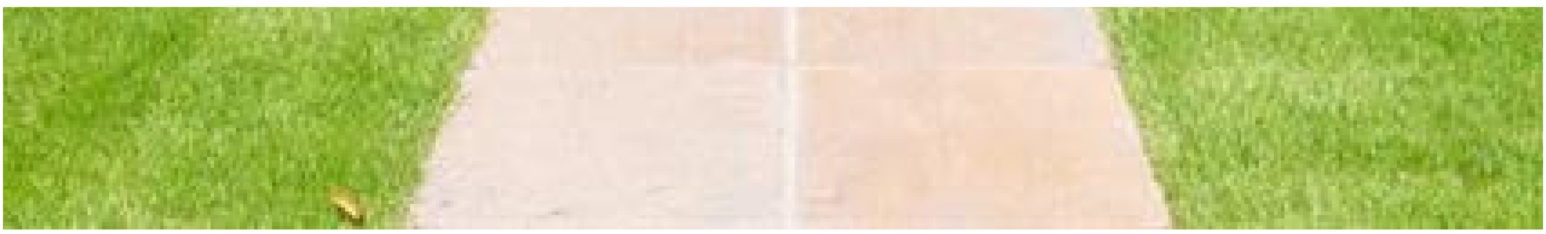
Reviewing your Home loan

IT'S NATURAL THAT AS TIME PASSES, YOUR NEEDS CHANGE. THE LOAN THAT WAS PERFECT FOR YOU A FEW YEARS AGO MAY NOT BE THE BEST LOAN FOR YOU TODAY.



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It's natural that as time passes, your needs change. The loan that was perfect for you a few years ago may not be the best loan for you today.

Australian lenders are a fiercely competitive bunch who continually try and improve their rates and products relative to their peers.

Refinancing allows you to take advantage of these offers and change your existing loan to one that's more suitable to your current situation.

You may want to switch from a fixed rate loan to a variable loan (or vice versa), or you might want a loan with more flexible features, such as redraw or a line of credit. Again, you might not have to change lenders. Ask your current loan provider whether you may be able to modify your existing loan.

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DEBT CONSOLIDATION & REFINANCING

There are a variety of reasons to think about debt consolidation and home loan refinancing. These can include:

• Covering the cost of home renovations or a new home build.
• Consolidating debts to take advantage of lower interest rates.
• Finding a better deal, or simply wanting to change lenders.

You should consider speaking with a mortgage broker to compare home loans from the top banks and lenders in Australia. There may be a more suitable option for you, which fits your financial situation and lifestyle better than your current home loan.

CONSIDERING REFINANCING?

When should I refinance?

Refinancing a mortgage in essence is the transaction that occurs when an existing loan is paid down and is replaced with a new one.

There are many common reasons why homeowners refinance, such as:

• A changed financial circumstance to the initial loan application
• To obtain a lower interest rate
• Dissatisfaction with current lender
• Intent to convert from a variable to a fixed rate (or vice versa)
• An opportunity to access current home equity to finance other purchases and/or the desire to consolidate

The only time to consider refinancing is when you're certain that it is in your best interests.

Everyone is different, and therefore peoples reason for refinancing differ greatly.

Moving house or buying an investment property are good opportunities to take stock, review your options and investigate whether another lender will better suit your current needs. Remember to weigh up all the costs involved, and don't forget to discuss your situation with your existing lender as they may be able to offer you a great solution.

How do you know if a refinance may benefit you?

You should ask yourself the following questions:

• Does your current loan match your lifestyle

• Are you planning to start a family?

• How will this affect you financially?

• Would you like to use specific loan features that benefit your needs?

• Are you considering renovating your home?

• Is your fixed rate loan on the verge of expiration?

• Would lowering your interest rate help you make payments in a timely manner?

• Would you like to change your current loan to a fixed or variable rate?

• Could you use the equity in your home for an investment opportunity?

