally needs to verify scope and value before funds are committed.

Owner labor is sometimes restricted or requires specific documentation, insurance, or lender approval, since unsupported claims of self-performed work can be difficult for a lender or appraiser to verify or value. Speculative features — improvements added on the expectation of a future use or buyer preference that is not clearly supported — may also receive additional scrutiny.

Additions or scope items that are not clearly supported by comparable sales, appraisal practice, or program guidelines can be limited even where they are technically permitted, and any improvement that would violate local zoning, setback, or land-use rules is generally not eligible regardless of program. Borrowers should treat this section as a starting point for questions rather than a definitive answer, since actual restrictions depend on the specific lender, program, and property.

> This is a general discussion, not a complete or universal list of restricted improvements. Confirm specific exclusions with a licensed advisor.

20

Can I live in the home while renovation work is underway?

Whether a homeowner can remain in the property during renovation generally depends on whether the home remains habitable throughout the project, which in turn depends on the scope of work, local code, and safety considerations. Cosmetic or room-by-room projects may allow continued occupancy, while major structural work, whole-house systems replacement, or work affecting utilities, egress, or safety may require temporary relocation for part or all of the project.

Some renovation programs allow a mortgage-payment reserve to be included in the financed amount to help offset housing costs during a period when the home may not be fully livable, though availability and structure of this reserve vary by program and lender and are not guaranteed. Local code enforcement may also restrict occupancy during certain phases of work, particularly where utilities are disconnected or structural elements are open.

Insurance coverage during renovation is a separate consideration from occupancy; some homeowners insurance policies address renovation differently than standard occupancy, and confirming coverage with the insurance carrier before work begins is advisable regardless of whether the home remains occupied. Safety during active construction, including for children, pets, and other household members, is generally the responsibility of the homeowner and contractor to manage.

Coordinating occupancy expectations with the contractor's schedule before work begins — including which phases will require the home to be vacated, if any — can help avoid last-minute housing decisions once the project starts.

21

How are mortgage payments handled during the renovation period?

In most structures, the borrower's regular mortgage payment continues during the renovation period the same way it would on a standard mortgage, since the renovation loan is typically the borrower's primary financing rather than a separate, temporary obligation. Interest may begin accruing on disbursed funds as draws are released, depending on how the specific program is structured.

Some programs allow a payment reserve, sometimes funded from the loan proceeds, to help cover a portion of the mortgage payment for a defined period while a project affects habitability, though this feature is not universal and availability depends on the lender and program. Where a payment reserve is not available or is insufficient, the borrower is generally responsible for maintaining the regular mortgage payment out of pocket throughout the renovation.

Borrowers who must maintain a separate housing cost during renovation — such as temporary rent while the home is uninhabitable — should account for that overlapping expense in their overall budget, since it is layered on top of the ongoing mortgage payment rather than replacing it. Project delays can extend the period during which overlapping costs are incurred, which is one reason a cash flow cushion is generally recommended before beginning a renovation project.

Reviewing how payments, interest accrual, and any reserve will work for a specific loan structure with a licensed advisor before closing can help set realistic expectations for the renovation period.

22

What happens if renovation costs exceed the original budget?

Cost overruns are a common feature of renovation projects, and how they are addressed generally depends on whether a contingency was built into the original budget, how much of it remains, and the terms of the specific loan program. A contingency reserve, where included, is generally the first resource used to absorb moderate cost increases without requiring a change to the loan itself.

When a contingency is insufficient to cover the added cost, borrowers are commonly asked to contribute additional funds from their own resources to complete the project as scoped, since renovation loans generally do not include an automatic mechanism for increasing the loan amount after closing. Reducing the scope of work is another path some borrowers pursue when costs exceed the budget and additional funds are not available.

A cost increase tied to a change in scope is typically documented through a change order, which may itself require lender review or approval depending on the program and the size of the change. In some cases a revised appraisal may be needed to confirm that an increased project cost is still supported by the property's likely completed value, particularly for a significant scope change.

Because a lender generally has no obligation to provide additional financing beyond the approved loan amount, borrowers should treat cost overruns as a real possibility to plan for rather than an unlikely edge case, and building a contingency into the original budget is one of the more common ways homeowners manage this risk.

Common causes of renovation cost overruns and how they are commonly addressed; outcomes vary by lender, program, and project.

