# Borrowing money for renovations: What you need to know.

You’ve been dreaming of that new kitchen and dining room for as long as you can remember, and now the time has come to put your plans in motion. But do you really have the budget to afford the works? Here are a few things to think about before making the leap from Pinterest board to blueprints.

**Work out your budget**

Before you look at borrowing any money, you first need to work out how much your renovation will cost. Get Ask An Architect to send you their comprehensive guide to costing a renovation.

Before your finalise your plans, you can arrange for a building inspector to help identify any structural work that might be needed. Major work could significantly increase your budget, so it may be worthwhile to talk directly to a professional to get a more tailored understanding of how much you’re up for. Architects and master builders are usually happy to provide a quote, so think about getting more than one quote to give you an idea of the range.

In addition, add a percentage for contingencies: most experts recommend that you add another 10% to 20% to the overall budget to cover the inevitable delays and complications that arise throughout the renovation process.

Once you know what the costs may be, you can start to think about how to raise the cash. Of course, in an ideal world you’ll have saved up at least part of the amount beforehand, but renovations can run into the tens or even hundreds of thousands, so most people will need to borrow some money.

**Unlock your equity**

If you’ve been in your home for a while, chances are that you have considerable equity, both as a result of paying off your initial home loan and from rising property values.

Equity is the amount of your home that you own; that is, the value of your property, less the outstanding loan amount. For example, if your property is valued at $500,000 and you owe $300,000 on your loan, your equity is $200,000 ($500,000 - $300,000 = $200,000).

As long as you can meet the repayments and the renovations are likely to add value to your property, most lenders should be willing to lend you a percentage of your equity for home renovations. Depending on your situation, this equity could be accessed through redrawing, increasing your existing loan or refinancing your loan entirely. A mortgage broker will be able to advise on the best option for you.

## Building loans

Most home loan providers will offer a product called a building or construction loan, which acts as a line of credit that you can draw on as renovation costs become due. The advantage of these are that you aren’t making repayments on the full value of the loan at once, but only on the progressive loan balance, which will change over time. That means you can start to pay off the first invoice before the next ones come in, saving you money overall.

Your broker can assist in checking with your home loan provider whether the loan is 'interest only' for an initial period. If it is, this will also help to keep your costs down during the crucial building period. If the provider doesn’t have a specific building loan, they may let you have a general line of credit, which functions similarly. Once the renovations are finished, the loan or line of credit can even be rolled into your home loan.

## Personal loans

Especially where a renovation is small – perhaps you just want to update your kitchen without any building works – you might consider a personal loan. As personal loans are generally not secured against your property, the interest rates are usually higher. However, as the term of the loan is much shorter, you should pay less interest over time.

Each option has advantages, so it's worth spending some time considering them carefully. Remember, your mortgage broker can always help you with any questions you might have.