The Complete Guide to Refinancing

MORTGAGE HOUSE

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Why Refinance?

"An investment in knowledge pays the best interest."

Benjamin Franklin

Life doesn't stand still. And neither should your mortgage.

The mortgage that helped you purchase your first home isn't the same one that will best serve you for twenty or thirty years. Why not? Well, for one, your lifestyle needs will change and so will your financial circumstances.

As a result, your home loan needs to keep pace with the stage of life that you're at. Your mortgage is a flexible financial tool that can help you achieve a number of different aims:

Enhance your lifestyle

Build future wealth for yourself and your family

Consolidate debt and attain peace-of-mind

Unlock Your Mortgage's Potential

Refinancing is one of the keys that will allow you to unlock your mortgage's potential. However, memories of the difficulty of your first mortgage application may still be fresh in your mind. This is understandable as a mortgage application can seem pretty daunting if you're buying your first property.

Like any unfamiliar undertaking, it takes a little while to get your head around what is happening and learn all of the necessary industry jargon. Refinancing your home loan will involve going through a similar process as when you applied for your first mortgage. The good news is that you're no longer a first home buyer.

The fact that you've been through something similar before makes you better-equipped to make the most of refinancing. The rewards are certainly worth it. To simplify the task of refinancing further, we've put together this guide, which will help you get through the process with as little stress as possible.

But Why Refinance Now?

The Reserve Bank of Australia (RBA) is constantly cutting rates so refinancing presents a great opportunity to capitalise on this.

However, it's not all about the interest rate and, before you start looking around for a refinancing package, it pays to be clear about your goals. Refinancing to consolidate debt and refinancing to buy another investment property are quite different and your purpose will greatly affect the type of loan you end up with.

Read on to find out how you can make the most of refinancing in order to meet your specific objectives, whatever these may be.

How to Use This Guide

This guide has been structured to give you the most relevant information that will match your refinancing needs. Whether you're looking to buy an investment property, go on holiday or upgrade your car, this guide will show you how refinancing can help.

In this guide, we'll provide a refresher of the terms that you will come across during the refinancing process. These are the basics of what you need to know regardless of your refinancing goals.

If your knowledge of home loan concepts is a little rusty or if you feel unsure about the refinancing process in general, then this guide will be especially helpful.

Scheduling In Regular Mortgage ‘Check-ups’

"In investing, what is comfortable is rarely profitable."

Robert Arnott

The best way to think of a mortgage check-up is that it’s like the annual service on your car, except it’s free. The last thing you want is to find out several years down the track that you’ve been wasting more money on fuel due to your tyres being flat this whole time.

The same goes for your mortgage - except the stakes are higher. You may be losing thousands of hard-earned, after-tax dollars every year and as much as tens of thousands over the life of your loan by not refinancing.

Many Australians tend to throw home loan refinancing into the ‘too hard basket’ and just continue making regular repayments on their existing mortgages. However, those that take action are rewarded with better terms and better rates.

How Often is too Often?

Similar to how paying your mechanic a regular visit keeps your vehicle running smoothly, doing a regular mortgage '"check-up" will help keep your home loan, and your budget, in tip-top financial shape. Interest rates change frequently and, while you don't want to be paranoid about checking your rate every day, week or month, you should consider having a formal review every couple of years or so.

You preferably want to have this meeting with a lending specialist who will provide you with a wide variety of loans to choose from. Especially in as competitive a lending market as the one that we're in now, you want to have the broadest choice of options available.

The other benefit of setting up a formal meeting is that, unlike checking rates online, you can get a qualified opinion from a specialist who understands what's happening in the market. This saves a lot of guesswork on your end and allows you to bounce ideas off someone who can provide useful advice.

Small Amounts Can Lead to Big Savings

Just as your daily cups of coffee can add up to a significant expense over the course of a year, the same happens with your mortgage payments and fees. Except with a mortgage, due to its long-term nature, the financial effects are even more drastic. Any savings or costs, as small as they may seem when considered from a weekly or monthly perspective, gets amplified over years and decades, turning into tens of thousands of dollars. So it is important to be mindful of every little cost.

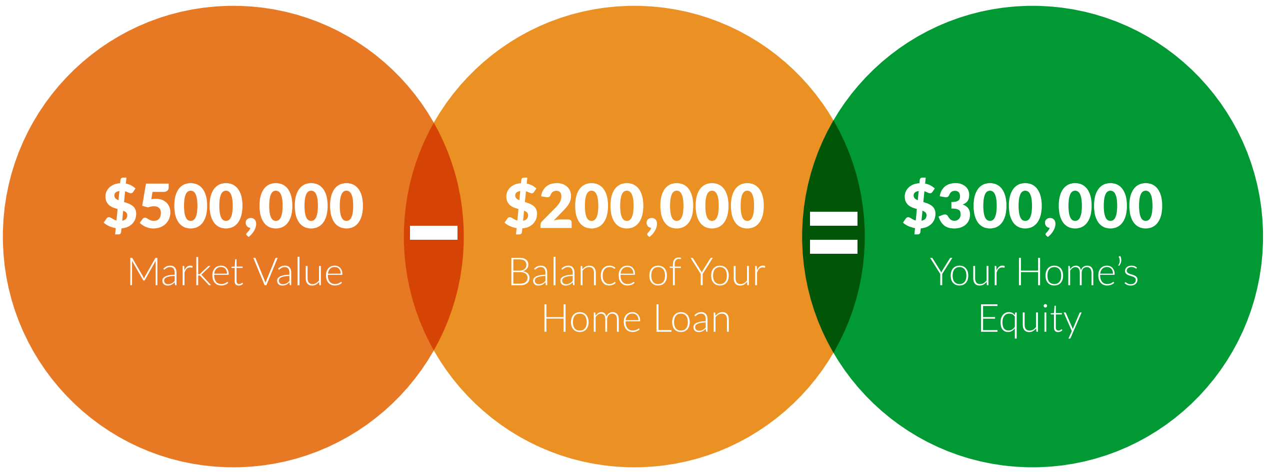
As you can see, when weighing up different home loan options and costs, it truly pays to delve into the details. Keep this in mind when evaluating the different home loan types and their features. Always ask yourself the question: "am I prepared to potentially give away thousands of dollars over the next several years in return for having this feature?"

