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How to Use a Personal Loan to Increase Your Home's Value

December 28, 2015 6 MIN READ

Written by

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(<https://www.gobankingrates.com/author/catalford/>)

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Homeowners typically can expect their homes to appreciate over time. The rate at which a home's value rises depends on some factors that cannot be changed, including its location.

However, you can give your home's value a boost by improving and upgrading it. Taking out a [personal loan \(/loans/personal/10-reasons-get-personal-loan-before-2016/\)](/loans/personal/10-reasons-get-personal-loan-before-2016/) can give you the funds to make these renovations.

See: [10 Best Money Tips From Warren Buffett of All Time \(/net-worth/business-people/10-best-money-tips-warren-buffett-all-time/\)](/net-worth/business-people/10-best-money-tips-warren-buffett-all-time/)

Why a Personal Loan Can Be a Good Option

Home upgrades can be expensive. As you renovate, construction might unearth additional problems that require repairs. In fact, 41 percent of remodels go over budget, according to a 2013 survey by Houzz, a home remodeling and design website.

Although cash might be the best way to pay for upgrades — because there are no associated interest costs — most people do not have thousands of dollars in excess cash in their bank

accounts. A [personal loan \(/loans/personal/9-tricky-money-problems-can-solve-personal-loan/\)](#) might be a good option for those who need funds to upgrade their home, whether they want to bring it up to code, sell it quickly or simply improve their living quarters.

Some experts believe there are better options than a personal loan. Matt Carbray, a partner at [Ridgeline Financial Partners \(http://www.ridgelinefp.com/Our-Team.4.htm\)](#) in Avon, Conn., believes a [home equity line of credit \(/loans/home-equity/home-equity-line-credit/\)](#), or HELOC, is often a better option for borrowing. "A personal loan is undeniably going to be at a higher interest rate than a HELOC," he said.

On the other hand, other experts believe personal loans can be a good option for some consumers. Brendan Coughlin, the president of consumer lending at [Citizens Bank \(https://www.citizensbank.com/\)](#), said personal loans can be a great option for some people, such as homeowners with strong credit and income but not much equity in their homes.

"A personal loan can be a good solution, as they can potentially add value to their home at a more affordable rate than putting it on a credit card," he said. "A personal loan can also be helpful to homeowners that do have equity in their home but do not want to draw down that equity by putting a lien on their house."

How to Increase Your Home's Value Using a Personal Loan

Renovating your home can quickly increase its value. Sissy Lappin, a real estate expert and founder of home listing site [ListingDoor](http://listingdoor.com/) (<http://listingdoor.com/>), said spending between \$5,000 and \$10,000 “to bring your home up to snuff” can get you an additional \$25,000 to \$50,000 in the sales price and can also lead to a [faster home sale](/investing/real-estate/13-tips-sell-house-bigger-profit/) (</investing/real-estate/13-tips-sell-house-bigger-profit/>).

Many people start with updating the kitchen, the heart of the home. The kitchen is often the first place potential homebuyers notice when looking at a house. Buyers know that kitchen renovations take significant time, money and effort.

Many buyers gravitate toward homes that already have an updated kitchen. According to a 2013 Houzz survey, the average kitchen remodel costs \$28,030. Another way to increase your home's value — especially if you are in an older home — is to update utilities-related features such as electricity and plumbing.

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[Paula Pant](http://affordanything.com/) (<http://affordanything.com/>) is an award-winning blogger, licensed real estate agent and real estate investor who owns seven rental units in the Atlanta area. She said potential buyers will be leery of buying a home if they think the electrical panel or HVAC unit will need to be replaced in a few years.

“In fact, many buyers will pay a premium for the peace of mind that comes from knowing they won’t need to deal with these issues,” Pant said. “And don’t think for a moment that your buyers won’t notice.” She added that even first-time homebuyers will get a home inspection. “That’s when all your flaws are laid bare,” she said.

It also helps to make your home more energy efficient by updating appliances and windows. This will help to lower your energy costs and energy footprint whether you stay in your home or want to market it to potential buyers.

[Related: 11 Expensive Home-Remodeling Mistakes to Avoid \(/investing/real-estate/11-expensive-home-remodeling-mistakes-avoid/\)](#)

Other Ways a Personal Loan Can Help With Homeownership

You can also use a personal loan to help pay for the cost to refinance your home. That is what [Tammy Bauer](http://www.because789.com/about-because-7-8-9/) (<http://www.because789.com/about-because-7-8-9/>) did when she refinanced a property in 2009.

Bauer — a real estate investor and financial strategist in Edmonton, Alberta — said that when interest rates went down in 2009, she refinanced her mortgage, cutting her monthly payment from \$1,490 a month to \$1,110 per month.

"I was locked into a five-year mortgage, and I was unable to refinance until 2013 without being penalized," she said. "I was penalized \$8,500 for refinancing early, and I used a personal loan to pay off the \$8,500. The interest on the personal loan was \$50 per month."

Bauer said she used the \$380 per month she was saving and paid off the loan and interest within two years. "I saved \$6,800 by refinancing early and taking a loan to pay the penalty," she said.

You can also use a personal loan to help buy a home. [Ravi Ramnarain](http://raviramcpa.com/) (<http://raviramcpa.com/>), a certified public accountant in Davie, Fla., said you can use this type of loan to cover the cost of a down payment. He said the loan could function as a "bridge" that would allow a homebuyer to keep several months' worth of mortgage and escrow payments in his savings account.

"This 'savings cushion' would look good in the eyes of a lender, provided that the borrower's overall debt-to-income ratio and credit score are both within acceptable limits," Ramnarain said.

[Read: 8 Simple Ways to Stretch a Dollar \(/saving-money/budgeting/8-simple-ways-stretch-dollar/\)](#)

Elizabeth Colegrove (<http://www.reluctantlandlord.net/about-us-2/>), an entrepreneurship blogger and owner of seven houses, said a bridge loan "is a great concept." But she added that there are a few things that need to be considered:

"Since this money will come from a loan source, it will be added against your debt-to-equity ratio when qualifying for the mortgage," she said. "If you are on the borderline of qualifying, this loan could be disqualified and the reason you lose financing for your house. As these loans tend to be more expensive due to being unsecured line[s] of credit, they are the first loan[s] you would want to pay off."

Why Research Is Important

Ultimately, it is important to do research before taking out a personal loan. According to [Rachel Hernandez](http://www.amazon.com/Rachel-Hernandez/e/B007HH5PJK) (<http://www.amazon.com/Rachel-Hernandez/e/B007HH5PJK>), a

real estate investor and author of four books on real estate investing, the improvements you make to increase the value of your home should be reasonable.

"Don't overextend yourself," she said. "Only use personal loans for smaller projects, not bigger ones."

Echoing this sentiment, Pant said, "Don't over-improve. Nobody's going to pay a premium because you upsold yourself into Italian ogee beveled edges or a carrera marble backsplash."

Again, this is where research or speaking with a qualified realtor can help you improve your home in a way that will not only be beneficial to you but to future buyers as well.

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