Mortgage Choice

Wondering if you could get a better deal on your home loan?

It might be time to consider refinancing.

Refinancing guide

What is refinancing?

When you swap your old loan for a new one – either with your existing lender or a different lender altogether – it's referred to as refinancing.

Even small changes to your loan – getting a lower rate, making additional repayments or finding a more efficient structure – can make a huge difference to the amount you pay over the long term. Refinancing your loan can put you ahead financially, help you achieve your goals sooner and help you adapt financially as your circumstances change.

There are thousands of home loan options available, and it's never been easier to switch from one loan to another, particularly when you use a mortgage broker.

How to know if it's time to refinance

Start with a home loan review

Your Mortgage Choice broker will always start by reviewing your current home loan. During this conversation, you'll discuss what is and isn't working with your loan and check if your rate is still competitive. Your broker will also ask whether anything has changed with your financial situation and personal circumstances and talk about what you hope to achieve from a different home loan.

Your broker will then compare your home loan with hundreds of others to find the options that best suit your circumstances. They can also negotiate with your current lender on your behalf to see if they would be willing to offer you a better deal.

You may decide that you're happy with your current loan, and that's perfectly fine. It still makes sense to regularly review your home loan with your broker so you can confidently make decisions about your finances based on the latest market information.

Your Mortgage Choice broker can help you understand the different types of loans available, and the loan features you could access. For example, you may be able to secure a better interest rate if you have built up equity in your property since taking out the loan.

Refinancing in seven easy steps

1. We review your existing home loan and talk to you about what's working/not working.
2. We ask what you want to achieve with a different loan or lender, and then compare hundreds of home loan products from our panel of more than 35 lenders.
3. We compare the costs and benefits of the potential options to help you decide if refinancing is right for you.
4. We provide expert advice to help you choose the most suitable loan.
5. We do as much of the paperwork as we can for you and submit your loan application to the lender on your behalf.
6. We negotiate and manage any issues with the lender to make the process as hassle-free as possible.
7. Even after your loan settles, we'll work with you to ensure your loan continues to meet your needs regardless of how your life changes.

Potential benefits of refinancing

Here are some of the main reasons our customers choose to refinance their home loans.

1. Secure a lower rate

A lower interest rate means lower repayments, which can cut thousands of dollars a year from the overall cost of your home loan. It could also shorten the time you take to pay off your loan and reduce the total amount of interest you accrue, which can make a big difference financially over the long term.

There are several reasons you may be able to secure a better rate with a different lender:

1. All lenders offer different loan types and interest rates, and these can change over time. It's worth keeping an eye on the market to stay up to date with what's on offer.
2. Lenders are often on the hunt for new customers and may offer new customers a better deal or incentives like 'cashback' offers.
3. Lenders have different assessment policies, which means you may not qualify for a certain rate with one lender, but you might with another.
4. As you pay down your mortgage, your loan-to-value ratio (LVR) typically reduces. A lower LVR can help you access a lower interest rate, but this may not happen automatically.
5. If you have come to the end of a fixed-rate term, the 'revert' rate that is automatically applied to your loan may not be competitive. In this case, you should consider refinancing to a different loan and/or lender.

2. Access a fixed rate

If your current loan has a variable interest rate but you think interest rates may go up, or you'd prefer certainty that your repayments won't change, you can refinance and switch to a fixed rate.

3. Access different products, better service or more funding

There are a few reasons your existing loan or lender may not meet your needs anymore.

- The lender's policies may mean you're unable to secure sufficient funding to achieve a particular goal, e.g. accessing additional funds for renovations.
- You may be unhappy with the level of service you are receiving.
- You may wish to take advantage of the benefits offered by a different loan product.
- You may not like the online offering or lender app of your current lender and would like an easier way to manage your finances.

4. Access equity in your home

'Home equity' is the difference between the value of your property and the balance remaining on your home loan. Equity increases over time as you pay off your principal and when the value of your property increases.

You can use the equity in your home to build additional wealth or achieve personal lifestyle goals. For example, you could use that value to invest in another property or shares, or to increase the value of the property itself through a renovation. You could even use it to go on an overseas holiday or make a large purchase, such as a car.

Having equity can act as a form of saving – when you refinance, you can access your equity to spend if needed.