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If you had answered yes to any of these questions, or are still unsure, then simply talk to your mortgage broker today about reviewing your current home loan and financial status. In any event, you should be reviewing your home loan rates every 3-4 years to ensure your home loan is still competitive in today's market.

BENEFITS OF REFINANCING

Lower rate

Interest rates over the standard life of a home loan can amount to a significant expense to a home owner. So by reducing the interest payable, by way of obtaining a lower interest rate product, you'll naturally have benefits such as paying more towards the principal and ultimately bringing you closer to owning your home quicker.

Home owners are mostly familiar with two types of interest rates, that is:

- Variable rate
- Fixed rate

Variable rate home loans are susceptible to market fluctuations and often depend on movements in the Official Cash Rate set by the Reserve Bank of Australia (RBA). Fluctuations in the Official Cash Rates are in most cases correlated to the same movement in direction by lender's standard variable rates. Whether it's a standard variable or basic variable loan product, different lenders will offer different rates on their variable loan products and discounts off their standard variable rates based on loan size.

Fixed rates are typically offered on terms of up to 5 years at one time. Other fixed term rates will vary across lenders and are largely influenced by the wholesale money market.

In times of market volatility and rising interest rates, borrowers may benefit from locking in their future commitments by taking out a fixed rate.

In addition, when current fixed rate borrowers are nearing their fixed term it is best practice to allow time to research the fixed rate market to ensure that their ongoing interest expense remains competitive in the immediate roll-over period.

More flexibility with more loan features.
When assessing your current home loan, it is important to ensure that the home loan features also suit your lifestyle and financial objectives. We all know home loan products are varied in their pricing but having the right complementary home loan features can also make a positive impact to help reach your financial objectives. For example, a redraw facility allows extra repayments and the option for redraw in the future should the borrower wish to access the surplus monies for a holiday or purchase of motor vehicle. Refinancing into a loan product that has the right product feature to suit your lifestyle can mean huge savings in fees and the flexibility in managing your finances.

Helping fund your renovation

Commonly, home owners wishing to upsize or relocate in a challenging property market will look to an alternative solution to their housing requirements, that is home renovation.

The key to renovation projects is good planning and a realistic budget. Speaking to the right specialists such as lawyers, council administration, builders, architects, interior designers and of course mortgage brokers will help you to understand the full scope and cost of the project to be undertaken.

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Once the costing of the project is known it is much easier to work out how much you need to borrow and the type of features you'll need in your home loan.

There are multiple methods in funding renovation projects such as a line of credit or even simply an increase to your existing home loan.

Access to Home Equity

Your home equity is the difference between the property's worth and what you owe on your mortgage. This equity is accumulated over time through your continuous repayments and/or due to property appreciation.

The ability to be able to use the equity you've built up is one of the great benefits of home ownership. Refinancing equity or 'cash out' refinancing is beneficial for home owners who may want to finance their children's higher education, or to make a considerable purchase, that would otherwise mean taking out of a personal loan with a much higher interest rate and repayment. You can even use the funds to help purchase another investment property. The amount of equity you can access will be subject to:

• Current property worth (independent valuation)
• Current home loan balance
• Borrower(s) capacity to fund the new loan amount (standard lenders credit criteria will apply)

As a guideline, restriction on this new type of borrowing is that it is commonly capped at maximum of 80% Loan-to-Value Ratio (LVR) due to Lenders Mortgage Insurance (LMI payable over 80% LVR).

Making your home loan more manageable.

A mortgage is considered in default when a borrower is no longer able to make the minimum repayments. There is no one standard rule for when loan accounts are moved to default status, however this is often stipulated in the lender's loan contract to the borrower.

A defaulted mortgage will immediately incur higher interest rates, putting pressure on borrower's finances which could lead to eventual foreclosure. Even if it doesn't, it will still have a negative impact on the borrower's credit file.