Why Your Home's Equity is A Gold Mine

That's right, if you've been diligently paying off your home loan all these years then you may just be sitting on a gold mine. The equity that you've built up in your home really is the equivalent of pure gold when it comes to refinancing.

Now it's time to figure out just how much of it you're sitting on. The way to work out your home equity is quite simple:

How Much Your House is Worth



The Golden Ratio (LVR)?

But it's not just your equity that a lender will evaluate. When assessing your refinance application, one of the first things that a lender will look at is how much you want to borrow relative to the amount of equity you have.

This ratio is known as a Loan-to-Value (LVR) ratio and is expressed as a percentage. To a lender, the LVR shows how risky refinancing your loan may be.

Here's how to find out your LVR:

$$\frac{\text{Amount You Wish to Borrow}}{\text{Market Value of Property}} \times 100$$

LVR

Continuing on from the previous example, if you have $300,000 equity in your home and you wish to refinance your current mortgage for $200,000 then your LVR will equal 40% ($200k / $500k x 100).

Usually, any home loan with an LVR greater than 80% is labelled as being higher-risk and such loans attract additional fees. It's also harder to get attractive rates if your LVR is high.

Higher Equity, Lower Costs

The more equity you own in your home, the easier it is for you to achieve your refinancing objectives. Think of your home equity as being the 'ticket' you need to enter the refinancing game. The higher your equity, the better the 'perks' that come with attending the event.

One of the perks of having higher equity when refinancing is that you may avoid certain costs, such as paying Lenders' Mortgage Insurance (LMI). If you can't remember what LMI is or haven't paid it on your previous mortgage, it is a fee that gets added on to your home loan if your LVR exceeds 80%. It is a way for lenders to safeguard themselves against the potential risks of providing such large amounts.

What If Your Equity Isn't High?

So, you can now see that the higher your home equity, the better off you'll be when refinancing.

However, what do you do if your equity stake in the property you own isn't that high? Which also brings up the question of what your minimum home equity needs to be to in order to refinance. Put simply, in order to refinance any home loan, you need to have at least a 5% equity stake.

As mentioned, the higher your equity, the better and more competitive will be the interest rates a lender can offer. To get very competitive rates or better terms, you need to own at least 20% of your home.

Your Borrowing Capacity

Once you've decided that refinancing is the way to go and you have worked out exactly how much equity you're sitting on, the all-important question then becomes: "how much can I borrow?"

The answer to this question is called your borrowing capacity, otherwise known as your borrowing power. In addition to your LVR, a lender looks at a range of factors that will determine the exact amount of your new loan.

