What are the benefits of refinancing?

While refinancing is usually a pretty straightforward process, it is admittedly going to take a bit of work on your part. So before you decide to jump in with both feet, it's good to weigh up the benefits you're likely to see.

What are the benefits of refinancing? Well, that depends on your situation. But the benefits can be pretty significant.

1. You can save some serious money.
2. You can repay your mortgage faster
3. You can unlock equity
4. You can get your finances back on track
5. You can unlock better features

1. You can save some serious money

This is the most common reason why people refinance. They're looking for a cheaper home loan. A "cheaper" home loan generally means a loan with a lower interest rate, fewer fees or, ideally, both.

It's hard to overstate the benefit of shaving a few basis points off your home loan rate. It can save you literally tens of thousands of dollars over the life of your loan. Let's look at a quick example.

Suppose you had a $500,000 home loan at 5.00%. Your monthly repayments would be $2,685, and over the life of a 30-year loan you'd be paying $966,278.92.

Now suppose instead your home loan rate was just 10 basis points cheaper, at 4.90%. Your monthly repayment would now be $2,653. Sure, that $32 a month doesn't sound like a huge saving, but when you look at it over a 30-year term, you'd be paying a total of $955,308.10. That's $10,970.82. That extra $32 really adds up.

Of course, if you're refinancing it's likely you've already been paying your home loan for a little while, and you won't have 30 years left on your home loan term. There are still some serious savings to be made by refinancing.

Let's say you've been paying your $500,000 home loan for five years, and you've got around $460,000 remaining on it. If you're on a 5% rate paying $2,685 per month and refinance that $450,000 to a 4.90% rate at a new 30-year term, your monthly repayment would drop all the way to $2,441.34.

Now, there's one problem with this scenario: while your repayments would drop significantly, the extra five years you'd add to your loan term would mean you end up paying more in interest in the long-run. How much more? Let's have a look.

In our first example, you've been paying your 30-year home loan at 5% for five years. You've paid it down to $460,000, and with interest, the remaining 25 years of your loan term would cost you a total of $805,232.43. In other words, $345,232.43 in interest.

If you refinanced that remaining $460,000 to a 4.90% rate and a new 30-year term, over the life of the loan you'd end up paying $878,883.45, or $418.883.45 in interest. The cheaper repayment has ended up costing you dearly.

So let's say instead you keep yourself on track to pay your loan off in the original timeframe. You refinance that $460,000 at 4.90% for a 25-year term. Here's where you actually start to see the savings. Now you'll pay a total of $798,714.48, or $338,714.48 in interest. You've saved yourself $6,517.95.

2. You can repay your mortgage faster

When you're making interest payments, the old adage is true: time is money. To save yourself time on your home loan, you can refinance to a lower rate but keep your regular repayments the same. This takes a bit of discipline, of course, but it can result in some serious savings.

If you've budgeted well and you're comfortable with your home loan repayment at its current level, refinancing to save time on your home loan makes good sense. The more time you're able to shave off, the more the savings will add up.

Let's say in our hypothetical example that you're five years into your 30-year, 5% home loan. You're paying $2,685 a month, and you've got $460,000 left to pay off.

Now, suppose you refinanced to a sharp rate of 3.95% – certainly feasible in today's home loan market – and you kept your monthly repayments steady at $2,685.

Your new rate would cut an amazing 4.1 years off your home loan term. Not only would it see you ridding yourself of home loan debt earlier, but you'd also save an incredible $144,700 as a result.

As you can see, if you can manage to keep up your current repayments while getting a better deal on your home loan, you can maximise your savings by minimising the number of years it takes to pay your mortgage.

3. You can unlock equity

Equity is the difference between the amount you owe on your home and its value. In the example above, if you took out a $500,000 home loan and owed $460,000, at a glance it would appear you have $40,000 in equity. However, this oversimplified view overlooks both the amount you actually paid for your home and the amount it's grown in value since you bought it.

Over time, your home is likely to increase in value. Of course, the property market can go through peaks and troughs, and it's entirely possible for your home to lose value, but the predominant trend is for property values to increase over time.

