7 considerations when refinancing

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Refinancing can be easier than you think these days. There are many reasons why you'd decide to switch, the main one of course being to get a better interest rate to reduce your monthly repayments and pay your home loan off sooner.

Here are the main reasons people choose to refinance:

Get a better structure

Too many Australians don't use the banks products properly. Refinancing gives you a chance to split your loans (particularly if a portion is tax deductible), fix a portion to provide some certainty, and keep a variable split against which one or two offsets can sit against, to ensure that as soon as you get paid, these funds are saving you interest immediately. Linking your credit card can allow you to use the banks money for free for up to 55-days interest-free, take the hassle out of manually paying off your credit card, and means if there's always funds in your offset, you shouldn't ever pay a cent of interest for your credit card.

Debt consolidation

Refinancing gives you an opportunity to clear any small debts you may have and wrap them up in a single structure. You can even use your home loan to pay off your car loan (whilst this would improve your capacity to service your loan, and any future loan, it does eat into the equity of your home.

Unlock your equity

You may wish to increase your limit so you can have more money in your offset account, or this amount can be a separate split with its own offset account (you'd only pay interest on it if you actually used it, of course). Some banks allow you to unlock your equity up to 80% of the value of your property (as long as you can afford to service it).

Get ready for another property purchase

If you're about to buy another property, you'll need to pay a deposit, so it's a good idea to have that amount available so you can cut a cheque on auction day (otherwise you might need to pay for a deposit bond). Also, to avoid cross-collateralisation, many choose to borrow 80% against the next property, and 24% against their existing property. Both loans relate to the next place, and will therefore be tax deductible, but the securities aren't crossed (they could even be at different banks). Note for some there are also significant benefits of crossing securities together.

Get a better interest rate

If your loan is more than a year old, chances are you're behind the 8-ball. Bigger discounts are offered these days, but are normally reserved for 'new-to-bank' clients.

Get Professional Representation

Some have a loan that was obtained direct from the bank. By using a Credit Advisor to get you into a better loan, they'll now be represented by someone with a wealth of knowledge who'll keep them informed, ensure their lending is competitive over time and can advise in all areas of wealth creation.

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The following highlight the 7 key things to consider when refinancing

#1

Does it Cost to switch?

Whilst refinancing might very well be the way to go, there are some fees to switch.

For a single home loan refinance, the bank you are leaving will charge you a Discharge Fee of around $350 to attend settlement. It's a fee, not a penalty (the days of unfair Early Repayment Fees are history)

If you're currently on a fixed rate, there may be a Break Fee, particularly if your fixed rate is way out-of-market, so you need to ask your bank what the fee will approximately be.

Government Fees to discharge and then register the new mortgage, and a Title Search Fee, might amount to a few hundred dollars.

The bank you're going to shouldn't have an application Fee, if you're entering into packaged-type product. The banks even normally waive the application fee for basic type products these days. There may however be a $100 settlement fee, or a $200 settlement fee.

So the cost to switch is normally around $700. Of course, an iChoice Recommendation will detail the exact costs to the dollar, and the savings you'll make moving forward.

#1 cont..

Does it cost to switch

Top-notch brokers have software that outlines exactly what the costs will be and should be documented on their Recommendation to you. Ours looks like this:

Funds Required		**Funds Available**	
Purchase Amount	$0	Loan Sought	$800,000
Refinance Amount	$800,000		
Stamp Duty – Transfer of Land	$0	Sale Proceeds (gross)	$0
Titles Office – Mortgage	$277	**Other Funds Avail.**	
Titles Office – Transfer of Land	$0	· Refinance Rebate	$1,500
Establishment Fee	$100		
Your own Legal Costs	$0		
Discharge Cost Estimate	$350	**Debts to Repay**	
Lenders Mortgage Insurance	$0		
Title Search Fee	$36		
SubTotal Funds Required	$800,764	**Total Lend** Total Security Loan Value Ratio (LVR)	**$800,000**
SubTotal Funds Required	$800,764	**Total Funds Avai.**	$801,500
Funds Surplus: $763			

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#2

Should I care about the Refinance Rebate banks offer?

You may have noticed in the above table, a $1500 Refinance Rebate is included, which more than covers the fees to switch.

When we embrace a new client, we ask our clients to complete an online Questionnaire that takes only 3 minutes to complete. One question is 'would a refinance rebate affect your choice of bank?' Most actually tick the box 'Marginally, but more interested in the long-term benefit'.

I think that hits the nail on the head.

At the same time, if the rates, policies and permittable structure are just about identical, why not go to the bank that will pay you to get on board?

Currently, St George offer $1,500 for every new 'Primary applicant' for loans over $250,000 (P&I home loans, or investment loans). Therefore, if we're refinancing a home loan and an investment loan for a couple, we lodge two applications switching the 'Primary Applicant' and the 'Co-applicant' on the second application. Cheeky, but it's within the rules and means you get $3,000.

Other banks also have rebates, all at different amounts and with different conditions

#3

Do I need to close down my existing bank accounts?