Common cause	Common response
Unforeseen structural or hidden condition	Draw on contingency, request change order, or reduce scope elsewhere
Material cost increases	Absorb through contingency or borrower funds, or substitute materials
Contractor scheduling delay	Revised schedule; costs generally remain the contractor's and borrower's responsibility
Scope expansion requested by borrower	Change order with lender review and possible borrower contribution
Permit or code-driven changes	Change order reflecting the code-required scope adjustment

> Renovation loans generally do not provide additional financing beyond the approved amount. Plan for a contingency and confirm the specific program's overrun policy in advance.

23

How do change orders work during a renovation project?

A change order is generally a written document that modifies the original scope of work, cost, or timeline agreed to between the homeowner and the contractor, and most renovation loan programs expect any material change to the approved scope to go through this kind of documented process rather than an informal agreement.

Because a lender's approved loan amount and draw schedule are tied to the original scope and budget, a change order that increases cost or alters the project materially commonly requires lender review and approval before the additional work proceeds or is funded. Some change orders can also affect how an appraiser evaluates the completed value of the property, particularly where the change adds or removes a significant scope item.

If a contingency reserve exists, it is often the first source used to fund a change order; once that reserve is exhausted, additional borrower contribution is commonly required to proceed with the added work. Keeping change orders documented in writing, with clear cost and timeline impact, generally makes it easier for both the lender and the borrower to track how the project has evolved from the original approved scope.

Borrowers considering a scope change mid-project should raise it with both the contractor and the lender or servicer as early as possible, since the ability to accommodate a change can depend on the stage of construction, remaining contingency, and remaining loan proceeds.

24

How does a renovation loan compare with a HELOC for funding a project?

A renovation loan and a home equity line of credit, or HELOC, are both used to fund home improvement projects, but they are structured differently and suit different situations. A HELOC generally draws against existing equity in the home based on its current value, while many renovation loan programs can be based on the property's estimated completed, or as-improved, value, which may support a larger amount for a well-defined project.

A HELOC is typically a separate line behind an existing first mortgage, while some renovation loans combine the purchase or refinance of the home with the renovation financing into a single first mortgage. A HELOC commonly carries a variable interest rate, while renovation loan terms vary by program and lender.

Renovation loan programs, particularly those with a consultant or draw-inspection requirement, generally involve more oversight of the contractor, scope, and draws than a HELOC, which typically gives the borrower discretion over how and when funds are used. A HELOC can also be used for non-renovation purposes, while renovation-specific financing is generally restricted to the approved project scope.

Neither option is inherently better; the right choice depends on existing equity, whether the home is being purchased or already owned, the size and definition of the project, and how much oversight and structure the borrower wants. A licensed advisor can help compare the two in the context of a specific scenario.

General comparison between a renovation loan and a HELOC; specific terms vary by lender, program, and borrower.

Consideration	Renovation loan	HELOC
Basis for amount available	Often based on estimated completed value	Based on current appraised value and existing equity
Relationship to first mortgage	Often combined into a single first mortgage	Typically a separate lien behind the first mortgage
Rate structure	Varies by program	Commonly variable
Draw flexibility	Generally tied to approved scope and milestones	Generally flexible, drawn at borrower discretion
Usable for a purchase	Some programs combine purchase and renovation	Not typically used to fund a purchase
Appraisal approach	May reflect completed value for eligible programs	Reflects current value only
Contractor oversight	Often includes consultant or draw inspections	Generally no project oversight by the lender
Closing costs	Vary by program and loan size	Vary by lender and product

25

How does a renovation loan compare with a cash-out refinance?

A cash-out refinance replaces an existing mortgage with a new, larger loan and provides the difference to the borrower as a lump sum, which can then be used for renovation or any other purpose the borrower chooses. A renovation loan, by contrast, is generally tied specifically to a defined project and disbursed through a draw process rather than as an upfront lump sum.

Because a cash-out refinance is typically based on the property's current value, the amount available depends on existing equity, while some renovation loan programs can be based on the property's estimated completed value, which may support financing for a larger project relative to current equity. A cash-out refinance gives the borrower full control over how the funds are ultimately spent, while renovation loan proceeds are generally restricted to the approved scope of work.

Both options generally involve replacing or restructuring the existing mortgage and resetting the loan term, and closing costs apply to both, though the amounts and structures vary by program and lender. A cash-out refinance does not typically involve contractor oversight or draw inspections, while many renovation loan programs do.