With this in mind, let's take another look at the example above. In our scenario, you originally took out a loan for $500,000. Assuming you had a 20% deposit when you bought your home, that would mean you purchased it for around $625,000. So, even ignoring any capital growth, once you've been paying your $500,000 for five years, you've built up $165,000 in equity.

Now, let's assume your home's value has grown at the cumulative capital city growth rate over the last five years, which CoreLogic puts at 47.3%. That would put your $625,000 home's value up to $920,625. All of a sudden that $165,000 in equity has transformed into $460,625.

How can I refinance to unlock equity?

When you're refinancing, a bank will typically assess your current loan-to-value ratio (LVR) by looking at the value of your home minus what you owe on it. It will then generally lend enough to bring your total LVR up to 80%.

For example, in our hypothetical situation above, you would have built up $460,625 worth of equity. This means your current LVR is just over 50%. Given that most lenders will refinance your home loan up to 80% of its current value, this mean you would be able to borrow another 30%.

$920,625 x 0.30 = $276,187.50.

Why would I refinance to unlock equity?

One of the most common reasons to unlock equity is to use it to invest. This could mean investing in any number of asset classes, including property.

If you were the owner-occupier in the situation above and you refinanced your home loan to unlock nearly $277,000 of equity, you now have a healthy deposit to purchase an

investment property. Or, you could choose to invest in another asset class such as shares. If it's likely that the asset you invest in will generate higher returns than the interest you pay on the amount you borrow, it could be a savvy move to refinance in order to unlock equity.

Alternatively, you could choose to use your equity to renovate your home. A well-planned renovation could add value to your home that outweighs the expense of accessing your equity.

Refinancing to unlock equity in order to invest could also deliver tax benefits. If you choose to invest in assets such as an investment property or shares, you could take advantage of negative gearing concessions. Moreover, if you choose to invest in property you can deduct the interest on your home loan repayments.

If you choose to use your equity to renovate, you may be able to claim depreciation benefits on the improvements you make. Regardless of which path you choose, it might be wise to speak to a financial adviser or tax professional to sort through your options.

4. You can get your finances back on track

If you've had a rough patch in your finances, refinancing your home loan could help set you back on the path to financial security. There are a number of situations where refinancing might help you get your finances in order.

If you have a bad credit home loan

If your original home loan was a specialist loan for people with bad credit, odds are you're paying a very high rate. If you've been in your current specialist home loan for a few years and you've kept up with your repayments, you may be able to refinance into a traditional home loan for a much lower rate.

If you want to refinance out of a bad credit home loan, there are usually a few stipulations:

- You have to have paid any defaults, and they must no longer appear on your credit file.
- You need to have been regularly making your repayments on time for the last six months.
- And you generally need to have built up enough equity in your home to owe 80% or less of the property's value.

Bad credit home loans are not meant to be permanent solutions. Rather, they're meant to help you get yourself back on track after a rough patch. If you've been diligent in managing your finances and you've been in your bad credit home loan for some time, it could be time to refinance.

If you want to consolidate your debt

Some borrowers might find themselves in a situation where they're comfortable with their home loan repayments, but are finding it a struggle to manage their other debts. One of the benefits of home loans is that they charge a very low interest rate in comparison to other forms of debt. This is where refinancing for debt consolidation could be a savvy move.

For example, if you have a number of credit cards and personal loans charging interest at rates of anywhere from 15–25%, imagine the potential savings you could see if you refinanced that debt onto your home loan at a rate of 4%.

In addition to being charged a much lower interest rate, refinancing to consolidate debt means all your debts are combined into a single repayment. You won't find yourself juggling a number of bills, and you won't get hit with fees for all your separate debt facilities.

The one caveat is that consolidating things like credit card debt and personal loans into your home loan may give you a lower interest rate, but it could also lengthen your loan term. Instead of paying off your credit card or personal loan over the span of a few years, that debt will now be stretched out over 30 years. This could see you pay more interest in the long run.

If you're in arrears

Being in arrears means that you've fallen behind on your home loan repayments. This is a serious situation that, if left unresolved, could see you lose your home.

If you find yourself in arrears on your home loan, the first thing to do is talk to your current lender to set up a plan to get you back on track. One option you might be able to explore is refinancing.

