

## The Solution Loans Guide to Secured Loans

Secured loans open up the opportunity to borrow much larger amounts at lower interest rates than other forms of lending. They do this by using a borrower's home as security (i.e. they are a secured loan). Loan amounts vary considerably but many lenders will offer [secured loans of between £5,000 and £250,000](#) depending upon the market value of a house and how much equity there is.

Compared with personal loans, choosing a secured loan could be a sensible choice particularly when most banks only offer personal loans of up to £15,000.

Because the loan is backed by a property as security, secured loans are available to many people with lower credit ratings and interest rates are also lower. There are also much longer repayment schedules available.

Secured loans are also known as second mortgages or second charge loans because the borrower must already have a mortgage on their property. They are not available to people who own homes outright who instead should consider [remortgaging](#) if they want to borrow large sums.

Secured loans are more complicated forms of finance than personal loans because of the use of a property as security. As a result, they take longer to set up than any other form of finance with the exception of mortgages.

### How secured loans work

A secured loan [gives a buyer access to much larger sums](#) than a typical unsecured loan. Even if you have a poor credit rating - including defaults, CCJs or mortgage arrears - you may still be able to apply for a secured loan and take advantage of more competitive interest rates than other forms of finance. You can stretch your repayments out over much longer periods - sometimes as much as 25 years - and be able to plan your finances over the long term accordingly.

How much you'll be able to borrow depends on, among other criteria, the loan to value (LTV) of the loan. The LTV is the maximum lending value of the financial product as a ratio of the secured property's value. So, if the LTV of a loan is 50% and a home is valued at £300,000, then the maximum amount of loan available would be £150,000.

Different lenders offer ranges of secured loans with different maximum LTVs. Those with higher LTVs tend to charge higher APRs. This is because should property prices fall there is greater risk that

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the lender won't be able to recover the full loan amount if a borrower isn't able to keep up repayments.

## Why should I apply for a secured loan?

If you've got a less-than-perfect credit rating, are self-employed or have recently changed job and don't have three months of pay slips, you may find it difficult to borrow significant sums through personal lending. A secured loan could give you access to a large lump sum to fund home improvements, a new car, an extension or consolidate other debts (to reduce the total amount of interest).

If you have a reasonable amount of equity in your home and you have an existing mortgage then a secured loan could provide you with a relatively low interest sum with a repayment period to suit your lifestyle.

## What are the downsides?

As with other forms of lending, the amount you can borrow with a secured loan will depend on your income, your credit score and your existing financial commitments. On top of this, it will depend on the amount of equity you have in your home. Although a lender's headline figure may suggest you can borrow a six-figure sum the actual amount may be much smaller if your home's value has not risen much since you bought it.

The biggest risk with a secured loan is that you could find your house being repossessed if you don't keep up with repayments. In addition, bear in mind that should that happen, you could be liable for any shortfall between the sale price and the outstanding amounts of both your mortgage and your secured loan.

## Conclusion

Secured loans can provide a borrower with a much larger sum than personal loans and at relatively low interest rates. You can choose to repay the loan over a longer period - up to 25 years - meaning that it could be much easier to plan your repayments. If you have a poor credit history or you don't have a long record of employment with the same employer, a secured loan could provide you with the means to make the home improvements you're seeking or fund a new car.

For the online version of this guide visit [www.solution-loans.co.uk/secured-loans/guide/](http://www.solution-loans.co.uk/secured-loans/guide/)

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