

Remortgages and secured loans: finding the financial solution that's right for you

For a long time many people viewed a remortgage as a fairly cheap way of raising money, due to the interest rates obtainable on a mortgage being far less than those on unsecured finance. However, due to the Financial Services authority and the increased regulation that has come about in recent years, many financial experts have advised against remortgaging as a way of raising capital, arguing that there are many occasions when a secured loan (or "second charge" as they are sometimes known) would be a wiser financial option than a remortgage.

The most obvious example of this is when a mortgage borrower has a large redemption penalty on their existing mortgage. These penalties occur when a borrower wishes to switch lender or pay off part of their mortgage during a cheap rate period, with terms and conditions differing between lenders. Some fixed rate mortgages carry penalties of up to 7% of the outstanding mortgage balance if redeemed during the fixed rate period.

One of the most important factors to consider when weighing up the pros and cons of remortgages and secured loans is the overall cost of the loan. When comparing different products, the APR is a handy tool to use as it will also take associated fees and charges into account. The remortgage process involves many different fees, including valuation and administration fees, lender fees, brokers fees and in some cases, legal fees. Secured loans, on the other hand, carry very few additional fees, oftentimes only subject to the lender's arrangement fee and possibly a broker's fee.

In order to assess the most advantageous financial solution, the borrower must [compare secured loans](#) with the total cost of the remortgage process. This is especially important for borrowers with a poor credit history. If the mortgage was taken out before running into credit problems, the chances are high that any attempt to raise extra cash through a remortgage would mean paying a significantly higher interest rate on the entire amount of the money borrowed i.e. the whole mortgage. A secured loan, on the other hand, allows the borrower to benefit from a prime interest rate on their mortgage while only being charged a non conforming rate on their new loan.

A number of other factors need to be considered when deciding to remortgage or apply for a secured loan, including the speed with which the additional funds can be transferred to the borrower; as a rule of thumb, secured loans are usually far quicker to obtain than a remortgage.

Extensive comparison between a remortgage and a secured loan is a sure fire way of making sure borrowers find the ideal financial solution for them.

About the Author

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