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HOW TO PAY FOR EMERGENCY HOME REPAIRS

By: Lisa Melillo - May 12, 2021

Emergency home repairs are more common than you might guess, which is why emergency home repair loans are readily available to help ease the burden.

There are a variety of home repair loans that you can apply for today to get your home back in good shape.

How much do common home repairs cost?
HomeAdvisor's most recent State of Home Spending Report found that homeowners completing emergency repairs spent an average of $1,640 in 2020, a $124 increase over 2019.

Discover recommends budgeting 1 percent of your home's value for home maintenance each year. That would be approximately $3,000 annually for a $300,000 home.

In addition, a study from Porch found that the national average cost of maintaining a home — including routine tasks as well as repairs — is a little over $16,000.

Costs will also fluctuate year to year depending on the work needed and the availability of labor and materials. You could discover your house needs a new roof, or return home one day to find a burst pipe has caused thousands of dollars in damage. The key takeaway is this: Just because you didn't spend a lot on home repairs one year doesn't mean you shouldn't anticipate more the next year.

Ways to finance an emergency home repair

It's easy to budget for routine home maintenance and planned repairs, but when emergency home repair needs come up, do you have a plan in place to cover the costs?

Check out these options that allow financing for home repairs relatively quickly to see which one makes the most sense for your situation.

Homeowners insurance claim

If the repair is truly an emergency, you might not have time to wait for a homeowners insurance claim to be processed and paid out. However, if you do opt to pursue filing a claim, be sure the repair is actually covered by your policy.

"Oftentimes, major catastrophes may not be covered," says Michael Foguth, founder and president of Michigan-based Foguth Financial Group. "You should also consider your policy's deductible before choosing this option."

if you don't have the money on hand to pay a steep deductible, a homeowners insurance claim might not be right for you. In addition, if the cost of the repair is less than the deductible you're required to pay under your policy, this option may not make sense.

Personal loan

For emergency home repairs with a small to medium price tag, a personal loan makes a lot of sense for house repairs. They're easy to come by and are offered by most banks, credit unions or online lenders. You can typically get approved quickly and have funds available the next day.

"Applying for a personal loan is less complicated than applying for a mortgage or home equity loan; you just need to show proof of income and employment," Cruz says. "As long as you have a good job history and can pay back the loan, you should be able to qualify."

If you take out a personal loan to cover an emergency home repair, you'll want to make sure your credit score is in good shape, or you may have to pay a higher interest rate than you would with other types of home repair loans. If you're someone who has trouble paying loans back on time, think carefully before proceeding with this option.

Home improvement loan

You can use a home improvement loan, which is a type of personal loan, to cover the cost of anything from upgrading and remodeling a property to paying for emergency fixes.

"Home repair loans are typically unsecured, so you won't need to use your property's equity as collateral to qualify," says Juan Carlos Cruz, founder of New York-based Britewater Financial Group. "Once you're approved, lenders will deposit the money in a few business days. These loans are typically calculated on a shorter repayment schedule, with terms ranging from 24 to 60 months."

The amount of funding you're able to qualify for will depend on your credit profile. Because home improvement loans have fixed interest rates, your monthly payments will remain the same throughout the life of the loan.

Home equity loan

Home equity loans are commonly used as house repair loans since they are secured against the equity you've built in your home and are available in larger sums than personal loans. This type of loan is issued in a lump sum that is equal to a portion of your home equity and is best for major repairs that will cost $10,000 to $35,000 and up, as most financial institutions won't offer a home equity loan for less than this amount.

"With this option, borrowers get a lower fixed interest rate because it's a secured loan, which means you have to put up your home as collateral for the loan," says Matt Lattman, vice president of personal loans for Discover. "The benefit is a predictable and manageable repayment that can help restore your home's value at the same time."

In order to take out a home equity loan, though, you'll typically need to have enough at least 15 percent to 20 percent equity in your home to borrow against, which may not be the case if your home was a recent purchase. You should also make sure you can afford loan repayments or you'll risk losing your house since this type of loan uses your home as collateral.

Home equity line of credit

Home equity lines of credit, or HELOCs, are also borrowed against the equity you have in your home and use your home as collateral to secure the loan. The difference is that you're given a line of credit with a limit that you can borrow from multiple times rather than one lump sum like you get with home equity loans.

The flexibility of HELOCs gives you more control over how much you borrow and pay back, which is convenient if you're dealing with a major emergency project with unpredictable costs.

"HELOCS may also come with a fixed-interest rate option that's usually lower than a personal loan or home repair loan," Cruz says.

The minimum draw for a HELOC, however, is still typically in the $10,000 to $25,000 range, so this is only a good home repair loan option for major projects. It will also only work for people who have built up enough equity in their homes to borrow against.

Government loan

The Department of Housing and Urban Development insures emergency home repair loans from private lenders, known as Title 1 Property Improvement Loans. The loans are good for repairs up to $25,000 for single-family homes and up to $60,000 for multiunit homes. You're not required to have any equity in your home, although you must have occupied it for at least 90 days, and you have to meet other lending requirements to qualify.

Credit card

When minor emergency home repairs come up, it might make sense to use a credit card that you already have to pay for the expense. Be careful when using a credit card, though, because the interest can be high unless you're still in an introductory period with a low APR.

You'll want to make sure you can pay off the balance right away or you'll end up drowning in interest payments. The exception, of course, is if you've just applied for a new credit card to take advantage of an introductory interest-free period.

"If you cannot wait for an insurance claim or loan funds, a credit card might be your best option," Foguth says. "However, if you absolutely need to use a credit card, use one with the lowest possible interest rate."

Should I get a home repair loan?

Home repair loans, such as personal loans or home equity loans, can be a good option for those who need emergency repairs and do not have the money readily available. Having access to these options in a crunch can provide peace of mind.

"Many problems get worse the longer they're left unaddressed, both in terms of their severity and a consumer's own wellbeing," Lattman says. "It can be extremely stressful to have unexpected expenses pop up around the home, and using savings isn't always an option. A personal loan can enable you to do the work you need now while making predictable payments over time without immediately tapping into savings."

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