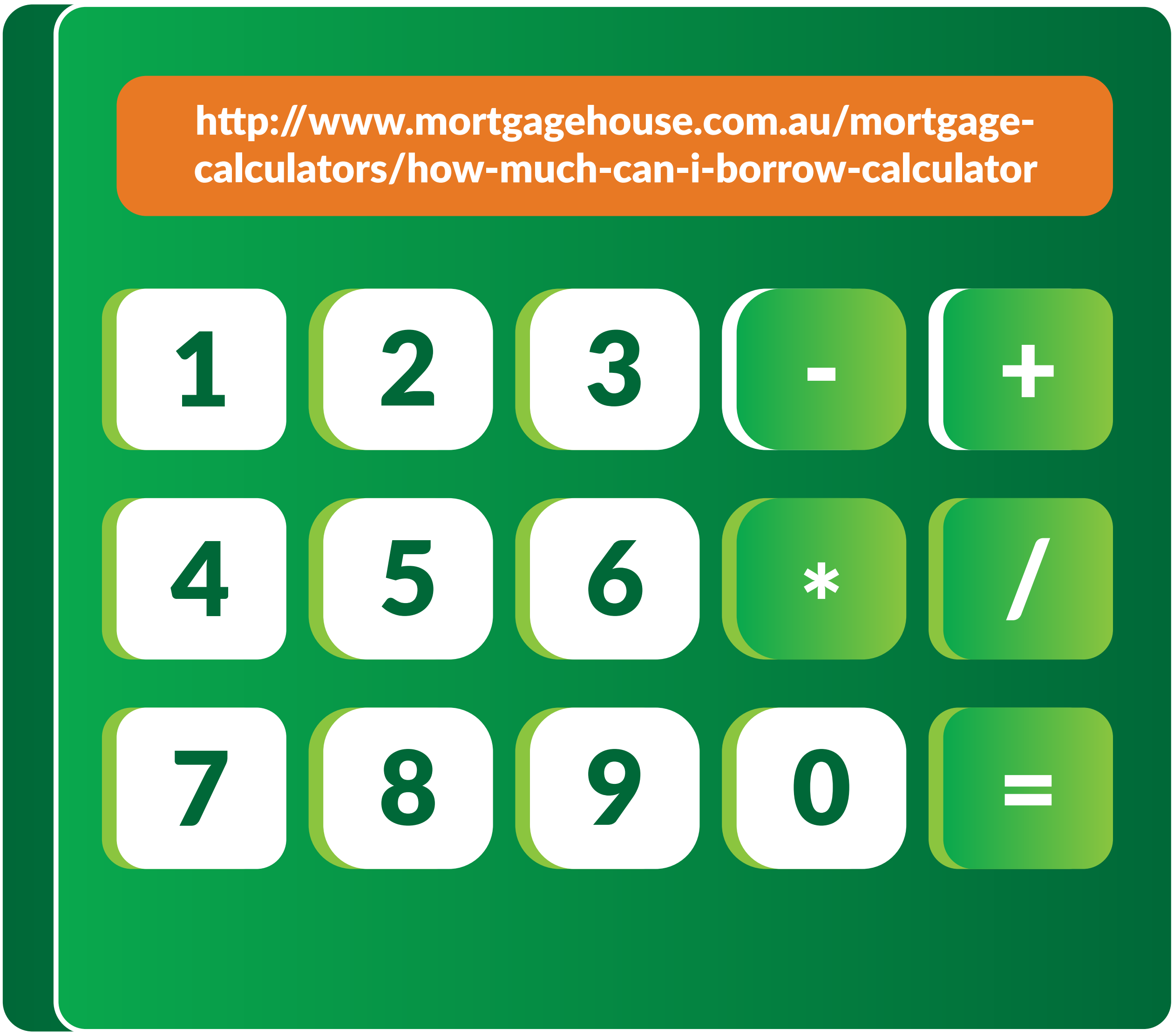
The main factors that will be assessed are:

1. The loan details, which includes the loan amount, interest rate, loan type and its term.
2. The estimated repayments on the loan.
3. The repayments on your other liabilities (eg. car loans, credit cards, etc).
4. Your average total living expenses per month.

Online Borrowing Capacity Calculator

If you wish to work out your approximate borrowing power, there's no need to calculate anything by hand.

Our convenient online calculator will help you figure out your borrowing capacity in a minute:



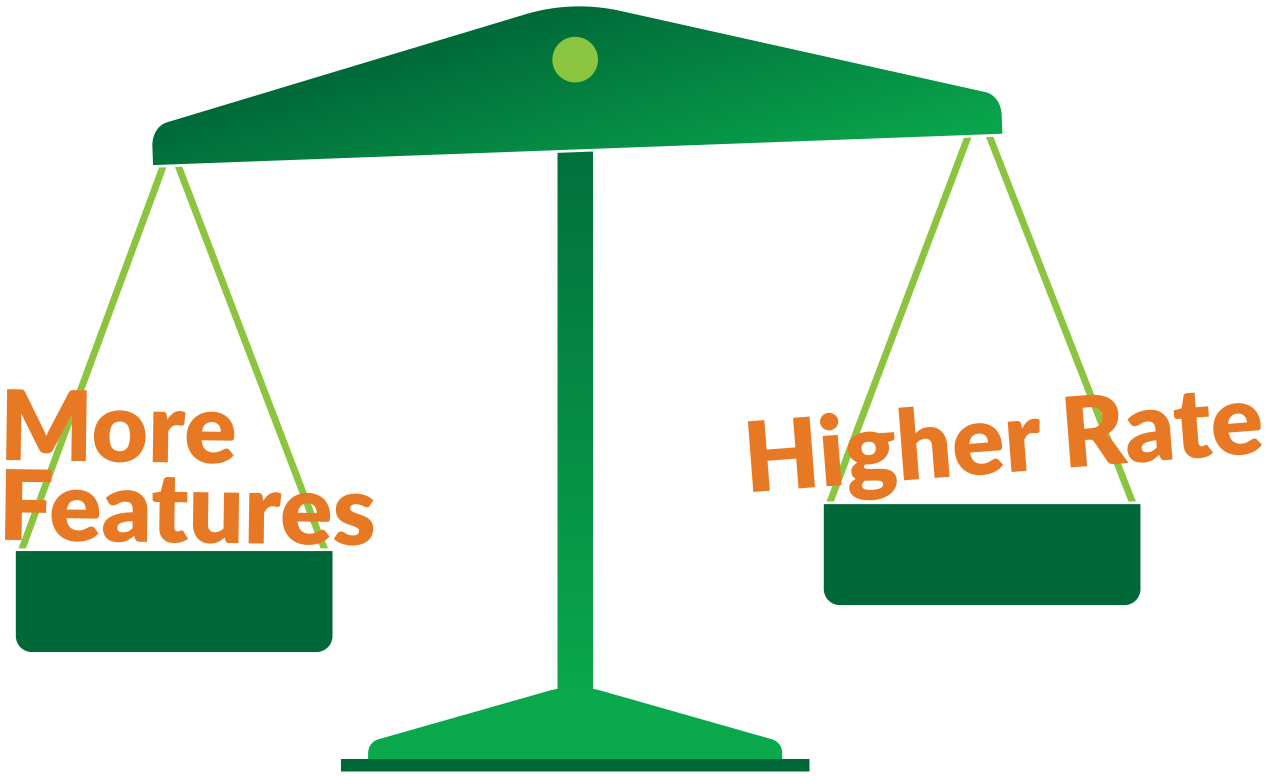
Features vs Costs

"Beware of little expenses. A small leak will sink a great ship."

