Will refinancing save you money?

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

When was the last time you reviewed your home loan?

Things are constantly changing in the mortgage landscape, and chances are your interest rates and personal circumstances may have changed, too.

Let's start with these questions:

Has the official cash rate changed since your current loan settled?

Has your lender's rate changed since the settlement?

What about fees and charges? Have they moved, too?

Chances are your answer will be 'yes' to some of those questions. That's because new products designed to attract new borrowers are always being introduced to the market and the lending appetite is an evermoving feast.

Things have probably changed in your life since you took out the mortgage. Your income, expenses and financial goals could be very different from when you signed your contract.

Even though most home loan terms in Australian are 30 years long, many Australians refinance their loans every 4-5 years.

Refinancing is a great chance to look what your options are and see if your current loan still is the right one for you.

If you want to make sure your loan is best option out there for you, this guide will go through some of key things you need to consider when it comes to refinancing.

Please note, the content of this guide is general in nature and is presented for informative purposes. It does not take into consideration your personal situation and may not be relevant to circumstances. Before taking any action, consider your own circumstances and seek professional advice.

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

Why is this the smart way to go?

- We narrow down what your best options are based on your goals and needs. No loan is ever the same!
- We work with multiple lenders. That means more opportunities for you.
- We take care of your application from start to settlement. Our aim is to save you time and get things moving as quickly as possible.
- We're equipped to negotiate better outcomes. We've helped thousands of customers find the right loan.

Why should you refinance?

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

As the market and your circumstances change, the home loan that was just right for you then, may no longer suits you anymore. You may be looking to save money, consolidate your debt or unlock some equity. Whatever your reasons might be, it's always a good idea to check what's out there on a regular basis.

Lower 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 yet, pay off your loan sooner.

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

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.

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.

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

Flexible rates: Some loans allow you to split your repayments into a fixed-rate component and a variable-rate component. This sort of loan lets you enjoy the benefits of an interest rate drop and also protects you from being fully affected if they rise.

Each lender will have its own terms and conditions, offering some of none of these features.

Refinancing to renovate

One of the most commons reasons to refinance is 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 sing them.

You could also consider a 'line of credit loan' which is essentially like a credit card with a bigger limit and usually a much smaller interest rate.

These funds are available to draw down on as you undertake your renovations, and you only pay interest on the amount you've used.

Why should I use a mortgage broker?

When it comes to refinancing, how do you know what the best option is?

That's where we come in. We deal with multiple lenders on a daily basis and keep up-to-date with loan rates and new features. We have a deep understanding of the market and can offer you a wealth of information.

The first thing we will do is chat about your current loan, circumstances, needs and goals.

Once we understand where you stand, we can give you an accurate idea of your current costs, identify any potential savings and re-evaluate your borrowing potential.

There are literally hundreds of different loan products to choose from. We work hard to help you find the right one for you.

Our job as brokers is to find you a loan that suits you and your current circumstances.

Once we've identified a loan that ticks all your boxes, we take care of your application from beginning to end.

Why not go straight to a bank?

Of course you can go to a bank, but this option might be trickier 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?

Australia is indeed a lucky country. We have plenty of options when it comes to mortgage. But with so many lenders with so many products with regularly moving interest rates and policies, the task of finding the right loan might become overwhelming.

That's why a broker makes sense. We do this every day. We know the lenders, their products and policies and we keep up-to-date with regular changes. We help choose what's right for you.

Banks enjoy working with brokers because we make their jobs a lot easier. We know how the process works and what a successful applications look like.

Simply putting, having a broker in your corner will make finding the right loan a lot easier, save you time and, hopefully, money.

What's changed in your life?

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

But only you know what's changed in your life. When it comes to refinancing, it's really 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.

Let's look at some examples:

- Your income may have changed - hopefully, it's gone up!
- Your bank balance could have changed significantly thanks to business interest, an investment, or even an inheritance.
- Your relationship status may have changed. You might be planning to start a family or maybe you've already started one!
- Your living expenses may have increased, or you may have taken out other loans or a credit card.

It's also very important to know the change in value of your property since you took out your loan. We'll look into that for you as well.

All of these factors will influence your new borrowing potential and what loan you're going to choose.

What loan type suits you now?

When it comes to refinancing, there are two very important things we need to consider:

TYPES OF INTEREST RATES

Most types of home loans will have these three options:

01 VARIABLE INTEREST RATE
A variable interest rate is a loan with an interest rate that is influenced by market conditions. If interest rates go up, so do your repayments. If they go down, your repayments will, too.

02 FIXED INTEREST RATE
That name says it all. Fixed-rate loans will have a 'locked' rate for a certain period, usually between one and five years. With a fixed interest loan, you will know exactly how much your repayments will be. These types of loans offer certainty and security. The downside is that your repayments won't decrease if interest rates fall.

03 SPLIT INTEREST RATE
The best of both worlds. Part fixed, part variable. With a split home loan, your repayments are split into a fixed-rate component and a variable-rate component. For example, let's say you borrow $500,000, you can fix $300,000 and keep $200,000 variable.

This sort of loan lets you enjoy the benefits of an interest rate drop and also protects you from being fully affected if they rise.

PRINCIPAL AND INTEREST VS. INTEREST-ONLY REPAYMENTS

Home loans are made up of two parts: the principal and the interest.

- The principal is the initial amount you borrowed.
- The interest is the amount the lender charges you for borrowing the initial amount.

Most types of home loans will also have these two repayment options:

05 PRINCIPAL AND INTEREST REPAYMENTS
A very popular repayment option for most. Each repayment you make reduces the principal, as well as the interest. So gradually, your repayments will be paying off more of the principal and less interest because you're chipping away at the balance from the start.

06 INTEREST ONLY REPAYMENTS
Interest-only repayments delay the repayment of the initial amount borrowed – the principal – for a period of time. You only start paying off the principal at the end of that period.

During the interest-only period, your repayments will be significantly smaller, but over the life of the loan, you'll end up paying more interest.

Know the costs of refinancing

Refinancing could improve your financial position, but you should be aware that there might be some costs to switching loans.

Here are some of the fees and costs that some lenders may charge:

DISCHARGE FEE
A lender may charge you a termination fee.

BREAK COST FEE
If you have a fixed rate loan, your lender could charge you a break cost fee. Also called 'early exit fee' or 'early repayment penalty'.

APPLICATION FEE
Some lenders may charge application fees when you decide to proceed with the loan.

VALUATION FEE
A fee charged by your mortgage lender for commissioning a mortgage valuation.

SETTLEMENT FEE
You may need to pay a settlement fee if you've had your loan for a specified period (e.g. five years).

REGISTRATION FEE
This fee is charged when you switch your mortgage to a new lender. The 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, lenders might ask you to pay this fee. LMI protects the bank against any losses that may incur if you are unable to repay your loan.

WE'RE HERE TO HELP MAKE IT EASIER.

If there's something you don't understand or need more explanation, please email or call us today!

Get in touch with us

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