



Contact: Celia Kinney  
Program Coordinator  
Education Outreach  
Idaho Department of Finance  
(208) 332-8067

## NEWS RELEASE

FOR IMMEDIATE RELEASE

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### **Financial Literacy Tip of the Week Financing Home Improvements: Considerations for Consumers**

**Boise, Idaho...** As the seasons change and warm weather approaches, many homeowners consider moving forward with home improvement projects. This may be especially true for those with low interest rates, who opt to stay in their homes longer and seek avenues to upgrade their living spaces. Home improvement projects can be complex and may involve long-term financial commitments. Taking proactive steps, such as researching financing options and their implications, and becoming familiar with other important considerations, can help homeowners make more informed decisions and avoid common pain points associated with financing home improvements.

#### **Common Financing Options:**

- **A Home Equity Loan** is a secured loan based on your home's equity. It is commonly used for more significant expenses like renovations.
- **A Home Equity Line of Credit (HELOC)** is a revolving line of credit secured by the home's equity. It can function as a line of credit rather than a fixed loan, and it does not modify an existing mortgage but acts as a second mortgage. Note that both home equity loans and HELOCs are loans secured by the property itself, allowing the lender to repossess the asset if the borrower defaults on payments.
- **Cash-out Refinance** is a mortgage refinance under which the borrower takes out a larger mortgage than the sum of the original loan, pays off the original loan balance, and uses the remaining funds for home improvements.
- **Residential Solar Loan** can vary in structure, but they are often secured with a UCC-1 Fixture filing against the equipment, i.e., solar panels installed on the home. A UCC-1 Fixture filing is a legal document filed to give the public notice that the creditor has a security interest in certain assets of the debtor. This secures the lender's interest in the solar panels if the borrower defaults on payments.

Solar installers are often required to pay a fee to initiate the loan, commonly referred to as a "dealer fee," "finance charge," or "buydown." The fee is passed along to the homeowner, which can add thousands of dollars to the cost of the contracted job. **Before agreeing or signing anything, it is crucial for consumers to carefully review any paperwork and contracts and ask as many questions as possible up front** to avoid agreeing to terms they may not fully understand.

- **An Unsecured Loan** is a personal loan that does not require collateral. Because it is not secured, it typically has higher interest rates and shorter repayment terms. Banks, credit unions, online lenders, and some solar installers with lender partnerships may offer unsecured loans.

#### **Tips for Choosing the Right Option:**

- ✓ **Consider long-term value.** Balance upfront costs with potential increases in the home value.
- ✓ **Shop Around.** Get bids from multiple companies and compare interest rates, fees, repayment terms, warranties, quality of materials, and timelines. A written estimate should include a description of the work, materials, completion date, and price. Don't automatically choose the lowest bidder. And ask for an explanation if there's a big difference between estimates. <sup>1</sup>
- ✓ **Closely Review Contract Terms.** Verify that the terms align with what the salesperson stated. Pay attention to the payment terms, including whether they will increase and when, the duration of the contract, the terms for early cancellation, any additional costs and fees you may incur, and whether the contract affects the sale of the house.
- ✓ **Research Incentives.** Check federal and state tax incentive programs available for home improvements and solar installations. More details can be found at the Idaho Governor's Office of Energy & Mineral Resources website <https://oemr.idaho.gov/financial-information/incentives>.

**Other Key Considerations:** Be cautious of aggressive marketing tactics and questionable sales and financing practices, as these are common pain points for consumers. In 2024, complaints related to home improvement, repair, and solar ranked #6 out of the top 10 categories of consumer complaints, according to the Federal Trade Commission. <sup>2</sup>

- ✓ **Use only licensed contractors and lenders.** Visit the Idaho Department of Finance website to verify a prospective lender is licensed at <https://www.finance.idaho.gov/finance-license-charter-search>. Visit the Idaho Division of Occupational and Professional Licenses (IDOPL) website to research the status of a prospective contractor at <https://edopl.idaho.gov/OnlineServices>.
- ✓ **Research the reputation of all parties.** In a transaction that originates via a door-to-door sales pitch, it may appear you are dealing with one company/entity, when in fact it is common for multiple independent parties to be involved: a salesperson, an installer, and a financier. Research all parties involved to learn about other consumers' experiences. Call state and local consumer protection agencies for any related consumer complaint history.
- ✓ **Beware of Scams.** If a contractor asks for a payment up front or pressures you to act quickly, these are red flags. Be skeptical of any unsolicited offers for "government grants" or "free solar." For information about tips to identify and avoid home improvement scams, visit <https://consumer.ftc.gov/articles/how-avoid-home-improvement-scam>.

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*Consumers can obtain information about financial firms, professionals or products, as well as view more Department press releases and other information on the Internet at <http://finance.idaho.gov> or by contacting the Department at (208) 332-8000 or Idaho toll-free at 1-888-346-3378.*

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<sup>1</sup> <https://consumer.ftc.gov/articles/how-avoid-home-improvement-scam>

<sup>2</sup> [https://www.ftc.gov/system/files/ftc\\_gov/pdf/csn-annual-data-book-2024.pdf](https://www.ftc.gov/system/files/ftc_gov/pdf/csn-annual-data-book-2024.pdf)