



5 Reasons to Refinance Your Home Loan in 2020

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Home Loan Rates at record lows!

The Reserve Bank of Australia has lowered interest rates to arguably the lowest rate ever. So now everyone at the BBQ scene is talking about refinancing! So, is now a good time to refinance? There are a few different situations where refinancing could make sense for you, so let's go over a few of the main reasons to refinance your home loan in 2020.



What is refinancing?

In a nutshell refinancing your home loan means changing your existing loan from your current lender to a new loan with a new lender that has agreed to provide you with a new deal. There are two main reasons most people look to refinance their home loan and that is either to get a lower interest rate or to increase their existing loan to withdraw some money from the equity that may have built up over the years.

You can refinance your home loan from any bank or lender you choose, and it doesn't necessarily need to be your existing lender. These days, banks do not reward loyalty, and in most cases, you can find lenders who will offer you a better deal if you become a new customer to them.

So, here are the 7 reasons why you should definitely look at refinancing your loans today!

1. Lower Your Interest Rate

How long ago did you take out your home loan? One year, two years or maybe even longer. Well since then the RBA has reduced interest rates to record lows and in most cases a lot of lenders have failed to pass on the benefits of the RBA interest rate reduction.

In our experiences a lot of customers don't monitor their interest rate or what they are paying the lender every year in interest. When you look at compounding interest you can see that you need to earn \$3 before tax to pay for every \$1 outstanding on your home loan. This is because you have to pay the taxman their share and then use the net cash to pay the lenders interest.

EXAMPLE – LOWER INTEREST RATE

<i>Loan</i>	<i>Amount</i>	<i>Years</i>	<i>Interest Rate</i>	<i>Repayment</i>
1	\$500,000	25	5%	\$2,923
2	\$500,000	25	3%	\$2,371

By lowering the interest rate Loan 2 is a reduction of \$552 per month!



2. Reduce Your Home Loan Payments

By refinancing your loan, you can also reduce the amount you pay back every month. Some 80% of people could not survive more than 30 days if they lost their job. This is due to the high cost of living and low wage growth. So maybe you are struggling to make ends meet and need to reduce your home loan repayments.

EXAMPLE – LOWER INTEREST RATE & EXTENDED TERM

<i>Loan</i>	<i>Amount</i>	<i>Years</i>	<i>Interest Rate</i>	<i>Repayment</i>
1	\$500,000	25	5%	\$2,923
2	\$500,000	25	3%	\$2,371
3	\$500,000	30	3%	\$2,108

Now the repayments have been reduced by \$815 per month which is even better.



3. Consolidate Debts

Broadly speaking, property prices in Australia have increased over the past 5-7 years. If your property's value has gotten a boost, you might be able to use the equity in your home to refinance and consolidate your debts.

A lot of people have their home loan, a car loan and credit cards. All up each debt has varying interest rates and repayment times adding to the complexity of life. By borrowing at home loan rates you can reduce the interest rate and have one simple payment.

EXAMPLE

<i>Asset</i>	<i>Debt</i>	<i>Interest Rate</i>	<i>Monthly Repayment</i>
Home	\$500,000	5%	\$2,923
Car Loan	\$20,000	10%	\$663
Credit Cards	\$10,000	20%	\$300
	Total		\$3,886 per month

By refinancing the home loan, you could get a lower interest rate, extend your loan term and consolidate your debts into one manageable monthly repayment. In this example total repayments of \$3,886 have been reduced to \$2,234 a reduction of \$1,652 per month.

This is a substantial reduction for anyone when they are struggling to make ends meet!

Consolidate Debts



**Home
Loan Mortgages**



Credit Card Debts



**Car & Personal
Loans**

4. Cash Out

After you've been in your home for a few years you might feel it's time to do some renovations. These generally fall under two categories: simple renovations, like adding air-conditioning, solar panels or painting and structural renovations, like adding an extra level to the house, a pool or new kitchen. If you are doing a simple renovation, the numbers work exactly the same as taking cash out and you would rely on the equity in your home.

With structural renovations, you can rely on the on-completion value of the renovated property. So, for example, if you are adding an extra bedroom and bathroom to the property which would increase the value of the home by an additional \$100,000 - the lender can lend on this figure.

Using the example above, if by adding an extra bathroom and bedroom increased the property's value from \$600,000 to \$700,000 you could then increase the lending to \$560,000 meaning additional lending of \$110,000 can go towards your renovations.



5. My Fixed Rate Loan is Expiring

It is very common in Australia to have a fixed rate term of between 1 to 5 years. When your fixed rate finishes at the end of that 1 to 5-year period (or expires in lender talk) your loan will change back to a variable rate. However, in most cases the lender's standard variable rate doesn't have any discounts! You can avoid this by switching to another fixed rate or looking at your refinance options to maximise your interest rate discount.

Is refinancing right for you?

While there are heaps of benefits to refinancing your loan, you need to remember there are still costs to complete the loan application, switching fees and some government fees to change. In general, these can range from \$400-600 for a single property refinance depending on the lender.

The good news is that there are lots of lenders who offer refinance rebates at the moment, and in some cases, we have been able to arrange up to \$2,000 refunded to our refinance clients on the settlement to cover the costs of switching (and leave them with some money left over)!

There are some terms and conditions to the refinance rebate, so it's best to have a chat to one of our team to see if your individual situation qualifies.

Review your options

We're more than happy to help you walk through your refinance options and find the right option for you. You can schedule a call with one of our Expert Mortgage Brokers and get started on your journey today.

Just call 1300 669 360 now!

