# When a personal loan is your 2nd choice

By Mike Cetera • Bankrate.com – posted April 29, 2016

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The personal loan might not always be the loan of last resort it once was, but for many it's still a 2nd choice.

That's not entirely surprising. If you have solid credit, you may find a better interest rate on a traditional secured loan than you could find with many unsecured personal loans.

But if you get fed up with the process of trying to obtain a standard bank loan, or you get rejected, a personal loan may become your 2nd -- or only -- option. About 16 million homeowners likely aren't eligible to open a home equity line of credit, for example, because they have less than 25% equity, or in some cases negative equity, in their homes, according to CoreLogic, a real estate data provider.

In this case, if you want to renovate or repair your home and you don't have the cash saved to complete the project, a personal loan may be your best option.

"Personal loans are used for an assortment of things -- from a way to get capital to start a business, to fund a large purchase like a lawn tractor or engagement ring -- and as such, are generally used for long-term purchases, like debt consolidation or home repair," says Keith Baker , CFP professional, a professor and program coordinator for mortgage banking and financial services at North Lake College in Irving, Texas. Competitive interest rates make personal loans "an attractive option for those people who need substantial capital," he says.

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## One man's story

Marcus Santiago and his wife had been looking for a house to buy for some time. They even lost a bidding war for a home they didn't particularly like.

But that's the state of real estate in New York's Westchester County, about an hour's drive from New York City.

So last year, when the couple finally found a fixer-upper in the town of Mamaroneck that they both liked and could afford, they jumped on it.

"This house was sitting for longer than a weekend, so we're like, 'Wow, it didn't get scooped up,' " Santiago says.

The plan was to purchase the home built in 1902 using a Fannie Mae renovation mortgage, which would have given the couple money to both buy and remodel the home. Santiago immediately ran into problems finding a contractor who would work under the rules of the loan, which required the borrower to hire a consultant to assess the construction plan and to perform an initial and final inspection.

When he did find a contractor who would do the work, the 2 haggled over how much renovation work Santiago wanted to do himself.

"Finally, I gave in on the loan when the bank lowered the amount I could borrow," he says. "All of a sudden I had to rework the deal. I said, 'Forget it.' "

Santiago and his wife then took out a conventional mortgage and turned to an online personal loan company for help renovating their new house, which they closed on in December.

## The SoFi experience

Santiago says his wife came across the online lender Social Finance, or SoFi, when searching for alternative funding sources. The couple was offered a $50,000 loan at 8.5% APY. They have 7 years to pay off the balance.

The couple was required to submit proof of income and had to fill out several forms, but otherwise, "the ease was pretty insane," he says.

"In a way, it was a little scary because they turned it around pretty quickly," he says.

## More work than expected

"Peeling back the house I came across things," Santiago says. "From 1902, there was an old Kodak advertisement."

But there was more. Structural issues that weren't evident at first required the scope of the project to change. These changes would have been difficult to push through under the renovation loan. With the personal loan, the family could do the project their way, which offset the higher interest rate under the SoFi loan than they would have paid to Fannie Mae, Santiago says.

So far, Santiago, family members and contractors have removed 12 tons of debris during a project that has seen the kitchen, bathroom and dining room stripped down to the studs. Santiago hopes to finish the rehab by May and estimates he will save $30,000 with all the DIY work he completed.

"This area is just so expensive. For a middle-class person, this is the only way … going through this craziness to make it work," he says.

## How to pick the best loan

Michael Chadwick, CFP professional, owner of Chadwick Financial Advisors in Unionville, Connecticut, says the best loan is the one with the lowest interest rate for the most favorable term. That's not a personal loan in most cases, he says.

"I kind of still view (personal loans) as that loan of last resort," Chadwick says.

One exception: People who have high-interest debt they want to consolidate.

"For them, if the credit card companies won't negotiate, then it makes sense," he says.

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