



Top Seven Mistakes Made When
REFINANCING
and how to avoid them



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1. Choosing a lender just because they have the lowest rate

While the rate is important, consider the total cost of your loan including the annual percentage rate (APR), loan establishment fees, ongoing monthly or yearly fees, legal & settlement fees, deferred establishment fees for repaying/refinancing your loan within 5 years.

It is also important to consider the features of the loan such as redraw, interest offset accounts, cheque book, card & ATM access. These features can help you save interest or cost you a lot in additional fees.

Lender's Mortgage Insurance (LMI) is required to be paid by you when you borrow more than 80% of your property value. Ensure you get a quote on your LMI premium. Premiums vary greatly from lender to lender depending on their LMI policy, generally the easier to obtain LMI policy the more expensive the premium.



Many lenders provide discounts for 'Professional Packages' ensure that you are quoted the correct standard rate and appropriate discount, so that you can best compare different offers.

2. Not doing a break-even analysis

- Determine the total cost of getting your new loan
- Calculate how much money your new loan will save you each month
- Divide the total cost by the monthly savings to find the number of months it will take you to break even.

Example:

The cost of getting into your new loan is:

1. Establishment fees	\$600.00
2. Legal Fees	\$450.00
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	\$1050.00

The saving achieved with a new loan:

1. Old Loan interest repayment	\$2,060.79
2. New Loan interest repayment	\$1,945.94
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	\$115.85

Break Even is \$1,050 (total cost) divided by \$115.85 (savings) equals 9 months. Hence you would refinance if you were going to remain in your home for more than 9 months.

This is a simplistic example and there are many more variables that need to be assessed such as product features, loan terms, repayment types and ongoing fees to make an accurate assessment.

3. Verifying the value of your home

Mortgage companies use a market-value appraisal undertaken by a licensed property valuer to assess your maximum loan amount. This is very important because if your property is assessed to be lower than your estimate and your requested loan amount is greater than 80% of the value of your property, you will be required to pay Lenders Mortgage Insurance and this will affect your Break Even analysis.

You can obtain a market appraisal from a local real estate agent, however be sure to request some recent comparable sales in support of their assessment. You can research your local area on the internet or order your own valuation.



You want to ensure that you are confident of the value of your home prior to making a loan application, because you don't want to pay the establishment fees only to have a low property valuation make your loan application no longer feasible.

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4. Mismanaging your existing debts

Prior to shopping for a loan you want to make a concerted effort to have all your existing loan repayments made on time and in full. Any interest free loans and credit card balances should be reduced as much as possible. You also do not want to be opening and closing various credit card accounts, personal loan or interest free accounts. Plan in advance and reduce your credit cards to 2 at the most. Lenders don't like to refinance applicants that are seen to be unable to manage their debt.



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5. Changing the structure of your existing debts

It is important to know that changing the structure of your existing mortgage can cost you thousands in mortgage stamp duty. Changes to borrowers or security will result in new mortgage duty being paid.



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6. Not providing documents to your broker/lender in a timely manner

When your broker/lender company asks you for additional documents, provide them immediately. They are doing what's necessary to get your loan approved and settled. Delays in providing documents can prove costly, remember the main reason you are refinancing is to save money, hence the quicker you settle, the quicker you start to save.



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7. Signing your loan documents without reviewing them

Whenever possible, review in advance the documents you'll be signing. Obtain independent legal advice, be sure to allow plenty of time to go over the contracts and listen to any concerns raised by your solicitor.

Never sign anything under pressure before obtaining legal advice. If you feel pressured in signing anything without the advise of your solicitor, remember you are in control and the answer should always be NO.



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