Benjamin Franklin

Unlike your first home loan, refinancing your current loan will involve a number of costs that are specific to the refinancing process. There are quite a number of fees involved in switching over from one loan type to another, as well as a host of other charges, from legal to termination fees, that you have to account for.

The other side of the coin is that, for each feature you decide to include in your new home loan, there will be an associated cost that you will have to bear. As a general rule, the equation here is pretty simple:



Always Run the Numbers

Hopefully, by now you've realised that an attractive rate or a particular feature, on its own, is not always cause to make an application. When refinancing, you need to weigh up the costs and compare them to the anticipated benefits of a new home loan.

This will involve making numerous calculations to ensure that the new home loan meets as many of your needs as possible. Naturally, there will be trade-offs that you will have to make along the way. As always, it is best to engage a specialist to help work out the viability of a particular refinance option.

The ultimate goal is to ensure that you're not losing money as a result of refinancing your current loan.

This involves being diligent in your calculations. Regardless of your refinancing goal, the bottom line is that you need to come out better-off at the other end of the deal!

The Different Types of Refinance Costs

The typical costs involved in refinancing a home loan can be grouped under these four broad categories:

- Borrowing / Establishment / Package
- Exit / Discharge
- Legal / Government
- Valuation / Appraisal

Because various lenders refer to the same things slightly differently, it pays to be aware of the different names for what is essentially the same thing. Let's now look at the specific costs associated with each of these categories

COSTS:

Borrowing / Establishment / Package

These fees refer to the costs involved in opening a new home loan account with a new or current lender. If you are refinancing with your current lender, some of these costs may be avoided.

Application & Contract Fees	Lenders Mortgage Insurance	Package Fee	Account Fee
These costs are fairly self-explanatory and refer to the fees charged by your lender when you open a new home loan account with them. Not all lenders charge a contract fee but most will charge some sort of application fee. These are both one-off costs that normally add up to no more than a thousand dollars in total.	As mentioned earlier in this guide, LMI is the fee that gets tacked on to your home loan if you have a high loan-to-value ratio when refinancing your current loan. With certain lenders you can 'capitalise' your LMI, which means that you can borrow the money necessary to cover the LMI fee as part of your new mortgage.	This is a cost that applies specifically to package home loans and is usually charged annually. This fee is paid for the convenience of having a home loan that is combined with other transactional accounts or a credit card.	This cost is an administrative fee that usually gets charged on a monthly basis for account maintenance.

COSTS:
Exit / Discharge

These fees refer to the costs involved in closing your old home loan account that are charged by your current lender.

Loan Exit / Early Exit Fee	Break Cost Fee	Early Discharge / Termination Fee
This is a fee that has now been banned by the government because it was preventing home loan borrowers from refinancing their loans due to the high penalties which could previously equal thousands of dollars. For any loans taken out after the 1st July 2011, 'exit fees' no longer apply. If your home loan was taken out before this date then you are still liable to pay exit fees. However, it is worth negotiating with your lender to see if these can be waived or discounted.	This is a fee that is specific to a fixed-rate loan and it is charged for 'breaking' your loan earlier than the term specified in your contract. Break fees are not fixed charges and the exact amount of the penalty that you'll have to pay will depend on how much of your loan has already been paid off and how many more months you have left in your contract together with a comparison to the current market rates available. You should contact your lender for a quote to see exactly how much you would have to pay. A 'break' fee may also be charged for making extra repayments on your fixed-rate loan or trying to repay the loan in full.	While exit fees have been banned, lenders can still charge a one-off administrative fee for terminating your loan early. You'll also usually have to pay to obtain your title deed(s).

COSTS:
Legal / Government

In addition to lender charges, there are standard government charges that need to be paid irrespective of whom you decide to refinance with.

Mortgage Registration Fees	Mortgage Stamp Duty	Title Transfer Fee
This is another straightforward fee that covers the cost of registering your mortgage.	This is a government tax that you may have to pay for increasing the size of your loan or transferring the property into someone else's name. The amount differs depending on the state and the purpose for which the property is being purchased. In some states, you don't have to pay the stamp duty when refinancing so it pays to check this out.	This is simply a fee that the state government charges for transferring the title of your property and it varies from state to state.

COSTS:
Valuation / Appraisal

A valuation and an appraisal are different in that one may have legal standing and the other doesn't. It is very important to understand this difference so that you don't get caught out.

Valuation	VS	Appraisal
A valuation is a formal process that involves a valuer who is qualified to undertake this type of work. The outcome of a valuation is the assignment of a true, market value to your property and the production of a report that you may have to pay a fee for depending on the new lender's policy.		Conversely, an appraisal is a 'guesstimate' of what a property is worth and it is not legally recognised. Appraisals can be provided by any real estate salesperson and must be taken with a grain of salt due to this. You normally wouldn't get charged for an appraisal.

Are Any Of These Costs Tax-Deductible?

While there are quite a number of fees involved in refinancing, the good news is that some of them are tax-deductible. If you're a real estate investor, then you can claim tax deductions on costs associated with refinancing your investment property. Both loan establishment and settlement costs can help decrease your tax obligations.

