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Guide For Refinancing

BUILD YOUR ARK

Thinking of Refinancing?

Whether you're looking to reduce your home loan interest rate, or you'd like to withdraw the equity in your property, refinancing your home loan may be the solution to achieve the outcome you desire.

As you may be aware, the home loan industry is continually evolving. This is also the case with your home loan. While your home loan may have been perfect for you a few years ago, it's highly likely that it would be out of sync in today's mortgage climate.

So, if your mortgage no longer suits your lifestyle, you should think about seeking a mortgage that does.

Home loan interest rates are at historical lows. At the same time, you also have the opportunity to look at the features and attributes other lenders are able to offer that may be better suited to your lifestyle.

As your lifestyle changes, it is the perfect launch pad to take a few short moments to evaluate your mortgage. Let me make special note that refinancing in a small number of cases doesn't always make sense for every borrower.

Please be aware the information provided in this guide is general in nature, and does not form part of any advice given to you. Please consider your circumstances before you make any decisions.

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YOUR GUIDE TO REFINANCING YOUR HOME LOAN

How does refinancing work?

Refinancing allows borrowers to rewrite their current mortgage with another lender, with the general objective to secure a lower interest rate, access equity in the home, or to take advantage various loan features and mortgage structures offered by other lenders.

As the Borrower, you have a choice to refinance with your existing lender, or choose an alternative lender. If you've made the decision to choose an alternative lender, your new lender will pay out your existing home loan, and you will commence making repayments to your new lender.

The first important point.

Prior to considering a refinance, it is important to evaluate your current financial situation and the goals you wish to achieve over the next few years.

Refinancing may be advantageous to you by not only reducing your repayments via accessing lower rates in the short term, but also by ensuring you're comfortable that the fixed-rate you've chosen will remain competitive for the term that you have selected.

It's important seek the advice of an experienced mortgage broker to ensure that your decisions are sound.

When you refinance, it helps to consider the things that are important to you
within a home loan. Ask yourself;

- Is the interest rate competitive?
- Is the fee structure competitive?
- Is the home loan relatively flexibility?
- What is the backend support and service I will receive?
- Have I considered rate rises in the future?

Once you understand what is important to you, you're ready to take the next step; approach your existing lender to see if they can optimise your current deal. Being proactive and making a phone call to your existing lender may be in your best interest as you'll rarely receive a notification when a better rate becomes available within their product suite.

Brokers tend to have an advantageous ability to negotiate a better rate with the lender due to their relationship with lenders and contacts within the industry.

Be prepared that a lender may have a policy where they refuse to renegotiate the rate given you're considering a different lender.

In either situation, it's best that you approach a lender in the best financial position as you can by ensuring debt repayments are made on time with no over-limit instances.

Why move to an alternative lender?

A lower rate is not the only reason a person is prompted to refinance their mortgage. Often dissatisfaction with a particular lender, the need to consolidate debts, or access to flexible options are among the top reasons to prompt a refinance.

A major factor which often influences or discourages a borrower to refinance is the uncertainty associated with their employment. What needs to be kept in mind is that changes to a borrower's employment scenario can affect their borrowing capacity, making it harder for their refinancing loan to be approved. In general, it's better to act ahead of an employment move.

Home renovation is often top of mind for many home owners. Replacing the kitchen and bathroom, or perhaps the need to add another bedroom are often popular triggers to refinance. Also popular are the desires to purchase an investment property, to upsize one's home, or exit a fixed rate mortgage to take advantage of record low interest rates.

The need to consolidate debt.

These days, it is quite easy to get tempted into various forms of consumer debt. Whether it be via credit card, or retailers promoting a 'buy now pay later'

program, sometimes – with the benefit of hindsight – these choices are not in the borrower's best interest and lead to excessive repayment levels.

If you are considering debt consolidation, there is certainly a correct way and a wrong way to go about it.

The best option is to seek the direction of your trusted mortgage Broker who will discuss the option to reduce the interest rate payable on your consumer debt through refinancing your home loan. A mortgage Broker will be able to demonstrate the savings through calculated simulation, so you will know where you will stand if you choose to proceed.

Refinancing will not work in your favour if you continue to make the minimum repayments and spend the excess funds. By allocating the excess funds to your new loan, you're able to reduce the overall outstanding balance and pay off your home loan sooner.

When it may not be considered sensible to refinance.

In some circumstances, there is no value in refinancing. Generally, if you have only had your home loan for a short period of time, or your home loan balance is under $100,000, refinancing may not make financial sense.

While interest rates are historically low, it's important to remember that rates are likely to rise at some stage. A good rule of thumb is to add at least 2% to the refinanced interest-rate. This will assist you in determining whether you can comfortably afford the repayments relative to your chosen interest rate.

How to make a decision to refinance.

The decision to refinance your home loan should ultimately come down to its value and the cost effective nature of doing so. While I tell my clients that they should review their mortgage every 2 to 3 years, it's possible you may not need to refinance at all.

There are costs associated with refinancing which can be quite significant. Fees may include break costs, discharge fees and establishment fees. It's important to consider whether your LVR has increased to a point where lenders mortgage insurance may be required.

An effective way to review your mortgage holistically is to think about what your circumstances were when you first took out your mortgage. Think about what has changed in your life, how your personal financial circumstances have perhaps changed, and how the results rest with the state of our current economy.

If there has been considerable change during this time, it is time to review how effective your home loan is for you. While there are costs associated in refinancing, the golden rule is to consider whether or not you can recoup the costs within a 12-month period.

Depending on the size of your mortgage and your chosen lender, securing a 0.25% to 1.5% interest rate reduction could be worth your while.

You should consider staying away from refinancing options if the costs outweigh the benefits in the short to medium term. This outcome is especially common when exiting from fixed rate loans as there are often very high exit fees payable.

Ensuring that your financial health remains sound.

- If you choose to refinance to another lender, it is important you continue to review your mortgage every 2 to 3 years to make sure it is working hard for you.
- If your refinance is for the purposes of consolidating your consumer debt, remember to use surplus cash to drive down your outstanding home loan balance.
- If you're able to obtain a substantially lower interest rate as a result of refinancing, it will be advantageous longer term to continue paying your original mortgage repayment at the higher rate.
- If you have an investment property, it is important to consider monitoring the capital growth of the property and the remaining balance of your mortgage after refinancing.

If the capital growth in your investment property begins to appreciate in value, you may consider accessing that equity in the property to purchase another investment property. Speak to your mortgage Broker about how this can be achieved through refinancing or increasing the value of your current mortgage.

I welcome you to contact me at any time for a free 15 minute Skype, messenger, telephone call, or face-to-face appointment to help determine what refinancing options and their outcomes are specifically available to you.

In your best interests,

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