Is your home loan still right for you?

Our guide on what to consider when it comes to refinancing.

Please note, we do not provide tax, legal or accounting advice. This guide has been written for general informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. We encourage you to consult your own tax, legal and accounting advisers before engaging in any transaction.

Do you know how well your current loan stacks up?

Since you got your home loan, chances are that interest rates may have moved (and life has too).

Has the official cash rate changed since your current loan settled? Has the rate your lender is charging you changed? What about the fees and charges? Chances are the market has changed too. New products designed to attract borrowers are always being introduced, and lending appetites are an ever-moving feast.

Let's not forget that things have probably changed in your life too since you took out the mortgage. Your income may have changed, and your expenses probably have too - your financial goals could also be different. Even though most loans are around 30 years in length, you may be surprised to hear that Australians often change their home loan every 4-5 years as they refinance.

Refinancing is a chance to look at what's out there and see whether your current loan is still the right one for you. If it's not, it may be time to refinance. If you are looking to switch, this guide contains some of the key things you may want to consider.

“More than half of all Australians taking out a mortgage are doing so with the help of a mortgage broker.

Why using a broker is the smart way to go?

- We provide real choice, looking to find you the right deal.
- We work with multiple lenders, not just one.
- We may negotiate a better outcome.
- We help at a time that suits you, doing the legwork for you.
- Our aim is to save you time and stress, and get things moving as quickly as possible.

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Why should you refinance?

Reviewing your home loan every year or two is a good habit to get into.

As the market and your circumstances change, the home loan that was right for you then, may no longer be one that suits you now. You may be looking to save a bit of money, consolidate your debt or unlock some equity you've built up in your home. Whatever your reasons are, it's a good idea to see what's out there on a regular basis. But you should also bear in mind the long term costs of increasing your borrowings.

Low rates and fees

Obviously the first question to ask is, could you be paying less? A loan with a lower interest rate or less fees can be the simplest way to reduce your repayments. It means you can unlock a little more spending money, or better still, pay off more of your principal to pay the loan back sooner.

More Features

But it's not all about interest rates. Sometimes the loans with the lowest rates also sacrifice features that are not only handy, but also save you money in the long run. For example:

01

Offset account

This is a separate account that lets you use the balance to offset the principal on which your interest is calculated. Simply having your pay packet deposited into this account can take time off your loan.

02

Development

Depending on what you think rates are going to do (go up, down, or stay the same), you can choose the type of loan that could save you money when they go down, or protect you if they rise.

03

Flexible payments

Paying some more money into the loan if you have it is a great way to shorten your loan and save more in the long run.

04

Redraw

This lets you easily access any extra funds you've deposited into your loan.

One of the most common reasons to refinance is to renovate.

Refinancing to renovate

If you've owned your home for a while and its value has increased, you may be able to use this equity to fund your improvements. An added bonus is that if you renovate well, you could potentially add more value to your property. If the extra funds for the renovation are put into an 'offset account', you may be able to avoid paying interest on the renovation funds until you start using them.

You could also consider a 'line of credit' loan which is essentially like a credit card with a bigger limit, secured against your property and usually a much smaller interest rate than a credit card. These funds are available to draw down on as you undertake your renovations, and you only pay interest on the amount you have used. Whilst a line of credit offers flexibility the interest rates on a line of credit are generally higher.

Talk to us about your options.

When it comes to refinancing, you need to know exactly what is out there in the market to know what your options are.

That's where a mortgage broker like us can help. We deal with lenders and evaluate loan rates and features day in and day out. We understand the current market and can offer a wealth of information and expertise for you to draw on. Not only will we help you find the right loan, we'll aim to make the whole application and approval process much easier.

The first thing we will do is catch up and chat about your current loan and circumstances, and find out what your needs and goals are, and how they may have changed since you took out your loan. We can then give you an accurate idea of your current costs; identify any potential savings from rates, fees or features; and re-evaluate your borrowing potential. From here we can then help find the right loan for you.

As your broker, we will look for a loan that suits you and your circumstances. With access to multiple lenders and an array of different loan products, we stay up-to-date with the changes within the market and new products from the lenders as they come online. Once we've identified a loan that works for you, we take care of the application process on your behalf.

Why not go straight to a bank?

Of course you can go to a bank, but this can be more difficult than it sounds.

Firstly, which one do you choose? Which of their products is right for you? And what about other lenders, building societies and credit unions? There are a lot of options out there and, with regularly moving interest rates and new products, it's an ever-changing market.

That's why a broker makes sense. We do this everyday. We know the lenders and their products, and we keep up-to-date with changes when it comes to lender policies, products and their different lending appetites. We help choose what's right for you.

Banks enjoy working with brokers, as we do a lot of the work for them and may help speed up the application process.

Put simply, having a broker in your corner makes it easier to find the right loan, saves you time and, hopefully, money.

What's changed in your life?

As a mortgage broker, were very good at letting you know what's changed in the market.

But when you're looking at refinancing, it's just as important for you to walk us through what's changed in your life, as this can be the deciding factor in what type of loan you refinance into.

Firstly, your income may have changed. Hopefully it's gone up, but it may have dropped. Your bank balance could have changed significantly thanks to an investment, business interest, or an inheritance.

You could have had a change in your relationship status, or you may be planning on starting a family. Your living expenses may have increased, or you may have taken out other loans or credit cards. It's also very important to know the change in value of your property since you took out your current loan. All of these factors will influence your new borrowing potential.

What mortgage type suits you now?

There's a lot more to refinancing loans than just finding more attractive rates and fees.

Obviously a low rate is important, but it's not everything. Your new loan may be a different type to your current one and even offer features that will make managing your mortgage easier. We can take the time to show and advise you on the differences of each to help you make an informed decision.

