REFINANCING GUIDE

Understand all your options, with our Refinancing Guide.

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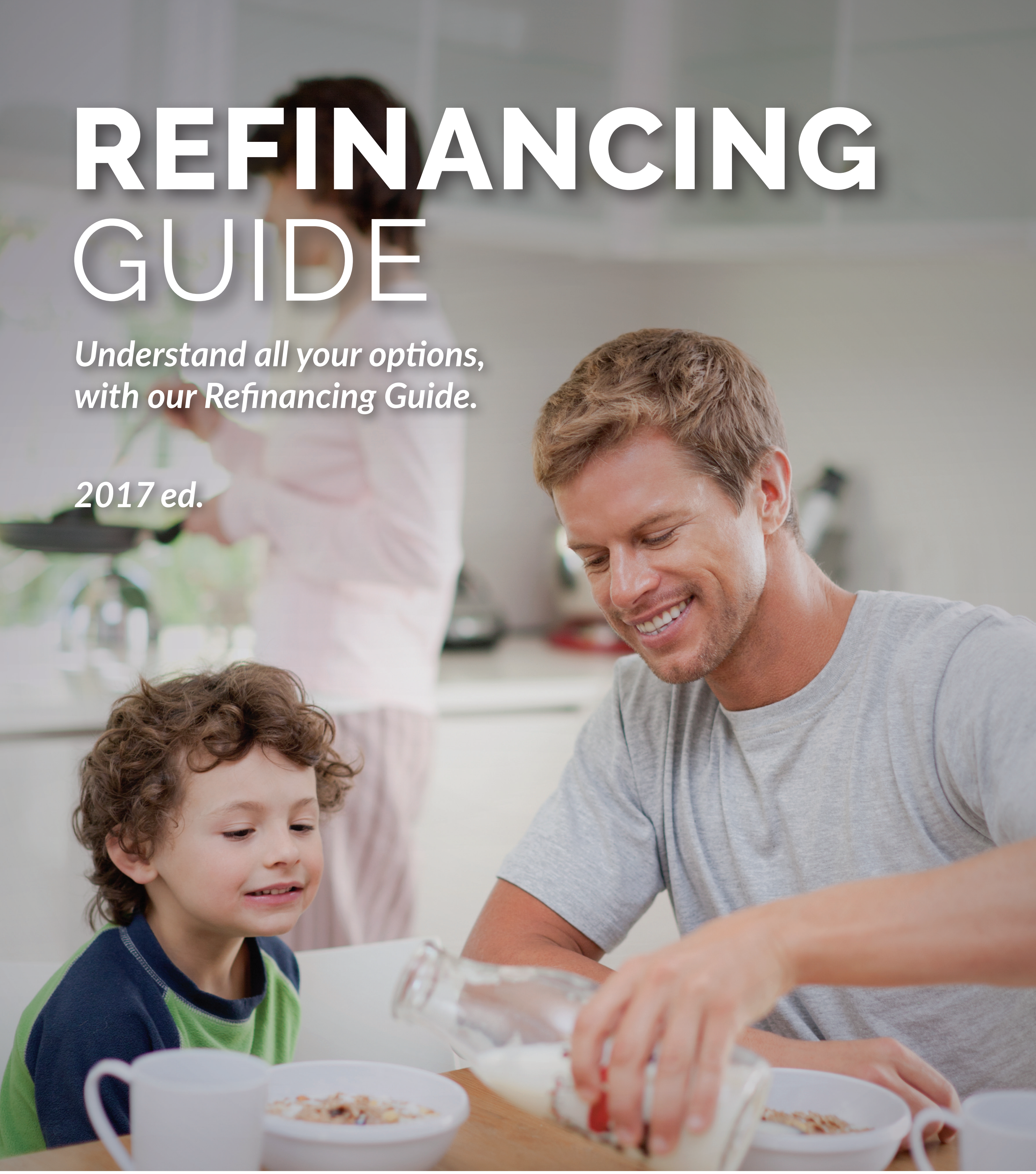

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INTRODUCTION_

When it comes to home loans many of us have a 'set and forget' philosophy. We take out a mortgage, ask for our monthly payments to be direct debited from our nominated bank account, and then we go about our daily life. Rarely do we even consider our home loan, let alone review it.

The reality is that many home loan holders typically only think about their mortgage when it comes time to sell their home and buy another one. And yet, financial experts suggest that all home loan holders should review their mortgage at least once every 2 years. This then allows the home loan holder to possibly reduce their monthly expenses, to save on interest payments long-term and to keep-up with their ever-changing financial needs.