'Soft' Costs

Finally, it's not just about saving dollars and cents. While minding the numbers is important, your overall experience with a lender may be just as valid a reason to refinance as the money you'll look to save. Unlike other forms of finance, refinancing a home loan means getting into a long-term relationship with your lender.

If you believe that your current lender isn't working hard enough for you or if their customer service is severely lacking then this is sufficient reason to start looking around. With the amount of choice these days, it is always possible to find a home loan provider that will help you save money as well as look after your long-term interests.

Especially if your current mortgage is with one of the large banks who don't specialise in home loans, you may find that refinancing with a mortgage broker or non-bank lender will better serve you in the long run.

Banks offer very little in the way of customising their home loan packages and what they do offer are usually cookie-cutter products that may not necessarily help your situation.

The Two Main Pillars of a Loan

"Wealth is the ability to fully experience life."

Henry David Thoreau

As you may well know, a home loan rate consists of two main components:

Principal
this is the outstanding loan amount

&

Interest
this is what the lender charges on top of the home loan

When looking to refinance your home loan, you need to pay particular attention to the way your loan will be structured. There are two main choices that you have when deciding on how to pay back the loan:

Principal and interest payments

or

Interest-only payments

While you may not have given this much thought when applying for your first mortgage, the way you structure your interest payments can have a significant impact on your refinancing goals.

Managing Your Interest Repayments

'Principal and Interest' Payments	'Interest-only' Payments
For most refinancing situations, a 'principal and interest' arrangement is best. It allows you to manage your home loan by steadily paying off the capital portion while also minimising the interest component over time. This arrangement means that you are slowly but surely increasing your equity in the property year after year. After a while, the interest that you pay also significantly decreases and this eventually leads to full ownership of your home. Another benefit of going with a 'principal and interest' arrangement is that it becomes a form of "forced saving," allowing you to build up equity quickly without actually having to think about.	Interest-only loans allow you to pay just the interest component of your home loan without touching the principal. This results in lower repayments and may help with managing your budget. However, this also means that you're not building any equity in your home. An interest-only arrangement is often used by property investors who wish to make a bet on the capital value of the property going up over time. In this way, they hope that the capital gains will offset the fact that no payments have been made towards the principal of the loan. It is worth noting that most lenders cap the number of years that you can get an interest-only rate for, which is usually up to five years. Choosing an interest-only loan is a risky strategy that may or may not pay off so it is worth thinking the choice through carefully and consulting a financial adviser.

The All-Important Comparison Rate

Before getting into the nuts-and-bolts of the various home loan rate types, it is worth mentioning the one rate 'to rule them all,' also known as the comparison rate. Whether you're weighing up variable or fixed rate loans, you will always need to pay attention to the comparison rate.

When it comes to advertised home loan rates, it isn't often clear what other fees and charges may be added on top of the rate. This makes it nearly impossible to analyse mortgages from different lenders because they all structure their products slightly differently.

What's Included in a Comparison Rate?

The comparison rate solves this problem by adding the interest rate and any associated costs together and then expressing them as a percentage.

Here's what normally goes into a comparison rate:

- Interest rate
- Loan amount and term

Any associated fees in addition to the rate, including:

- Application fees
- Additional charges
- Valuation fees
- Discharge ongoing fees

It is important to point out that all lenders are required to disclose the compari-son rate by law so you will normally see one shown next to the advertised rate.

A Word of Warning

While a comparison rate does a good job of levelling the playing field, it only takes into account fees payable during the loan's lifetime. Any fees that are added after this are not included in the calculations.

These 'other' fees include:

- Lender switching fees
- Redraw fees
- Government fees

Just as your home loan's interest rate shouldn't be the sole deciding factor, neither should the comparison rate. Because mortgages are fairly complex financial products, there are numerous factors that should be weighed up to establish whether a particular home loan is right for your refinancing needs.

Your Appetite For Risk

In the same way that choosing between 'principal and interest' or interest-only payments is a personal choice based on your tolerance for risk, so is the choice between a variable or fixed rate.

Your decision to go with one or the other will not only depend on your risk profile but also your financing goals and the current market conditions. It is worth noting that you're not just limited to a variable or fixed rate and an increasing number of borrowers are opting for split rates.

Regardless of what rate type you chose to finance your previous property, make sure that you weigh up all options once more while keeping your refinancing goals in mind. The rate that you used last time may not be as suitable for your current situation.

The Variable Option

Something to note about the residential lending environment in Australia is that it is skewed towards variable rates.

As you may already know, a variable rate is tied to the cash rate set by the Reserve Bank of Australia (RBA). The cash rate is an economic tool that the RBA uses to manage inflation in Australia's economy. The cash rate set by the RBA can potentially change every month. As a result, your home loan rate can fluctuate wildly depending on how the Australian economy is doing.

It's worth noting that there are other economic factors that impact on home loan rate changes but the cash rate is one of the main ones. If all is going well in the economy then you may end up paying considerably less on your mortgage than someone on a fixed rate. However, this also presents a significant risk for you as a borrower if you don't have enough cash reserves to cover the upswings in the interest rate.

The Advantages of Variable Rates

One of the main advantages of going with a variable rate is that you can make lump sum payments towards your loan. If you have the financial means to make large payments then making use of this aspect of a variable rate mortgage can help you pay your loan off much quicker.

