Want A Better Home Loan Deal?

Your Guide To Refinancing And What You Need To Consider

OWN
HOME LOANS

Disclaimer: We would like to inform the readers of this guide that it is intended for informational purposes only. Please note that the details noted here are not to be used as advice for entering into any legal, contractual, financial, or accounting agreements. We would strongly recommend that you work with a certified professional who has the legal expertise to advise you before you sign any binding contract or agreement.

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What is refinancing?

With the home loan marketplace being very fluid and homeowners having access to a broader range of lenders than ever before, they now have choice amongst hundreds of lending products as to where they place their loan.

This means, instead of being 'locked in for life' to a single type of loan, you can switch your loan with the same lender or a new one to accommodate your own needs and financial objectives as your life circumstances continue to evolve.

Switching loans is extremely common these days, and when you take out a new loan, it is known as refinancing.

This guide provides an overview of why people refinance and what you might need to consider to see if switching loans is right for you.

Why would you refinance?

There are a number of reasons why you would consider refinancing, with the main objective being to find a loan that will better suit your needs.

The most common reasons for refinancing are:

Secure a lower rate
With a variety of lenders competing against each other to win your business, it means there are often really great deals available that can help get access to a lower interest rate.

If interest rates have dropped compared to your current rate, this can help you lower your monthly repayments, meaning you will either have more money in your pocket to do other things, or, it means you can continue with the same repayments and reduce the principal on your home loan quicker.

Either way, it is to your personal benefit to have this choice so you can then decide what will suit you best.

If you decide to switch to a variable rate loan, just remember there is a possibility that interest rates could go up at a point in the future.

Fix in your rate
If you want more certainty around your repayments, then you might want to find a loan with a lower rate that you can 'fix' for a period of time. The length of time you are looking to fix the loan will influence the rate you pay, so it is helpful to run the numbers to see how much more you can expect to save before deciding on this option.

Switching lenders
It is possible your existing loan or lender may no longer accommodate your personal circumstances and you need to look beyond them to achieve your goals.

For example, you might want to access equity in your property and this isn't easily achievable with your existing lender. Or you might like a lender where there is a local branch that is accessible, or where service is more easily accessible either by phone or online.

We have also noticed some clients choose lenders that not only accommodate their financial objectives, but who also align to their personal values.

These variables and many others will influence whether it's time for you to look at a new lender.

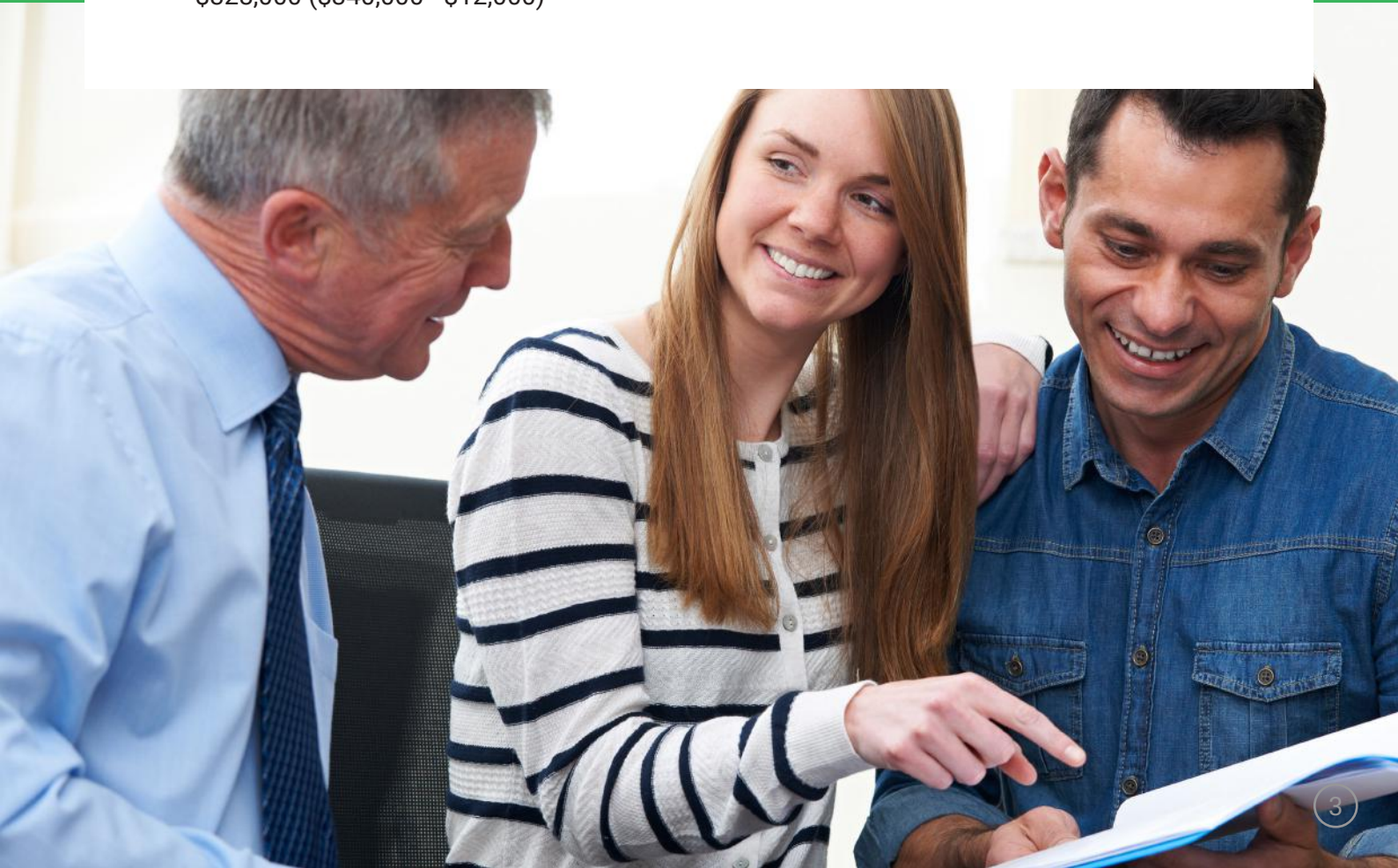
Accessing different loan features
Though at face value it might seem like all loans are essentially the same, in reality, there are a variety of features that influence pricing and 'user friendliness'.