In fact, the experts state that if your home loan interest rate is a percent higher than the current standard variable rate, then it could possibly be time to consider refinancing. For many home loan holders, who have never refinanced before, this is when matters become a little confusing. Firstly, most home loan holders found taking out their initial mortgage daunting, frustrating and even a little scary, so they typically question why they would even consider going through all of that again. And secondly, they have no idea what refinancing is and how it can benefit them.

This guide simplifies the refinancing process so you know what refinancing means and how you can use this to your advantage. Plus, we'll define what the disadvantages of refinancing are, because there are always two sides to every situation. In addition to these points, we'll disclose the costs of refinancing, explain when you should consider refinancing, and show you how you can refinance your mortgage. We'll also explain what the biggest challenges of refinancing are, and how a mortgage broker can help you to refinance so that the whole process is easier for you, and you avoid feeling overwhelmed or frustrated.

So without any further discussion, let's find out what refinancing is all about.

WHAT IS REFINANCING?_

Simply put, refinancing means switching your existing home loan with another mortgage product. This, in many cases, gives you greater home loan flexibility with added features and, can reduce your interest rate. However, the key to using refinancing effectively is for you to identify your needs and to then find the right opportunity to meet these needs. For instance, you might have your eye on an investment property, but you don't have the money for the deposit. Refinancing your existing home loan can allow you to use the equity you have in your home as a deposit. Refinancing can also allow you to consolidate your debts and to reduce your monthly payments. So, instead of you having many payments to make, you only have one.

Changing Home Loans

Gone are the days where you could choose between a basic fixed-rate home loan or a variable. Today there are far more home loan products on the market that cater to many different situations, such as new home construction, renovations to existing property and investment property buying. Even individuals who want to buy a home, but have a poor credit rating can now get finance. Let's look at some of the most common types of home loans that you'll encounter.

- **Basic Home Loans** - A no-frills home loan that will typically have no features and little flexibility. A basic home loan will often offer a lower interest rate than a loan with more features. This is an ideal home loan for those looking to pay-off their home fast.
- **Standard Variable** - This is the most popular home loan due to it combining a mixture of flexibility and features with a low interest rate. You can choose to add an offset account, redraw facility or a line of credit to this home loan, or you can split your interest rates. However, these come at a cost, which is usually a slightly higher rate of interest than a basic home loan.
- **Fixed Rate** - This home loan allows you to fix your home loan interest rate for a term of 1 to 5-years. This gives you peace of mind and allows you to budget. But this kind of home loan comes with reduced flexibility, as making additional payments and exiting before the end of the term can incur fees.
- **Interest Only** - Only the interest portion of the loan is paid monthly with this type of loan, which reduces the amount repaid to free-up capital. The principal is repaid at the end of the interest only loan term. This type of home loan is suitable for investors and home buyers.
- **Line of Credit** - Once approved, this type of home loan gives you access to an agreed amount of credit that can be withdrawn when and where you wish, for whatever purpose. You will only be charged interest on the amount you use.

Changing Needs

A home loan is a long-term commitment that can span over 20 to 30 years. During this time your personal and financial needs will change. For instance, you may wish to reduce your home loan payments to make them more affordable, extend your home to accommodate your growing family, renovate to add value or to put in a swimming pool. Whatever you need personally or financially, refinancing can help you. Refinancing can help you achieve these goals, and many more, whether these be financial or personal.

In fact, one of the most common reasons for refinancing is to reduce monthly repayments. Let's say you have a car loan, credit card debt and store accounts that you pay monthly along with your home loan. Let's say that these payments are becoming too much to handle, and you want to reduce your monthly expenditure, along with the number of payments you make. Refinancing your home loan can cover all of your debts, with you being able to pay these out. You will then have one easy monthly payment to make, rather than many.

Identifying Better Opportunities

Rather than having a set and forget mindset when taking out a home loan, financial experts suggest that you review your home loan at least every 2 years. This allows you to ascertain exactly what your current interest rate is, what fees and charges you're paying and if your current lender is giving you a 'good deal'. If you find that you are paying a percent or more higher in interest than the current standard variable rate on the market, then it may be time to consider refinancing. To identify better opportunities, look at home loan rates online. You can either carry out a comparison of home loans yourself or you can contact a mortgage broker to carry out a comparison on your behalf.

