Is It Time To Re-finance?

It is only natural that when a policy or agreement expires that we shop around to find the best deal. When our car and home insurance policies expire each year we find ourselves regularly checking to make sure that we are getting the best value for money. Similarly, we might do the same for our mobile phone contract.

However because our home loan is generally over a longer period of 25 to 30 years, we are not prompted in the same way to undertake a review to ensure our interest rate is still competitive and the loan features are still appropriate for our current situation.

With a long-term expiry, it would appear most borrowers are only prompted to re-finance by a change in their personal circumstances. This seems to explain why only 10% to 12%[1] of those with home loans refinance each year, meaning that borrowers are on average re-financing every 8 to 10 years.

With interest rates having the potential to move significantly over a 10-year period, would it make sense to review your property loan on a more frequent basis similar to other contracts and policies you have in place?

We generally recommend that at a minimum you review your loan no less than every three years unless there have been significant movements in interest rates in which case you should review it more frequently. Many of our clients like to check in on interest rate movements each year in a similar manner to their other policies.

Interest rate movements

Official interest rates have reduced significantly since June 2019 falling from 1.5% to a historical low of just 0.1%, representing a fall of 1.4%.

In the majority of instances, these official interest rate reductions have been passed on by lenders to their customers.

Additionally, during this period fixed interest rates have not only been lower than variable interest rates they have also fallen more significantly, being 57 basis points lower during the second half of 2019 before stretching out to 84 basis points during March and April 2020[2].

Accordingly, if you refinanced your loan before June 2019, there could be potential savings that you are missing out on if you do not consider refinancing within the foreseeable future.

Changing circumstances?

While there may be good reasons to look at saving money through a refinance, there may be other circumstances that prompt you to review your current finances. For many it may lead to more than just a renegotiation of your existing loan.

These may include:

Increased equity in your home

This could have occurred as a result of your property's value increasing, your loan balance decreasing over time or through additional payments. Perhaps it is time to consider upgrading your home or purchasing an investment property?

Children starting school

It's not unusual for parents to spend between $10,000 and $19,000 a year on long day care. Where will you spend these savings once you are no longer paying fees? Potentially you could start accelerating the repayment of your loan.

Re-entering the workforce

With kids off to school maybe you have the opportunity to

return to work. An increased income is a good reason to review your finances and perhaps even consider investing.

Car loan repaid

Before you look to upgrade to a new car, consider other possible opportunities. It may well be that you can utilise this newfound cash flow to invest into your long-term wealth creation.

Children finally leaving the nest

What a great time to ensure you are effectively planning your retirement income and lifestyle.

What benefits may result from refinancing?

Lower interest rates generally mean lower repayments

Maybe. However, any decision to refinance should not be based solely on a lower interest rate. Your long-term goals need to be considered. Switching to a lower interest rate may allow you to reduce your repayments, however as an alternative you may consider maintaining your repayments in order to reduce the length of your loan term.

You also need to consider the costs associated with refinancing to determine the overall benefit.

As your finance specialist we will explore your personal circumstances to determine if refinancing is suitable for your situation.

Improved loan features

If you've had your home loan for a few years refinancing may provide new loan features that will allow more options such as:

Repayment flexibility – having the ability to make extra payments could also result in a reduction of the loan term and interest payable.

Redraw facility – allowing you to redraw from your extra payments when required.

Flexible rates – switching between a variable and fixed rate or splitting your loan between the two may assist you to manage your mortgage in line with interest rate movements.

Portability – taking your loan with you if you move could save on fees.

Eliminate features you don't need – perhaps you no longer require some features of your current property loan? If so it may be worth talking to us to explore loan products more suitable for your current situation.

A loan with extra features will generally attract a higher interest rate and a 'no frills' loan will have a lower rate. Suitability will depend on your individual financial situation and the overall benefit provided by a product. Is it worth paying extra for features you do not require?

Call the office **TODAY** and we will be happy to book you in for a review.

1. Australian Mortgage Council – March 2019 Survey – Generic - https://www.mfaa.com.au/sites/default/files/users/user133/ Australian-Mortgage-Council-Research-RFi-Mar-19-(FINAL).pdf

2. CoreLogic Housing Finance Update, August 2020: https://www.corelogic.com.au/news/corelogic-housing-finance-update