GUIDE TO FUNDING HOME IMPROVEMENTS

JOHN CHARCOL™
INDEPENDENT MORTGAGE EXPERTISE

FUNDING HOME IMPROVEMENTS

If you're a budding property developer, renovating your home is the perfect way to get the house of your dreams for a fraction of the price. The trouble is, home renovations can be a pricey venture. Unless you're a skilled tradesman, you'll need expert advice around actually doing the work but also need expert advice on how to finance your project.

That's where John Charcol can help. Our experts can't teach you how to plaster a wall but we can offer independent and impartial advice on how to pay for your renovations using the equity locked in your home.

In this guide to funding home improvements, we'll look at what options are available to help you release the equity locked in your property. These options include:

- Further advances
- Remortgaging
- Second charge

WAYS TO FINANCE YOUR RENOVATIONS

You're likely to have a budget in mind for your project but it's important to find out if that's realistic. Before you start, make sure you get a handful of quotes from tradesmen, look into the materials you want to use, think about any tools you may need to buy for yourself and think about the way you want to furnish the finished product.

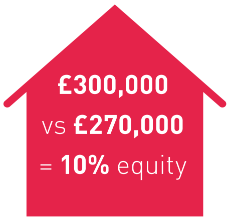
Once you're all costed up, it's time to find the money. For any project at £10,000 and below, it's worth considering using your savings, taking out an unsecured loan or even applying for a 0% credit card, if you can get a high enough credit limit. However, if you plan to consolidate these debts into your mortgage further down the track, you may fall foul of the terms and conditions of your mortgage at that time.

If you've got bigger plans, here are your main options for releasing equity from your home to pay for your renovations.

WHAT IS HOME EQUITY?

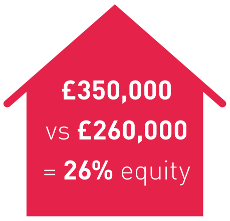
The amount of equity you have depends on the value of your home. It is determined by the current market value of your home less any outstanding mortgage owed. That means if you've owned your home for a few years, your home is likely to have increased in value and you could have paid off some of your mortgage meaning you have more equity.

Here's a simple example to help:



You buy your home for £300,000, you borrow £270,000

So, you have 10% equity in your home



Fast forward five years and your home is now worth £350,000

You've also could have paid off some of your mortgage, £10,000 for example - so you've still got £260,000 borrowed

As you now have more equity in your home, you could borrow more against it which can help you pay for your renovations.

FURTHER ADVANCES

A good way to think of a further advance is that it's a top up on your existing mortgage. Unlike remortgaging you'll stick with the same lender and the terms of your mortgage won't necessarily change however, you're likely to end up paying two rates. One rate on your existing mortgage repayments and different rate on the extra money you've borrowed.

The rate of interest on the additional money you're borrowing may be more or less than your existing mortgage and can be fixed or variable. You should make note of when any early repayment penalty period ends, especially if this doesn't coincide with the end date of your original mortgage product.

If the fixed rate period of your mortgage doesn't coincide with the fixed rate on your further advance, you will need to be prepared for the rate on one or the other, (and therefore your monthly payments) to change to the standard variable rate. This can be especially important if the larger part of your mortgage goes onto standard variable rate first.

FURTHER ADVANCE PROS

- Unlike remortgaging, you don't necessarily have to wait for the right time to borrow more.
- If you're happy with your current mortgage, you get to keep the same rate.
- A further advance can be faster to arrange than a remortgage as there tend not to be any solicitors involved.

FURTHER ADVANCE CONS

- Can be difficult to harmonise your rates/repayments in the future.
- Lenders will fully underwrite the entire mortgage whilst assessing the further advance. This may mean that they will require changes to repayment method for any interest only elements already in place.

REMORTGAGING TO RELEASE EQUITY

Earlier in this guide we explained what equity is and how it's calculated. Remortgaging can be a great way of releasing some of that equity to pay for your renovations.

If you remortgage to borrow more, the amount you borrow will be determined by:

- The available equity in your home
- The new lenders assessment of your overall affordability (your income and expenditure)

REMORTGAGING PROS

- Can result in getting a better rate on your mortgage, meaning you pay less on your monthly mortgage repayment.
- Borrowing remains all under the same arrangement which can be easier to manage than a further advance where you might have two different rates in effect over different periods of time.

REMORTGAGING CONS

- Can incur extra fees such as early repayment fees.
- Can extend the length of your mortgage.
- Usually a longer process due to a possible valuation and the necessity to use solicitors.
- It may lead to you giving up a low competitive rate, meaning you pay more on your monthly mortgage payment.

SECOND CHARGE

A second charge is a form of secured loan and is a different way to use the equity in your home to finance your home improvements. A second charge is similar to having a second mortgage in that it is provided by a different lender. You may choose this option because your existing lender may not agree to lend you the amount you need under your current mortgage arrangement. Alternatively, you may currently be on an interest only mortgage and are unable to borrow any more without major alterations to your mortgage arrangement.

Just like remortgaging, the amount you can borrow on a second charge depends on how much equity you have in your home.

The rate on a second charge may be higher than the rate on your existing mortgage however, it would normally be lower than the rate on an unsecured loan or some credit cards and repayments are often spread over a far longer period of time.

A second charge may be attractive to those who don't want to lose their current rate by remortgaging but can't borrow any more from their current lender.

SECOND CHARGE PROS

- Loan secured against the value of your home meaning lower interest rates vs unsecured loans.
- No need to risk losing a favourable interest rate by remortgaging.
- Offers the opportunity to shop around with other lenders for the best deal.

SECOND CHARGE CONS

- Like a further advance, a second charge means taking on more debt over a longer period – always work out the total cost of borrowing over the whole course of both mortgages and of course, work out if you can afford to pay two monthly repayments.
- You may find that a second charge is more difficult to get than your original mortgage – particularly if your household income has dropped e.g. one person is no longer earning.
- Secured lending puts property your property at risk of repossession. Unsecured lending, like a personal loan doesn't.
- Second charges can come with hefty fees attached.

You must bear in mind that when it comes to selling your property, your main mortgage provider's balance will be redeemed first and any subsequent secured loans will be redeemed in order by your solicitor. If you would like more information, please talk to your broker.

WHY CHOOSE JOHN CHARCOL

For over 40 years, we've helped thousands of people just like you make their property dreams a reality. Here's how we've helped all those people and how we can help you too.

WE'RE INDEPENDENT

That means we're not tied down to a number of mortgage providers on a panel. Instead, we search 1000s of mortgages across the whole UK market to find the deal that's right for you.

We're also not driven by commission we receive from lenders. That means we'll only give you the right advice to help you get the best mortgage deal.

WE PROVIDE A HUMAN SERVICE

It can be stressful buying a home but often the stress reappears in various situations after you've bought. Here's how we can help reduce your stress levels:

- You'll speak directly to your own personal adviser and case handler. They'll stick with you until the job is done.
- Your adviser will speak to you in plain English, get to know you and your requirements and be totally transparent with regards to any fees and charges.

A SERVICE FOR LIFE

We'll stay in touch and be there for you whenever the next property challenge arises.

96%

OF OUR CLIENTS RECOMMEND US ON*

REVIEWS

*Correct as of Dec 2017

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Helping you get the mortgage you need to live in the home you love

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