Project size and definition often influence which structure fits better: a well-defined, larger project may be better supported by completed-value renovation financing, while a borrower who wants flexibility and does not need a highly defined scope may prefer the lump-sum nature of a cash-out refinance.

General comparison between a renovation loan and a cash-out refinance; specific terms vary by lender, program, and borrower.

Consideration	Renovation loan	Cash-out refinance
Replaces current mortgage	Often yes, combined with renovation financing	Yes, always replaces the existing first mortgage
Disbursement	Draws tied to project milestones	Lump sum at closing
Contractor oversight	Often required through inspections or a consultant	Generally none
Value basis	May reflect estimated completed value	Based on current appraised value
Available amount	Tied to project scope and completed value	Tied to existing equity and program limits
Closing costs	Vary by program	Apply to the full new loan amount
Term reset	Generally yes	Generally yes
Best suited for	Larger, clearly defined projects	Flexible-use funds or less defined scope

26

How does a renovation loan compare with a construction loan?

A renovation loan is generally used to improve an existing structure, while a construction loan is generally used to build a home from the ground up on a vacant lot or after a full teardown. This distinction affects nearly every other aspect of how the two products are structured, including scope, budget, draw process, and required inspections.

Because a renovation project starts with an existing structure, the scope is typically narrower and more bounded than ground-up construction, though large renovation or major-remodel projects can approach the complexity of new construction in some cases. Budgets for renovation projects are generally built around the specific scope of improvements, while construction loan budgets are built around the full cost of building a home.

Both renovation and construction loans commonly use a draw process tied to completed milestones, verified by inspections, though the specific milestones and inspection cadence differ based on whether the work involves an existing structure or entirely new construction. Permitting is required for both, though the scope and complexity of permits for ground-up construction is generally more extensive.

Occupancy during the project is a meaningful difference: some renovation projects allow the homeowner to remain in the home, while construction loans by definition involve a period with no habitable structure at all. Timelines and processes for both vary significantly by project, lender, and jurisdiction, and neither should be assumed to follow a fixed schedule.

General comparison between a renovation loan and a construction loan; specific terms vary by lender, program, and project.

Consideration	Renovation loan	Construction loan
Starting point	Existing structure	Vacant lot or full teardown
Scope	Defined improvements to an existing home	Full ground-up construction
Budget basis	Cost of the specific renovation scope	Full cost to build the home
Draw process	Tied to renovation milestones	Tied to construction-phase milestones
Appraisal	May reflect completed renovation value	Based on plans and completed construction value
Permits	Scope-specific permits	Comprehensive building permits
Occupancy during project	Sometimes possible	Not possible; no structure exists or is habitable
Timeline	Varies by project	Varies by project and is often longer

27

What does the renovation loan process generally look like from start to finish?

The renovation loan process generally combines standard mortgage steps, such as application, appraisal, underwriting, and closing, with renovation-specific steps, such as scope development, contractor selection, and a post-closing draw and inspection process. The exact order and structure vary by lender and program, but the general shape is broadly similar across renovation financing options.

Early planning steps, including defining the project and choosing the financing path that fits it, generally happen before a formal application is submitted, since the scope and estimated cost typically inform how much financing is needed and which program is appropriate. Contractor selection and preparing detailed bids are commonly required before or shortly after application, since underwriting and the appraisal both depend on having a defined scope of work.

Once the loan closes, funds for the renovation are generally placed into an escrow or holdback account rather than disbursed all at once, and released through a draw process as work is completed and verified through inspections. A final inspection and confirmation that all scope items are complete generally precedes release of any remaining funds.

Because each step depends on the ones before it, delays at any stage — a slow appraisal, a permit delay, or a contractor scheduling issue — can affect the overall pace of the process. No specific timeline applies universally, since actual pacing depends on the lender, program, project complexity, and local conditions.

General renovation loan process

- Define the project and desired scope of work
- Select a financing path suited to the project size and goals
- Review the borrower's overall scenario with a licensed advisor
- Select a qualified contractor
- Prepare a detailed scope of work and contractor bids
- Estimate the property's likely completed value
- Submit the mortgage application
- Complete the appraisal, which may consider completed value for eligible programs
- Proceed through underwriting review
- Close the loan
- Establish the renovation escrow or holdback account
- Begin construction or renovation work
- Complete draws as milestones are reached, supported by inspections
- Finish all scope items under the approved project
- Complete the final inspection
- Release any remaining escrowed funds

28

What documents are commonly requested for a renovation loan file?

