DOES IT MAKE SENSE TO REFINANCE?

INVESTORS CHOICE
Mortgages

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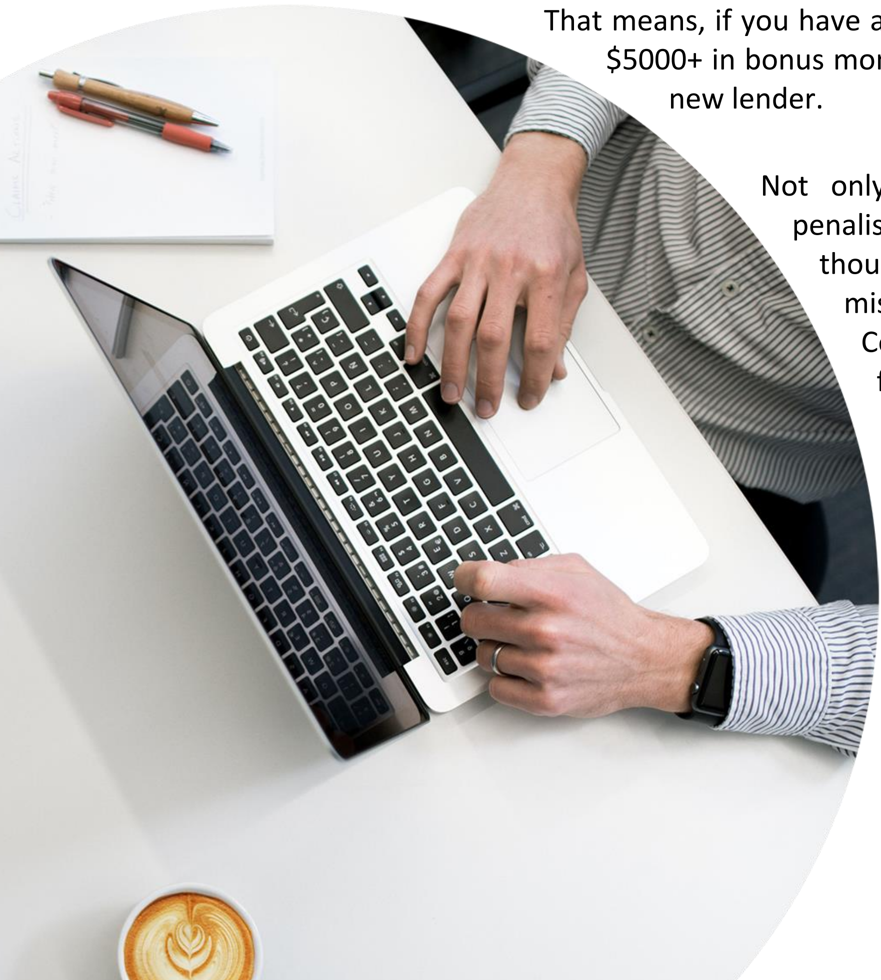
You would never step over a $100 note lying in the street, passing up the opportunity to put money in your pocket, but that is exactly what is happening every month for millions of Australians.

There is a tax that many are paying that they don't even know - The Loyalty Tax.

Back in the day you may have negotiated heavily with your lender to get a 0.75% or more discount off their standard variable rate - and back in the day that was worthy of a mention over the backyard BBQ.

What you may not know is that new clients to the bank are being offered even more. In fact, often, many of the lenders will throw you a bonus $1500 to $2000 per loan to refinance.



That means, if you have a number of loans, you could be talking $5000+ in bonus money, for just looking at and moving to a new lender.

Not only are loyal mortgage holders being penalised and paying hundreds, if not thousands, extra a month, but they are also missing out on the equivalent of a Gold Coast (or even overseas) holiday for the family.

So this all can add up over the life of the loan.

You could be saving tens of thousands of dollars, you could cash in on the bonus cash being given away, and you

can keep more money in your pocket to spend on the important things you have been sacrificing.

Lenders love it when you stick with your home loan for the entire term.

They count on you to just handle your repayments, and not worry about where you're losing out. They've set the terms that are most favourable to them and they want you to stick to them.

And that costs you money… lots of money.

How many tens of thousands of dollars have you lost this way? How much sooner could you have paid off your mortgage? How flexible are they really when you ask just to get the same rate they're tempting new customers with?

What they want is for you to just continue paying them, not realising that there are better options out there for you - options that will allow you to save money. You've just got to take a look.

