OWN HOME LOANS

Change Your Life by Changing Your Home Loan

The ultimate guide to refinancing your mortgage.

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What is Refinancing?

While a mortgage might seem like a long-term commitment, it doesn't have to be. People's circumstances change — as does the market! A mortgage that might've been perfect for you two years ago may no longer be the best fit.

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

Refinancing is when you switch from one loan to another. It's usually done when a more appropriate mortgage for your circumstances is identified.

Refinancing your mortgage can open up the door to so many opportunities. There are many reasons why people refinance, and the outcomes vary depending on your refinancing and financial goals. Refinancing has the potential to make a huge impact on your life.

In this guide, we take you through everything you need to consider when refinancing, to decide if it's the right move for you.

Why Refinance?

There are several reasons people consider refinancing. The main objective is usually to find a loan that better suits their needs. Refinancing can help save money in the short-term, reduce the amount of interest paid over the long-term, help pay off a home loan early, or provide flexibility with money management. The personal impacts of these benefits can significantly change peoples lives.

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 give you access to a lower interest rate.

If interest rates have dropped compared to your current rate, switching loans can help you lower your monthly repayments. This means you will have more money in your pocket to do other things, or you can continue with the same repayments to pay off your home loan quicker!

Whether you choose to spend the savings somewhere else or use them to pay down your mortgage, the choice is entirely up to you!

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.

Choose a fixed rate

If you want more certainty around your repayments, 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 compare how much you can expect to save with different fixed terms.

Switching lenders

If your existing loan or lender can no longer accommodate your personal circumstances, then you may need to look beyond them to achieve your goals.

For example, you might want to access the equity in your property. This may not be easily achievable with your existing lender. Or you might like a lender where there is a local branch or where service is more easily accessible either by phone or online.

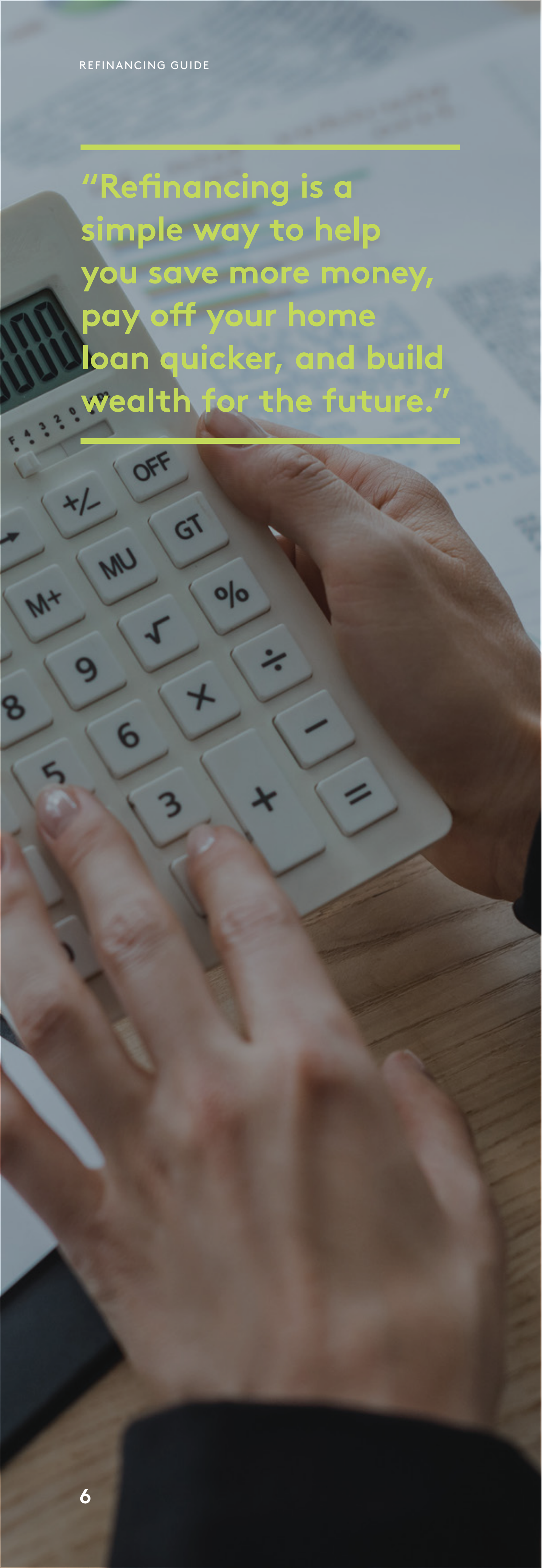
It's also becoming increasingly common for clients to choose lenders that not only accommodate their financial objectives, but who also align with their personal values.

