THE FINANCE AGENCY

Refinancing could save you thousands – and give you greater flexibility

It's often said that Australians are more likely to divorce their spouse than switch banks. But with plenty of competition in the home loan sector, refinancing can be a good move.

There are a number of reasons why you might want to refinance: you can consolidate debt from high-interest credit cards into a home loan with a lower rate of interest; you can release cash from your home loan equity for other major purchases; or you might want to simply save on your repayments by moving to a loan with a lower interest rate.

What's my rate?

If you aren't 100% sure exactly much you're paying, how can you find a better deal?

Luckily, finding out your interest rate can be as simple as logging on to your bank's online banking portal and checking the account information for your home loan.

What do I need?

Make a shopping list of the features you want in a new loan. These might include:

- Variable rate or fixed rate: a fixed rate gives you more certainty over the longer term; a variable rate can save you money when the market is down, but it fluctuates with the market and in the past has been as high as 18 per cent.
- Offset account: cash in hand can be offset against your loan balance until you need to spend it, potentially saving interest.
- Line of credit: if you have a lot of equity in your house, a lender might be prepared to offer you a useful (and cheap) line of credit secured against the property.
- Repayment flexibility: repaying a loan fortnightly rather than monthly can save thousands. There are 26 fortnights in a year, but only 12 (not 13) calendar months, so you pay the principal off quicker (and therefore pay less interest) when you make fortnightly repayments.
- Ability to pay the loan out early with minimal penalty.

What's on offer?

A good broker will be able to help you choose the type of loan you want, how much you want to borrow and what extra features you need, then compare loans from many different lenders, with information on interest rates and fees and charges. This can help you weigh up the costs and benefits of each loan.

They'll do all the legwork for you, providing you with a list of solutions that cater to your particular financial needs, getting rid of any confusion and hassles throughout the process.

Check out the costs of getting out – and getting in

If you took out your loan before 30 June 2011, the lender might be able to charge you an exit fee for terminating early. And if you're on a fixed rate mortgage, you might have to pay a break fee.

There may also be establishment fees for the new mortgages you're considering, and you may find yourself paying higher ongoing fees, sometimes called administration fees. Some lenders also charge a fee each time you redraw on your loan.

The best thing to do is speak with your broker, as they'll be able to advise you of any and all fees that are involved.

Do the maths

Use an online mortgage calculator to work out what the repayments will be for different loan amounts at different interest rates.

Compare the fees and charges, too – these can add up, and may offset any interest rate savings over the life of the loan.

The Australian Security and Investment Commission's MoneySmart website has a useful mortgage switching calculator that can help you assess the cost of switching your mortgage.

You can also ask lenders for key facts sheets, which explain the total amount to be paid back over the lifetime of a loan, repayment amounts and fees and charges.

Speaking to a broker provides a clear advantage

At the end of the day, a good broker is able to guide you through the entire refinancing process, from start to finish. They have in-depth knowledge and understanding of mortgages, and will help you get the best possible outcome.