



Home Loans

Made Easy For You

"Helping you to grow your money tree"

1300 855 177
info@hlme.com.au
PO Box, 3659
Loganholme, QLD
4129

Refinance Pack

So you are looking to refinance your current mortgage? The following takes you through some of the questions you may like to ask yourself and shows what can be possible when comparing different products. Refinancing can be a great way to save money if done for the right reasons and the right way.

Questions

The following questions are designed to help you understand why it is that you may be refinancing and what you hope to achieve by it.

1. What do you like about your current lender?
2. What do you not like about your current lender?
3. Are you refinancing because of interest rate?
4. Are you refinancing because of fees?
5. Why do you think you will be better off if you refinance?
6. Have you compared your loan with others on the market correctly?
7. Are you refinancing because of cash flow?
8. Are you running a budget?
9. What do you hope to achieve by refinancing?
10. Are you trying to consolidate debt?
11. Do you know what your break fees are from your current lender?
12. Do you know what is involved with refinancing?
13. Who are you going to call to refinance?

By writing the answers down to these questions you will begin to formulate an idea of why, what and how to refinance.



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Why, What and How

So hopefully after answering those questions you have begun to understand why you want to refinance, what you want to achieve by refinancing and how you might go about refinancing.

There are some great motivators for refinancing which we have listed below;

- Cheaper interest rate
- Save money
- Better service
- Better packages
- Lower fees
- Borrow larger amount

There are also some things to be wary of;

- Break costs
- More stamp duty
- Possible legal costs
- Higher loan may incur higher repayments
- Cheap honeymoon rates can be costly in the long run
- Poor service
- Higher fees

In our experience most clients want to refinance to save money. The simple fact is unless you are managing your cash flow through the use of a well maintained budget people will tend to spend what you earn and live pay cheque to pay cheque. After going through the expense of refinancing you may not be any better off than you were before.

This is why it is so important to get the right mortgage advice so that you are not forever going backwards. The majority of loans have front loaded interest. This means that for the first 7 years most of your repayments are made up of interest and a small portion is principal. To give you an example if you take a \$350,000.00 loan @ 8%p.a. over 30 years the first repayment will be \$2568.18. The amount of interest on this repayment is \$2333.33 leaving the principal amount to be \$234.84. The principal amount is how much you actually pay off your home. So your balance after the first repayment would be \$349765.16.



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You can see that you really do not make much of a dent in the loan to start with. To show you the breakdown after seven years we have created the following table;

Starting loan balance	\$350000.00
Loan balance after 7 years	\$323671.01
Principal reduction	\$26328.99
Total repayments after 7 years	\$215727.12
Interest portion of repayments	\$189398.13

The highlighted amount is the amount in interest you pay in the first seven years. It is a massive amount compared to how much principal comes off your loan.

This is why it is important that you are refinancing for the right reasons.

With the above in mind let us explore some of the pros and cons of refinancing in more detail.

Cheaper Rate

Many home owners have struggled in the past years as interest rates kept on rising. This coupled with higher inflation led to a lot of families losing their dream. The first thing many blamed was the interest rate on their mortgage. The fact is this was only one part of the problem. Most Australians do not run a concise budget and do not manage their cash flow in a way which is contusive of a healthy financial outlook. A quick fix or band aid solution seems the more preferable method. A cheaper rate can be of great assistance however it needs to be a part of the overall solution.

It is important to be wary of cheap intro rates that revert back to very high rates after the honeymoon period. You may save in the short term but it can cost you dearly in the long run.

So getting the right advice again will save you possible money and time.



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Better Service

How many of us have said at least one time in our lives "I hate the banks"? It is even advertised on T.V. by the banks themselves how much people like to detest them.

Why? Is it because they make huge profits and pay their C.E.O.s millions of dollars while they sometimes scream poor? Banks are in the business to make money and they are very good at it. Whatever the reason for you disliking them they are there to be used as a vehicle. When all is said and done you have to take ownership of your life and decisions that you make in it. For all the fancy advertising that any business does NO ONE will care as much for your well being as yourself.

The decision to refinance a loan to get better service is a decision that we believe should be based on two factors.

1. The emotional benefit
2. The financial benefit

You have probably heard the saying "*to cut your nose off to spite your face*". It is really important that you make sure that this is not what you are doing when you refinance as it can cost you.

We believe you should only refinance when there will be an emotional and financial benefit to you changing lenders. It is hard to know what kind of service you will receive from the new lender especially if they are a large major bank. Remember that you will always care more about your finances than anyone else.

Costs to Refinance

Like most things there is usually a cost involved to refinance. Some of the costs attributed to refinancing are;

- Break costs – This is the bank's way of recouping some of the money they lose from you switching lenders. Break costs vary from lender to lender but they are usually charged in the first 4 years if the loan is paid out or you change banks. They can be anywhere between nothing and possibly as high as \$20,000.00. It is an important thing to check before refinancing.
- Stamp Duty – If you are increasing the loan amount then it is likely that you will need to pay stamp duty on the increased amount.



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- L.M.I. – Loan mortgage insurance may be payable on the increased amount or even if you are switching lenders.
- Legal fees – Banks often charge a deferred establishment fee to cover the legal costs of the refinance.

It is best to weigh up all the costs and compare them against the savings you may get by changing.

Better Packages and Lower Fees

This is one of the best reasons to look at refinancing. There are a lot of great products on the market and more being released every month. Some of these packages allow the borrower's to save big on their mortgage. The pro packs that some of the banks offer have great ways of combining a borrowers complete banking system to save on fees and charges. Fee free banking is possible and this can save you thousands every year. Imagine what you could be doing with this extra money in your own hands.

Conclusion

We hope that this has given you some food for thought about refinancing. There really is a lot to consider when making such a big financial decision.

One of your options is to speak to someone like an accredited mortgage consultant (A.M.C.) and find out what is possible. To speak to an A.M.C. call 1300 855 177 or email info@hlme.com.au we are always happy to assist you.

Disclaimer

Any general advice in this document does not constitute financial advice and should not be relied upon as financial advice. Any rates, fees or charges quoted in this document are subject to change.