Additional Home Loan Features

Many home loan holders look for features that offer them additional security and access to funds if, and when, they need them. They also seek features that allow them to pay-off their home loan faster. The most common features you'll encounter are as follows:

- **Offset Account** - A savings account that is linked to your home loan. The balance of the account is used to reduce the amount of interest you pay on your loan each month. Therefore, the higher the offset savings account balance, for longer, the less interest you'll pay. Just bear in mind that you won't earn any interest is earned on your offset savings account.
- **Redraw Facility** - When you pay more than the minimum monthly amount on your home loan this accumulates and you can use this amount at a later date. Many home owners use their redraw facility to save for school fees, a holiday or renovations, and at the same time the money is reducing the amount they are paying in interest.
- **Split Rate or Combined Home Loans** - This loan allows you to fix a portion of your home loan for a set term, and leave the rest variable. This then gives you the best of both worlds. You can pay more off the variable portion of your home loan and have access to the features this comes with. Whereas the fixed portion of your home loan gives you peace of mind knowing that if interest rates rise, not all of your home loan repayment will increase. This then allows you to budget and to have greater financial security.

ADVANTAGES & DISADVANTAGES OF REFINANCING_

What are the Advantages of Refinancing?

Refinancing is ideal for a home loan holder who is seeking to reduce their monthly home loan commitment and to find cost-effective ways to get ahead financially. If you carry out research adequately, refinancing can offer the following advantages:

1. Consolidating Debt

You can reduce your monthly expenses by merging your financial commitments into one easy payment.

2. Greater Access to Home Loan Features

You can gain more flexibility with additional home loan features.

3. Access Equity

Over time, the value of your home typically increases and the amount you owe on your mortgage decreases. Equity is the value of your home, less the amount you owe on your mortgage. For example, a home bought for $120,000 is valued at $420,000 10 years later. Over this time, the home owner has paid off $85,000 on the loan principal. Therefore, they owe $35,000 on the home. The equity in the house is $420,000 (home value) - $35,000 (the amount owed on the home) = $385,000. This home owner can now elect to use some or all of the value they've built up in their home to finance other projects, such as home renovations, purchasing an investment property or to even go on a holiday or pay bills.

4. Reduce Interest and Fees

Refinancing can allow you to lower your interest rate and you can reduce the ongoing fees and charges that you are currently paying. For instance, let's say you're paying 5.99 % on a home loan of $250,000 over 25 years, and you're paying $260 a year in fees. A comparison on home loans reveals that you can take out the same type of home loan with a 4.99 % interest rate and pay fees of just $120 a year. Over the term of the loan you'll save $48,262.02.

5. Switching Loan Types

You can change your loan type when refinancing. This allows you to better manage your finances and can give you added security in times of change. For example, if the official cash rate looks like it is going to continually rise, you can select a fixed term loan type that allows you to fix your interest rate for a specified term of 1 to 5 years.

What are the Disadvantages of Refinancing?

With the good comes the bad. Therefore, before you decide to refinance you need to consider what the disadvantages of refinancing are in relation to you and your circumstances. If these disadvantages can be overcome and the advantages outweigh these, then refinancing may still a viable and cost-saving option. When considering refinancing, you may encounter the following disadvantages:

1. Added Expenses

Loan costs, exit fees and ongoing bank charges are some of the added expenses that you can encounter when you refinance. These expenses can add-up and, in some cases, can be worth thousands of dollars. This is why it is important for you to look critically at your existing home loan and those that you are comparing, and for you to ask your lender what costs you'll encounter if you elect to refinance. Working out these added expenses in advance will determine whether or not refinancing is a viable option that will save you money long-term. Failing to work out these costs before you refinance, may see you fork out thousands and never break even.

2. Higher Interest Rates

Look at home loan interest rates critically. Some home loan interest rates appear low at a glance, but when you start reading the fine print of loan terms and conditions you may discover that this rate is introductory and will revert to a much higher rate after a certain time has elapsed. If you're electing to go with a variable rate home loan, remember that these rates can change, so if you're only getting a marginally better interest rate this may be gone in a matter of months as the market changes. Think long-term, rather than short-term when you look to refinance. This will see you reap higher rewards.

3. Less Home Loan Features

You may find that your current home loan offers you more in the way of features than a new home loan will. Therefore, you need to decide which home loan gives you the better deal. To do this consider interest rates, features, costs and charges. Then consider whether or not you need a home loan with all the added extras. Ask yourself if you'll use these. If you won't then think about taking out a basic home loan. These will save you long-term as the interest rate is lower. Home loans with added features typically cost you more in interest.

