Remodeling with Refinancing

Remodeling a home can be an exciting experience for homeowners, but it can also be a costly one. The larger the project, the more expensive it tends to be, and for many homeowners the upfront cost of remodeling can be too much. Fortunately, there are refinancing options that allow homeowners to complete a renovation by dividing up the cost into monthly payments that they can afford. Before committing to refinancing for a remodeling project, however, homeowners should consider a few important tips.

Set a Budget

Determine how much you can actually afford in monthly payments. Refinancing provides homeowners with the opportunity to spread out the cost of remodeling in installments, but these installments still need to be affordable. Review your budget, and decide how much can go to the project each month. Can you only afford $250 per month? Be sure to budget that and find a refinancing package that works. Lenders offer a range of financing options for homeowners looking to complete a renovation project; the key is really in determining how much you can reasonably budget each month.

Know Your Credit Score

Any financing – or refinancing – will start with a look at your credit score. Savvy homeowners keep an eye on their credit scores to make sure that the score falls within a good range. Poor credit scores lead to higher interest rates, and higher interest rates lead to higher monthly payments. If your credit score is currently lower than you would like, there are a few ways to raise it, although this will take a few months. Check all of your bills, and make sure that you make the payments on time. Pay off as much debt as you can, to ensure that this does not count against you when you apply for refinancing. The refinancing represents further debt to the lender, and the less debt you have (i.e., credit card payments, car payments, etc.) the more comfortable the lender will be with providing the refinancing at a lower interest payment.

Consider Your Refinancing Options

The two primary options for refinancing (for the purposes of remodeling) are home equity loans and home equity lines of credit. It is important to know the different to ensure that you make the best decision. A home equity loan uses the value of the home against the new loan. Homeowners who have owned their homes for a number of years, and thus have significant equity in their homes, are good candidates for a home equity loan. A home equity line of credit provides a determined amount of money, at an adjustable interest rate, that renews itself as it is paid off. In other words, a homeowner might receive a $10,000 line of credit. The homeowner then uses $5,000 to complete home renovations. After the $5,000 is paid off, the homeowner once again has the full $10,000 to use. (The home equity line of credit functions much like a credit card but with an adjustable rate.)