



IS A RENO NOW PAY LATER THE BEST WAY TO FUND YOUR REFURB?

The temptation of 'Renovate-Now-Pay-Later' may at first glance look appealing, but are there other factors that need to be considered?

The warmer weather may have you dreaming of a new deck, pool, pergola, bathroom or kitchen – or maybe you're even considering switching to solar energy? And why wouldn't you? Many of these home improvements can be enjoyed by you and your family AND may add value to your home. But how you pay for these enhancements can have a significant impact on your finances if you're not aware of the fine print.

Reno now, pay later providers

Much like the widely known Buy-Now-Pay-Later (BNPL) providers such as Afterpay, Zip, Latitude and Open Pay, there are BNPL providers such as Brighte and Handypay (and others) who offer personal loans and interest free finance for home improvements and energy efficient upgrades.

These finance options generally fall into three types of loans:

1. Interest free loans, generally with a term of up to 5 years
2. Personal loans of up to 5 years with an initial 12 months interest free period
3. Traditional personal loans

The maximum amount that you may borrow differs with each loan type.

By way of example, Handypay offers their 0% interest free term for up to 12 months for loan amounts between \$500 and \$5,000¹, while their standard personal loans may be up to as much as \$75,000 over a term of 1 to 7 years.

Brighte offers loans between \$1,000 and \$30,000 with 0% interest on loans over a term of 6 to 60 months for solar and home improvement projects².

While these loans and interest free deals may appear attractive, you need to ensure that these options are suitable for your personal financial situation.

Understand the terms and know the fees and charges

0% interest – Is 0% really no cost? To take advantage of 0% finance you are generally required to find a trades person within the lender's network. Brighte has 2,400+ vendors who you are required to utilise with the Renovate Now Pay Later option. These arrangements are not uncommon and generally the cost of finance is included within the cost of the works. This arrangement also eliminates your ability to shop around for the best available price.

Higher interest rates – These types of loans are generally referred to as personal loans as the lender holds no security



meaning that the rates of interest are generally higher. Current interest rates start in the high 6%. Handypay's first 12 months interest free loan reverts to a high interest rate of 9.99% pa³ after the 0% term ends.

Default interest charges – Similar to BNPL options, in many instances these providers charge late payment fees and high default interest rates in the event that you do not make payments on time.

Upfront fees – Many of these providers charge upfront fees that appear high in view of the amount to be borrowed. Handypay charges a one-off upfront fee of \$250 which is 5% of the maximum loan amount of \$5,000.

Lenders consider BNPL debts in your home loan application

If you plan to refinance, upgrade or buy an investment property in the future, be aware that lenders will consider all your loans, including repeat BNPL payments, to determine your borrowing capacity for a loan or re-finance application.

Debts may impact your credit report

Similarly, if you are tardy with your BNPL repayments, this may have a negative impact on your credit score and directly jeopardise your future loan applications.

A refinance may be a better option

While many of these Renovate Now Pay Later options offer online application and fast approval times, they can come at a higher expense considering they are essentially personal loans.

Other finance options that are likely to come at a lower cost include a re-finance of your property or a renovation loan. Both are secured against your property and come at a lower interest rate (assuming you have sufficient equity). In the current low interest rate environment these interest rates are likely to be reasonably lower than those offered by BNPL providers.

To ensure that you obtain the most appropriate finance solution we recommend that you allocate the necessary amount of time to assess all your financing options for your renovation works in a similar manner to shopping around for the most competitive price.

If you're considering a refinance option, contact us for our 7 considerations to assist you in how to begin tidying up your finances

Importantly, when you separate each of these components you place yourself in a position to find the most cost effective option for each.

When looking around for the most appropriate funding option, we are able to assist in identifying the best available funding options to assist in your decision making process.

Sources:

- 1 Handypay personal loans: Interest rates, fees and features compared (savings.com.au)
- 2 0% Interest Payment Plan | Finance available up to \$30k – Brighte
- 3 Handypay personal loans: Interest rates, fees and features compared (savings.com.au)

Contact us for our
**“Considering Refinancing?
Time to Tidy up Your
Finances First”**

