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Funding Options for Home Improvement Loans

Home improvement is a very popular past time these days. With all the home improvement and home “flipping” television shows, many people have realized the great value they can add to their homes with just a few upgrades. Whether you are looking to turn your home into a dream house or just make some needed repairs, the first thing you’ll have to do is to secure some funding for your project.

There are several options to choose from when it comes to taking out home improvement loans. The easiest and safest way to do so are borrowing loans that use your current home as collateral. This means less risk to your lender and better interest rates for you.

A very common choice for home improvement loans is the home equity mortgage loan. This type of loan is based on the equity you currently have built up in your home. You can borrow up to a certain percentage of that equity to fund your projects. Home equity mortgages are great because you can obtain one relatively quickly, sometimes even within a matter of days. Based on good credit, you’ll also be able to get a low interest rate on this type of program. The best part, however, is that the interest you pay on a home improvement loan will be tax deductible, netting you great savings.

Another option is to apply for a Home Equity Line of Credit, also known as a HELOC. This is very similar to a home equity mortgage, except that you take out funds when you need them, as you would do with a checking account. You will decide with your lender how much of your equity you want to be able to use, and then within a certain time frame you can pull out cash from your equity line as necessary. This type of loan also usually provides low rates and the interest is tax deductible as well. You should find out if there are minimum withdrawal requirements or penalties.

You could also try a Cash-Out Refinance loan to finance your home improvement plans. This is a loan that is big enough to completely pay off your first mortgage plus some. At the loan’s closing you take home the extra cash. You still have to repay that money, of course, but you’ll do it in a monthly mortgage payment again. This option is appealing to consumers because they can sometimes borrow up 125% of their home’s value and get the most cash for projects. The more money you borrow though, the greater risk you’ll be to your lender and the higher the interest rate you’ll have to pay.

If you don’t want to or can’t borrow funds against your home, you can apply for an unsecured loan. This is a normal loan with a bank or credit union. The drawbacks to these home improvement loans, however, are that you must have good credit to qualify and you may not get as great of an interest rate because you do not have the same substantial collateral to lower the lender’s risk. Because of higher risk, you may not be able to borrow as much with an unsecured loan as your could with some sort of home equity loan.

When you consider a home loan for improvement of your dwelling, explore your different options. Home improvement projects can be a great investment with nice returns. Just make sure you do the necessary research to procure the best financing option for you.