Another positive aspect of going with a variable rate is that it comes with fewer costs than a fixed rate loan and, often, more features. Something else to be aware of is that, if you choose, you may be able to 'fix' the rate at some point later on down the track.

Basic vs Standard Variable Rate

Variable rates come in two flavours: basic and standard. The main difference between the two is that a basic rate is just that - a no-frills version of a standard rate. It usually has fewer features and, as a result, the mortgage itself is lower.

Here is a sample of the features that a standard rate mortgage can offer over a basic rate:

- Redraw & offset facilities
- Ability to make extra repayments
- The option to split your loan

Some of the features listed can actually help you to pay off your loan quicker and it's not wise to focus just on a cheaper rate when refinancing. Also, the option to split your loan is particularly powerful because it lets you take advantage of both a fixed and a variable rate.

The Fixed Option

You may not be comfortable with the idea of expecting wild swings in the amount of your monthly mortgage repayments. You may also just not have the means to pay anything over and above a certain amount. This especially applies if you have other financial commitments that you must budget for.

In such a situation, a fixed rate is a great option because it gives you peace-of-mind knowing that your repayments will remain unchanged for the duration of the loan. Usually, a certain rate can be fixed for up to five years and the length of the contract will affect the rate. As a budgeting tool, a fixed rate is pretty hard to beat.

The Disadvantages of Fixing

However, a fixed rate imposes a number of limitations on what you can do with your home loan. For instance, unlike a variable rate, you're usually not able to make extra payments towards your loan. If you come into some money or want to funnel more of your monthly budget into paying off your mortgage, this is often not possible with most fixed-rate home loans.

Unlike a variable rate, which you can 'fix', trying to change your fixed rate to a variable one will attract 'break cost fees'. As a result of this, you're not able to respond to changes in the market that could be beneficial for you. Break fees are not fixed charges and the exact amount of the penalty that you'll have to pay will depend on how much of your loan has already been paid off and how many more months you have left in your contract.

So, in exchange for security, you give up the flexibility that a variable rate offers and you need to address this in your decision-making. If you plan to sell your property or think that you may refinance the mortgage again later then a fixed rate is probably not for you.

If you like the certainty that fixing could provide but don't like the sound of having to pay penalties for making extra repayments, then a 'progressive' fixed-rate home loan may be a great refinancing option.

Learn more about this type of mortgage:

www.mortgagehouse.com.au/home-loans/fixed-rate-home-loans

You Can Always Just ‘Split the Bill’

While it may seem that choosing a rate is an either-or situation, there is actually the option of using the advantages offered by both rate types. The loan that allows you to do so is called a split rate mortgage, also known as a combination loan.

A split rate gives you the ability to allocate parts of your loan to either rate type, which gives you both the predictability of fixed repayments and the added flexibility of a variable loan. As noted earlier, a basic variable loan won’t allow you to make use of a split rate facility so be aware of this when choosing between that and a standard variable loan.

Planning a Split Rate

A lender will usually allow you to choose how much of your home loan to allocate between the fixed and variable components of the loan. You can control your risk exposure by allocating more or less of your home loan to the variable compo-nent. Flexibility is definitely the key when it comes to a combination mortgage.

Typically, the loans are split 50/50, 70/30 or 60/40 (fixed / variable). However, apportioning the different parts of the loan is probably not something that you should try and work out on your own. Due to the added complexity of a split-rate mortgage, it pays to consult with a lending specialist in order to work out what impact splitting the loan in different ways will have on your repayments.

Also, keep in mind that the fixed portion of the loan will probably have the same conditions attached to it as a normal fixed rate home loan and you may have to pay the same fees. This is yet another reason to talk through this loan type with a lending specialist. Either way, a combination loan remains a viable alternative to either of the two mainstream mortgages.

A Splite Rate, Without the Splitting Headache

If you like the sound of a split rate but don't want the hassle of having to work out how much to allocate to which rate, we offer an industry-unique offset home loan called "Toggle," which lets you easily switch between the two to maximise your savings:

www.mortgagehouse.com.au/home-loans/toggle-offset-home-loan-menu

Different Strokes for Refinancing Folks

When applying for your first home loan, your needs probably didn't extend much beyond having to choose between a variable or fixed rate. Now that you are looking to refinance, your requirements are probably quite different this time around. Apart from the standard mortgage options that have been discussed so far, there are a number of specialised home loans that can help you better meet your specific refinancing needs.

Low-Doc

A low document, or low-doc loan, is a flexible financial solution that can help you obtain a mortgage if you are a business owner, contractor or freelancer. With a low-doc loan, you have the option of 'self-certifying' your income without needing to provide proof of employment as you would with most other loan types. However, you still have to have a good credit history and this will be assessed.

A couple of defining features of a low-doc loan are that the maximum LVR will be higher than other loan types, sometimes as high as 90%, and that the interest rate also tends to be higher to compensate the lender for the increased risk.

Non-Conforming Loan

A non-conforming loan is similar to a low-doc loan in that it allows you to borrow without having to provide proof of income. However, the main distinction between the two is that a non-conforming loan is tailored to those who, for one reason or another, do not qualify for a mainstream loan.

In such situations, a non-conforming loan may be the lifeline you need to acquire a property. Due to the nature of this type of loan, the interest rates are the highest of any other loan type so this loan can act as an interim solution until you can qualify for a mortgage with better terms.

Professional Package Loan

A package loan is a home loan combined with other financial products such as a credit card, deposit or offset account. Package loans can be tailored to your needs depending on whether you're a residential home buyer, property investor or a business owner.

