Refinancing Guide.

loanseeker.
Homeloans

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Why Refinance

Life doesn’t stand still. And neither should your mortgage.
The mortgage that helped you purchase your first home isn’t the same one that will best serve you for twenty or thirty years. Why not? Well, for one, your lifestyle needs will change and so will your financial circumstances.
As a result, your home loan needs to keep pace with the stage of life that you’re at. Your mortgage is a flexible financial tool that can help you achieve a number of different aim

Get the latest loan features.
Maybe you’re missing out on ways to make your home loan work harder for you with features such as:
– Flexible repayments — if you can pay a little extra without being penalised, you could save on interest and own your home sooner
– Redraw — withdraw any extra repayments when you need a little cash
– Flexible rate options — switching between variable and fixed rates or splitting your loan, may help you manage your mortgage as interest rates move
– Portability — Can your loan move with you? This could make life easier down the track and help you save on fees
– Repayment holiday — some loans give you the ability to take a break from repayments or switch to interest-only payments for an agreed period. Great if you’re having a baby or taking an extended trip.

Find a lower rate.
While a great rate alone shouldn’t be the only factor in choosing a home loan, it can certainly make a move worthwhile. The mortgage market is always competitive and with thousands of loans from many lenders, your Loanseeker Broker may be able to pinpoint a better deal for you.
As your life situation changes, perhaps you’re paying for features you don’t really use or need.
Consolidate other debts.
Some loans will let you fold other debts such as credit cards or personal loans into your home loan. You'll be saving with a home loan rate that's usually much lower than other credit and only have one set of paperwork to deal with.
Use our online Budget Planner tool at Loanseeker.com.au to see how consolidating debt could work for you.

Unlock your home equity.
You could be sitting on the funds for your next investment. If your home is worth more than the balance on your loan, then you have home equity. Refinancing could let you unlock that equity to invest in shares, managed funds or even your next property.
Equity can also be used to invest in other things that are important to you — paying for your children's education, renovating your kitchen or even going on a holiday.
Of course, borrowing to invest (also known as gearing) is not without its risks — see the table on page 4. Your Loanseeker Broker will be pleased to discuss your goals and we'd always recommend you

speak with your financial advisor or accountant before you decide it's the right move for you.

When to Refinance

As you can see, there are no hard-and-fast rules when it comes to stepping out on the refinancing path. This is why it's worth keeping a watchful eye to see what the market is doing and schedule in those regular annual or bi-annual reviews with a lending specialist you trust.

In addition to this, here are some indicators that the time may be right to change your current loan

- Reaching the end of your fixed-rate mortgage period
- You notice that interest rates are low, which is why it is worthwhile tracking these monthly
- Your family is growing and you need either more money or more flexibility with regards to your loan terms
- Significant changes to you or your partner's career, which can include either a promotion or the loss of employment
- Planning house renovations • Looking to purchase a rental investment property
- Nearing retirement and in need of extra funds
- And many, many others

These are just some of the numerous reasons why you may want to look at refinancing and the amount of home loan products available these days can cater to most circumstances.

General Rule of Thumb

One handy rule-of-thumb to follow when deciding on whether to refinance or not is to see how much higher your home loan rate is compared to the current average variable rate. If your rate is higher by one percent or more then this is a good indicator that it's worth looking into refinancing your current home loan.

Another indicator that it may be time to refinance is if you work out that you can trim at least half-a-percent from your home loan by refinancing. While it may not seem that significant an amount, this can really add up over the life of your loan.

Know your borrowing capacity

If you're thinking of refinancing and increasing your borrowings, lenders will be looking for many of the same things you had to provide when you applied for your current home loan. Needless to say, you need to know how much you can afford to repay each month. That's why it's essential to consider all your current and future outgoings to be sure you're not over-committing.

To decide how much you can borrow, lenders will consider:

- **Your income** — which should comfortably cover all your living costs as well as the repayments on your new loan
- **Your repayment record** — how you've managed your past financial commitments, including your current home loan repayments
- **Other financial commitments** — personal loans, credit and store cards, car repayments, hire purchase agreements
- **Your living costs** — including but not limited to household bills, council rates, strata fees, transport and petrol, school fees, entertainment, insurance — they all add up!