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

Accessing different loan features

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 functionality.

Some great lending features offer you flexible repayments, make it easier to access equity and build wealth, and provide the tools required to manage your mortgage in a way that suits your lifestyle and goals.



“Refinancing is a simple way to help you save more money, pay off your home loan quicker, and build wealth for the future.”

Here is a list of the most common loan features that can be utilised to personalise your mortgage strategy.

- **Flexible repayments:** If you can make extra repayments at no additional cost, it can help you 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. You can use it to deposit your salary, transfer money from other accounts, and use it for everyday spending, like your groceries and bills. It operates just like an everyday account. But it comes with a huge bonus; It also reduces the interest payable on your loan balance. It does this by directly reducing the balance of your loan that interest is calculated on.
For example, if you have a loan of $350,000 and have $10,000 in your offset account, the amount of interest you pay will be calculated on only $340,000 ($350,000 - $10,000).
- **Redraw facility:** A redraw enables borrowers to deposit additional funds directly into their home loan, reducing the interest payable. Those extra funds sitting in the redraw facility can then be accessed at a later point if required. Where 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. Think of it like an everyday transaction account vs a term deposit or savings account.
- **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 in 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 gives you the chance to combine and consolidate debt repayments 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. Also, home loan rates are significantly cheaper than interest on credit cards, so consolidating consumer debt can make the repayments more affordable by hugely reducing the amount of interest you pay.

Change your life

To illustrate how simply refinancing can change your life, consider the following example.

Before refinancing:

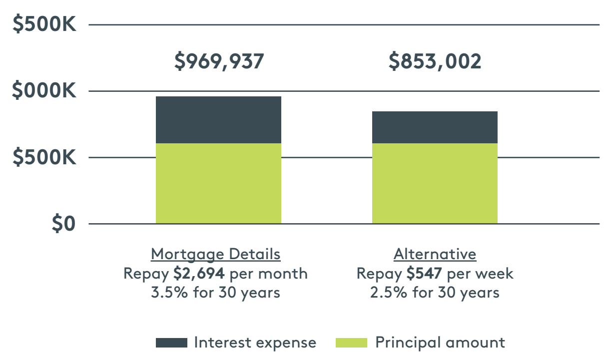
$600,000 mortgage | 3.5% interest rate

$2,694 monthly repayments
30 year loan term

After refinancing (Scenario A):

$600,000 mortgage | 2.5% interest rate

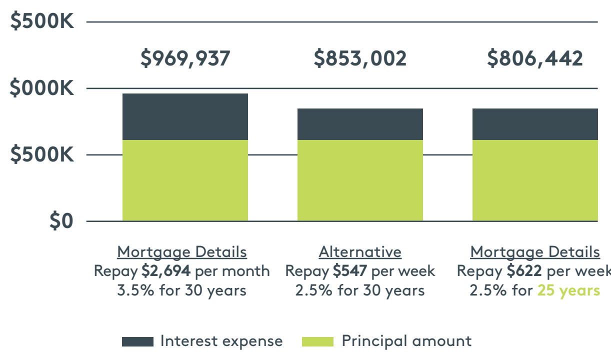
$547 weekly repayments
(equivalent to $2370 per month)
30 year loan term



By refinancing to a mortgage with just a 1% lower interest rate, the total repayments over the life of the loan are $853,002 compared to $969,937. That’s an interest saving of nearly $117,000! Purely by refinancing to a slightly lower interest rate and making weekly repayments instead of monthly.

Not only does this scenario save the borrower nearly $117,000, but they also end up with an extra $324 per month to use as they please.

Now consider Scenario B. If the borrower uses that $324 monthly saving to make additional repayments into their new mortgage.



By continuing to pay the same repayments as their initial mortgage, but with the lower interest rate and making weekly repayments, the loan can now be repaid 5 years sooner with a total interest saving of $163,500.