Look, there are literally hundreds of home loan products out there.

Your lender knows this, and they don't want to lose you to their competition. As a result, you can use refinancing as a way to save yourself a ton of money over the course of the loan.

But it has to be right for you. There is no point moving to a new lender if there is no real benefit. In that case, maybe negotiating with your current lender is possible.

If you refinance at the wrong time, or for the wrong reasons, you could end up losing money.

We believe that there are six reasons for refinancing:

1. **Reducing Your Interest Rate**
2. **Changing the Type of Loan**
3. **Accessing Your Equity**
4. **Changing Your Loan Term**
5. **Building Up Savings by Switching From Principal and Interest to Interest-Only**
6. **Taking Advantage of Another Lender's New Loans**

In this eBook, we're going to cover each of these reasons in detail, so you can figure out if the right time to refinance is now.

Reason 1:

Reducing Your Interest Rate

You may have read that the Reserve Bank of Australia has been reducing the cash rate over the last few years. This is important news because the national cash rate affects the interest rates that lenders apply to their loans.

A lower official cash rate usually means lower interest rates (however, the banks rarely pass on the whole cash rate reduction, funnily enough, when the cash rate goes up though they pass that in full).

Being aware of the movement in the cash rate allows you to take advantage of this.

The interest rate is tied to your loan and has a direct effect on your repayments. The higher it is, the more you have to pay. And unfortunately, more of that money goes to the bank, instead of repaying the loan's principal, when you have a high rate.

As such, it's always a good idea to check out what's happening with different lenders' interest rates. Examine their current products to see if they're offering better rates than the one you're paying now. But also, be aware that your current lender's advertised rates are rarely the rates that people end up paying. If they are, now may be the time to refinance. You could even aim to fix your new loan at the current rate to benefit further, if it suits your circumstances, but don't fix willy nilly, as this could cost you even more money if you sell, refinance, or break the fixed loan agreement before it expires... And we are talking, in some instances, $25,000+

If you're wondering whether this is worthwhile, just check out this example.

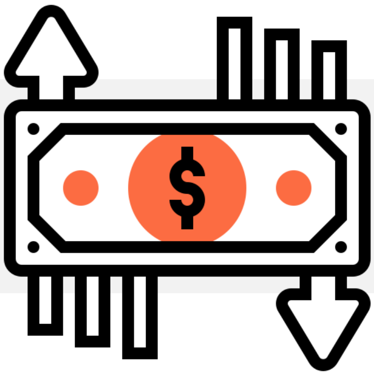
Let's say that you have $250,000 to repay over the course of 20 years. Right now, you have an interest rate of 5% p.a. attached to that loan.

This puts your monthly repayments at $1,650.

Now, imagine you refinance to a loan with a 4% interest rate.

This drops your monthly repayments down to $1,515 over the same term. That's a saving of $135 per month, which translates to $1,620 per year.

Over the course of the 20-year term, refinancing would save you $32,400!

