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Finding Home Improvement Loan Funding

Media reports during the past few months have everyone scared about the state of the mortgage market. It may seem like getting any sort of home loan is the last thing you should or even could do right now, with the current credit crunch strangling borrowers out of the market.

Things may not actually be as bad they seem though. A recent survey by online brokerage ShareBuilder reported that even with all the messages of doom and gloom for the housing market, 67 percent of homeowners were “just as confident” in their ability to keep up with their mortgages payments now as they were during the housing boom. What’s more, almost a third of the survey respondents even planned to add to their mortgage load by spending money on home improvement. Home repairs, remodels, and improvements add value to your home and actually increase your equity, making them a great investment. If you have been thinking about renovating or improving your house, now is as good a time as any to do so; you just have to be smart about your funding.

Your Options
If you have equity saved up in your home, the best way to finance your home improvement project is generally to use either a home equity loan or a refinance loan.

Home equity loans and home equity lines of credit (HELOC) are similar mortgages that use the equity you’ve built up in your home to give you cash for your home improvements. Lenders will let you borrow up to a certain amount of money based on your equity in the home. Your equity is calculated by subtracting the balance of your original mortgage from the value of the home.

The difference between home equity loans and HELOCs is that the loans are generally repaid in fixed-rate payments after you receive a lump sum of money at the outset. HELOCs however, work more like a checking account, allowing you to draw money out as needed for a certain amount of time. The repayment plan typically includes an adjustable interest rate. While the current market conditions have made getting home equity loans and HELOCs more difficult, they are still out there. Just try to keep your loan-to-value or LTV ratio as low as possible.

You could also try getting a cash-out refinance loan to finance your home improvements. In this scenario, you would take out a new mortgage that would completely pay off your original mortgage and borrow a little more to cover your home projects. These loans are also computed on the basis of your home equity, so you do have to have some equity saved up. A cash-out refinance is probably best if you have a large scale improvement venture in mind.

All of these options are better than simply taking out an unsecured, or traditional bank loan. The loans that use your home as collateral allow you deduct the mortgage interest you pay from your tax returns. Plus the interest rates on these loans are usually much lower than unsecured loans.

If your home is in need of improvement, you don't have to put off the project until the housing market has fully recovered. Shop around and you'll find there are plenty of lenders and loans still out there to help you add value to your home!