

# How to Pay for Your Home Renovation



Improvements can be pricey, but don't allow being unsure of how to pay for it keep you from renovating. Here are a few ideas to cover the costs of updating your home:

**Savings.** Many people dip into their savings accounts to pay for their home renovations, particularly if they're undergoing a minor update. If you don't want to go into debt renovating your home, set a date you'd like to start your renovation and save whatever you can until then, including any windfalls.

**Retirement savings.** Tapping into your 401(k) to pay for a home renovation may be an option for some homeowners. Just be aware of any possible stipulations or penalties involved. You may be able to withdraw from your 401(k) if you pay it back within a specific time frame; however, if you don't pay it back on time and you're under 59 ½ years of age, you'll pay a **10%** penalty and your withdrawal will be subject to regular income tax. Also, if you lose your job, you'll be on the hook for the full amount within 30 to 60 days, depending on the guidelines of your plan.\*

**Home equity line of credit (HELOC).** If you have equity in your home, a home equity line of credit allows you to borrow a portion of the total equity amount. This is often a less expensive way to borrow money, and provides a maximum amount of credit that can be used over a period of time. Instead of making payments on the entire amount, you'll make payments on the amount you've borrowed, similar to a credit card. A line of credit is ideal when you're not sure what the total cost of the project is, or if you anticipate that your borrowing needs may vary.

**Home equity loan.** These loans allow you to borrow against the value of your home. A home equity loan is different than a HELOC in that you borrow one lump sum and the payment is amortized over the terms of the loan, if you qualify. However, there are risks involved, such as the possibility of losing your home if you can't make your payments.

**Personal loan.** If you know how much your renovation will cost, a personal loan will give you a lump sum of money to use, which you'll repay over an agreed-upon period of time.

**Credit cards.** If the project is small-scale or DIY, you may consider using your credit cards to pay for it. This method gives you an added benefit of accumulating points and rewards quickly. Additionally, your credit score may get a boost when the amount is paid back in a timely and responsible way.

\*Source: ImprovementCenter.com