When you deduct all of these expenses from your take home pay, you're looking for a figure that will comfortably cover your repayments and give you some room to move too. There are always unexpected costs down the track and your lender may even want to see that if interest rates go up, you could comfortably meet the higher repayments.

Loanseeker Refinancing Tips?

Keeping it Real

- No one — including lenders — wants to be overstretched, so it's important to be realistic and consider all the ins and outs when you're working out your budget.
- Having this information on hand will be very helpful for your Loanseeker Broker in finding the loan that might work best for you.
- You can also use our online Borrowing Power and Loan Repayments calculators to see how much you may be able to borrow and what your repayments will be.
- Check them out at Loanseeker.com.au

Small Amounts Can Lead to Big Savings

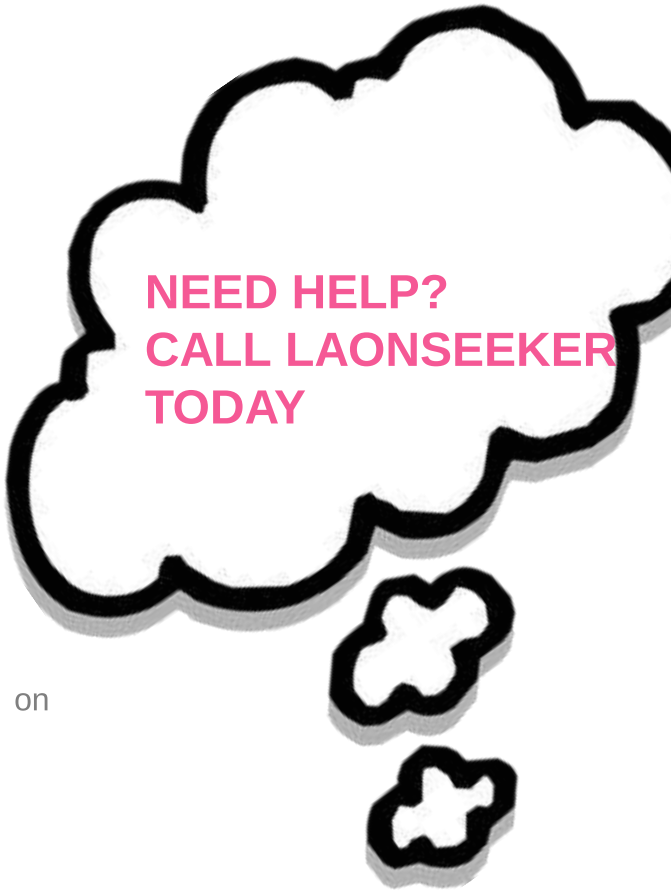
Just as your daily cups of coffee can add up to a significant expense over the course of a year, the same happens with your mortgage payments and fees. Except with a mortgage, due to its long-term nature, the financial effects are even more drastic. Any savings or costs, as small as they may seem when considered from a weekly or monthly perspective, gets amplified over years and decades, turning into tens of thousands of dollars. So it is important to be mindful of every little cost.

As you can see, when weighing up different home loan options and costs, it truly pays to delve into the details. Keep this in mind when evaluating the different home loan types and their features. Always ask yourself the question: "am I prepared to potentially give away thousands of dollars over the next several years in return for having this feature?"

MORE LOANSEEKER TIPS

REFRESH YOUR MEMORY

As you're thinking about refinancing, we know you've been through it all before, but it's worthwhile to take the time to refresh your home loan knowledge. There are many choices out there, so it's important to know what's what. By all means, skip the bits you're already familiar with, but take a minute or two to check your home loan know-how. You might just learn something new.



BASICS

Let's start with the basics.
All home loans — and the repayments that you make – are fundamentally based on two things:

Principal
The amount of money you borrow

Interest
How much you pay to borrow the money, which is calculated on your outstanding principal.

