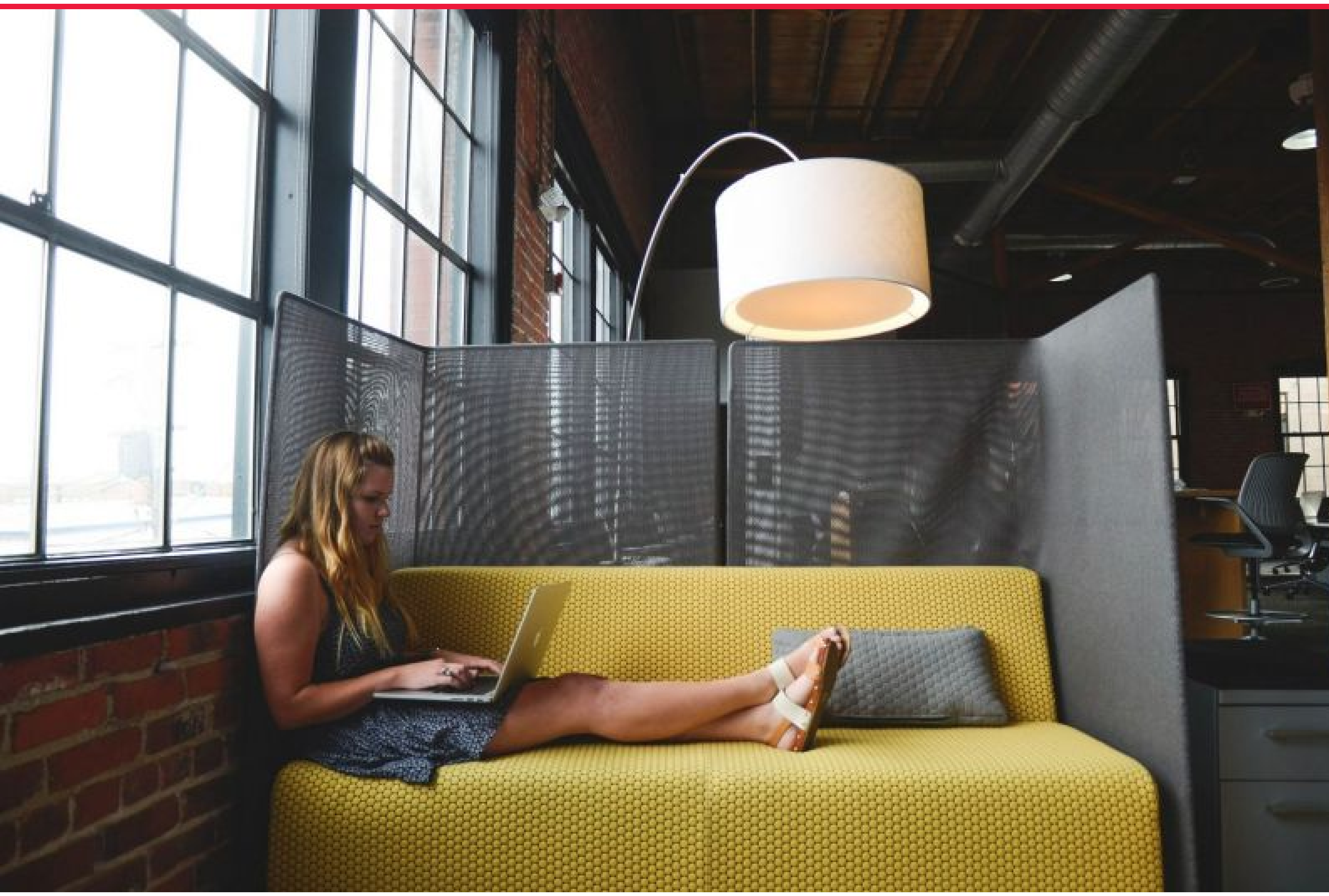

How do you know if you should refinance your home loan?

Posted on: 30/05/2016

Time to refinance? You may be missing out on a better rate!