Renovation loan files generally combine the documentation expected for a standard mortgage with additional items specific to the renovation scope, contractor, and project timeline. The checklist below is a general orientation; the specific documents actually requested vary by lender, program, and the individual transaction.

Commonly requested renovation loan documents

- Purchase contract or current mortgage statement, depending on transaction type
- Contractor bid or estimate
- Detailed scope of work
- Plans or drawings where the project requires them
- Permit documentation or confirmation of permit status
- Evidence of contractor insurance and, where applicable, licensing

- Appraisal, including any completed-value analysis where applicable
- Income documentation
- Asset documentation
- Credit documentation
- Title documentation
- Homeowners association approval where applicable
- Consultant reports or feasibility documents where the program requires a consultant
- Temporary housing plan where the project affects habitability
- Project schedule from the contractor
- Contingency documentation supporting the overall budget

29

What should a homeowner confirm about a contractor before starting a renovation loan project?

Because renovation loan financing depends heavily on the contractor completing the approved scope of work, lenders and homeowners alike generally want confirmation of a contractor's qualifications, insurance, and track record before work begins. This checklist offers a general starting point; specific documentation requirements vary by lender and program.

Contractor review checklist

- Valid contractor license appropriate to the scope of work
- Current general liability and workers' compensation insurance
- References from prior renovation projects
- Completed W-9 or equivalent tax documentation
- Business entity documentation where applicable
- Written, itemized bid matching the approved scope of work
- Realistic project schedule
- Clear change-order policy
- Warranty terms for completed work
- Defined payment or draw schedule
- Disclosure of any subcontractors used on the project
- Lien waivers collected at each payment stage
- Confirmation of permit responsibility and status

30

Is there a worksheet to help plan a renovation project and financing scenario?

Planning a renovation project generally benefits from working through the numbers before committing to a specific scope, contractor, or financing structure. An interactive version of this worksheet is available on the web version of this guide, and a printable version is included in the downloadable PDF, for borrowers who prefer to work through the inputs by hand or share them with a contractor or advisor.

The worksheet is organized around a set of inputs describing the property, the project, and the borrower's finances, and a set of outputs that summarize how those inputs come together for planning purposes. Working through both sides can help surface gaps — such as a missing contingency or an unclear completed-value estimate — before an application is submitted.

Results produced by this worksheet are illustrative only and are not a pre-qualification, pre-approval, or commitment to lend. Actual loan amount, terms, and eligibility depend on a full application, underwriting review, appraisal, and the specific program and lender involved.

Worksheet inputs

- Purchase price or current property value
- Existing mortgage balance, where applicable
- Renovation budget
- Estimated soft costs
- Contingency amount
- Estimated closing costs
- Estimated completed value
- Available borrower funds
- Desired loan amount
- Estimated project period
- Rate assumption for planning purposes
- Estimated temporary housing cost, if applicable

Worksheet outputs

- Total estimated project cost
- Estimated loan amount
- Estimated as-completed loan-to-value ratio
- Estimated borrower contribution
- Contingency amount as a share of the project
- Estimated payment for planning purposes
- Projected shortfall, if any, between funds and costs
- List of documents that appear to be missing
- Financing paths that may be relevant to the scenario

> This worksheet produces illustrative estimates only. It is not an approval, pre-qualification, or commitment to lend.

Frequently asked questions

What is a renovation loan?

A renovation loan is a type of mortgage financing that combines the cost of purchasing or refinancing a home with the cost of improving it, generally disbursed through a draw process as work is completed rather than as a single lump sum. Some programs base the loan amount on the property's estimated completed value rather than its current value. Specific structures, eligibility, and requirements vary by lender, investor, and program, so reviewing options with a licensed advisor is generally a useful first step.

Can I buy a fixer-upper with a renovation loan?

Yes, renovation financing is commonly used to purchase a property that needs work, combining the purchase price and renovation costs into a single transaction under some programs. This can allow a buyer to consider properties that would not otherwise qualify for standard financing due to condition. Eligibility depends on the property, the scope of work, and the specific program guidelines. A licensed advisor can help evaluate whether a specific fixer-upper fits a renovation loan program.

Can renovation costs be included in the mortgage?