LOAN TYPES

VARIABLE RATE LOANS

This is the most popular type of loan in Australia. The interest rate you pay may be impacted by the Government's official interest rate.
As market interest rates move, you can expect your repayments to vary (up and down) over the course of your loan.

FIXED RATE LOANS

With this type of loan, the interest rate you pay — and your loan repayments — are fixed for a set period, usually between one and five years. Knowing exactly what your payments are going to be makes budgeting easier and you are also protected from rising market rates.
On the downside, you could end up paying more than necessary if rates fall.

SPLIT LOANS

Get the best of both worlds. With one part of your loan fixed and the other with a variable rate you get some protection from rising rates while you'll still get some benefit from any rate cuts.

INTEREST ONLY LOANS

While 'Principal' speaks for itself, 'Interest' comes in many shapes and forms and it's important to understand your choices

THE LOAN CHOICES

FIXED.

The interest rate is fixed for the term you choose — usually from 1-5 years. It may be higher or lower than the prevailing variable rate at the time and may vary depending on the fixed term you select.
Your repayments will stay the same for the fixed period.
Fixed repayments make it easier to budget though may limit the opportunities to pay more off your loan.
If you want to switch to a variable rate or refinance, you could be asked to pay 'break charges'.
Some, but not all, fixed rate loans will allow extra repayments up to a set amount each year. Some also offer redraw.

VARIABLE

The interest rate can vary, as factors such as the official cash rate can have an impact. It can be higher or lower than fixed rates.
As interest rates change, your repayments may fluctuate up or down.
You need to be sure you could cope with rising rates and higher repayments.
You can usually make extra payments to help pay off your loan sooner.
Since 1 July 2011, exit fees have been banned on variable loans taken out after that date.
There is usually no limit to the extra payments you can make and typically no extra charges.

SPLIT

One part of your loan will have a fixed interest rate while the other may fluctuate with the market.
Only the variable part of your loan will be impacted by any rate rises or falls.
Your fixed rate repayments remain the same throughout the fixed term.
You generally have some flexibility to make extra repayments, balanced with the reassurance of fixed repayments.
Most lenders provide flexibility in setting the fixed and variable portions to best suit your needs.
You can access loan features like redraws and extra payments while the fixed portion gives you a little more certainty around your long-term budget

MORE LOAN CHOICES

BASIC VS STANDARD

'Basic' home loans are variable rate loans that come with a lower rate by giving you fewer features (and maybe less flexibility) than a 'standard' loan.
The definition of 'basic' varies between lenders, so it's worth checking that a basic loan won't limit your ability to make extra repayments and pay off your home loan sooner. You only want to pay for features you're actually going to use, but keep in mind that the cheapest loan isn't necessarily the one that's right for you. Your Loanseeker Broker can tell you more.

OFFSET ACCOUNTS

If you have some extra cash or 'rainy day' savings, you may be able to put that money to work for you. A savings or transaction account can be linked to your home loan and a positive balance can offset your outstanding loan balance to help reduce your repayments.
For example, say you have $20,000 in your linked offset account and an outstanding loan amount of $350,000. Instead of receiving interest on your savings, your monthly interest repayment will be calculated on a loan balance of $330,000. It can be a powerful way to lower your repayments and pay off your home loan sooner

PACKAGE LOANS

Also known as an 'ongoing discount' loan, a package loan bundles your home loan with other financial products such as a transaction account and a credit card, often with fee waivers or discounts. Packages may also offer a discount on the interest rate that usually applies for the life of your loan. An annual package fee may apply so you need to be confident that any fee waivers and the rate discount outweigh the cost of the package fee. Your Loanseeker Broker will show you how a package loan could work for you

LINE OF CREDIT

When you have some equity in your home, a line of credit could let you tap into that equity.
Unlike a traditional home loan, a line of credit doesn't provide you with funds in one lump sum payment. It gives you access to funds up to your approved limit with the freedom to withdraw the money when you need it — for home improvements, investing or even a holiday. Think of it like a credit card with a big limit with your home as the security. You only ever pay interest on the funds you actually use but keep in mind that at some point you'll need to repay the principal amount, too.