Refinancing is one way to avoid a default on a mortgage. When a borrower anticipates negative changes to his or her future financial circumstance (eg: newborn, unemployment) and/or experiences difficulty in dealing with rising interest repayments; refinancing early to a lower interest rate product or more relevant features will reduce the risk of default.

Mortgages are not the only debt accounts that can be defaulted. Auto loans and credit cards may be defaulted with similar negative results. In this case, borrowers may have the option to refinance for an amount greater than their original mortgage. By paying off the original loan and using the extra cash to consolidate, borrowers can take care of the smaller debts that have defaulted or are in danger of defaulting. This sweeps all the debts into a single payment making it more manageable.

Better Service

If you feel unsatisfied with the service and offering of your current home loan provider you shouldn't feel obliged to stay with them. With lenders continuously fighting for competition, you can be sure there is someone else in the market willing to finance your mortgage if you wish to change lenders

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Dissatisfaction by borrowers can be commonly due to a combination of the following:

- Rising lender fees
- Rising interest rates making them noncompetitive in the market
- Poor branch teller service and customer service via telephone banking etc.
- Poor accessibility to lender

Just because your lender is complacent, there's no need for you to be. Stay active in your financial management and switch to a better deal.

Helping you adapt to changes in personal circumstances.

With most things in life, no one thing ever stays the same. Changes in personal circumstance or needs are inevitable and naturally financial objectives will change over time such as:

- Starting a new business
- Starting a family
- Home improvements / extensions
- Purchasing a new or additional property
- Funding a holiday
- Purchasing a boat / caravan or a new car
- Funding requirements for school fees
- Marital breakdown
- Business failure
- Unemployment or retrenchment

When these changes are on the horizon or another event arises it is important to review your ongoing home loan commitments to meet those new challenges.

Your mortgage broker will ensure that whatever the changes may be, the best possible home finance solution is tailored to you best meet those changes.

Letting you consolidate loans and personal debt.

Many Australians hold various credit cards and may also have a car loan and a personal loan for a holiday from many years ago. Often in this instance, managing ongoing financial expenses can be a bit of a burden, especially with varying loan repayments, terms, fee structures, payment methods and so on.

One way to mitigate the above challenges is to consolidate your loans/personal debt through the refinance of your home loan.

Through a refinance the benefits can be to;

- reduce monthly payments;
- manage a single debt instead of several debts, all with different conditions, terms and payment dates;
- save money when the interest and costs are lower overall than the interest and costs of the old loan arrangements.

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KNOW THE COSTS OF REFINANCING

Application fees, stamp duties, discharge fees and Lenders Mortgage Insurance are just some of the costs you need to understand as you explore your refinance options.

The cost of refinance will vary for each borrower and understanding all the costs involved beforehand is also an essential part of the assessment to determine whether it will suit you or not.

You will pay for things like:

- Lenders Mortgage insurance, usually payable when you borrow more than 80 per cent of the value of your property. Mortgage insurance will often cost more than one per cent of your property value. And it doesn't insure you - it insures lenders against the risk that you may not be able to repay your loan.
- Application, documentation, settlement and handling fees, charged by most lenders. These can reach $800. Some of these costs represent the entry cost of a mortgage which you may have had to pay the first time around, however these may be waived by the new lender.
- Valuation fees still charged by some lenders. These have often reached $200.
- Discharge fees on your existing mortgage (around $50-$200).
- Fixed rate break costs will be payable by you if you try to refinance your loan in the middle of a fixed rate contract.
- Registration fees on your new mortgage (around $50-$100).

In some circumstances, state governments will charge stamp duty on your new mortgage. This will add around $50-$100 to your refinance bill.

Refinancing can be a great financial move if it reduces your mortgage payment, shortens the term of your loan or helps you build equity more quickly. When used carefully, it can also be a valuable tool in getting your debt under control.

Before making any decision, make sure you're aware of the costs involved in refinancing your loan, particularly when switching lenders. It's a good idea to compare the benefits of the new loan with the total upfront cost of refinancing.

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