

Finance Your Renovation

To conclude our three-part series on successful renovations, we have left the best till last – how to get the cash to make it happen!

There are plenty of different ways you can fund your renovation and your mortgage broker can talk you through these options to find the one best suited to your budget and project size.

Here are some of the options we may discuss with you.

Home equity

If there is an available amount of equity in your home, you can use this to access credit up to an approved limit.

What is equity? It's the difference between the value of your home and the money you owe. For example, if your home is worth \$700,000 and your home loan is \$500,000, then you have \$200,000 equity in your home.

You can generally borrow up to 80% of your home's value (known as 80% of your Loan-to-Value Ratio). For a home worth \$700,000 this would mean you could borrow \$560,000, so if you already have a home loan of \$500,000, this leaves \$60,000 available to borrow for renovations. You can borrow a higher amount if you take out lenders mortgage insurance, but it is important to speak to your mortgage broker about the risks involved.

Construction loan

This type of loan is not based on the property's current value, but on a predicted value at completion.

Let's say your new home is valued at \$900,000 and the lender is willing to lend 80%, this would equate to total borrowings of \$720,000. After taking away your existing home loan of \$500,000, this would leave \$220,000 available to borrow as a construction loan.

Unlike a regular loan that forwards all the money you borrowed on the loan settlement day, construction loans break the total amount down into components. Funds are drawn down progressively as you pay for each stage of the build, and when the builder invoices for a final time the lender pays it using the remainder of funds in your construction loan.

A benefit of this type of loan is that interest only accumulates on the money drawn down.

Redraw / Top up

If your current home loan has a redraw facility and you've paid off more than your minimum repayments, you may be able to simply withdraw the extra money you've paid into your home loan to pay for your project costs.

Top up allows you to borrow funds on your existing home loan without taking out a separate loan.

For further information, please don't hesitate to call AlphaLoan today so we can match your needs against 100's of home loans from our panel of lenders, including all the major banks and many more!

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