Some lending features provide flexible payments, make it easier to access equity, to build wealth and so forth. So let's have a look at what these features could be so you can determine which ones might suit your personal needs:

- **Flexible repayments:** If you can make extra repayments at no additional cost, it can help you to reduce the principal of the loan quicker and save significantly over the long-term.

- **Offset account:** A mortgage offset account is a transaction account linked to your home loan, into which you can deposit your salary, transfer money from other accounts, and use it for everyday spending, like for your groceries and bills.

  It can also reduce the interest payable on the balance of your loan so long as you ensure you take out less than you put in. For example, if you have a loan of $340,000 and have $12,000 in your offset account, the amount of interest you pay will be calculated on only $328,000 ($340,000 - $12,000)



Redraw facility: A redraw enables borrowers to deposit additional funds directly into their home loan, which can also reduce the interest payable. And, those funds can then be accessed at a later point if required. Whereas an offset account will normally allow you to access any required funds on the same day, a redraw will generally take a little longer and might incur a redraw fee.

Loan portability: With Australians moving homes more frequently, loan portability is a convenient feature that allows you to keep your loan when you move to a new property. If you think you might move within a few years, the benefit for you is that instead of needing to close one loan off and then open up another new one, you get to keep the same loan, which saves you time and can also save on any lenders fees and charges that might otherwise occur.

Accessing equity: There will be times when life presents opportunities or challenges where having some extra funds can make a lot of difference. Refinancing can give you the ability to access equity on your home. Tapping into your equity gives you the cash you need at any time. Whether it's to put down a deposit on an investment property, prepare for a child's wedding, or to take care of that much-needed repair for the house. Being able to borrow on your equity can be a great financial lifeline.

Debt consolidation: One of the most successful debt-relief options people use is debt consolidation. Refinancing your mortgage loan gives you the chance to combine and consolidate debt payments under one account. This gives you the chance to focus on one payment amount, one payment due date, and more importantly one interest rate every month.

“Refinancing can be a quick and easy way to save you more money, help you pay off your home loan quicker, and also enable you to build wealth for the future.”

How do you refinance?

In most instances, because you already have a loan, refinancing to a new loan or lender is a fairly smooth process.

And, you will also appreciate that even though two loans might have comparable interest rates, there can be subtle differences that could mean one loan is more suited to your needs than another.

For that reason, it's helpful to get expert advice from someone who can objectively review your personal situation and present you with suitable loan options to choose from.

Get expert help
Getting the right help is a critical part of the refinancing process. When clients engage our help to assist them with refinancing, we will look at several variables including:

- Interest rate
- Loan structure
- Comparison rate
- Your current and future goals
- Loan features that are relevant for you
- The lender, and if they match your requirements (e.g. whether or not you would like a lender with a local branch network)
- Calculations of how much you could save

Having personally helped clients with a broad range of refinancing needs, there is no 'one size fits all' loan or lender – which is why it's important to understand your unique circumstances and goals.

