Financing Your Next Home Improvement

Properly planned home improvements can be one of the best investments you will ever make: but can you afford it?

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Here's advice on how to borrow and what to look out for, with some suggestions

It's difficult to beat a well-chosen home improvement for return on the money you invest.

This is particularly true in the U.K. where an endless -and growing - housing shortage is going to keep prices going up indefinitely

What's more, some investments – even very simple ones - can give you a remarkably high return on your money. For instance, U.S. research suggests simply replacing your front door with a new one can give you a ROI of 95%.

When you think about it, that makes pretty obvious sense as apart from the view of the property itself the front door is usually the first thing people see.

But there are many other things you can do. A loft extension, a conservatory. A new kitchen: they all pay off to a greater or lesser extent. But do you have the kind of money to hand that you need to pay for things as expensive as those? And if not, where will you get the money?

The good news is that right now may be one of the best times ever for you to borrow money, because there is a price war between the lenders. Rates fluctuate, but as we write you can get a loan for as little as 3.1%.

But be very careful because personal loans are a minefield if you don't know what you're doing. You can end up paying far more for borrowing the same money from one source than from another.

For lesser sums a credit card is a better source of money than a loan; and one of the cheapest ways (if you're lucky enough to have the option) is to borrow from your employer.

The question is – assuming you don't have a kind employer - which loans should you choose, and what should you avoid? Here are some of the things to look out for:

1. Your best deal

You can get up to 28 months spending on a credit card at 0%, and for lower sums this is usually your best deal.

But it only makes sense if you're disciplined enough to pay your debt off in that time, or transfer the debt to another card before the 0% period ends. Lenders know that many of us just forget, or lack the discipline

2. Check the small print

Before you apply for a loan, check for any catches. Some deals may look amazingly good – but have conditions you should watch out for. These tend to be based on the very reasonable idea that lenders give their customers better deals.

> **Take Sainsbury's Bank. You can get as much as £15,000 for 3.2% for up to 5 years – an excellent deal - but you must have a Nectar Card and have used it at Sainsbury's in the past six months.**

In much the same way NatWest and RBS offer very good rates – but only give the best to current account customers.

3. Keep an eye open for early repayment charges

You may not think it likely when you get your loan – but there's always a chance you will be able to pay off your debt early.

Many providers charge you for that – which doesn't seem fair. So make sure you check how much this might cost before you apply. If you think there is a chance you will be able to settle your loan early, then look for a deal that comes without any early repayment charges.

4. Watch that Interest Rate!

Essentially you have to try and get the money you want at the lowest interest rate with as few restrictions and charges as possible. Some personal loans come with interest rates well below 10% while others may be 3 or 4 times higher.

> **Also remember that the more you borrow, up to a certain point, the better the rate. Thus you may have to pay 9% when borrowing £3,000 while it's only 6% on £7,000. So it may pay you to borrow £7,000 instead of £6,500.**

Those interest rates depend on your credit score, but lenders can charge whatever they like as long as the rate falls within the relevant laws. This means you may not actually get the interest rate advertised with the loan.

This is called the representative APR - Annual Percentage Rate). It's the figure you see on posters or banks' websites, but not everyone will qualify for it. In fact, loan providers only have to offer this rate to just over half (51%) of borrowers they lend to.

Your application will not necessarily be accepted. And if your credit rating is less than perfect you may be accepted but charged a far higher rate of interest than the representative APR.

Be careful when comparing annual percentage rates (APR). The APR can be manipulated. Always check the total amount you will pay – including interest, fees and principal – over the life of the loan. That's the best way to work out what your loan will really cost.

How much will you actually pay to get the money in your bank account? Just as with a mortgage, upfront origination fees for the loan can vary widely.

5. Costly complications

The ideal loan is simple. Someone lends you money and you pay it back with interest. If there are lots of complicated extras, no matter how appealing, be careful!

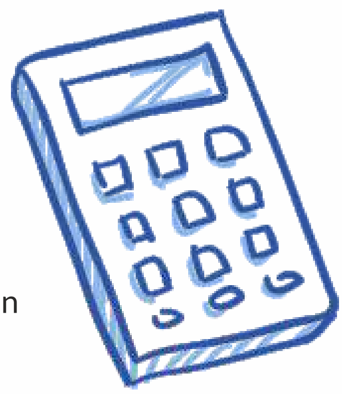
Suppose a firm offers you payment holidays –periods when you can stop repaying. You can be sure that will cost you money. The same applies to cash back offers or other attractive deals. They will all cost you money. If it's not simple, watch out!

6. Get the right kind of interest

Always ask the lender how the interest is being computed.

"Precomputed interest" uses the original payment schedule to calculate your interest no matter how much you've actually paid.

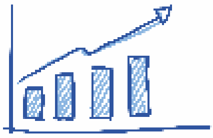
Simple interest looks at what you owe today and works out your interest on that figure. If you hope to pay off the loan early, you want simple interest.



7. Hidden costs to watch out for

Check all the fees. How much will it actually cost you to get the money? Just as with a mortgage, origination or arrangement fees for the loan can vary widely.

Arrangement fees will be included in the APR, which is why you should compare APRs, not interest rates. They can make your loan much more expensive. Make sure you include them when you work out how much the loan is going to cost you.



What kind of interest rate is it? Some personal loans have variable interest rates, meaning they can go up or down. If you can only just about afford the initial repayments you should avoid this type of loan in case rates do go up.

Think carefully before buying any payment protection insurance (PPI) from your lender. This insurance covers your loan repayments if you have an accident, are ill and can't work or lose your job.

However, if you do want this cover, you will almost certainly get a much better deal by checking prices with several different providers.

This information is for general purposes only, does not constitute legal, financial or professional advice and should not be relied on or treated as a substitute for specific advice relevant to particular circumstances.