

**HOW TO
REFINANCE**

&

**FIND A
BETTER DEAL**

The logo for eChoice, featuring a stylized sunburst icon above the word "eChoice" in a bold, sans-serif font.

1300 302 914
www.eChoice.com.au

Finding the right home loan

If you are looking to find a better deal, a lower rate or have had a change in circumstance or lifestyle, now may be the perfect time for you to refinance your home loan. Refinancing has become more appealing with the Reserve Bank of Australia banning exit fees on home loans that are taken out after July 1. Fixed rates have decreased and there is stiffer competition amongst mortgage lenders trying to attract new customers. Doing some research may help you find better rates and better loan features, and in the long term possibly save you thousands! But there are also drawbacks that you should be aware of and be able to avoid. Without proper research or seeking expert advice, refinancing could prove very expensive. While this guide will help you with that research, it should be used in conjunction with the advice of a home loan expert, like your eChoice broker. Together you will be confident when making your decision.

Reasons to refinance

Simply put, 'refinancing' means paying your existing loan with your new one. Along with the opportunity to obtain a cheaper rate, there are other reasons why you would refinance. You may choose to refinance your mortgage for better loan features, making use of home equity or consolidating debt or you may simply choose to refinance because you are dissatisfied with your current lender.

In today's home loan market there is little expectation that you will stay with one lender for the full 25-30 year loan, so even if you are dissatisfied with the service and rates of your lender, refinancing will eventually become inevitable. First home owners overtime will be interested in investing in property; families grow and may require refinancing to fund home renovations; and later on, a separation or divorce may spark the need for refinancing. It's worth knowing what factors are involved when it comes to changing lenders.

Your current lender – first port of call

If you are refinancing just because you want to a better interest rate, it could be worth consulting with your current lender prior to looking elsewhere, as Lenders Mortgage Insurance (LMI) can be a far bigger expense for many borrowers than loan exit fees. LMI may not always be transferred easily between lenders.

Instead of refinancing, you may want to increase your loan in order to tap into home equity; this though may not be as easy as it looks due to the newly imposed responsible lending laws. Some lenders will request written evidence of the loan purpose - for example, an invoice stating the cost of a new car if home equity is being used to fund a vehicle; or a letter from your financial adviser if equity will be used to fund investments.

Will the exit fees apply?

If your home loan is less than five years old, your mortgage lender will likely charge exit fees when you discharge your mortgage (exit fees do not apply to loans that were taken out after July 1, 2011). With a fixed rate home loan 'break costs' might be imposed with costs varying from lender to lender.

Adding the costs

Additional refinancing costs may include:

- Mortgage discharge fee
- New mortgage registration
- Fees for loan
- 'Break costs' if you opt to refinance a fixed rate loan

Additional charges may also include settlement and variation fees, so it is crucial that you consider all these costs before deciding on making the switch. It is important that the cost of switching does not exceed the benefit. In order to recover these expenses and make your refinancing worthwhile, the new interest rate would need to be considerably lower.

Be aware of what you need

It is important that you consider your home loan holistically giving proper consideration to the features you need and the ones you are likely to use. Your home loan expert will be able to help you find the right home loan with features that suit your needs.

Improve your chance of getting your loan approved

To ensure approval you should have a clean repayment history and a clean track record with your overall finances. If you are a new customer, a lender will usually look back over three to six months of history, existing lenders may review several years' worth of statements.

There are a few major reasons to refinance, and these include, minimising monthly repayments, consolidating outstanding debt, combining a first and second mortgage into one or to tap into home equity. Whatever your reasons for refinancing, your home loan expert can help you determine if it will be a viable option and one that is suited to your circumstances.

More or less mortgage?

When it comes to refinancing a big consideration should be how much money you need or want to borrow. A lot of lenders will allow you to borrow approximately 80% of your property's current appraised value. Some lenders will be more lenient depending on the nature of the refinance and whether it is a fairly straightforward refinance of an existing loan or something more complex. To tap into equity, often referred to as 'cash-out refi' you will discover less than 80% is usually required. In most cases, cashing out would mean that you will have a bigger mortgage balance than before, with a higher monthly payment requiring you to qualify for the new mortgage.

So when is the best time?

In order to get a good sense of whether right now is the right time to refinance there are a few things you need to consider. Start by doing some research on rates and deals available currently in the market, compare what you pay to what you could potentially be paying and the saving. If the result will benefit you in the long term, then refinancing might be the right option for you.

Alternatively if you need more information you can speak to an eChoice home loan expert who can provide you with a free home loan health check to evaluate your individual needs. An eChoice expert will compare 100's of loans from a panel of lenders to test your existing loan and determine whether there is a better loan available. To find out more, visit our eChoice website, www.eChoice.com.au or call 1300 302 914.

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