4. You Will Need to Gain Re-Approval

When you refinance your home loan, you typically are applying for a new loan. This means that you will have to provide proof of income and go through the home loan approval process again, so if your circumstances have changed, this may affect your eligibility for the loan. For example, if you have more dependents or you're now a single income family, then it may be harder for you to gain approval.

WHAT ARE THE COSTS OF REFINANCING?_

Always look at ALL of the costs in-depth before you commit yourself to a new home loan. Yes, this can be a little time consuming. But, it's well worth the effort, especially when you can save yourself thousands of dollars. Let's look at some of the costs you may come across.

Application and Establishment Fees

When you refinance you'll need to apply for a new home loan. This means that you'll encounter home loan application charges, possible contract fees and other fees that are associated with the new home loan. But, in some cases, lenders will waiver these costs, especially if it means they can gain your business. So, don't be afraid to ask for a better deal and negotiate when you discuss your refinancing options.

Some fees you'll possibly encounter are:

- **Home Loan Application Fee** - One-off fee charged at the time of application. This fee typically ranges from $400 to $1200 and is an administration charge for the preparation of documents.
- **Home Loan Contract Fee** - A fee charged for the drawing-up of the home loan contract. This is a one-off fee that can cost from $100 to $300. Not all lenders charge this fee as this cost can be considered as a part of your application fee. But, in some cases, this fee will be an additional cost.
- **Account Fee** - This is an ongoing charge that ranges from $5 to $20 that is typically charged for account keeping on a monthly basis.

Exit or Early Settlement Fees

Break costs from your existing home loan and any discharge fees, such as deferred payments can be costly. For instance, if you took out a fixed-rate home loan at a higher interest rate than the current market rate, then the fee to break the home loan term may run into thousands of dollars. This is why it is important for you to work out your costs, based on your own personal circumstances, not based on hypothetical or average costs.

Fees that may be applicable to you are:

- **Early Exit Fee** - A one-off fee charged when you exit your home loan before the end of its specified term. However, this fee, by law cannot be charged on any home loan taken out after July the 1st 2011. However, home loans taken out before this date can incur a fee of between $200 and $2,000, but it cannot be any more than the cost of the lender's loss, which is incurred by early home loan termination.
- **Deferred Payment** - When a home loan is taken out, some fees are deferred until the last payment of the loan. This can include application and contract fees. Make sure you ask your lender about any deferred fees or check your home loan contract to see if you have to pay any fees.
- **Discharge Fees** - Also known as 'discharge of mortgage fees', this fee is a one-off payment made when you pay-out your home loan. This fee typically ranges from $200 to $500, but may be more.
- **Break Costs** - This fee is charged if you have a fixed-rate mortgage and you wish to finalise your loan with your lender. Typically, this fee is only charged if you borrowed at a higher interest rate than the current market rate. This is because your lender has paid more to borrow on your behalf than they will get back when you pay out your mortgage. Break fees can cost thousands of dollars and are calculated using the Bank Bill Swap Rate (BBSR), so that a lender can calculate the cost of funding your loan. Fees of $10,000 + are not uncommon for an average $300,000 home loan.

Valuation Fees

A new lender may wish to value the property to establish whether or not it is a viable asset. Most lenders will charge a fee for this to be carried out as they employ their own agent. Standard home valuations can cost between $200 and $500.

Lender's Legal Fees

The legal fees for a home loan include mortgage title transfer and other legal costs, such as stamp duty and conveyancing fees. These can add-up to thousands of dollars, in some cases, while in others these may be minimal. Let's look at how these fees are calculated.

- **Stamp Duty** - This fee varies from state-to-state and depends whether you are buying an investment property or a home to live in, and is based on how much you are borrowing and the value of the property. When you refinance, you typically only pay stamp duty if you are increasing the amount you are borrowing or if the borrower's names on the mortgage documentation change. If you are borrowing more, then stamp duty is only paid on the increased value, not on the original amount. Stamp duty can be costly and run into thousands of dollars.
- **Mortgage Title Transfer** - When you change lenders or your type of home loan, the mortgage title will need to be transferred. The cost of this varies in each state and is calculated either as a flat fee or as a percentage of the property value. Costs range from $100 to $2,400 or more. A conveyancer is a property lawyer or solicitor who carries out the mortgage title transfer and registration when a home loan changes.
- **Mortgage Registration Fee** -You'll also need to pay to register your new mortgage. This fee also varies in different states, but typically costs between $100 and $300.