Whether it's to consolidate debts, reduce interest repayments, access equity, and to build wealth for the future, when we help you refinance, your lending solution must be right for you.

How much does refinancing cost?

There are different fees and charges that can apply when refinancing, though with increased competition, some lenders may waive some or all of these fees and even offer a “cash incentive” to win your business.

Depending on your personal goals, current lender, loan amount, interest rate and potential cash incentives on offer, we can help you clearly determine if there is sufficient benefit to refinance and how much more you could be eligible to save.

Borrowing costs
New lenders tend to charge you some upfront fees but it is important to remember that not all of them do and some are even negotiable.

- **Loan application fee** - this is the most basic fee charged by a new lender
- **Settlement fee** - there are times your new lender would charge a fee when they pay out your old mortgage
- **Valuation fee** - this is a fee your lender might charge when they have your property assessed and valued by a professional valuer

Lender’s Mortgage Insurance (LMI)
This fee is charged by the bank to insure them in case the applicant fails to meet their repayments and defaults on their loan. LMI is usually charged if you borrow more than 80% of the value of the home, and isn’t transferrable.

This means even if you paid LMI with the first lender, if you are borrowing more than 80%, you may be asked to pay LMI again.

That is why it is important to fully review whether refinancing is in your best interests and how much better off you could be if you incur charges such as LMI.

Exit fees
There are lenders who might charge you exit fees when you pay off your loan between the first three to five years of your term. However, this usually applies only to mortgage loans that were taken out and processed on or before July 2011. Depending on the lender, the fee could be calculated as a set charge or a percentage of the remaining balance.

Stamp duty
If you increase the value of the loan when you refinance, you might incur a stamp duty charge. We can help you determine if this is applicable, and if so, what the amount would be.

Mortgage Registration Fee
Another one of the costs you might have to pay is the Mortgage Registration Fee. This is paid to the Land Title Office (or equivalent) in your state. This is for registering the mortgage on the title record.

Could it pay to stay?

Refinancing can be a quick and easy process and provide significant savings and personal benefits, though because each client has their own unique circumstances, in some situations, you might actually be better off staying with your current lender.

Below are circumstances when refinancing might not be suitable for you.

Costly exit fees apply on your old loan
It's possible that your exit fees might not make it worthwhile to switch just yet. Over time, these exit fees will be voided, and until then, your best option could be to stay with your current lender to avoid incurring this fee.

You have insufficient equity
Without a reasonable amount of home equity (usually 20% of the property's current value), you will likely be asked to pay Lender's Mortgage Insurance (LMI). Depending on your current equity, the cost of LMI could make it financially prohibitive and mitigate any potential benefit you could get from a lower rate with another lender.

In such a situation, it is usually worthwhile waiting until you can avoid LMI to maximise the financial benefit of refinancing.

Ways to increase the equity in your property include making some improvements to the look & feel of your home which could positively affect your home value. Depending on your current loan, you might also make additional repayments which will reduce your loan amount quicker and increase your equity.

Your circumstances or income have changed
When looking to switch, lenders will look at your ability to repay the new loan. If you have been late with repayments and had overdue bills, this might affect your eligibility to refinance with certain lenders – and you might be better off waiting until your credit history has cleared.

Similarly, if you have switched jobs, or gone into self-employment, this too might affect whom you can refinace with and/or the rate the new lender will charge.

How we can help you

As mentioned earlier, you can always take up mortgage refinancing on your own, though, not only will this take a lot more time on your part, if for some reason your refinance application is declined, it could impact your eligibilty to qualify with other lenders as well.

Here are some of the benefits you expect when working with us:

- **Goal and Objectives:** We will spend time identifying what is important to you now in terms of refinancing – as well as what you are looking to achieve in the future
- **Transparency:** We will help you understand all lender fees and charges so you are given a clear indication of how much you can expect to save
- **Loan Structuring:** We will present you lending solutions that could accelerate the speed you pay off your loan
- **Save You Time:** Once you make a choice, we will prepare your refinance application on your behalf and submit this to your chosen lender for approval
- **Ongoing Communication:** We will also track your loan through to settlement and keep you informed every step of the way so you know the exact status at all times

Another major benefit of using our service is that beyond our expertise, our service is offered at no charge to you.

And, as we are remunerated by the lender YOU choose once your loan has successfully settled, you can expect we will be working hard on your behalf through the entirety of the loan process.

Next steps

Refinancing your loan or loans can provide a range of benefits, but it isn't a decision to take lightly.

If you would like to find out more about how much you can expect to save and get expert help to have a successful and smooth refinancing experience, contact us for a complementary and obligation free conversation to discuss your options.

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