5. Access different loan features

The features available on your home loan are just as important as the rate you're paying. Some make your loan easier to live with, others help you pay off the loan sooner and some can help you build wealth. If your current loan doesn't offer the features you want, you might consider switching to a loan that does.

Here are some features that can make a difference:

- **Flexible repayments** – Making extra repayments at no additional cost could help you pay off your loan sooner. Another popular feature is the flexibility to make loan repayments fortnightly rather than monthly – another way to fast track your mortgage.
- **Offset account** – An offset account is a savings or transaction account linked to your loan. The amount of money you have in the linked account is deducted from the balance of your loan when the monthly interest charge is calculated, which means you accrue less interest. However, having an offset account may attract a higher interest rate on your loan, so you need to check if what you'll save is enough to make up for this.
- **Redraw facility** – This feature, which is available on most variable loans, lets you withdraw any additional repayments you have made on your loan, which can be very handy if you need cash in an emergency.
- **Repayment holiday** – Repayment holidays offer you a complete break from repayments, or a period of reduced repayments. This may be useful during career changes or breaks, such as parental leave. This feature is typically only available if you've previously made additional repayments on your loan.
- **Flexible rate options** – The freedom to divide your rate between fixed and variable components, or even make interest-only payments for a period, can make your loan easier to manage.
- **Loan portability** – This feature lets you take your loan with you when you move from one home to another without the expense and hassle of arranging a new loan.

6. Switch to a 'basic' loan with fewer features

More loan features often come with a higher interest rate, so if you aren't going to use them, you don't want to be paying for them. The key is to pay only for the features you use. If your loan has features you aren't tapping into, you may want to refinance to a cheaper, more 'basic' loan.

7. Consolidate debt

Refinancing your home loan can be an opportunity to do a 'debt consolidation', which is when you combine several high-interest debts (such as a personal loan, credit card debt or even a car loan) into one lower rate loan – usually a home loan.

Consolidating debt reduces your total repayments, which also makes it easier to manage your money as you are only making one monthly payment rather than multiple repayments.

However, this strategy can turn a short-term debt such as a personal loan into a long-term debt, making the total interest you pay greater. For debt consolidation to be truly cost effective, you need to commit to making additional repayments to pay off the enlarged loan as quickly as possible.

Your Mortgage Choice broker can provide helpful advice on debt consolidation and help you work out whether it's the right move for you.

The costs of refinancing

Refinancing can deliver significant benefits, but it also comes with costs. It's important you understand the expenses involved before you decide to refinance.

The most common costs of refinancing are listed below, but it's possible not all of these will apply to you. Your Mortgage Choice broker can give you a clear idea of which expenses will be relevant to you, and how much you could be looking at overall.

1. Lender fees

When you refinance, your new lender may charge a range of upfront fees:

- **Loan application fee** – charged by the lender when you apply for a new home loan.
- **Valuation fee** – charged by the lender when they have your property valued by a professional property valuer.
- **Settlement fee** – charged by the lender to settle your new loan.

2. Lenders Mortgage Insurance

Lenders Mortgage Insurance (LMI) is a type of insurance designed to protect the lender if you can't keep up your loan repayments. LMI is typically charged when you borrow more than 80% of your home's value. Unfortunately, LMI isn't transferable between lenders, so even if you paid LMI when you first purchased your home, if your LVR is still above 80%, you'll probably be asked to pay LMI again when you refinance.

You may be able to add the LMI payment to the loan amount, but you need to be careful this won't push your loan amount over the lender's preferred LVR.

3. Mortgage discharge and registration fees

You may need to pay mortgage registration and discharge fees to your state or territory government to register the property as the security on the home loan, and to terminate your current loan agreement.

TIP: Working out if refinancing is worth it

Calculating refinance costs versus the financial benefits isn't always straightforward. It may involve extensive conversations with lenders; something that can be time consuming and difficult for you to do yourself.

That's where a mortgage broker can help, as they have a deep understanding of the market and strong knowledge of different lenders and their policies, so they can more easily find and negotiate with the right people.

Case study

Johannes and Susan have a $300,000 loan repayable over 25 years. Their current fixed rate is 6.50% p.a., and their monthly repayments are $2,025. If they can refinance to a loan with a rate of 6.00% p.a. – a rate reduction of 0.50% – they can lower their repayments to $1,932, a saving of $93 each month.*

Let's assume their overall costs to refinance are $1,000. In this case, it would take about 11 months ($1,000 divided by $93) for the couple to recover the costs of the refinance through the savings they're making. This seems quite reasonable. However, if it would take several years to recover the costs, refinancing might not be worthwhile.