LOW-DOC

If you're self-employed or don't have all the documents normally required as proof of your income, a low-doc loan may offer a solution for you. Rates — either fixed or variable — are generally higher than standard loans but may be reduced over time if you make all the required repayments on time.
It's not necessarily your only option if you're self-employed. Many lenders will consider self-employed borrowers just like regular borrowers provided you have good records (including tax returns) for your personal income.

EQUITY

Equity is a Goldmine.

That's right, if you've been diligently paying off your home loan all these years then you may just be sitting on a gold mine. The equity that you've built up in your home really is the equivalent of pure gold when it comes to refinancing.
Now it's time to figure out just how much of it you're sitting on. The way to work out your home equity is quite simple

Higher Equity Lower Costs

The more equity you own in your home, the easier it is for you to achieve your refinancing objectives. Think of your home equity as being the 'ticket' you need to enter the refinancing game. The higher your equity, the better the 'perks' that come with attending the event.
One of the perks of having higher equity when refinancing is that you may avoid certain costs, such as paying Lenders' Mortgage Insurance (LMI). If you can't remember what LMI is or haven't paid it on your previous mortgage, it is a fee that gets added on to your home loan if your LVR exceeds 80%. It is a way for lenders to safeguard themselves against the potential risks of providing such large amounts

Loan to Value Ratio (LVR)

The Golden Ratio (LVR)?
But it's not just your equity that a lender will evaluate. When assessing your refinance application, one of the first things that a lender will look at is how much you want to borrow relative to the amount of equity you have.
This ratio is known as a Loan-to-Value (LVR) ratio and is expressed as a percentage. To a lender, the LVR shows how risky refinancing your loan may be.

Here's how to find out your LVR:
Continuing on from the previous example, if you have $300,000 equity in your home and you wish to refinance your current mortgage for $200,000 then your LVR will equal 40% ($200k / $500k x 100).

Usually, any home loan with an LVR greater than 80% is labelled as being higher-risk and such loans attract additional fees. It's also harder to get attractive rates if your LVR is high.

What if my equity isn’t high enough?

So, you can now see that the higher your home equity, the better off you’ll be when refinancing.

However, what do you do if your equity stake in the property you own isn’t that high? Which also brings up the question of what your minimum home equity needs to be to in order to refinance. Put simply, in order to refinance any home loan, you need to have at least a 5% equity stake.

As mentioned, the higher your equity, the better and more competitive will be the interest rates a lender can offer. To get very competitive rates or better terms, you need to own at least 20% of your home.

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COSTS OF REFINANCING

While refinancing should deliver the combination of flexibility, features and savings that's just right for you, it's important to ensure that the benefits will outweigh the potential costs.
Here are some costs you may need to consider..

Borrowing costs

Loan application fee – usually charged when your loan settles
Valuation fee – the lender may charge to have your property valued
Settlement fee – your current lender may charge a fee for the payout of your current mortgage.

Lender's Mortgage Insurance

If your home loan is worth more than 80% of your home's value, your lender will ask you to pay Lender's Mortgage Insurance (LMI). This insurance provides protection to lenders in case you default on your payments. The amount you will be required to pay will depend on the size of your loan, the type of property and your chosen lender. It's typically charged as a one-off premium, which you may be able to include in your overall loan amount.

Early Exit Fees

Also known as 'early repayment fees' or 'deferred establishment fee', there's a small chance your current lender may charge an exit fee. This fee doesn't apply to any home loan taken out since 1 July 2011 and previously applied only to home loans held for less than five years. If your current loan pre-dates 1 July 2011, this fee may apply

Break Costs - Some lenders charge a 'break cost' if you want to refinance while a fixed rate period is still current on your loan. If that's you, check with your lender if break costs apply and what you might have to pay

Other fees- The advertised or headline interest rate on a loan doesn't always give you the full story. To get a clearer picture of the true costs, look for the 'comparison rate' which includes the ongoing interest rate, along with application fees and regular loan fees

DO YOUR CALCULATIONS

ALWAYS RUN THE NUMBERS

Hopefully, by now you've realised that an attractive rate or a particular feature, on its own, is not always cause to make an application. When refinancing, you need to weigh up the costs and compare them to the anticipated benefits of a new home loan.