The main distinguishing feature of this loan type, apart from streamlining your monthly payments, is that lenders offer lower interest rates and fees as a reward for your increased business.

Such bundling of services can work in your favour and simplify your life but you should be mindful of the fees that you pay for such convenience and the overall cost. Also, not every borrower will qualify for this type of loan as there are minimum requirements regarding the size of your home loan.

Line of Credit

The best way to think of a line of credit is that of an oversized credit card. This loan allows you to have access to anywhere from tens of thousands through to hundreds of thousands of dollars that you can use for any purpose.

It's as simple as drawing down the required amount, whether that's for home renovations or investment or any other purpose. The main feature of this type of loan is that you only pay interest on the portion of the loan that you actually use, similar to how a credit card works.

Bridging Loan

A bridging loan was created to act as a solution for those who want to buy a new property while still waiting for their existing one to sell. It conveniently gives you the opportunity of not waiting around for your current property to sell in order to be able to say 'yes' to your next dream home.

How this loan works in a practical sense is the lender will use both properties as collateral until such time that the existing property is sold. These are interest-only loans and the interest rate can be relatively high as you will be paying it on two properties until such time that your old home is old.

'Reverse' Mortgage

This loan type is specifically targeted at those who have retired and are looking to tap into the equity that they've built up in their home over the years. It is a viable solution to help retirees boost their regular income or provide the option of obtaining a lump-sum amount for a larger purchase, such as a dream holiday or some other capital purchase.

Similar to a non-conforming loan, a borrower doesn't need to provide proof of income to qualify. Generally, your borrowing power is greater the older you are. While interest is charged on the loan, it gets added on to the loan balance but you're not required to make any payments. The full loan amount, including accrued interest, then gets settled either upon the sale of the property or in the event the borrower becomes deceased or moves into a retirement home.

New Home Construction Loan

If you are looking to build a new house rather than purchase an existing property then this type of loan has been tailor-made for this precise purpose. The main feature of this loan is that you can stagger drawdowns of the various parts of the loan to correspond with the stage of development that your home is at.

What makes this loan unique is that you only pay for the amount that has been drawn down and interest gets calculated only on this portion of the loan. These loans tend to be interest-only and the interest rate is usually higher than that of a normal home loan.

An important point about the home construction loan is that lenders, especially banks, won't finance your construction loan unless the work is being carried out by a licensed builder. There are few lenders who will provide a loan if you decide to go the DIY route and build a house yourself.

While we do recommend using a qualified builder, if you are an owner-builder who wants to do things your own way then we can help:

www.mortgagehouse.com.au/home-loans/construction-home-loans

Figuring Out What You Need (And What You Don't)

Now that you've gained an understanding of the basic components of your mortgage and have a better grasp of the costs involved, it's time to figure out exactly what features your home loan will need. As was discussed earlier, the more features you opt for, the higher your overall costs will be.

As a result, you need to carry out a cost-benefit analysis of the features you think you need and be objective about their usefulness. You then need to decide what features are absolutely essential and which ones are a 'nice-to-have':

www.mortgagehouse.com.au/mortgage-tools/home-loan-features-checklist

Offset vs Redraw

Arguably, the two most important features that you can choose for your new mortgage are a redraw facility or an offset account. Why? Because both of these will help you to pay off your home loan faster. However, borrowers often get confused between the two, so let's set the record straight and help you understand which one will suit you best.

What They Have In Common

What a redraw facility and an offset account have in common is that they both assist with minimising your loan and the interest you pay on it. This is achieved by applying any extra income or savings that you have to your outstanding balance.

In general, it is best to have as many funds as you realistically can afford sitting in one of these accounts as this is the surest path to a larger equity stake and more expedient home ownership. Now let's look at how each of these features works.

Offset	Redraw
An offset account is essentially a savings account that is linked to your mortgage. It has many more options attached to it than a redraw facility and acts just like any other transactional account. An offset account can even have a credit card attached to it as well as other facilities such as internet banking. Whatever balance is in your offset account will be taken off your loan balance before interest is calculated.	A redraw facility allows you to make extra payments into your home loan account over-and-above your regular loan payments. Any payments you make will sit in the redraw account and help to reduce your interest payments. However, you are always able to withdraw / redraw this money if you so choose. While redrawing funds will negate the benefits, at least you will have peace-of-mind knowing that you can always access that money should the need arise. The downside of a redraw facility is that there are restrictions on the size and frequency of withdrawals. There are also additional costs associated with accessing your funds and a redraw facility is definitely not as feature-rich or convenient as an offset account.

Which One to Choose

The choice comes down to whether you want to have convenient access to your account while paying off interest (offset) or pay off the loan principal while still being able to access your funds if required (redraw).

Other Features

Following is a list of a few common home loan features that you should be aware of when refinancing:

Repayment Holiday	Repayment Flexibility	Loan Portability
This feature allows you to either completely stop payments or reduce them for a set period of time. This can be useful if you're planning to start a family or for lifestyle reasons.	This applies to both making extra payments without attracting penalty fees as well as being able to pay in weekly or fortnightly instalments rather than the typical monthly ones. Moving to weekly payments is an easy way to reduce your home loan balance quicker due to the increased payment frequency.	This feature lets you move to a new property without having to pay establishment fees or early discharge / early termination charges, including break cost fees if you're on a fixed-rate mortgage.