*Monthly repayments are based on an owner occupier, principal and interest loan over a 25-year term. These calculations are indicative estimates and are intended for example purposes only.

We do all the hard work for you. Once your Mortgage Choice broker has investigated the costs relevant to your individual circumstances, they'll help you calculate how long it would take before you break even and start benefiting financially from refinancing.

TIP: Thinking of breaking your fixed-rate loan?

Remember that exit fees (sometimes charged when you exit a loan) don't include break costs, which are almost always charged if you want to leave a fixed-rate loan early. The break cost will depend on how interest rates have moved since you fixed your rate. Despite exit fees and break costs, it's still sometimes worthwhile to refinance. Your broker can help you decide.

TIP: How much can you borrow?

Mortgage Choice has a range of online calculators that can give you an idea about how much you may be able to borrow, plus the likely repayments on the new loan.

You can find these at **MortgageChoice.com.au/home-loan-calculators.**

How do you refinance?

If you decide refinancing is the right option for you, your broker will explain what the process involves.

First, they'll help you choose the loan that works best for you – whether it's one with a low rate, or extra features, or the most suitable borrower assessment policy, or a combination of benefits.

If there are numerous loans that could suit your circumstances, your broker's expertise and market knowledge means they can streamline the process by focusing on those that offer the benefits you're after.

Once you've settled on a particular loan, refinancing works in much the same way as applying for your original loan. Your broker will guide and advise you every step of the way and take on most of the administration required in switching from one loan to another.

However, you will need some paperwork to support your application. The faster you can supply the required documents, the faster the refinance process will be.

Once your loan is approved and settled, your new lender will pay out your current loan on your behalf and you can start repayments on the new loan. Behind the scenes, the title deeds to your property will be passed over to your new lender and a 'Discharge of Mortgage' document will be lodged with the Land Titles Office in your state or territory.

Start by getting together:

- Your two most recent payslips
- Your most recent tax return and tax assessment notice
- Records of any existing debts (e.g. credit card or loan statements)
- Your latest council rates notice
- Evidence of the building insurance you have on your property.

Could it pay to stay?

Refinancing your loan can offer greater convenience, flexibility, savings and a chance to achieve personal goals. However, there can be times when refinancing doesn't make good financial sense. In some circumstances it could pay to stay with your original lender.

Break costs on your old loan

If your current lender will charge significant break costs on your loan, your best option may be to wait until exit fees are no longer levied on your loan. This will probably take at least five years, although you should check the time frame with your current lender.

Insufficient home equity

Without a reasonable level of home equity (usually a minimum of 20% of your property's current market value), you'll probably be asked to pay LMI again if you refinance. LMI can be expensive (in the tens of thousands of dollars), depending on how much of your property's value you wish to borrow.

Boosting your home equity is the only way to avoid LMI, and there are several ways to do this:

- Wait until market values have risen to the point where your equity is above the 20% threshold.
- Take steps to enhance your home's value, for example, through renovations.
- Make additional repayments on your loan to reduce the loan balance and tip the home equity scales in your favour.

Changed circumstances and market conditions

Even if you've been repaying your current loan for years, your ability to 'service' or repay the new loan is always considered by a lender when you apply to refinance.

If interest rates are rising, this means you might not be able to secure a new loan. Your current income may not satisfy the lender's serviceability requirements, which will typically calculate whether you can afford the loan repayments by adding two or three per cent more to the advertised loan interest rate (this is called a buffer rate).

Outside of what the market's doing, if there are a few black marks on your credit file (for example, missed repayments or overdue bills) you could find it difficult to get loan approval from a new lender. You may be better off staying with your old loan until your credit history has cleared.

Maybe you're self-employed now, or your income has reduced since you took out your current home loan. This means some lenders may consider you high risk, so you may not get approval for the loan of your choice, or you may have to pay a higher rate.

Talk to us today

We're passionate about helping Australians build wealth through smart borrowing decisions. Our Mortgage Choice experts offer a range of specialist services – from residential and commercial loans to car loans, business and personal loans, asset finance and general insurance.

MortgageChoice.com.au

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