Many renovation loan programs allow the cost of eligible improvements to be included in the overall mortgage amount, rather than requiring separate financing for the renovation. The amount that can be included depends on the program, the property's estimated completed value, and underwriting review. Not every renovation cost is necessarily eligible for inclusion, and restricted or ineligible items vary by program. Reviewing the specific scope with a licensed advisor helps clarify what can be financed.

How is the completed value of a renovated home determined?

Completed value, sometimes called as-improved or after-improved value, is generally estimated by an appraiser reviewing the proposed scope of work, contractor bids, and comparable properties, rather than only the home's current condition. The methodology and how much weight is given to proposed improvements varies by appraiser and program. This estimate is not a guarantee that the property will actually be worth that amount once work is finished. Market conditions and execution quality can affect the final outcome.

Can I use my own contractor for a renovation loan project?

Many renovation loan programs allow a borrower to select their own contractor, subject to the lender's review of the contractor's licensing, insurance, and qualifications. Some programs may have additional requirements or an approved contractor list, depending on the lender or investor. Contractor vetting is generally an important step in the process, since financing and draw timing depend on the contractor completing work as scoped. Confirming contractor requirements with the lender before selecting one is generally advisable.

Can I do the renovation work myself?

Some programs allow limited owner-performed labor, though this is often more restricted than contractor-performed work and may require specific documentation, insurance, or lender approval. Materials-only reimbursement is sometimes treated differently from labor. Because unsupported claims of self-performed work can be difficult to verify or value, lenders commonly apply extra scrutiny to owner labor. Borrowers considering this route should confirm specific requirements with their lender before assuming it will be permitted.

Are permits required for renovation loan projects?

Permits are commonly required for scope items that trigger them under local code, and lenders generally expect permits to be obtained as part of the renovation process where applicable. Requirements vary significantly by county, city, and the specific scope of work, particularly in Florida where wind, flood, and coastal-construction rules can add additional review. Unpermitted work can create complications for valuation, draws, and eventual resale. Confirming permit requirements with the local building department is an important early step.

How are contractors paid under a renovation loan?

Contractors are generally paid through a draw process tied to completed milestones, verified through inspections, rather than being paid a lump sum upfront. Funds are typically held in an escrow or holdback account established at closing and released as work progresses. The specific draw schedule, number of draws, and inspection requirements vary by lender and program. Contractors should be informed of this structure before work begins, since it affects their cash flow throughout the project.

How do draws work in a renovation loan?

A draw is a partial release of renovation funds tied to a specific portion of completed work, generally verified through an inspection before funds are released. The number of draws, the milestones tied to each one, and the inspection process vary by lender and program. Draws are typically requested after a portion of work is finished, not before, which means contractors generally need to fund some work before being reimbursed. Understanding the draw schedule in advance helps both borrowers and contractors plan cash flow.

Is a contingency required for a renovation loan?

Many renovation loan programs require or strongly encourage a contingency reserve set aside for unforeseen costs, though the specific requirement, if any, and its size vary by lender and program. A contingency generally helps absorb moderate cost increases without requiring the borrower to seek additional funds or reduce the project scope. Programs that do not require a contingency may still make it available or advisable given the frequency of cost overruns in renovation projects. Confirming the specific program's approach is recommended before finalizing a budget.

What happens if renovation costs increase during the project?

If costs increase, a contingency reserve, where one exists, is generally the first resource used to absorb the additional expense. If the increase exceeds available contingency, borrowers are commonly asked to contribute additional funds or reduce the project scope, since renovation loans generally do not include an automatic mechanism for increasing the loan amount after closing. A change order is typically used to document and, where required, obtain lender approval for cost or scope changes. Planning for this possibility in advance is generally advisable.

Can I change the scope of my renovation project after the loan closes?

Scope changes are generally possible but are typically handled through a formal change order process rather than an informal agreement with the contractor. Material changes may require lender review, particularly if they affect cost, timeline, or the completed-value estimate supporting the loan. Available contingency funds are often used first to accommodate a change, with additional borrower contribution required if the contingency is insufficient. Raising a desired change early with both the contractor and lender is generally the most efficient approach.

Can I live in the home during renovation?

