



What Are My Options for Home Improvement Loans?

Many people buy homes advertised as needing some “TLC” or tender loving care. They get these homes for a bargain and then plan to fix them up afterwards. Lots of others buy investment properties hoping to quickly renovate them and resell or rent them out. If you fall into one of these categories, or if your own home is just needs some updates and repairs, you may be wondering how and where you can get the financing to do the job. The good news is that when it comes to home improvement loans, you have lots of options.

Unsecured Loan

Your first, but perhaps least desirable option, is to apply for a traditional loan from a bank or credit union. This is generally referred to as an unsecured loan, because it does not use your home or other property as collateral. Because the lending institution does not have something to repossess and sell to cover losses if you default, you will be charged higher interest rates than you would with a secured loan. Neither will banks and credit unions lend you as much with an unsecured loan as you could get with some type of mortgage loan. Still, this could be a good choice if you just bought the property and have little or no equity in it or if you only have a small amount of work to do.

Home Equity/HELOC Loans

If you do have some equity built up in your property, you may score a much better deal by choosing a home equity loan or a home equity line of credit (HELOC) to finance your home improvements. A home equity is basically like a second mortgage, an additional loan using your property as collateral. This is usually a fixed rate loan, whereas a HELOC generally comes with an adjustable interest rate. A HELOC works a lot like a checking account where you can pull out funds as needed instead of getting one lump sum. The interest rates on both of these types of loans will definitely be lower than the rate you would get on an unsecured loan. Plus any interest paid on these loans is tax deductible.

Cash-out Refinance

Another popular home improvement loan choice is the cash-out refinance. This is when you create a new mortgage loan that completely pays off your first mortgage plus it is large enough to allow you to pull out some extra cash for your home improvement project. These loans will also have lower rates than unsecured and possibly even lower rates than home equity loans. You can pull out more money with a cash-out refinance, so it is a good choice if you have a big remodel on your plate.

VA/FHA Loans

There are also various home improvement loans offered through government agencies. Actually these loans are simply secured through bureaus like the Federal Housing Authority, allowing you to get easier approval for a loan. Under the Department of Housing and Urban Development’s (HUD) Title I program, if you meet certain requirements, you can get up to \$25,000 for improvements for a single-family home and up to \$60,000 for a multi-family dwelling. If you are interested in these government-backed loans, contact your local HUD or



FHA office for a list of requirements and approved lenders.

If it is time to make some changes around your house, don't let a lack of funding stop you. Consider all the options listed above and find one that best suits your needs.