The two scenarios we looked at here were:

- **Scenario A:** Reduce interest rate by 1% to slash interest costs and have more money to spend each month.
- **Scenario B:** Reduce interest rate by 1% and continue to pay the same repayments to slash interest costs and reduce the length of your loan.

We haven’t even considered our additional strategies that help to reduce costs even further and save more money. This was just a simple illustration of how reducing your interest rate by just 1% can have a considerable impact.

How to Refinance

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

As we've highlighted, refinancing is not purely done to get a lower interest rate. Your existing loan could have a comparable interest rate to a different mortgage product, but subtle differences in features and flexibility could mean the other loan is much more suited to your needs than your existing loan.

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 seek our help to assist them with refinancing, we will look at several variables, including:

- Interest rate
- Loan structure
- Comparison rate
- Fees and charges
- Current and future goals
- Relevant loan features
- The lender, and if they match the requirements (e.g. whether or not a lender with a local branch network is required)
- Calculations of how much could be saved

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 essential to understand your unique circumstances and goals.

Whether it's to consolidate debts, reduce interest repayments, access equity, or build wealth for the future, when we help you refinance, we find a lending solution that's perfectly matched to you and your dreams.

Cost of Refinancing

While refinancing is generally a way to save money, there are different fees and charges that can apply. With high competition, some lenders may waive refinancing fees and even offer a cash incentive to win your business — with some lenders, you can save money by refinancing and make money with their cashback offers.

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

Don't be intimidated by any upfront fees, as they are not charged by all lenders — and sometimes, upfront costs can be negotiated.

Common fees charged:

Loan application fee: A new lender will often charge a fee at the time of application.

Settlement fee: Sometimes, a new lender may charge a fee when paying out your old mortgage.

Valuation fee: This may be charged when you have your property assessed and valued by a professional valuer.

Lender's Mortgage Insurance (LMI)

LMI is a one-off fee paid by the borrower that protects the lender if the borrower defaults on their loan. It is usually only payable if you borrow more than 80% of the value of the home. This means, if your deposit (or in the case of refinancing, your equity) is less than 20% of the property value, you will probably need to pay LMI.

LMI is not transferable, so even if you've paid it with your first lender, if you are borrowing more than 80% of the property value from the next lender, you may be asked to pay it again. This is why it is essential to thoroughly review the costs versus the benefits of refinancing. In some cases, refinancing and paying LMI again will still be in your best interest — but it pays to have a professional help you crunch the numbers.

Exit fees

If you refinance your loan in the first five years, some lenders may charge an exit fee. However, this usually applies only to mortgages taken out and processed 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 loan value when you refinance, you might incur a stamp duty charge. We can help you determine if this is applicable and 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 for registering the mortgage on the title record, and is paid to the Land Title Office (or equivalent) in your state.

Could it Pay to Stay?

Refinancing can be a quick and easy process that provides significant savings and personal benefits. However, because everyone has their own unique circumstances, you might be better off staying with your current lender in some situations.

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

Costly exit fees apply on your old loan

If you have high exit fees, it might mean it's not worthwhile to make the 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 reduce any potential benefit you could get from refinancing.

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 and feel of your home, which could positively affect your home value. Depending on your current loan, you may be able to make additional repayments, reducing your loan amount quicker and increasing 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 improved.

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

How We Can Help You

Refinancing is something you can do on your own. However, having a finance expert in your corner can provide some huge benefits — plus, you pay nothing for our services!

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

- **Goal and Objectives:** We spend time identifying what is important to you now in terms of refinancing and what you are looking to achieve in the future.
- **Transparency:** We 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 present you with lending solutions that could accelerate the speed you pay off your loan, helping you build your wealth faster.
- **Save You Time:** Once you make a choice, we prepare your refinance application on your behalf and submit this to your chosen lender for approval.
- **Ongoing Communication:** We track your loan through to settlement and keep you informed every step of the way, so you know the exact status at all times.

Beyond our finance expertise, our service is offered at no charge to you.

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

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Next Steps

Refinancing your loan 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 complimentary and obligation-free conversation to discuss your options.

BOOK YOUR FREE FINANCE SESSION

*All advice in this guide is general and doesn't take your personal circumstances into account.
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