Whether a homeowner can remain in the property during renovation depends on the scope of work, local code, and whether the home remains habitable throughout the project. Smaller or room-specific projects may allow continued occupancy, while major structural or systems work may require temporary relocation for some or all of the project. Some programs allow a mortgage-payment reserve to help offset costs during a period of reduced habitability. Coordinating occupancy expectations with the contractor's schedule in advance is generally advisable.

Can mortgage payments be financed during construction?

Some renovation loan programs allow a payment reserve to be included in the financed amount, which can help cover a portion of the mortgage payment during a period when the home may not be fully habitable. This feature is not universal and availability depends on the specific lender and program. Where no reserve is included or available, the borrower is generally responsible for continuing to make the regular mortgage payment throughout the renovation period. Reviewing this structure with a licensed advisor before closing is recommended.

Can structural repairs be financed through a renovation loan?

Structural repairs, such as foundation or framing corrections, are commonly included among the categories of improvements eligible under renovation financing, though eligibility, documentation, and inspection requirements vary by program and lender. Structural work often requires additional review, including engineering documentation in some cases, given its impact on the property's safety and value. Confirming with a licensed advisor whether a specific structural scope is eligible under a particular program is recommended before finalizing plans.

Can cosmetic improvements be financed through a renovation loan?

Cosmetic improvements, such as flooring, paint, or fixture updates, are commonly eligible under many renovation loan programs, often bundled together with other scope items rather than financed alone. Some programs set a minimum overall project size or combine cosmetic work with more substantial improvements. Purely decorative items unrelated to the structure or its habitability may be treated differently depending on the program. Reviewing a specific scope list with a licensed advisor can clarify what is likely to be eligible.

Can I add a room to my home using a renovation loan?

Room additions are a category some renovation programs consider eligible, subject to local zoning, permitting, and the specific program's guidelines on additions. An addition can affect the completed-value estimate produced by the appraiser and may require more extensive plans and permits than smaller projects. Not every program or lender supports additions to the same extent. Confirming eligibility for a specific addition, including local zoning constraints, is an important early step.

Can I finance a pool through a renovation loan?

Pool construction or repair is eligible under some renovation programs and excluded under others, so availability depends heavily on the specific lender, program, and sometimes the property type. Where eligible, a pool is often treated as one component of a broader project rather than the sole scope item. Borrowers interested in pool financing should confirm eligibility directly with a licensed advisor before assuming it will be covered under a chosen program.

Can landscaping be financed as part of a renovation loan?

Limited landscaping tied to the overall renovation project is eligible under some programs, though landscaping as a standalone project is often treated more restrictively than structural or interior improvements. Hardscape elements connected to an addition or major exterior renovation may be more likely to be considered than purely decorative landscaping. Eligibility and limits vary by lender and program, so confirming the specific treatment of a landscaping scope is advisable.

Can appliances be financed through a renovation loan?

Appliances that are built in or integrated into the structure, such as those installed as part of a kitchen renovation, are commonly eligible under many renovation programs, while freestanding or portable appliances are more often treated as personal property and excluded. The distinction between built-in and freestanding items can affect eligibility. Reviewing a specific appliance list with a licensed advisor or the contractor's bid can help clarify which items are likely to be financeable.

Can FHA renovation financing be used for my project?

FHA offers a renovation loan program that allows eligible borrowers to combine the purchase or refinance of a home with financing for eligible improvements, subject to FHA guidelines, lender overlays, and property eligibility. Specific requirements, eligible improvement categories, and documentation vary by lender within the FHA framework. A licensed advisor can help determine whether FHA renovation financing fits a specific borrower and property, and can compare it against other renovation financing paths.

Can Conventional renovation financing be used for my project?

Conventional renovation loan programs also allow eligible borrowers to combine home purchase or refinance with financing for eligible improvements, following conventional guidelines and investor requirements rather than FHA guidelines. Eligibility, property types, and improvement categories vary by investor and lender. Conventional renovation programs and FHA renovation programs differ in several respects, so comparing them for a specific scenario with a licensed advisor is generally useful before choosing a path.

Can I renovate a second home with this type of financing?

Some renovation loan programs allow financing for a second home, though eligibility, available terms, and underwriting treatment often differ from those for a primary residence. Not every renovation program extends to second homes, and occupancy verification may be part of the review. Borrowers interested in renovating a second home should confirm eligibility with a licensed advisor and expect a somewhat more limited set of program options than for a primary residence.

Can I renovate an investment property with this type of financing?