Sometimes your current lender will be happy to alter the terms of your home loan to get your repayments back on schedule. This could mean giving you a repayment holiday so you can get back on your feet, or it could mean lengthening the term of your home loan to decrease the repayments.

If your lender isn't willing to work with you, or if the solutions they're offering don't seem likely to be enough, there are lenders out there willing to refinance a home loan that's in arrears.

Usually, this will mean going with a specialist lender. The bad news is that you're probably going to be charged a higher rate. The good news is that it could help you keep your home in extreme circumstances that could have otherwise led to foreclosure.

And there's more good news.

As mentioned above, most specialist home loans aren't meant to be a permanent situation. They're meant as a temporary solution to help you through a rough patch. While

you might pay a higher rate for a few years, you should eventually be able to refinance again once you've gotten your repayments back under control. And paying a higher rate for a couple of years is almost always preferable to losing your home.

5. You could get access to better features

Price isn't the only factor that differentiates home loans. While many of us only pay attention to the interest rate when we're comparing our options, it can be just as important to look at the features available on different home loans.

The right features could give you added flexibility, help you pay your home loan off faster or streamline your banking products. If your home loan doesn't have features that help you take charge of your finances, it could be time to think about refinancing.

- **Offset accounts.** An offset account is a transaction account linked to your mortgage. It enables you to minimise the amount of interest you're charged on your loan, and potentially pay it off much faster. When interest is calculated on your home loan, your lender subtracts the amount that's in your offset account. If you have a $400,000 home loan with $50,000 sitting in an offset account, your lender will only calculate interest on $350,000. It means more of your regular repayment will go toward paying down your principal, or the original amount you borrowed, and you'll pay your home loan off faster as a result.
- **Extra repayments.** Making extra repayments, even if they're small amounts, can add up to serious savings over the life of your loan. Let's look at an example: If you have a $500,000 home loan at 4% interest over a 30-year term, you'll be making monthly repayments of $2,387.08. The total amount you'd pay over the life of the loan would be $859,347.53. Now let's say that after the first year of your home loan, you started kicking in an extra $100 every month. This might not seem like much, but over the life of a 30-year loan it really adds up. You'd save $28,099.95 and knock two years and one month off your home loan.
- **Package features.** Some home loans offer you the ability to bundle a number of banking products together for a single fee. Rather than pay separate fees for your home loan, transaction accounts and credit cards, you can combine all your products for one annual fee. These are usually known as package loans. Package loans generally offer discounts on a lender's home loan interest rates, and these discounts can be substantial enough to dramatically outweigh the amount you'll end up paying in fees.

When shouldn't you refinance?

There are times when refinancing might actually be a bad idea, and it's really important to assess whether or not switching mortgages will hurt you. Here are some situations where you probably shouldn't refinance.

If you have a fixed rate home loan

If you're on a fixed rate home loan you should think twice about refinancing if:

- **Your interest rate is locked in.** A fixed rate home loan locks in your rate for a certain period of time, generally between one and five years. During this time, no matter what interest rates do, your rate will remain the same and your repayments won't change. This is great when variable rates are going up and you're shielded from the increases. It's not so great when they're on their way down. While it can definitely be frustrating watching rates plummet while you're trapped in a fixed rate home loan that's no longer competitive, refinancing might not be the answer. That's because of fixed rate break costs.
- **Discharge fees and early termination fees.** If you break a fixed rate home loan before the term is up, there are usually two fees you're going to have to pay: a discharge fee and an early termination fee. A discharge fee is usually a couple of hundred dollars, so it shouldn't set you back too much. But an early termination fee can be costly.

Early termination fees explained

When you signed a contract to fix your loan for a certain period, your lender calculated the fixed rate based on their own cost of funding. If their funding costs have dropped since you fixed your rate, the lender will lose money on your home loan if you break your contract early. This means if rates go down and you want to take advantage of it, your lender is going to end up losing money on your home loan. They will likely pass the loss onto you in the form of an early termination fee.

The way these fees are calculated is a bit complex. It has to do with the Bank Bill Swap Rate (BBSR), which is the bank's cost of funding, and the amount of time left on your fixed rate. Your lender will look at the difference between the BBSR when you first took out your home loan and the current BBSR, and then multiply the percentage of that difference by the dollar amount of repayments you have left in your fixed term.