WHEN SHOULD I CONSIDER REFINANCING?_

The more home loan products available and the more lenders in the marketplace, the greater the competition to gain your business. At present, the lending marketplace has never been more competitive. But, timing is everything when it comes to cost-effective refinancing. You should consider refinancing if you fall into one or more of the following categories:

Varying Interest Rates

If your current interest rate is 1% or higher than the standard variable market rate, then it may be time to start comparing home loans. Any less than this, and refinancing may not be a viable option. For instance, on an average home loan of $300,000, over 25 years, a 1% difference in interest rates will typically save you around $170 a month. Over a year, this is approximately $2040 or $51,000 over the lifetime of the mortgage.

Features

If you find that your home loan's suitability and features no longer cater to your long-term goals, then it may be time to look at alternatives. Just be aware that features might cost more, so your interest rate could be higher than the standard variable market rate.

Customer Service

There is nothing worse than feeling like a number in a queue or that you're just not all that important. So, if you're finding that your questions are not being answered or that service fees and charges are becoming too expensive, then refinancing may make you feel better about who you're doing business with. For example, some lenders may only offer online banking. This can be a very convenient service for some, however you may find that you prefer face to face contact and thus decide to change lenders. After all, your lender is making money from you via your home loan, which, in turn, means you're paying your home loan provider for their service. So, if you're not happy, then make changes.

Your Needs are Not Catered to

Some home loan providers offer an extensive list of home loan products that come with numerous features, while other have a limited selection of home loan products that provide you with very little features. All lenders are different, and their products cater to different borrowers with varying circumstances. So, if you feel that your current lender can no longer cater to your needs, then it may be time to see what other lenders have to offer you. For instance, a non-conforming lender caters specifically to the needs of a borrower with a poor credit history, but they typically charge a much higher interest rate. So, if you took out a loan with this type of lender 5 years ago and your credit history has now markedly improved, but your existing lender won't lower their interest rate, then you may need to look for another lender who can.

HOW DO I REFINANCE?_

There are a number of steps that you need to carry out to ensure that refinancing is the best option for you. These are as follows:

1. Research

- Research the mortgage market by going online and typing “Home loan comparisons” into a search engine. Select a comparison website that is Australian and then look at the different products that are available.
- If you find products that are better than your existing home loan, then print these out. Remember you need to focus on an interest rate that is lower than your existing rate by 1% or more, for it be viable.
- If you find this process a little overwhelming, then consider finding a mortgage broker. They can conduct a mortgage comparison for you and most of the time this service comes FREE of charge.

2. Evaluate

- Compare home loan products, write down the “good” and “bad” points of each product.
- Once you’ve found a number of home loan products weigh these up against each other.
- Think long-term. Look at interest rates, fees and charges, as well as features.

3. Review

- Find your existing home loan contract.
- Critically look at and review your current home loan.
- Look at how many years you have left your mortgage, what your costs and fees are, especially to exit the mortgage, and your current interest rate.
- If you have a variable rate that has changed or you cannot find these aspects in your contract, then ask your lender.
- Also look at your home loan features. Then compare this to the home loan products you liked.

4. Discuss

- Talk to your existing lender and/ or a mortgage broker.
- Arrange a time to meet with your existing lender and/ or a mortgage broker to discuss your home loan options.
- At the meeting let your lender and/or broker know that you’re seeking to refinance and why.
- Then ask if your lender and/ or broker has any home loan products that they think are suitable or if they can match the best home loan you’ve found. Find out what deal they can give you.
- Make sure you ask about the costs of the new home loan and any costs to exit your existing home loan.
- Ask your lender and/ or broker to print-out any new home loans and the facts associated with each. Concentrate on the interest rates, fees and charges, and features of each home loan.

5. Calculate

- Weigh-up the costs of refinancing short and long-term.
- Take all of the home loan information that you've collected and then calculate how much your existing home loan will cost you over your loan term using:
- your existing interest rate;
- your existing interest rate plus 1%; and
- your existing interest rate plus 2%.
- Add any other costs such as fees and charges over the term of your loan.
- Do the same with each of the home loans you are thinking about changing to.
- Make sure you add any exit fees from your existing home loan to each of these.
- Write down the exact amount you will save or lose by refinancing.

