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LENDING

REFINANCING GUIDE

Why You Should Look at Refinancing

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Why you should look at refinancing...

The Australian lending landscape is something that is constantly changing, with lenders consistently bringing out new deals and changing their focus as the market shifts.

This is why reviewing your current loan makes so much sense, yet a large portion of borrowers never make the time to do so. We would recommend a review of your facilities at least every two years to ensure you are still getting the right deal for your circumstances.

For example, over the last few years, lenders have brought in premiums on interest rates for both interest only and investment lending.

As a result of this, some borrowers find their rate is substantially higher than when they last looked at it and is well worth reviewing.

A good Mortgage Broker will always look to establish an ongoing relationship with their clients, and a very important part of a Broker's service is reviewing your lending periodically to ensure it is still competitive in the market and that it continues to meet your personal goals and financial situation.

Another common reason for refinancing is debt consolidation and interest savings. Do you have equity in your house, but are paying a high interest rate on a car loan, personal loan, or credit card? Refinancing and consolidating this debt could possibly improve your cash flow or save you on interest.

Finance Approval - The Main Criteria

Speaking to a Mortgage Broker can make refinancing fast and simple as they have access to many different lenders.

Not every bank is for every customer, and lenders have differing policies which can be very difficult to navigate successfully.

At its core, any finance application has four main criteria to satisfy. These are:

01. Cash/Equity Contribution

Generally for a refinance to be viable, you would want to have a loan of 80% of the property value or less. If your loan is over 80% of the value, it may not be viable to refinance as Lender's Mortgage Insurance could be payable with the new lender. There are exceptions- for instance where your current loan has a very high interest rate. Not sure what your property is worth? Get in touch with us to organise a free valuation!

02. Income vs Expenses/Debts

Can you afford the proposed loan? This is a key consideration for any application for finance. The Broker will obtain a detailed account of your income, expenses, assets and liabilities and calculate how much you can afford to repay. Generally, lenders will place a buffer on any calculations to ensure should interest rates rise, you can still safely meet the repayments.

03. Bank Policy

This is where a lot of borrowers can run into trouble when approaching a lender directly. Each bank has its own credit policy which clarifies what type of borrowers and transactions are acceptable to the bank. These policies are not available to the general public, and as a result borrowers can apply with a bank that they are not eligible with!

Common issues arise with:

1. Self-employed clients
2. Casual/contract employees
3. Applicants with new jobs (even if permanent positions)
4. Deposit requirements varying across lenders

So while you may love the low interest rate available with a certain lender, it is crucial to know whether you are even eligible for a loan with that lender.

04. Suitability of the Loan

This is probably the most important factor that your Broker will consider for you. Does the loan meet your requirements and future needs?

For example, if you intend to sell a property inside a certain period, there is a strong chance you should not opt for a fixed rate loan that may entail break costs on payout of the loan.

We will go through a detailed interview process with you to ensure you are getting the most appropriate loan for your personal situation.

Costs Associated with Refinancing

When refinancing, there are some fees and other items to consider:

Exit Fees

This is the main consideration when looking at refinancing. Home Loan Exit fees were abolished for home loans taken out after 1st July 2011, but there are still fees to take into account.

Banks can still charge several fees when releasing a loan:

A) **Fixed Rate Break Fee:** If your current loan is fixed, you should call them and see if there is a fixed rate break cost should you payout that loan. This fee can be quite large. Generally speaking, variable loans will not have this fee.

B) **Discharge Fee:** A fee charged by the bank for the costs involved in releasing your loan. This includes preparing the release of mortgage and associated paperwork.

C) **Annual Package Fee:** If you are on a package with your current lender, this fee is generally not refundable, even if you have only recently paid for a further year.

New Lender Fees

It is important to be aware of any fees that are payable with the new lender. These will generally include:

A) **Settlement Fee:** Charged by the new bank for preparation of mortgage documents, organising settlement etc.

B) **Package Fee:** Depending on the product/lender you are switching to, an annual fee may be payable.

C) **Valuation/Application Fee:** Depending on the product/lender you are switching to, these fees may be payable.

We will disclose any fees payable in full prior to proceeding with your application, allowing you to make an informed choice. We can also do the calculations on the total savings with your potential new loan.

Refinance Rebates

A lot of lenders acknowledge the cost associated with refinancing, and as a result will offer a refinance rebate in the form of:

- **Cash in your new account**
- **Points on a particular credit card**
- **Credit on your home loan**

This can offset some, if not all of the costs of refinancing, making it an even more attractive option. This does vary lender by lender and the offers constantly change, but we will take this into account when assessing your application and present the options to you.

Application Process

Using a Mortgage Broker can take a lot of the hassle out of obtaining finance. With very few exceptions, we are a free service - whichever bank you end up proceeding with will pay us a commission at settlement.

Below is a run-down of the process for a refinance:

- **Initial Phone Call:** We will go through your basic details and ask some questions to enable tailored, specific information to be presented at the appointment. At the end of the call, we will generally book a meeting to discuss your options face to face.
- **Provide Supporting Documents:** We will email you the specific documents we require to support your application. This will enable a potential solution to be presented to you at the meeting.
- **Client Meeting:** We will meet and discuss your available finance options including lenders, rates, fees etc. Provided you are satisfied with the solution, we will sign the appropriate paperwork.
- **Submit Application:** We package up and submit your application with your chosen lender. The lender will assess the application, and if successful you obtain approval.
- **Formal Approval/Loan Documents:** Provided everything is in order, the bank will approve your application and issue loan documents. We will organise a time to sign these with you, and the documents are returned to the bank.
- **Discharge from Current Lender:** Once formal approval is held, we will notify your existing bank of your intention to release, and they will start the process.
- **Ready for Settlement:** The bank will certify your documents and let us know that the file is ready to be booked. The lender we are moving you to will then commence trying to book the refinance in with your current lender.
- **Settlement:** Once your current lender is ready to go, the file will settle. Congratulations!

Next steps!

If you are ready to look at purchasing, or simply want to put in place a plan to get you there, call us today to have an obligation free chat. We will make the process smooth, fast and simple for you!

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