Is your head spinning? It does all sound a bit complicated, and for a detailed discussion of how break costs are calculated you can read this guide. The long and short of it, though, is that depending on how far rates have fallen and how much time is left on your fixed rate contract, your break costs could run into the tens of thousands.

If the set-up costs outweigh the savings

The fixed rate break costs we talked about are definitely a strong disincentive to refinancing. The good news is that if you're on a variable rate, there are no early termination fees. The Australian Government abolished them back in 2011 to make it easier for borrowers to switch home loans. But just because you may not have to pay an early termination fee, it doesn't mean there's no cost involved in switching your mortgage to a better one.

There are still a few fees you'll have to pay both to exit your old home loan and to set up a new one. These fees can seriously eat into your refinancing savings, and if they're too high they might make refinancing a no-go.

If the new loan has high fees

As we mentioned earlier, when you leave your current you'll pay a discharge fee. This is generally the only cost associated with leaving a variable rate home loan, and it usually runs about $200.When you set up your new home loan, there are also a few fees you'll have to look out for.

- **Application fee.** Many lenders charge an application fee. This covers the initial administrative cost of setting up your home loan account, and can run all the way up to $600, depending on the lender.
- **A settlement fee.** You'll also most likely be charged a settlement fee. This covers the lender's legal costs to fund your home loan. Settlement fees aren't generally very high, usually running around $100. They can go all the way up to $300, though.
- **Valuation fee**. Before they decide how much to lend you, a lender will want to know your home's current valuation. This means a professional valuer will be doing an assessment. This can run up to about $300.
- **Lender Mortgage Insurance (LMI).** If you had a small deposit when you first bought your home and you haven't had your home loan for very long, you may also end up being charged LMI. This is an insurance policy that covers your lender in the event that you default on your home loan. You'll end up paying LMI if you buy a home and have less than a 20% deposit. If you haven't been repaying your home loan for very long, when you refinance you may find that the amount you've paid still doesn't exceed 20% of the home's value. If this is the case, it's likely you're going to have to pay LMI a second time, and this can cost you thousands of dollars.
- **Stamp duty.** Depending on your circumstances, you could even find yourself getting slugged for stamp duty. While most refinances are exempt from stamp duty, if you increase the amount of your home loan you might have to pay stamp duty on the difference between the original purchase price and the new home loan.

It's fairly rare that you'll have to pay stamp duty or LMI when you refinance, but the other fees we've discussed are pretty common. The good news is that some lenders will try to woo refinancers by paying some of these switching costs or waiving fees. If you do your research and compare home loans well, you could avoid a lot of the fees involved with refinancing.

If your new home loan doesn't have the features you need

A low rate is pretty enticing, but before you chase after a cheap home loan, you need to make sure it actually suits your needs. Some low-rate home loans can offer those rock-bottom interest rates because they skimp on features. That's fine if all you want is a cheap, no-frills home loan, but if you want some flexibility with your mortgage a super-low rate might not be worth the sacrifice. Here are a couple of features you need to look into:

- **Offset Accounts.** One of the features that's often missing from heavily discounted home loans is an offset account. If you've been using an offset account wisely, you've been saving yourself a lot of money in interest. Switching to a low-rate home loan

without an offset account could save you some money in the short-term, but it could also mean you no longer have the potential to shave years off your home loan.

-
- **Flexibility.** Another feature you could miss out on is the flexibility to make extra repayments. While nearly all variable rate home loans allow extra repayments, some fixed rate home loans don't, or severely limit the amount you can make. If you're switching from a variable rate to a fixed rate, you could lose this flexibility.

Just because a home loan lacks these features doesn't make it a bad choice. You just have to weigh your goals and decide if a lower rate is worth the compromise on features and flexibility.

If your new lender doesn't offer the service you need

There's more to a home loan provider than sharp rates or attractive features. If you need to communicate with your lender on a regular basis, you want to make it as pleasant an experience as possible. Good customer service might not be measurable in a dollar amount, but it can be priceless if you need to sort out a problem or ask a question. A lot of this comes down to personal preference. Many low-rate lenders either don't have physical branches or have very few. If speaking to someone face-to-face is important to you, you might not want to refinance to a lender that won't give you this opportunity.