There are many subtle differences between each lender's loans, but here is a basic rundown on the type of loans you could consider.

Variable - the interest rates go up and down depending on the official cash rate, market conditions, and each individual lender's decisioning. When the rate goes down, so do your minimum repayments. But when the rate goes up, your loan repayments will too.

Fixed - the interest rate is fixed for one to five years. Even if rates change, your repayments stay the same. This helps manage your household budget by knowing exactly what you'll have to pay.

Split Rates - one part is variable, the other is fixed. This lets you enjoy the benefits of an interest rate drop but also protects you from being affected fully if they rise.

Interest only - you only pay the interest on your loan but do not repay the principal loan amount. Your repayments are less but you still have the same level of debt at the end of the interest only period. However, an interest only loan interest rates are usually higher, the interest only term can only be for a maximum of 5 years, will cost more over the long term.

Line of credit - you only pay into and withdraw from this account as long as you keep up with the required repayments. You can have your income paid into this account to help pay off the mortgage sooner, but interest rates are usually higher.

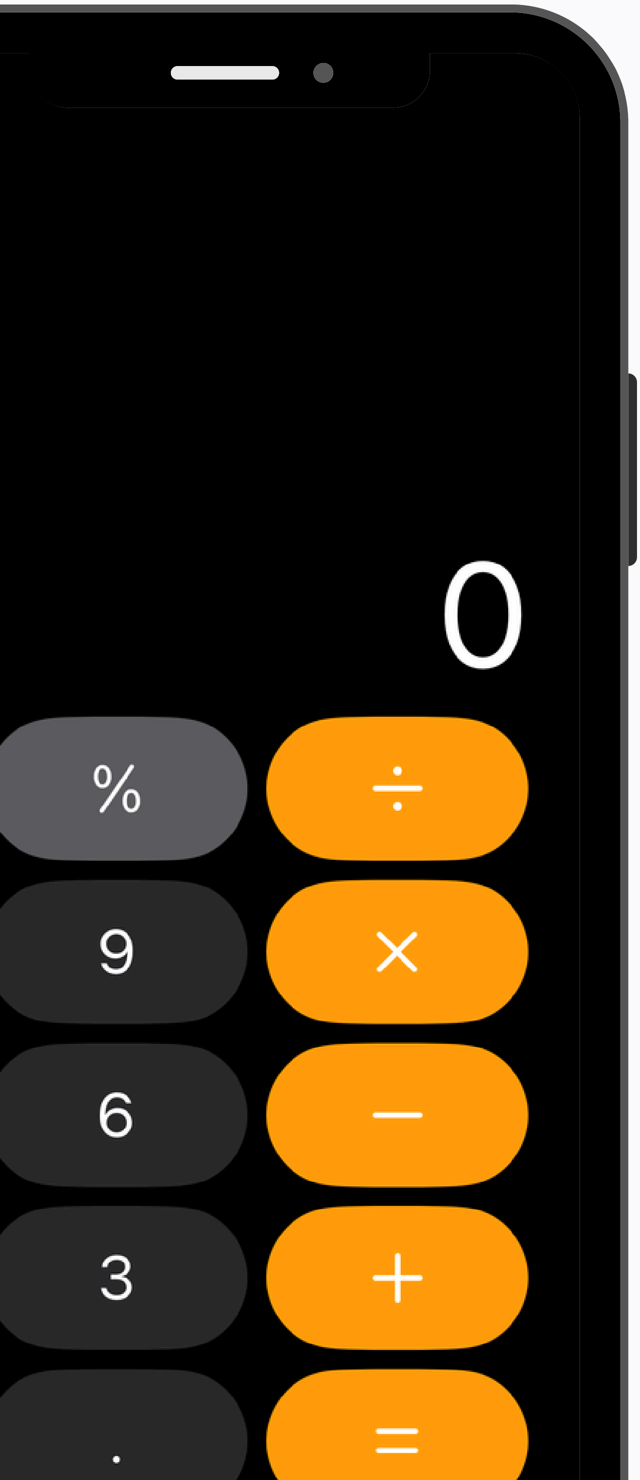
Honeymoon Periods - lenders will make switching more attractive by offering a lower interest rate for the first six to 12 months, and then the rate returns to the standard variable rate.

Low Doc - these are popular with self-employed people because they need less documentation or proof of income. However, they usually have a higher rate of interest or need a larger deposit, or both.

Know the costs of refinancing.

One of the main reasons to refinance is to improve your financial position.

So you'll need to know what other costs are involved in ending one loan and moving to another. Only then can you weigh up the benefits of switching loans. The best way to do this is to speak to your broker, but here are some of the fees and costs that some lenders may charge:



- **Discharged Fee** - a lender may charge you a termination fee.
- **Break Cost** - if you have a fixed rate loan you could be charged a break cost. Fixed Rate Break costs may be payable if you refinance your fixed rate loan before the fixed rate period has expired.
- **Application Fee** - this is often charged in the settlement of the loan.
- **Valuation Fee** - a lender can charge this fee to have your property independently valued.
- **Settlement Fee** - a fee charged once the loan is settled.
- **Registration Fee** - charged when you switch your mortgage to a new lender. This amount varies from state to state.
- **Lender's Mortgage Insurance (LMI)** - if your new loan is worth more than 80% of your home's value, a lender will ask you to pay this to protect them from defaults.

Most lenders will only charge you some of these, not all. When talking through your situation with us, we can help you understand what it will cost to end your current loan, and begin the new one.

"We're here to help make it easier."

If there's something you don't understand or need more of an explanation, please just pick up the phone or email today.

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