

How Credit Score Impacts Home Improvement Financing Options

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How Credit Score Impacts Home Improvement Financing Options



Emergency repairs are the unfortunate reality of owning a home. While some home improvements can wait, there are others that demand immediate attention. If your house requires a big repair on a short timeline, financing the project using your savings can be difficult. In fact, only [40 percent](#) of Americans can afford to pay for an unexpected expense of \$1,000 by using savings. The good news? You have many [financing options](#)! From credit cards and personal loans to home equity lines of credit and contractor loans, finding the best way of financing your home comes down to what you need from a loan.

Deciding which financing option is right for you will largely depend on your credit score. This can help you know what financing you will qualify for and at what rate. From there, you'll be able to review the terms to decide which loan is right for you.

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What is a Credit Score?

A major factor in determining the terms and conditions of your loan, your lender will use your credit score to establish your credit risk. You can think of your credit score as a summary of your credit history, from outstanding balance to new credit account applications to past loans and credit card

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usage. In some cases, having a bad credit score can even keep you from getting approved for a loan at all.

How Credit Score Impacts Credit Card APR

Credit cards can be a savvy option for financing your home improvement project, as long as you choose one with repayment terms which you can realistically meet. With so many different cards available from a number of lenders, you'll want to weigh the pros and cons of different cards. Here are a few to consider:

Annual Percentage Rate (APR): Expressed as a yearly interest rate, APR is a measure of the total cost of credit. You can think of it as your loan's interest rate, with any additional fees and loan costs rolled in.

If you have good credit, you might be eligible for a 0% APR credit card. Qualifying for a 0% APR card could reduce the total cost of your debt or eliminate your interest altogether. With this type of card, you would pay 0% interest on purchases during the initial promotional period. After that, the interest rate will jump considerably and you'll likely owe interest on purchases from the day you made them, not from the day the promotional period ends. With this in mind, you should only get a 0% APR credit card if you have a plan for paying off the balance before the promotional rate expires. Otherwise it could turn into a costly way to finance your home improvement.

As a general rule of thumb, a higher credit score means eligibility for a lower APR on credit cards. A solid APR for credit cards is 14 percent and below, but an average APR for credit cards falls around 19 percent.

Grace Period: The amount of time you have to repay your debt until charges begin to incur. If you'll need time to begin repaying the loan, look for a card with a grace period to avoid accumulating interest from the date of your first purchase.

Terms and Conditions: Carefully read through the terms and conditions of your credit card before confirming, as clauses could include hidden fees, mandatory arbitration or repossession clauses.

Rewards Programs and Offers: Some credit cards feature rewards programs, offering points that you can use toward travel, hotels or gift certificates. Consider these added perks as you browse credit card options.

As opposed to those with established and good credit, being issued a credit card is often a different experience for people with bad or no credit. In fact, if you have a bad credit score, or none at all, you might not qualify for a standard credit card. While a secured credit card could be an option for you in this case, it probably won't be worth your time as you can only spend the limit you put down.



Estimated APR by credit score

Here's what [WalletHub](#) suggests an ideal credit card APR generally looks like for different ranges of credit scores.

Credit Score	Credit Rating Category	Ideal Credit Card APR
700-749	Good	19%
640-699	Fair/Limited	20%
300-639	Bad	22%

Your Credit Score and Personal Loans

Personal loans are facilitated through a bank, online lender or credit union. According to the [Federal Reserve](#), the federal interest rate is set at 10.7 percent as of December 2019. Lenders will base the interest rate they offer you on the federal rate, while also taking into account your credit score and possibly other factors such as your debt to income ratio.

After researching different personal loan options for your credit score, you can compare rates, apply for the loan and begin the processing for financing your home repairs.

If you have good credit, your APR will be on the lower end of the advertised range, and if you have fair or limited credit your APR will be on the higher end. Make sure that when you get lenders to quote you rates they're doing a soft credit pull, as this shouldn't impact your credit.

Personal loans for bad credit

If you have bad credit, you might have difficulty getting approved for a personal loan. There are several options you can try in this case:

- **Online lenders: Some online lenders are able to be more lenient when it comes to loan approvals than traditional banks.**
- **Credit unions:** Credit unions could have products for their members that are tailored to serve those with bad credit. If you are a member of a credit union, inquire about their financial products. If you are not a member, compare local credit unions to see if any have products that could work for your credit score.
- **Second chance loans:** Some lenders offer products specifically for those with bad credit. You can check out [second chance loans](#) that can help you get some money now and build your credit score for the future.

Your Credit Score Home Equity Loans or Lines of Credit

If you have a considerable amount of equity in your home, you have the option of borrowing against it for home repairs and other expenses. However, keep in mind that if you have low equity or bad credit, this method for financing your renovation project probably won't be an option for you. You must have a certain percentage of your home paid off to be eligible for either financing option—meaning the total value of your property should be less than the amount you owe. Here's what you should know about using a home equity loan or line of credit:

Home equity loan

This type of loan is secured using your home, and functions as a second mortgage. You'll receive your loan in one lump sum and make monthly payments to repay the debt. This type of loan can be beneficial for those with a large home improvement project with high upfront costs. The amount of time you'll spend repaying the loan and the annual interest depends on your lender and credit history.

Home equity line of credit

Also known as a HELOC, a home equity line of credit is revolving debt, secured against the equity built up on your home. You'll be able to borrow against the amount you've already paid toward owning your home and the bank will typically provide you with a card, that looks like a debit or credit card, which you can use to make purchases. Home Equity Lines of Credit are subject to either a fixed or variable interest rate, so make sure you clarify which you're agreeing to with your lender. This method of home financing does have a limit, though you can withdraw as much as desired up to that limit.

Contractor Loans for Low Credit Scores

Commonly done through a third party lender, your home contractor could offer you a short term loan. The terms of your loan depends on the agreement with your contractor. A contractor loan could be a great option if you have bad or no credit, as your contractor might be more flexible than a traditional lender. Because your contractor is now your lender and also facilitating the repair, put extra care into checking their credentials. Get references, ask for reviews and [interview them thoroughly](#) before beginning.

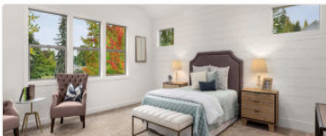
Additionally, consider comparing a contractor loan with another type of loan to make sure you're getting a fair deal. Calculate the total cost of each loan over the projected repayment period, as taking out a different kind of loan could end up saving you money if you're eligible.



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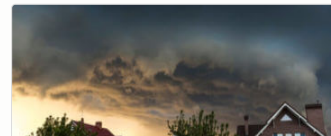
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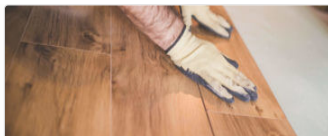
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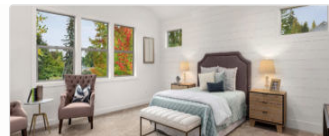
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