Aussie refinancing guide

Everything you need to know about refinancing your home loan

Refinancing your home loan can provide a valuable opportunity to save money, access improved loan features or tap into home equity. But it's a big step and it's worth knowing what's involved.

This Guide explains how refinancing works and offers all the information you need to decide whether refinancing is right for you.

Reasons to refinance your home loan

Refinancing simply means taking out a new loan to pay out your current mortgage. There is a whole range of reasons why it's worth making the move to a new home loan.

"I want a better rate"

Refinancing can put money back in your pocket. With a wide range of lenders and loans to choose from, chances are you may be able to get a better deal with a different lender. You may even be able to negotiate a better deal with your existing lender.

If you think you're paying too much, contact your Aussie Mortgage Broker, who can sort through hundreds of loans to see if you can get a better rate or lower fees.

How much could you save?
To see how much you could save by refinancing, take a look at Aussie's One Minute Mortgage Calculator.

"I'm looking for flexible features"

If your circumstances have changed, or you've had your home loan for a few years, refinancing could offer you the chance to take advantage of more flexible features.

Your Aussie Mortgage Broker can advise on the features best-suited to your needs, but some money-saving features to look for are:

Flexible repayments – the option to pay a little extra off your loan when you have some spare cash helps you cut time and money from your loan.

Redraw – lets you withdraw any extra repayments if you need the cash. Look for a loan offering free redraws that can be arranged over the phone or online.

Flexible rate options – Switching your loan between a variable rate and fixed rate, or splitting your loan between the two lets you manage your mortgage in line with interest rate movements.

Portability – The ability to take your loan with you when you move can make life a lot easier further down the track.

"I'd like to streamline my debts"

'Debt consolidation' is the process of folding high interest debts like a credit card and personal loan into one low rate loan - usually your mortgage. It means you have just one set of paperwork to manage, one loan to pay and it can also offer big savings.

The interest rate on a home loan is usually far lower than the rate on other types of credit. This lets you save on interest charges and helps you pay off the debt sooner.

However debt consolidation can turn a short term debt – like a personal loan, into a long term one (your mortgage). Unless you aim to pay off the new, bigger home loan as fast as possible, consolidating your debts could mean paying more in long term interest.

Your Aussie Mortgage Broker can give you a clear idea of how much you could save by consolidating your debts – along with some useful tips on how to pay off the debt sooner.

"I'd like to use my home equity to invest"

'Home equity' is the difference between your home's value and the balance of your mortgage. So, if your home is worth $500,000 and you have $200,000 remaining on your home loan, your home equity is $300,000. That's money that could be used to build your wealth.

Refinancing your home loan can be a great way to access home equity to invest in a rental property, shares, or a managed fund.

Using borrowed money (your home loan) to invest is known as 'gearing'. It's a strategy that can provide benefits but it also carries risks – these are summarised in the table below. It is important to speak with your financial advisor or accountant to determine if gearing is the best option for you.

Borrowing to invest ('gearing')	
Benefits	**Downsides**
Lets you purchase more investments than you could with your own money	Even if the investment falls in value you will still have to pay off the loan
Magnifies your investment returns if the investment rises in value	Magnifies your losses if the investment falls in value
The interest charged on that part of your loan used to buy investments is usually tax deductible	The investment returns should be higher than the loan interest rate for this strategy to provide long term benefits
Your investment may provide additional income	You need to be able to meet the loan repayment even if the investment fails to generate regular returns

"I want some extra cash for..."

Your home equity doesn't have to be used for investing. It can also be used for a wide range of purposes like paying for the kids' education or funding home improvements. Talk to your Aussie Mortgage Broker to see how refinancing could help you achieve your goals.

The cost of refinancing

Refinancing can save you money but there are costs involved. You need to weigh up these costs against the benefits of refinancing.

Some of the key costs you could face include:

Borrowing costs

When you refinance, your new lender may charge a range of upfront fees – these are listed below. Not all lenders charge all of these fees, and some may be negotiable.

- Loan application fee – a fee imposed when you apply for a loan
- Valuation fee – the lender may impose a fee to have your property professionally valued
- Settlement fee – your lender may charge a fee for the pay out of your current mortgage

Lender's Mortgage Insurance (LMI)

If your new loan is for 80% or more of your home's value, you may be asked to pay LMI – a type of insurance that protects the lender if you can't meet your home loan repayments.

LMI involves a one-off premium, which you may be able to capitalise (add it to your loan balance) however this mean paying interest on the premium, which adds to the cost.

Exit Fees

Your current lender may charge exit fees - sometimes called 'early repayment fees' or 'deferred establishment fees'.

Exit fees vary widely though they usually only apply if you have had your current loan for less than five years.

Stamp duty and fees

Some States charge stamp duty on your mortgage (if you increase the size of your loan) plus a mortgage transfer fee – this lets the State Titles Office know you've changed either your lender or the type of loan.

Aussie's Stamp Duty Calculator will show the mortgage duty and/or transfer fees that apply for your area.

How much can you borrow?

An important step in refinancing is determining how much you can afford to borrow.

When you apply for a new loan, the lender will want to know about your income, your financial commitments – including your existing home loan, and how well you have managed these commitments in the past. These will all determine how much you can afford to borrow.

Your income

Your income is the key factor lenders look at when deciding the amount you can afford to borrow. Your income should comfortably cover your regular living costs as well as the repayments on your loan.

As a rule of thumb, your mortgage repayments plus regular home owner expenses like insurance and council rates should not take up more than 40% of your gross (before tax) salary

Your financial commitments

As well as your income, lenders will look at your current financial commitments to calculate what you can afford to pay. They'll take into account things like credit card and HECS debt.

