Avoid the home improvement 'money pit' syndrome

by Jason_Alderman

Shortly after our first child was born, my wife and I realized we needed to remodel our kitchen and family room to accommodate our new family focused lifestyle and our new arrival. But, like most first-time remodelers, we had no idea what we were up against.

Whether you're making cosmetic changes to improve your home's resale value or undertaking major renovations for the long haul, it's essential to plan carefully so your home doesn't turn into a bottomless money pit. Here are a few suggestions that might help:

Prioritize. List all the projects you'd like to do, such as adding a room, plumbing or wiring upgrades, kitchen or bathroom updates, painting or installing new appliances. Next, prioritize them in order of critical importance. For example, don't paint the walls first if the roof needs replacing.

Also, look for opportunities to gang-up projects: If you need to re-plumb the bathrooms, save up first so you can replace old fixtures or tiles at the same time - it'll save money in the long run.

Budget. Gather estimates for each job's or item's cost and create a chart with columns for high-, medium- and low-cost options for each line item. Always build in an extra 20 percent or more for unexpected expenses. Trust me.

For do-it-yourself projects like painting or landscaping, don't forget supplies. Where contracted labor is involved, always get three estimates - and carefully check references and business licenses before hiring anyone. Also, ask about discounts for grouping multiple projects together.

Building a budget may seem daunting, but it's best to know upfront what things cost so you're not blindsided mid-project and forced to take on debt. Practical Money Skills for Life, a free personal financial management site sponsored by Visa USA, contains a complete guide for creating a budget you can live with, including several interactive online calculators (www.practicalmoneyskills.com/budgeting).

Financing options. Ideally, you should establish a savings plan to pay for home improvements, just as for any other major purchase. After all, borrowing means you incur not only the item's cost but interest charges as well.

If you must borrow, however, you have several options. Home equity loans and lines of credit let you use your home's equity as collateral. Both allow you to deduct the interest on up to the first $100,000 of money borrowed from your income taxes, but they also have various fees and closing costs that can eat up any tax savings.

Always consult a financial professional regarding your particular situation. Many financial advisors caution against using your home as a piggybank, and here's why: With recent real estate downturns, some people's primary mortgage and secondary loans total more than their home's value, meaning if they must sell, they risk taking a heavy loss.

Taking out a loan against your 401(k) plan or other retirement account also isn't a good idea because you lose out on the compounded earnings your savings could have made while you pay off the loan. Plus, if you lose your job or quit, you must repay it in full or pay taxes and a 10 percent penalty on the amount owing.

And finally, practice preventive maintenance by inspecting your home top-to-bottom each quarter. Finding termite damage early or fixing leaky roof tiles before water damage occurs means you'll have more to spend on that dream kitchen or custom shower.

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