6. Deliberate

- Consider your options.
- Don't rush into anything.
- Crunch the numbers and contemplate these.
- Think about the pros and cons of each home loan.
- Focus on the long-term gains to be had, and your objectives.

7. Decide

- When you're ready, make a decision about whether or not to go ahead with refinancing.
- Decide which option is the best for you and your circumstances.

8. Refinance

- If you decide that refinancing is for you, then contact the lender directly or use the services of a mortgage broker.
- Get the ball rolling before interest rates change.

WHAT ARE THE BIGGEST CHALLENGES OF REFINANCING?_

There are 4 main obstacles that most people encounter when it comes to refinancing. By knowing what these are you can possibly avoid and overcome these. These challenges are as follows:

Time

Most of us are busy juggling work, home life and other commitments. We are often time poor. Therefore, making time to look at, review, and compare our existing home loan with others on the market can be considered as too time consuming. Making time is the only solution. Set aside 30 minutes a day to look at and review your mortgage, and to look at your options. If there is no way you can do this, then consider using the services of a mortgage broker. They make home loan reviews and comparisons easy and take out a major time component.

Knowing When to Refinance

Timing is the key to effective refinancing. If you refinance too soon or too late, then it can be very expensive. To avoid this, keep your eye on the official cash rate and the Australian economy. If it looks like interest rates are going to go up, then consider your options before they turn. Review your existing mortgage. Ask yourself what your long-term goals are. If you're looking to pay off your home fast or want to move in the near future, then stay with your current lender. Remember refinancing needs to be a long-term commitment for it to be viable. Always consider your personal and financial circumstances.

The Approval Process

The home loan approval process can be daunting. You have to apply for a new home loan, pay your fees and then submit documents to prove your identity, how much you earn, and what assets and debts you have. It's about as personal as you can get, and many people feel like their life and financial situation is under a microscope. Then you have to wait nervously to see if your lender will accept your application. If you're turned-down, you feel inadequate. If you're accepted, you often wonder if you've made the right move. Sound familiar?

Thankfully, most lenders make the application and approval process as easy and fast as possible. Plus, if you use a mortgage broker, they usually do most of the hard work for you, and they liaise with the lender on your behalf.

Making a Decision

Deciding what is right for you and your circumstances is never an easy process. Many of us tend to stay with our same lender because we don't want to change, and we then find we've made a poor decision. If you're concerned about the risk associated with change, just remember that you took a risk the day you took out a mortgage. Staying with the same lender is an excellent idea if they're providing you with a cost-effective home loan. But if they're not, then don't procrastinate. You work hard for your money. Always do what's best for you personally and financially.

CAN A MORTGAGE BROKER MAKE REFINANCING EASIER?_

Taking out a mortgage can be frustrating. It's a complex process and one that many of us dread. Many of us find it difficult to understand the course of action and to find time to wade our way through the application process. This is where a mortgage broker comes in. An experienced broker can reduce the effort needed on your part to secure a home loan, and they'll take their time to explain everything to you every step of the way. Basically, a broker does all the hard work, then you select a suitable home loan for you.

What is a Mortgage Broker?

Simply put, a broker works with you to determine your borrowing needs and financing ability. They then help you to select the right home loan to match these attributes.

How Can a Mortgage Broker Help Me with Refinancing?

Broker's take the hard work out of refinancing. They do the following for you:

- Compare home loans;
- Help you to review your existing loan;
- Negotiate with lenders on your behalf;
- Explain processes;
- Assist you to fill-out an application;
- Have access to numerous lenders;
- Have a wide range of loan products; and
- They're lending experts.

What Costs are Associated?

Some brokers charge a consultation fee. So, ask before you set-up an appointment, so that you avoid unexpected costs. However, in most cases, brokers rely solely on a commission paid by the lender who finances your loan. Different lenders, pay different commissions.

The Benefits of Using a Broker

A mortgage broker represents many different lenders and their home loan products, enabling you to find the most suitable loan for your circumstances. A broker will manage the loan application process for you. For many people, this simplifies the home buying process, giving them expert advice before they make a decision.

Key benefits

- A good broker can provide you with a wide selection of home loan products.
- Brokers typically represent a variety of lenders. This includes banks, credit unions and building societies.
- A broker can compare home loans for you, saving you time and helping you find the most affordable loan.
- Most brokers don't charge you a fee for their service as they are paid by a lender after settlement of your loan.
- Brokers will assist with the paperwork, including government grants and dealing with lenders.

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