Some renovation loan programs extend to investment properties, though eligibility, terms, and underwriting treatment commonly differ from owner-occupied transactions, and not every program offers this option. Property cash flow, occupancy status, and investor-specific requirements may factor into the review. Borrowers considering renovation financing for an investment property should confirm availability with a licensed advisor, since options are generally more limited than for a primary residence.

Can self-employed borrowers qualify for a renovation loan?

Self-employed borrowers can generally pursue renovation financing, though income documentation requirements often differ from those for W-2 employees and may include tax returns, profit-and-loss statements, or other business documentation depending on the lender and program. Underwriting approaches for self-employed income vary by lender. Reviewing specific documentation expectations with a licensed advisor before applying can help set realistic expectations for a self-employed borrower's file.

Can I refinance my existing mortgage and renovate at the same time?

Yes, some renovation loan programs are structured as a refinance that combines paying off an existing mortgage with financing for eligible improvements, based on the property's estimated completed value. This differs from a standard cash-out refinance, which is generally based on current value rather than completed value. Availability and structure vary by lender and program. A licensed advisor can help compare a renovation refinance against other refinance and equity options for a specific scenario.

Is an appraisal required for a renovation loan?

An appraisal is commonly required for renovation financing, and for programs that support completed-value financing, the appraiser may consider the proposed scope of work and contractor bids in addition to the property's current condition. Some programs may require an additional appraisal once work is finished to confirm final value. Appraisal requirements and methodology vary by lender, program, and loan amount. Confirming the specific appraisal process for a chosen program is recommended before proceeding.

Is a home inspection required for a renovation loan?

A general home inspection is not always required in the same way it might be for a standard purchase, but renovation loans commonly involve their own set of inspections tied to the project, including progress inspections, municipal inspections, and a final inspection once work is complete. Some programs also require a consultant inspection to assess feasibility before financing is approved. Requirements vary by lender, program, and project scope, so confirming which inspections apply to a specific loan is advisable.

How long does a renovation project financed this way generally take?

Renovation project timelines vary considerably based on scope, contractor availability, permitting, weather, and the specific lender's process, so no single timeframe applies universally. Larger or more complex projects generally take longer than smaller, well-defined ones. Delays at any step, including permitting or inspections, can extend the overall timeline. Borrowers should discuss realistic expectations for a specific project with their contractor and lender rather than relying on a general estimate.

What happens if the contractor stops work before the project is finished?

If a contractor stops work before completing the approved scope, the borrower and lender generally need to address the incomplete project, which can involve finding a replacement contractor, adjusting the draw schedule, or in some cases pursuing remedies under the contractor agreement. Remaining escrowed funds are typically still available for completing the work, subject to lender review. This situation underscores the importance of contractor vetting, lien waivers, and clear contract terms established before work begins.

Can I use a HELOC instead of a renovation loan?

A HELOC is one alternative to a renovation loan, drawing against existing equity based on the property's current value rather than its estimated completed value, and typically without the contractor oversight and draw-inspection process common to renovation-specific financing. A HELOC may suit smaller or more flexible-scope projects, while a renovation loan may better support a larger, well-defined project with limited existing equity. A licensed advisor can help compare the two for a specific scenario.

Can private money be used for a renovation project?

Private or hard-money financing is sometimes used for renovation projects, particularly by investors or borrowers who need flexibility or speed that traditional renovation loan programs may not offer, though this type of financing commonly carries different terms, costs, and risk considerations than traditional mortgage-based renovation financing. Availability, terms, and structure vary widely by private lender. Comparing private financing against traditional renovation loan programs with a licensed advisor can help clarify tradeoffs for a specific situation.

Can I refinance into a standard mortgage after renovation is complete?

Some renovation loan structures already result in a standard mortgage once the project is finished, while others may involve a future refinance to convert temporary or renovation-specific terms into permanent financing, depending on the program. Future refinancing is never guaranteed and depends on market conditions, property value, and the borrower's qualifications at that future time. Understanding whether a chosen renovation program already produces permanent financing, or anticipates a later refinance, is important before closing.

What documents will I need to provide for a renovation loan?

Commonly requested documents include standard mortgage items such as income, asset, and credit documentation, along with renovation-specific items such as a contractor bid, detailed scope of work, plans where required, permit documentation, and evidence of contractor insurance and licensing. Additional items, such as a consultant report or temporary housing plan, may apply depending on the program and project. The exact list varies by lender, so confirming requirements for a specific file is recommended.