This is one reason, some people prefer to keep most of their finance products together at the same institution. Some lenders may not offer products like transaction accounts, EFTPOS cards or credit cards. If you prefer the ease of having all your banking with the same provider, you might want to think twice before refinancing to a lender that doesn't offer the services you want.

Six common refinancing mistakes to avoid

Once you've weighed up all the costs involved and decided refinancing your home loan is the best course of action, you're well on your way to getting a better deal. But before you decide on a home loan you'll want to make sure you don't fall into any of the common refinancing traps.

Doing a bit of extra research and being a bit savvy can help you get the best deal possible on your refinance and maximise your home loan savings. Just make sure you keep an eye out for these common "refi" mistakes.

Mistake #1: Not locking down a fixed rate

If you've opted for a fixed rate loan, you've likely been attracted by a low advertised rate. A fixed rate, of course, offers you the peace of mind that your rate won't move for the duration of the term you choose. What many people don't know is that there's nothing stopping this rate from moving after you initially apply.

When you apply for a home loan, there's a period of time from the day you're approved to the day the home loan actually pays out for your property purchase or refinance. The stage at which the lender actually pays the funds for your home loan is called settlement. It can take as long as 90 days to get from application to settlement.

The problem with some fixed rates is that the rates a lender is offering can change between the time you first apply and the time your loan settles. In many cases, this means the rate you end up getting at settlement can be different from the advertised rate that convinced you to apply in the first place. That's a nasty surprise to face on the day your home loan settles.

Fortunately, many lenders offer a "rate lock" feature for their fixed rate home loans. This allows you to lock in the rate on offer at the time you applied, usually for up to 90 days. Some lenders charge a fee for this, but other lenders offer it as a free feature.

If you're choosing a fixed rate home loan for your refinance, it's definitely worth weighing up whether you should lock in your rate, and to compare the lenders offering rate lock guarantees.

Mistake #2: Waiting too long to refinance

When rates are dropping and you've worked out that you can get a better deal by refinancing, time can be of the essence. Procrastinating on refinancing your home loan could see you miss out on some great offers. In a market where rates are dropping, it's certainly tempting to wait and see if they fall a bit further before you make a move. But gambling on the bottom of the market is a risky proposition.

It helps to look at it this way: The goal behind refinancing is to get a better deal and save money and time on your home loan. If there's a better deal out there now, it's better to make a move than to gamble that there's another one on the horizon. At the end of the day, you're still coming out ahead.

You always want to make certain you're getting the best deal available, of course. However, a real-life great deal today outweighs an entirely hypothetical one tomorrow.

Mistake #3: Adding years to your home loan

When you refinance your home loan, it's likely you'll have the option to take out a new 30-year home loan term. Be very wary of doing this. If you've been paying your home loan off for a few years, refinancing to a new 30-year term means you'll extend the time it takes to be debt-free, and you'll end up paying more in interest.

In some cases it might be necessary to add time onto your loan term. For instance, if you're in financial hardship adding time to your home loan term could reduce your monthly repayments quite significantly and allow you to get back on track.

For example, let's say you took out a $500,000 home loan at 4.50% for 30 years. After making repayments for five years, you'll owe $455,789.59. If you refinance this amount to a new lender for a 25-year term at 4.00%, your monthly repayments would be $2,405.83. However, if you refinanced to a new 30-year term, your monthly repayments would drop to $2,176.01

But if you're not in financial hardship, those lower monthly repayments might not be worth it in the long-run. Using our example above, refinancing your home loan to a 25-year term would see you pay $265,958.26 in interest. Extending that to 30 years means you'd end up paying $327,574.02. That's a $61,615.76 difference. Suddenly, saving a bit of money on your monthly repayments seems a lot less attractive.

Mistake #4: Refinancing when your home has fallen in value

Most of the time when you refinance, you'll find that your home has risen in value. This means you will have built up equity, and your loan-to-value ratio (LVR) will be lower than when you took out your initial home loan. This is a good position to be in.