Don't over-stretch yourself. You may think you can afford to spend more than 40% of your gross salary on your home every year, but you're unlikely to convince a lender. You still need to enjoy life without scrimping along the way.

Use Aussie's Borrowing Calculator to see how much you can borrow.

Play it safe

Most lenders allow for a possible interest rate rise of up to 2% above the current official rate when deciding how much you can borrow. It's worth taking the same approach to be sure you could comfortably repay the loan if rates rise in the future.

The home loan that's right for you

Here we look at the sorts of loans available and how they work.

Basic home loan

A basic loan charges a low variable rate and has fewer features than a standard variable rate loan.

Standard variable rate loan

This is the most popular type of loan, offering lots of flexibility and features. The interest rate will change in line with market interest rates but the loan should also offer generous opportunities for extra repayments.

Fixed rate loan

Fixing your home loan interest rate protects you against future rate rises and makes loan repayments easy to budget for. Choose to fix for periods of one to five years, or split your loan between fixed and variable rate options.

Offset home loan

An offset mortgage is linked to a savings or transaction account. Instead of being paid interest on your savings, the value of the account is deducted from, or 'offset' against, the value of your mortgage when loan interest is calculated. It's a great way to put your spare cash to work paying off the mortgage.

Package loan

A package loan combines a mortgage and credit card, providing a discounted home loan interest rate plus savings on credit card fees and charges. In return for these benefits, most packages charge a fixed annual fee, so it's important to work out if a package will provide real savings.

Line of credit loan

A line of credit is a useful way to tap into home equity. You have access to credit up to a pre-approved level and funds can be access through ATM and EFTPOS. Interest is only charged on the funds drawn down and you have flexible repayment options. This type of loan works best for borrowers who can take a disciplined approach to their mortgage.

Your Aussie Mortgage Broker can help you select the type of loan that's right for your needs.

Tip: Making extra repayments is a great way to get ahead with your home loan. Use Aussie's Budget Planner Tool to work out where you can trim spending to free up cash for additional loan payments.

Refinancing - Aussie makes it easy

The process of refinancing can be quite straightforward. There are five key steps:

1. Your Aussie Mortgage Broker can help you find the loan that's right for your needs – even providing assistance with your loan application.
2. Once your new loan is approved, you or your solicitor let your current lender know that your mortgage will be 'discharged' – or paid out.
3. When your current lender knows the exact date of settlement, you'll be given a final payout figure..
4. Your new lender pays off the outstanding loan, and the title deeds to your property will be transferred to your new lender.
5. On settlement, your new lender will lodge a document called a Discharge of Mortgage with the Land Titles Office in your State or Territory.

Remember, your Aussie Mortgage Broker is available to help at every stage.

Getting the paperwork together

Having your paperwork ready can speed up loan approval. A lender will want to see:

- Information required for all loans, plus:
- Statements for the last six months of any existing home loans or personal loans
- Most recent rates notice and building insurance policy on the property to be offered as security.

Questions to ask

Before you sign a loan contract, you should have a clear idea about the costs of the loan and the features it offers. Here are some questions to ask your Aussie Mortgage Broker or lender before you pick up a pen.

"What's the Comparison Rate?"

The comparison rate is made up of the regular interest charge plus most upfront and ongoing fees and charges. This gives you a clear idea of the true cost of a loan and lets you make a more accurate comparison between lenders.

The comparison rate does **not** include all fees. Other fees you could be up for include:

- Government and statutory fees—although these are standard across all lenders and loans.
- Lender Mortgage Insurance or valuation charges.
- Fee waivers or any discounts that your lender might apply to the loan.
- Event based charges, like redraw fees or early repayment fees.

"What other fees could I face?"

You may pay a fee to use certain loan features – for example, redraw. You may not use all the loan features now, but it's important to know any fees attached as you may use these features in the future.

"What other benefits does the loan offer?"

Additional options like a repayment holiday can be useful if you're planning a career break after the arrival of a new baby. Or you may be able to make interest-only repayment for a set period, freeing up cash to use elsewhere.

The right time to refinance

There are no hard and fast rules about the 'right' time to refinance your loan.

If you've been with your current loan for a few years, it's worth talking to your Aussie Mortgage Broker to check that your mortgage still meets your needs.

Your goals or circumstances may have changed, and that could make now a good time to switch over to a loan that fits in with your new lifestyle.

Or, if interest rates have changed, you could find that refinancing lets you take advantage of a better deal.

Whatever your circumstances, a free consultation with your Aussie Mortgage Broker will let you know if you could benefit from refinancing.

Summing up

- Refinancing can offer plenty of pluses, potentially providing a lower home loan rate, access to home equity or a loan with features better suited to your needs.
- There are costs involved with refinancing so you need to weigh up the short term cost against the long term gain.
- Consolidating your debts into one loan is a popular reason for refinancing but it's important to pay off your new loan as quickly as possible to reduce the overall interest cost.
- The process of refinancing is quite straightforward and you won't need to provide proof of savings.
- With a wide choice of loans available you need to consider the type of loan that suits you best.
- Have a clear idea of the costs and features a loan provides before you commit to it.

Useful calculators

The Aussie Mortgage Intelligence site has several useful calculators to help you decide whether refinancing is right for you:

One Minute Mortgage Calculator – shows how much you could save by refinancing.

Borrowing Calculator - shows how much you can borrow based on your salary and living costs.

Loan repayment calculator – shows the monthly principal and interest repayments and total interest cost for the home loan size of your choice.

Stamp Duty Calculator - find out the mortgage duty and/or transfer fees that apply for your area.

Budget Planner Tool – a great tool to manage your money and work out where you can trim spending to free up cash for additional loan payments.

Aussie is here to help

To discover how you can benefit from refinancing your home loan, arrange a free consultation with your Aussie Mortgage Broker online now, or call **1300 44 55 66**.