Create Your 'Wish List'

Not all of these features will be useful in your particular situation so it's worth sitting down with a lending specialist to come up with a 'wish list' that you can use as a starting point when assessing various loans.

Why Timing Is Everything

"You don't want to have so much money going toward your mortgage every month that you can't enjoy life or take care of your other financial responsibilities."

Dave Ramsey

Now that you have a good understanding of the types of loans available and the associated costs, it is time to decide whether to move ahead with refinancing your current mortgage.

If you do decide to refinance, a big part of your decision to make the move will involve timing. As much as you would like to purchase that investment property tomorrow and turn your fixed-rate mortgage into a variable loan, if the interest rate is extremely high or if the economy is looking glum then you may have to put your plans on hold.

But picking the right time to refinance isn't just about economic conditions. Your personal circumstances often play a much more important role. For instance, with a child on the way, you may want to look at fixing your variable rate home loan to provide more financial security for your expanding family. Or, if you've finally received that big promotion, it may be a good time to switch to a variable home loan with a redraw facility and really start putting a dent into your debt.

In certain economic conditions, such as when interest rates are particularly low, you would be silly not to look at refinancing regardless of your personal circumstances.

When To Refinance

As you can see, there are no hard-and-fast rules when it comes to stepping out on the refinancing path. This is why it's worth keeping a watchful eye to see what the market is doing and schedule in those regular annual or bi-annual reviews with a lending specialist you trust.

In addition to this, here are some indicators that the time may be right to change your current loan:

- Reaching the end of your fixed-rate mortgage period
- You notice that interest rates are low, which is why it is worthwhile tracking these monthly
- Your family is growing and you need either more money or more flexibility with regards to your loan terms
- Significant changes to you or your partner's career, which can include either a promotion or the loss of employment
- Planning house renovations
- Looking to purchase a rental investment property
- Nearing retirement and in need of extra funds
- And many, many others.

These are just some of the numerous reasons why you may want to look at refinancing and the amount of home loan products available these days can cater to most circumstances.

Some Rules-of-Thumb

One handy rule-of-thumb to follow when deciding on whether to refinance or not is to see how much higher your home loan rate is compared to the current average variable rate. If your rate is higher by one percent or more then this is a good indicator that it's worth looking into refinancing your current home loan.

Another indicator that it may be time to refinance is if you work out that you can trim at least half-a-percent from your home loan by refinancing. While it may not seem that significant an amount, this can really add up over the life of your loan.

Broker or Bank - There Is A Better Way

There are numerous advantages to working with a mortgage broker over a bank. However, what you may not realise is that there is also a third option: non-bank lenders. If you want competitive interest rates and more flexibility around your mortgage choices, then a non-bank lender may be your answer.

A non-bank lender's specialist nature allows it to offer you more tailored loan options. This results in more niche mortgage products that can better fit your requirements. It also has less overheads to worry about than banks, so set-up costs and ongoing maintenance fees may be significantly lower.

A non-bank lender will also provide a more personalised level of service that you wouldn't get with a bank. Flexibility is crucial in today's property market, and a non-bank lender can help you make the most of unforeseen opportunities.

The Best of Both Worlds

Both brokers and banks have their own advantages. But why choose one or the other when you can have the best of both worlds?

Mortgage House's offering is a blend of mortgage broker and non-bank lender. In fact, we are now one of the leading providers of non-bank mortgage loans in Australia. However, because we don't believe in locking you down, we still provide a brokering service alongside our own mortgage products.

As a customer, you get the widest possible choice of mortgage options. Here is a comparison of how Mortgage House's blended service compares to that of brokers and banks:

	Broker	Bank	Mortgage House
Product Choice & Access	Access to wide variety of mortgage options	Limited choice of products	Widest variety of options out of either a broker or bank
Indepen-dence & Objectiv-ity	Works for you	Works for shareholders	Works for you, and unlike a broker, is not commission driven
Rates	Offers the best rates available	Can only offer you its own rate, not another institution's	Can offer whatever is the best option for you, and you're not locked in
Ongoing Service	Annual reviews, refinancing, renovation financing or debt consolidation	Regular statements	Partners with you for the long term and can help with other financing options

Applying to Refinance

If you've read this guide and decided that refinancing is the right way to go then there's a fairly straightforward process to go through with us. Here's how it works:

During each step of this process, a Mortgage House Home Loan Specialist will be on hand to assist and answer any questions that you may have. However, given that you've read this guide, you will be much more prepared and be able to make the most of this process.

Australia's Leading Non-Bank Lender

"It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for."

Robert Kiyosaki

Mortgage House is an award-winning non-bank mortgage lender and broker based in Sydney. We've been in business for thirty years now and we'll be only too happy to share our hard-won experience with you. We provide an extensive range of home loan packages and have eighteen home loan centres across New South Wales and Victoria for your convenience.

Over the last three decades, we have helped thousands of Aussies refinance their loans and we provide a number of unique mortgage solutions that the banks can't match.

Here's why we're the best choice for refinancing your mortgage:

- We don't have to maintain an expensive nationwide branch network. Less overheads for us means cheaper rates for you.
- We're 100% digital so we don't drown you in a sea of paperwork.
- Unlike mortgage brokers, we're big enough to offer you our own products as well as the best rates. Unlike banks, we're small enough to care.

Put it on the house.

Learn more or book an appointment:

www.mortgagehouse.com.au/refinancing-guide-next-steps

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