With the way a lot of Australian property has performed over the last five or so years, you could be forgiven for assuming that property prices always go up. Unfortunately, that's not necessarily the case, especially in the short term.

If you bought your house with a small deposit, it's likely you paid lenders mortgage insurance (LMI). When you go to refinance your loan, your new lender will have a valuation done on your property. This is so they can assess the amount they're willing to lend you, and determine your LVR.

If you're fortunate and your house has risen in value, odds are your LVR will be much lower than when you initially took out your home loan, particularly if you've also been making repayments for awhile. However, if your property has fallen in value, or even just remained the same, you could run into trouble.

If you had a small deposit when you bought your home and you haven't been making repayments for a very long, you may find your property hasn't risen in value enough to get your equity up to 20% of the property's value. This means that you could end up paying for LMI a second time.

As we discussed in the last chapter, the cost of LMI can be high enough to make refinancing unwise. If you had a high LVR home loan to begin with and your home has fallen in value, or hasn't risen enough, you could get stung when it comes time to refinance.

Mistake #5: Being wooed by "honeymoon" rates

Lenders often offer rock-bottom rates as a temporary incentive to entice borrowers. They may shave 15 or 20 basis points off their standard variable rate for a one or two-year period, after which the loan will revert to their standard variable rate.

These offers are commonly called introductory variable rates, or “honeymoon” rates. For a one- or two-year period, you’ll be guaranteed a steep discount. After that period ends and the honeymoon is over, all bets are off. This doesn’t mean that introductory variable rate loans are a bad deal. On the contrary, they’re often great products. What it does mean is that if you’re refinancing to one of these products, you need to pay close attention to the rate you’ll revert to after the introductory period is over.

Rather than paying attention to the introductory rate, look at the lender’s current standard variable rate. If the lender you’re considering has a higher standard variable rate than the lender you’re currently with, it’s likely the deal you think you could be getting won’t add up to savings in the long-run.

A quick way to get an idea of the true value of an introductory rate home loan is to look at the comparison rate. A comparison rate takes into account the advertised interest rate along with fees and charges, and then expresses this as a percentage. For introductory rate home loans, the comparison rate also takes into account the rate the loan will revert to once the introductory period is over. If there’s a big gap between the advertised rate and the comparison rate, the home loan you’re considering might not be as good a deal as it seems.

That brings us to our final big refi mistake:

Mistake #6: Not paying attention to the comparison rate

As mentioned above, the comparison rate is an important tool to give you an idea of a home loan’s real value. By taking fees and charges into account, a comparison rate is a much better reflection of a home loan’s cost than the rate you see advertised.

Now, the comparison rate isn’t a perfect tool. But it still gives an at-a-glance idea of the price you’ll actually pay for a home loan.

If you’re looking to refinance, pay attention to the comparison rates on offer. Also, have a look at the comparison rate for your current home loan. You’ll be able to find it in the Key Facts Sheet you would have been given when you applied for the home loan.

If a lender has a higher advertised comparison rate than you’re currently paying, you’ll likely want to keep looking for a better deal.

The 7 steps to refinancing your home loan

Once you've considered the factors mentioned above, it's time to actually refinance your mortgage. We've broken it down into seven steps for you:

1. Look at the cost of your current home loan
2. Ask your current lender for a better deal
3. Check out how much it will cost to exit your current loan
4. Compare home loans
5. Look at the costs of moving to the new lender
6. Apply for your new home loan
7. Exit your old loan

1. Look at the cost of your current home loan

The first order of business if you're thinking about refinancing is to look at how much you're currently paying. Your interest rate should be listed on your home loan statement. If your lender has online banking, you should be able to use it to find out your current rate in your account information.

If you can't find your statements and you don't have access to Internet banking, you might also be able to check your rate using your lender's website. If you know what home loan product you have, you can check your lender's current rates for the product and it should tell you what you're paying. Of course, this won't work in the case of fixed rates. If you have a fixed rate loan, you'll be paying the rate that was on offer when your home loan settled rather than the rate that's on offer now.

If all else fails, you can call your lender to find out. But you'll need to have some account information handy, such as an account number or customer number. If you do end up having to call your lender to find out your current rate, don't feel badly. Contacting your current lender is a crucial step in the refinancing process, as you'll soon see.