How soon can renovation work begin after closing?

The timing for beginning work after closing depends on the lender's process for establishing the escrow or holdback account, obtaining required permits, and the contractor's own scheduling, so no single timeframe applies universally. Some programs may require certain steps, such as permit issuance, before work can start and be counted toward a draw. Borrowers should confirm the specific sequence and any waiting period with their lender and contractor rather than assuming work can begin immediately at closing.

What happens if unpermitted work is discovered on a property during a renovation transaction?

If unpermitted work is discovered on a property, whether from a prior owner or earlier work by the current owner, it can complicate the appraisal, underwriting, and sometimes the overall transaction, since the lender and appraiser may be unable to verify or value unpermitted scope with confidence. Resolution approaches vary and may include retroactively permitting the work where the local jurisdiction allows it, removing the unpermitted element, or adjusting how the property is valued. Addressing unpermitted work early with the local building department and the lender is generally advisable.

Can storm-hardening or wind-mitigation improvements be financed through a renovation loan?

Storm-hardening improvements, such as impact windows, reinforced garage doors, or roof strapping, are eligible under some renovation programs, reflecting the practical realities of owning property in Florida's wind and storm-exposure zones. Eligibility, documentation, and whether these improvements affect insurance costs vary by program, lender, and insurer. Borrowers interested in this scope should confirm eligibility with a licensed advisor and discuss potential insurance implications with their insurance provider separately.

Can a condo interior renovation be financed through this type of loan?

Interior renovation of a condominium unit is eligible under some renovation programs, though condo transactions generally involve additional review of the association, budget, and governing documents, and some programs limit renovation financing for condos more than for single-family homes. Association approval for interior work may also be required separately from lender approval. Confirming both condo-specific program eligibility and any association requirements is advisable before planning a condo renovation project.

Tools, related pages, and next steps

A stronger plan begins before the application. Understand the loan, prepare the funds, estimate the payment, and take the next step with greater clarity.

Calculators

- → Renovation Loan Calculator vabasso.com/calculators/renovation-loan
- → Construction Loan Calculator vabasso.com/calculators/construction-loan
- → Cash Out Refinance Calculator vabasso.com/calculators/cash-out-refinance
- → Heloc Calculator vabasso.com/calculators/heloc
- → Home Equity Loan Calculator vabasso.com/calculators/home-equity-loan
- → Mortgage Payment Calculator vabasso.com/calculators/mortgage-payment

Loan programs

- → Renovation Loans vabasso.com/loan-programs/renovation
- → Construction Loans vabasso.com/loan-programs/construction
- → Fha Loans vabasso.com/loan-programs/fha
- → Conventional Loans vabasso.com/loan-programs/conventional
- → Jumbo Loans vabasso.com/loan-programs/jumbo
- → Private Money Loans vabasso.com/loan-programs/private-money
- → Dscr Loans vabasso.com/loan-programs/dscr

Related reading

- → Construction loans explained vabasso.com/resources/article/construction-loans-explained
- → Understanding appraisals vabasso.com/resources/article/understanding-appraisals
- → How the mortgage process works vabasso.com/resources/article/how-the-mortgage-process-works
- → Mortgage Glossary vabasso.com/mortgage-glossary
- → Guide library vabasso.com/resources/guides

Next steps

- → Model a renovation project vabasso.com/calculators/renovation-loan
- → Compare construction financing vabasso.com/calculators/construction-loan
- → Explore my mortgage pathway vabasso.com/mortgage-pathway
- → Get pre-qualified vabasso.com/get-pre-qualified
- → Apply now vabasso.com/apply
- → Mortgage Readiness Assessment vabasso.com/pre-qualify

Sources

Program rules referenced in this guide are maintained by the applicable agency, investor, and lender. Confirm current requirements with your licensed mortgage advisor and official program guidance before making decisions. Editorial review dated 2026-07-31.

Consumer Financial Protection Bureau — Mortgage key terms
U.S. Department of Housing and Urban Development — 203(k) rehabilitation mortgage insurance
Federal Trade Commission — Hiring a contractor
Florida Department of Business and Professional Regulation — Verify a license

Disclosure

Vabasso Mortgage · NMLS #2864025 · Equal Housing Lender · https://vabasso.com · Version 1.0 · Last reviewed 2026-07-31