Interest rates and home loans continue to be a hot topic in financial circles. After a prolonged period of a low cash rate throughout 2015 the RBA set the lowest cash rate in Australian history - at 1.75% - in May 2016. Can they go any lower?

Opinion remains divided as to whether they will go any lower - and also when. Also, the RBA no longer controls whether your home loan interest rate will go up or down. Lenders have been setting their interest rates independently of the RBA for around four years.

'So what loan is the right one for YOU?'

It's good to see that many lenders have already announced a decrease in home loan interest rates as a result of the cash rate drop. Will it continue? The only thing that is certain is that they will eventually rise again. So what loan is the right one for YOU? Well, that all depends on your circumstances. Variable and fixed loans have their advantages and disadvantages so it's imperative to consider these before making a decision.

Fixed loans provide you with the regular loan repayments removing immediate exposure to potential increases in interest rates. Some lenders now allow additional payments (up to a limit) that may be redrawn during the fixed term.

Variable rates do allow ultimate flexibility however they come with the additional exposure to changes in future interest rate changes, down and up. Split loans combine features of both variable and fixed loans allowing you to broaden your options and limit the exposure to increases in the full amount financed.

'Split loans combine features of both variable and fixed loans'

Features to consider

It is important not to judge a home loan solely on interest rates. Be aware of other fees including upfront fees and ongoing monthly fees. We can help you review the costs and benefits of extra features, such as an offset account or redraw facility, possibly saving you money.

Other loan features to pay attention to include lenders waiving fees and charges for other accounts held with them (such as monthly transaction account keeping fees). Make sure extra repayments are not penalised. Some loans, such as fixed loans and some no-frills variable loans, may limit the amount that you can reduce your loan.

"I think the only thing that is certain is that

uncertainty is likely to persist for some time to come."

How easy is it to switch to another home loan?

Many people end up paying more than they need by staying with an existing loan or lender because they think it is 'too hard' to investigate switching to another option. You should ask yourself whether your existing loan and structure is working for you and assisting in achieving your financial objectives. Can you improve your financial position?

As your finance specialist, we research alternative products and available lenders. If changing products are suitable for your situation, we help make the process as smooth as possible - even if you wish to stay with the same lender!

The ban on exit fees came into effect in 2011 and applies to home loans entered into after 1 July 2011. Many lenders have also extended the removal of exit fees to existing loans. If you check with us first, we can advise you if there are any exit charges for your existing loan.

Standard costs such as mortgage stamp duty and mortgage registration may also need to be considered when changing loans. However in some states, you may be exempt from paying mortgage stamp duty.

If you have not reviewed your financial situation in the last 12 to 18 months, then you are more than likely MISSING OUT on some great finance offerings. It costs nothing for us to double check your situation and may, in fact, save you hundreds each month.

Variable loans

Advantages

- *When the Reserve Bank or lending institutions lower interest rates, these savings will usually (but not always) be passed on to you.*
- *You can make additional repayments without incurring a penalty, then have the option to redraw the additional funds at a later date.*
- *Provides more flexibility than other types of loans.*
- *Disadvantages*

- *When the Reserve Bank or lending institutions increase rates, the interest rate on your loan will also increase. As a consequence, you will pay more interest.*
- *Fixed loans*

Advantages

- *If interest rates increase during the fixed period, your loan interest rate and repayments will not rise. Loans can typically be fixed for periods between1 to 5 years.*
- *Budgeting is easier by offering you the predictability of a set repayment each month and giving you security over your financial situation.*
- *Disadvantages*
- *When interest rates go down, the rate on your loan will remain the same so you will not have the benefit of potential savings.*
- *Most fixed loans limit the flexibility of being able to make extra repayments, repaying your loan early. Some lenders allow additional payments for a fee, however generally you are not able to redraw the extra repayments during the fixed rate period.*
- *If you choose to exit or switch your loan, there may be early termination fees.*

For more information contact Beyond the Banks on 1300 633 616

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