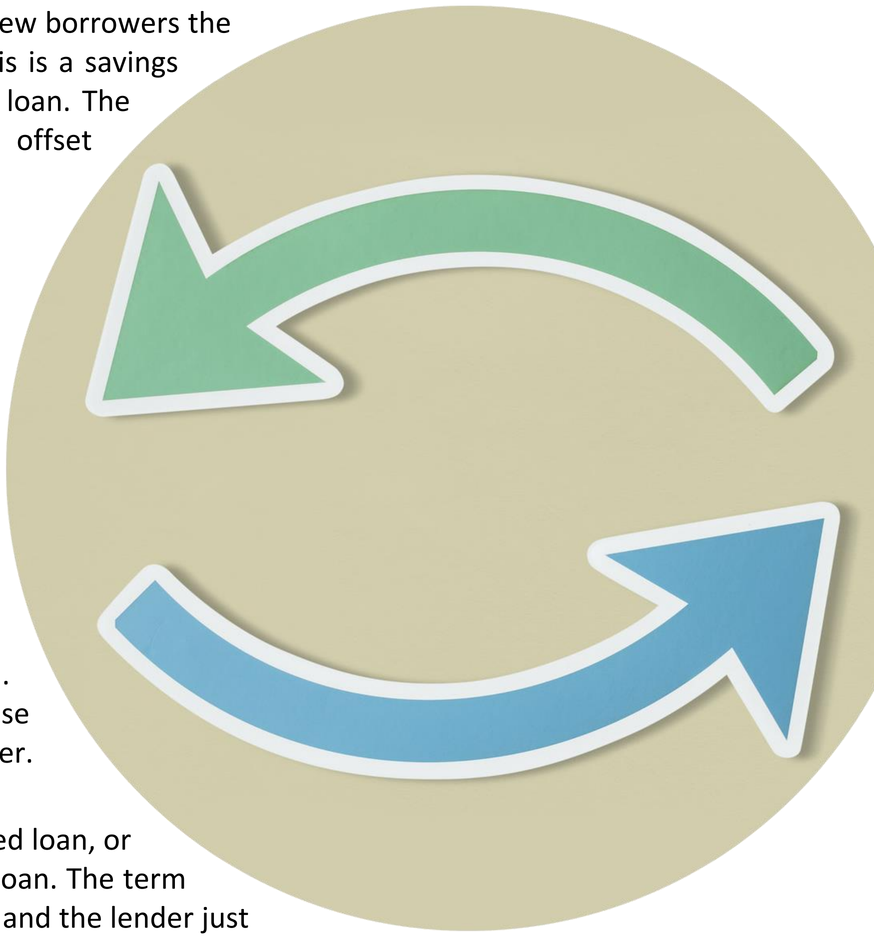


Reason 2:

Changing Your Loan Type

There are all sorts of loan features that you may not have had access to when you took out your loan.

For example, lenders often won't give new borrowers the chance to set up an offset account. This is a savings account that you attach to your home loan. The savings you enter in the account get offset against the mortgage principal.

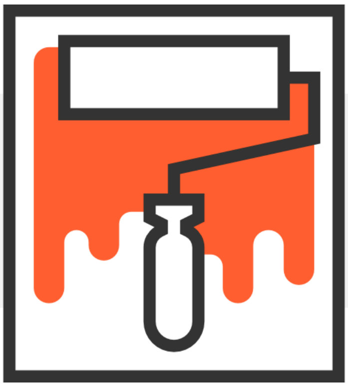


This can mean you pay less interest.

For example, let's say you have a $200,000 loan. However, you also have $50,000 in an offset account. This means that you're only paying interest on $150,000 of the loan, as the savings offset the other $50,000.

This is just one example of the many loan features that could benefit you. Refinancing could help you to access these features so you can repay your loan faster.

Another example is if you took out a fixed loan, or a honeymoon loan, or an interest-only loan. The term on all of those loans could have expired and the lender just moves you to their standard variable rate. No discounts, no conversation, just a bank process that you would have received a letter about, but no time to consider the implications or to question. As such, the old Loyalty Tax gets applied and your extra repayments help fund the bonuses and lower rates the lender is offering new customers.



Reason 3:

Accessing Money for Home Improvements

There are all sorts of reasons why you may want to access your equity.

Perhaps you want to make improvements to your home to add value to it and improve your quality of living.

Maybe you want to get started as a property investor and need access to cash for a deposit.

You may even just want to access the money for personal reasons, such as paying for a child's tuition, or a wedding.

Whatever the case may be, refinancing can usually help.

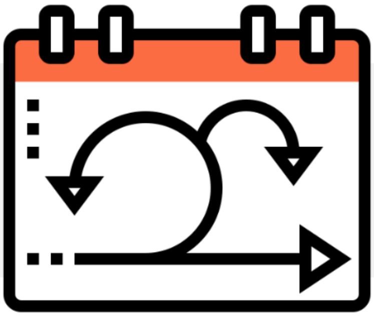
As you repay your home loan, you build up equity in the property. Refinancing allows you to access this equity so that you can use it however you see fit.

For example, you may have paid $50,000 off the loan's principal. You can refinance to access some of this money to make your improvements.

Note that many lenders will put a cap on how much equity you can access. Few allow you to access all of it.

Furthermore, you should also remember that accessing your equity sets you back on your loan. If you took $30,000 out of that $50,000 of equity, you now have an extra $30,000 to repay on your loan.

So, you need to weigh the pros against the cons here. You need to feel certain that you can handle the extra repayments that you may face when you take equity out of your home.



Reason 4:

Changing Your Loan Term

If you’re looking to repay your mortgage faster, you may want to change the loan term.

Refinancing may allow you to do that. You may even be able to combine this with getting a lower interest rate, if you’re lucky.