There's one last word on checking in on your current home loan. Make sure you find out about any ongoing or annual fees you're paying as well. These will factor into your calculations when you work out how to get yourself a better deal.

2. Talk to your current lender about a better deal

One big step many people miss in the refinancing process is talking to their current lender about getting a better rate. But this should always be one of the first steps you take, because your lender is highly motivated to keep you. In fact, they have entire teams devoted solely to keeping you as a customer.

In general, it costs a bank much more to bring in new business than to retain old business. Your current lender doesn't want you to leave, because after paying your home loan for a few years you're a more profitable customer than a brand new home loan customer.

You can try to get a better deal in a couple of different ways. One way is to just ring and ask. Tell them you're thinking about shopping around for a new home loan provider, and ask what kind of deal they're willing to offer to make you stay. It's likely they'll be willing to negotiate to keep your business.

If you have a flair for the dramatic, another way to get a better deal is to call and tell your current lender that you're refinancing your home loan with another provider. You'll either be transferred directly to the retention team, or you'll get a call back from them within minutes.

While you might not have thoroughly researched all your home loan options at this point in the refinancing process, it is good to have a rough idea of some of the rates on offer. If you can quote your lender a lower rate you'd like to be paying, you have a point at which to start your negotiations.

There are a couple of caveats to this step, however. First, you'll want to make sure you're the kind of customer your lender actually wants to keep. In other words, you need to have made all your repayments promptly.

Second, you need to be ready to follow through on your threat to refinance with another lender. If your lender calls your bluff and either won't budge or won't offer a rate you're happy with, you should be prepared to make a switch.

Finally, even if your current lender offers you a better deal, you should still do the kind of thorough research laid out in the steps ahead, to make sure it makes sense to stay with them instead of finding a better deal somewhere else.

3. Check out how much it will cost to exit your current home loan

As we discussed in a previous chapter, there are some costs associated with leaving your current lender.

Almost every lender will charge you a discharge fee. This usually isn't more than a couple of hundred dollars, so it shouldn't seriously eat into your refinancing savings. But you should still check to see exactly how much you'll be paying.

If you're in a fixed rate home loan, you'll need to check the break costs for leaving your loan before the term is over. These can run into the tens of thousands, but could be as low as a few hundred dollars. The best way to find out is to simply call your lender and ask.

You'll also want to figure out if you'll be forced to pay lenders mortgage insurance (LMI) again. If you do have to pay LMI, Genworth has a handy calculator that can give you an estimate of what you'll be paying.

4. Compare home loans

Now it's time to take some real action. Use finder.com.au and the table below to compare some of the best rates on the market. Right away you'll probably find a number of lenders with significantly cheaper rates than you're currently paying.

But it’s important to compare beyond just the headline rates. The rates you see in the table below will give you a really good idea of some of the lenders worth a closer look. Once you take that closer look, pay attention to the interest rate and the following factors:

- **Fees.** High annual or ongoing fees could eat into the value you get from a new lender. Not all fees are a deal-breaker, of course. For instance, some package loans charge an annual fee, but give steep rate discounts and waive other fees. To get an idea of whether the fees associated with a new lender are too high to make refinancing a good idea, take a look at the comparison rate. The comparison rate takes into account fees and charges, along with the interest rate.
- **Features.** Remember to compare home loans by examining the features they offer, since some of these features can help you shave years off your home loan. Some features you might look for would be an offset account, redraw facilities and split facilities.
- **Flexibility.** A good mortgage offers flexibility and let you manage your home loan in the way that’s best for your specific circumstances. Some of the flexible options you might want include extra repayments, more flexible repayment frequency (weekly or fortnightly) and loan portability.

Once you’ve looked into the rates, fees, features and flexibility of different home loan products and narrowed down your search, it’s time to weigh up the cost of switching lenders.

5. Look at the costs of moving to the new lender

You should have already calculated the cost of exiting your old loan. Now you’ll want to look at the up-front costs of moving to your new lender. As we discussed before, there are a few common up-front fees you might be asked to pay. You may be charged an application fee, a settlement fee and a valuation fee, to name a few.