This will involve making numerous calculations to ensure that the new home loan meets as many of your needs as possible. Naturally, there will be trade-offs that you will have to make along the way. As always, it is best to engage a specialist to help work out the viability of a particular refinance option.

This involves being diligent in your calculations. Regardless of your refinancing goal, the bottom line is that you need to come out better-off at the other end of the deal!

Are Any Of These Costs Tax-Deductible?

While there are quite a number of fees involved in refinancing, the good news is that some of them are tax-deductible. If you're a real estate investor, then you can claim tax deductions on costs associated with refinancing your investment property. Both loan establishment and settlement costs can help decrease your tax obligations.

'Soft' Costs

Finally, it's not just about saving dollars and cents. While minding the numbers is important, your overall experience with a lender may be just as valid a reason to refinance as the money you'll look to save. Unlike other forms of finance, refinancing a home loan means getting into a long-term relationship with your lender.

If you believe that your current lender isn't working hard enough for you or if their customer service is severely lacking then this is sufficient reason to start looking around. With the amount of choice these days, it is always possible to find a home loan provider that will help you save money as well as look after your long-term interests.

Especially if your current mortgage is with one of the large banks who don't specialise in home loans, you may find that refinancing with a mortgage broker or non-bank lender will better serve you in the long run.

Banks offer very little in the way of customising their home loan packages and what they do offer are usually cookie-cutter products that may not necessarily help your situation

Comparison Rate

COMPARE APPLES WITH APPLES

Before getting into the nuts-and-bolts of the various home loan rate types, it is worth mentioning the one rate 'to rule them all,' also known as the comparison rate. Whether you're weighing up variable or fixed rate loans, you will always need to pay attention to the comparison rate.

When it comes to advertised home loan rates, it isn't often clear what other fees and charges may be added on top of the rate. This makes it nearly impossible to analyse mortgages from different lenders because they all structure their products slightly differently

WHATS INCLUDED IN THE COMPARISON RATE?

The comparison rate solves this problem by adding the interest rate and any associated costs together and then expressing them as a percentage.

Here's what normally goes into a comparison rate:

- Interest rate
- Loan amount and term
- Any associated fees in addition to the rate, including:
    - Application fees
    - Additional charges
    - Valuation fees
    - Discharge ongoing fees

It is important to point out that all lenders are required to disclose the comparison rate by law so you will normally see one shown next to the advertised rate.

A WORD OF WARNING

While a comparison rate does a good job of levelling the playing field, it only takes into account fees payable during the loan's lifetime. Any fees that are added after this are not included in the calculations.

These 'other' fees include:

- Lender switching fees
- Redraw fees
- Government fees

Just as your home loan's interest rate shouldn't be the sole deciding factor, neither should the comparison rate. Because mortgages are fairly complex financial products, there are numerous factors that should be weighed up to establish whether a particular home loan is right for your refinancing needs.

Refinancing Process Explained

Your expert Loanseeker Broker will take the time to get a clear picture of your needs and your current situation. With that understanding we can provide options and recommendations that match your needs and even help you complete your application.

Once you're approved for your new loan, you, your solicitor or conveyancer can let your current lender know that you'd like to pay out — or discharge— your current loan.

When your current lender knows the exact date of settlement, you'll be given a final payout figure.

Your new lender pays out your outstanding loan and title deeds to your property (your security) will be transferred to your new lender.

On settlement, your new lender will lodge a Discharge of Mortgage document with the Land Titles Office in your state or territory. After this, you start making repayments on your new loan

That's all folks! Five easy steps to flexibility, features and savings with your new home loan. Once you've settled, expect a call from your Loanseeker Broker who'll be keen to know that everything is working just the way you wan

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