Potentially, you have an investment property and a plan to sell it in 10 years time. Often, investors use interest-only loans with a 30 year term - as they are concentrating on paying off their home mortgage and don’t want to put extra funds in paying down the tax deductible loan they have against the investment. So every 5 years when their interest-only period expires, they refinance to another interest only period of 5 years.

The good news is that there are even lenders with 10-years interest-only loans, which is a great option, especially if you have a number of interest-only loans renewing at the same time, or some unplanned life and income changes in the years ahead.

Reason 5:

Building Up Your Savings

Right now, you probably have a Principal and Interest (P&I) loan. This means that you repay a portion of the loan's principal, alongside a chunk of interest, with each payment.

You could refinance to an interest-only loan to lower your monthly outgoings, as you are not making a principal repayment. So although on paper it looks more expensive, as the interest rate might be 0.25%+ higher, the actual repayment you are making is a lot less.

Let's use the $250,000 loan example with the 5% interest rate and 20-year term mentioned before.

You're repaying the full $1,650 when you have a P&I loan.

If you switch that to an interest-only loan for two years, those payments drop to $1,042 per month for those two years.

This means you save $608 per month. This amounts to $14,592 saved over the course of the two-year interest-only term.

You may be able to put that money towards something else later on.

However, it's important to have another word of warning here. When the interest-only period ends, you will revert back to a P&I loan. And in this case, that would mean your monthly payments increase to $1,758. That's because you now have to repay the $250,000 principal over 18 years, instead of 20.

Of course, you may be able to refinance again to lower the interest rate on your P&I loan.

Reason 6:

Taking Advantage of Another Lender’s Products

Lenders bring out new home loan products on a constant basis.

The simple fact is that the lender that was right for you a few years ago may not be the right choice anymore. Other lenders may have more favourable products for you to take advantage of, or, even better, an incentive of $$$ to move to them.

There’s no rule that says you always have to refinance with the same lender!

You can use refinancing to switch your loan to another provider so that you can take advantage of better loan terms.

Alternatively, you could use the threat of going to a new provider to convince your current lender to give you better terms.

Either way, you should see other lenders as leverage that you can use. You’ll save a lot more money when you refinance at the right times with the right people.

Are You Ready to Get Started?

You may be ready to refinance if any of these reasons make sense to you.

However, there are a few things to keep in mind before you get started.

- When you refinance, you're creating a brand new mortgage. This means you will need to apply for the new loan and go through everything else that you did with your previous loan. Yes, that means paperwork, but with systems these days, it is much easier than it used to be.
- You may have to pay closing costs and other fees to your lender, due to closing the loan prematurely. Some lenders will waive these fees if you're refinancing with them. You may also be able to add these costs to the new loan.

So, is refinancing worth considering for you? Let us assist you to determine if it is in your interest. Let's start with a 30min Get to Know You Call to see if it works for you.

At Investors Choice Mortgages, we'd love to help you to refinance your loan so you get the best that suits your specific circumstances, now and for the future. Get in touch with us today and we'll happily answer your questions. www.investorschoice.com.au/bookacall

About Jane Slack-Smith

Jane Slack-Smith is a property market commentator, educator, author, podcaster, and has been awarded Australia's mortgage broker of the year by Your Investment Property magazine twice.

She started her career as a mining engineer and explosives expert with multiple awards for her pioneering contribution to the industry, including been proled in the ABC's Australian Story TV program.

Jane applied her discipline of risk assessment to build her own multimillion dollar property portfolio and develop low-risk property investment methodology called The Trid3nt Strategy®.

She started Investors Choice Mortgages to share her knowledge and assist everyday Australian's create their own financial security.

Jane is founder of Your Property Success online education.

Author of Your Property Success with Renovation: 2 properties, 1 renovation $1million in the bank (Wiley and Sons), co-creator of The Ultimate Guide to Renovation. and co-host of the podcast Your Property Success and The Facebook Learn with Jane Slack-Smith First Home Buyers Show.

Whenever you're ready... here are a few ways I can assist you:

1. Join the Location Masterclass: Ever wonder where to buy, how to choose an indemand property in an area going up in value. Join this free video presentation to learn how.

2. Apply to work 1:1 with me: If you'd like to work directly with me to accelerate your investing... then maybe you would benefit from my mentoring program. You can check out the details here https://www.janeslacksmith.com.au/

3. Book a time with one of our expert mortgage brokers to review your lending needs www.investorschoice.com.au/bookacall