When you’re looking into these fees, also pay attention to any promotions lenders are running. Lenders love to get refinancing business from another lender. They’re usually profitable loans at lower LVRs from borrowers with a proven repayment track record. Because they’re highly motivated to get this business, lenders will sometimes run special deals where they waive fees for refinancers, or even offer to pay clients some of costs associated with leaving their current lenders.

Once you’ve worked out the costs of leaving your old lender and the costs of moving to your new lender, you should get a good idea of how much you’ll actually save by switching. You should also be able to identify the lender and home loan product that will deliver the biggest savings.

6. Apply for your new home loan

Now that you’ve found the home loan that’s going to give you the best deal and the biggest savings, it’s time to apply. Different lenders will have different application processes, with some taking place entirely online and some requiring you to mail or scan

and send forms and documents. In general, though, there are few details you'll need to have ready:

- **Personal information.** You'll need to provide your name, date of birth and contact info. Also, you'll be asked to produce a valid ID, such as a driver's licence, Medicare card or passport.
- **Financial information.** You must provide details of your employment, income, assets and liabilities. Lenders will want documentation on this, so you'll need to have payslips and bank statements ready.
- **Loan information.** Details of your current home loan are required, so your lender can see your repayment history and outstanding loan amount.
- **Property information.** Your new lender will need details about your current property. They'll want to have a valuation done to assess its current value so they can determine how much to lend you.

Once you've applied, approval generally takes anywhere from a day to eight business days. With some online lenders, it can take just minutes or hours.

7. Exit your old home loan

This is the easy part. Your new lender will communicate with your old lender to discharge you from your old home loan. They'll exchange all the necessary documentation and take care of things like the title transfer for you.

Once this is done, your new home loan will reach a stage called settlement. This is when the actual funds are disbursed to pay out your old home loan. If everything goes according to plan, you should be able to get from application to settlement within a couple of weeks.

And that's that. Congratulations! You've successfully refinanced your home loan. Now just make sure to do a health-check on your home loan every 18 months or so to make sure you're still getting a good deal. But for now, pat yourself on the back. You've likely saved yourself a massive amount of money.

The whole refinancing process takes a little time and a little research, but it's pretty straightforward for most people. Unfortunately, this isn't always the case. For some borrowers, refinancing can be a bit tricky. In our final chapter we'll discuss what to do if you find yourself in a difficult refinancing situation.

Refinancing in tricky situations

So far we've covered the end-to-end process of refinancing, and for most people it's fairly straightforward. But what if your situation is a bit outside the norm?

Refinancing in certain circumstances can be a bit tricky. Fortunately, no matter what your situation, there are likely to be lenders out there willing to give you a chance. Here are some common tricky refinancing situations.

Refinancing with bad credit

If you've had some bad marks on your credit file since taking out your home loan, it can seriously narrow your options when you look to refinance. Fortunately, there are lenders that specialise in situations just like yours.

Specialist lenders can help credit-impaired borrowers, even if you have defaults or judgments. Some specialist lenders will even allow discharged bankruptcies. Now, the downside is that you're likely to pay a higher rate than you would with a traditional lender. If you're currently with a mainstream lender and you've racked up some bad credit marks, refinancing to a specialist lender is unlikely to lower your rate.

However, there may be times when it's wise to take on the higher rate. For instance, if you need to extend your loan term to get back on top of your repayments, then refinancing to a specialist lender may be your best option.

There are a few things you'll want to do when you're refinancing with bad credit. First, you'll want to get a copy of your credit file to assess how bad the damage is. The great news is that you can access your credit file for free. You can even do it without leaving finder.com.au. If you want a free copy of your credit file, you can contact us.

Once you've got your credit file in hand, go through it and make sure it's accurate. It's possible it may have defaults and judgments recorded incorrectly, so if you think a listing has been made in error, make sure to contact the credit provider to get it sorted out. Alternatively, there are businesses that specialise in credit repair that can help you get incorrect listings removed in exchange for a fee.

The next thing you'll want to do is get on top of your existing debt. If you're having trouble making payments, contact your creditors to set up a payment plan. Most companies will be willing to work with you to negotiate payments you can manage. Finally, you'll want to speak to a specialist lender.