Quick Facts…

Refinancing

Before embarking on this route you should be clear about what you hope to achieve by refinancing as it may involve the time consuming task of shopping for finance and the nerve-racking ordeal of interviews.

The most common reasons for refinancing are to:

1. Upgrade Your Home.
2. Reducing Total Interest Costs.
3. Reducing Monthly Repayments.
4. Tapping Into Home Equity.

Home Upgrade:
Upgrading your home provides the ideal opportunity for refinancing as in most situations you are upgrading to a more expensive property and borrowing to cover the shortfall.

** If you currently have a fixed loan and are upgrading your home, it is an ideal opportunity to switch to a new fixed lower rate or a variable loan.

Reducing Total Interest Costs:
If interest rates have fallen since you first obtained your home loan, consider refinancing your fixed rate loan to take advantage of the new low rates.

You could also reduce interest costs by refinancing regardless if loan rates fall, by having a shorter term even though your monthly repayments may be higher.

** Refinancing would reduce your total interest bill and perhaps reduce your monthly repayments.

** Make extra payments whenever you can to reduce your mortgage debt and save interest.

Reducing Monthly Repayments:
You can refinance your loan to reduce your monthly repayments by extending the repayment period. For example, if you have already paid off five years on an existing mortgage, refinancing a new loan on a 30year period will reduce your monthly repayments.

** By switching to a variable interest rate, if you have an existing fixed rate mortgage, it is possible to reduce your monthly interest payments.

However, if the interest rates rise again, your monthly repayments will also increase.

Tapping into Home Equity
For many people, their home is their biggest asset and source of savings. The improved value of your property and the amount you have paid off on your mortgage can be put to work for you, to borrow money.

You can refinance with a new mortgage that is larger than your remaining balance or obtain a home equity loan.

** Consider negotiating with your current lender. They may be willing to offer concessions on costs, etc. in order to retain you as a customer.

Credit card interest rates are usually higher than mortgage rates so you may save money by paying off your cards.

**If you have other debts such as credit cards and other loans, it may be cheaper to incorporate these into your mortgage

The Cost of Refinancing

The time it takes to recover the costs of refinancing should be short enough to make it worthwhile. If you think you will only be in that house for three to five years and it will take you five years to cover the costs of refinancing, then it probably is not advisable to refinance.

** Make sure you fully understand the fees that you will pay both going into and getting out of the loan.

The cost of refinancing can be considerable, particularly if you are exiting a fixed term loan. You may incur costs for ending your current loan and costs for starting a new loan such as:

- Break costs - terminating a fixed loan (perhaps thousands of dollars);

- Early termination charges - ending a variable rate loan;
- Mortgage discharge fee - an administrative cost;
- Mortgage stamp duty - on your new loan (varies from state to state);
- Valuation fees - to establish value of property to be refinanced;
- Lender's Mortgage insurance - if you are borrowing more than 80% of the value of the property;
- Ongoing fee - monthly cost for having the loan;
- Establishment or Loan Application fee - cost for applying for a loan.

** Keep accurate records of all repayments, and check your lenders statements regularly for errors.

** Allow for an extra 1 or 2 percentage points when budgeting for repayment. Interest rates have a habit of changing.

Finally:

** Don't compare loans based on interest rate alone. This won't tell you exactly how much you will save on your total interest repayment compared with your current loan. You should also compare refinancing with getting a second mortgage, an equity line of credit or not refinancing at all.

We will be more than happy to refer you to a mortgage broker!