No, but you might consider it if you're entering a packaged-type product so your new offset is attached to your new home loan, and your new credit card will be free. One bit of advice is to not close down your existing Credit Card straight away as there might be direct debits that you have forgotten about. I have stacks of debits coming from my old CBA credit card including domain name renewals and the like – instead of changing them, I'm just going to hang onto that card forever I think!

I've come up with something called Home Loan Replacement Therapy, a way to get your both your home and investment loan with owner-occupied rates without switching, which can sometimes be achieved in today's market. Your home loan can be secured by your investment you know? Have you ever watched Throw Mama from the Train? Anyway, this strategy is too brilliant and needs its own eBook.

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#4

Should I use my home to secure my investment loan?

If you have enough equity in your home to secure your investment loan, your investment loan could be laughing with a packaged variable rate of 3.69% You see, some banks apply owner-occupied rates to investment loans, if your home is offered as collateral.

Keeping your investment property liquid is pretty cool. But some like to have the title deed of their home tucked under their pillow.

Most banks don't do this. They apply the investment rate, as the purpose is investment (even if the home is used as security).

#5

I need a new car soon. Since I'm refinancing, should I think about borrowing against my home?

Getting a Hire Purchase or lease to buy a car loan damages your ability to get a loan to buy property. Even an $800 monthly repayment on a 5-year car loan can mean the banks will lend you $100,000 less for a home loan!

Many choose to simply increase their existing home loan to get some money to buy a car. Insurance is generally cheaper if the car isn't itself 'financed' and the interest rate will be cheaper too (the banks know that there's nothing safer than bricks & mortar). Well, that's unless it's a 1% interest rate, with interest obviously built into the sale price.

Don't believe the old adage that the term of a loan should reflect the life of the asset, that's what the bankers want when all they have is a charge over the car! I say structure your lending to save tax and get ahead faster.

Those who borrow against their home to buy a car for business use, always keep that loan separately identified (say, Loan B). This way, they service the 'car loan' with minimal repayments in order to concentrate on smashing their home loan, which is the loan they service with their after-tax dollars.

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#5 Cont...

The bad thing about borrowing against your property is that you'll be chewing into your equity. If your loan is at 80% LVR, you might not have the choice anyway. But even you have some room to move, you must consider your next move...do you have useable equity to help with your next purchase?

Usable equity is the difference between your loan balance, and 80% of the property's value. That's the bit you can get your hands on. Savvy buyers already have all that unlocked as a separate split, available via redraw or offset to cover 24% of the value of their next purchase (20% plus stamp duty). Nothing like a chunk of an investment loan at owner-occupied rates, hey.

If you buy an expensive car, you might not know that any sale price over $75,526 (including parts & accessories bought on the same day) includes a 33% Luxury Car Tax. Whack!

Maybe consider buying the new wheels and your flash accessories on your first service rather than on the day you buy the car. A $3,000 Bull Bar might only cost you $2,000 a month later! Hey, a grand is a grand.

The big negative here is if you're about to expand your investment portfolio, you might need the equity in your property to fund the 14% of each investment property you buy! (10% plus stamp duty) and perhaps even

#6

renovations. It might be best to protect the equity in your properties.

Should I take notice of Comparison Rates?

Probably not.

There are 2 ridiculous things by making decisions based on the ASIC-invented Comparison Rate.

Comparison Rates (while well-intentioned) are just ridiculous. I will continue lobbying to ASIC for their removal on the basis that they just aren't giving Australians enough credit (pardon the pun).

A Comparison Rate (CR) is a made-up, notional rate which tries to include certain fees into the actual interest rate, in a child-like attempt to estimate the true cost of a loan. Kind of like a car salesman giving you a price on a car that wraps up their estimate of fuel and repairs in the next few years...

If you have a mortgage you're probably paying a monthly fee or an "Package" of between $120 and $395 pa. For a $600,000 mortgage, a $395 annual fee represents only 0.06% on top of the rate.

So why the big difference between the actual & Comparison rates? Mainly, because advertised comparison rates are based on a $150,000 loan. Sure, on a small loan like that the annual fee represents 0.26% - which is why a 'packaged' product may not be

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recommend for such a small loan!

Furthermore, doesn't a Package also provide a free Platinum credit card? And dual offset accounts at no cost? Are these savings included in the CR? No. What about the super-tax-savings offsets provide in case your home turns into an investment property!

#7

iChoice software provides the best way to understand the cost of a loan to enable a meaningful comparison, by looking at set up costs, ongoing fees and the interest rate, and projecting the total costs over a period of time.

Should I cross-collateralise?

Bankers generally like to be best protected. Good for them that's their job. Entering a structure of cross-collateralisation means that all your investment properties and your home, each secure all your debts. This doesn't affect tax minimisation either way, but can cause issues and is a not generally advised for the purposes of asset protection.

Loans can still be structured so that you borrow 104% for your investment properties without entering into a cross-collateralised arrangement. Doctors generally borrow 14% against their home and 90% against the property itself. The tax deductibility of a loan has nothing to do with what secures it. The tax deductibility of a loan has nothing to do with what secures it. The 14% could have been borrowed against your swimming pool, if it was used to help buy an investment, you can claim the interest.

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