NRGfinancial services

Property Investment
Refinancing
Debt Consolidation
Wealth Creation
Insurance

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Refinancing your mortgage.

How does refinancing your mortgage work?

Refinancing is the process of taking out a new mortgage, then using some or all of the funds to pay out your existing mortgage or other debt.

You can choose to stay with your current lender if it suits your needs, or change to a new lender. If you change lenders, your new lender will organise paying out your existing home loans.

Reasons for refinancing your mortgage may include:

- the option to roll all your debts into one (debt consolidation)
- to access the equity in your home to use for renovations, holidays, other investments, etc.
- taking advantage of a cheaper interest rate or lower fees
- taking advantage of new loan products, or features offered by other products you don't have access to with your existing loan
- to switch from a fixed to variable rate loan, or vice-versa

Debt consolidation through refinancing your mortgage

Consolidating debt is one of the most common reasons for refinancing your mortgage. Particularly if you are struggling to pay high interest debts such as credit card debt in full, debt consolidation may be a sensible solution.

Debt consolidation combines several loans into a single loan, assisting you to manage repayments, reduce interest rate costs and control your debt. Typically, debt consolidation combines unsecured personal debts such as personal and car loans, credit card balances and store card balances into your home loan, securing the debt with your property.

Benefits of debt consolidation

- Some of the possible benefits of consolidating debt include:
- Reduced monthly repayments
- Lower interest rate on repayments
- Only one creditor
- Less fees and charges
- Less paperwork
- The chance to get back in control of your debts
  Extended repayment period

Things to consider before consolidating debt

The biggest single issue with debt consolidation is that your debt is now 'secured debt', so if you don't pay it back, you risk losing your 'security' – your house. Other typical consideration points with debt consolidation include:

- Your debt may take longer to pay off and cost more because of the longer period of time you have to pay it off
- It may affect any future loan applications
- You may need to provide extra security for your loan
- There may be fees and charges associated with setting up your debt consolidation
- If you fail to meet repayments, your property may be at risk
- If you don't cut up your credit cards, you have essentially freed up your credit card to accumulate more debt

Getting back on track

Although you may only be able to make the standard required repayment of your consolidated debt at first, as your finances improve you should aim to increase your repayment above the minimum required. This will help you to reduce the interest charges over the life of the loan.

Be mindful that debt consolidation should not be seen as a 'complete fix' and it's important to look at the underlying reason you have excess debt in the first place; debt consolidation is simply a useful strategy to get your finance goals back on track, not an all-out solution to your financial problems.

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Accessing your equity

Mortgage refinancing is a common way of accessing the equity you have built up in existing property to use for other purposes, usually via a new equity loan. Some of the uses for an equity loan include renovating your property or using the equity to assist with a property investment purchase.

How much you can borrow is subject to the amount of equity you have built up in your property and other serviceability criteria, but as a guideline, even if you own your home outright you are likely to be limited to borrowing a maximum of 80% of the value of your property.

How do equity loans work?

Equity loans are most commonly offered as a line of credit loan, which allows you to withdraw funds up to a set limit at any time. You may be able to draw down the initial equity loan either as a lump sum or in stages. Generally a line of credit is an interest-only loan, and in some cases you may be able to capitalise the interest payments. Interest rates are usually higher than for a standard variable home loan.

Risks involved in refinancing your mortgage

If you have a fixed-term loan, it is likely there is a penalty clause which will be triggered by early repayment of the loan.

There are also exit fees, entry fees and transaction fees typically associated with refinancing debt, and in some cases, these fees may outweigh any savings generated through refinancing the loan itself. Typically, refinancing is only considered when the potential for a substantial cost savings exists, or if there is a need to extend the loan due to weak cash flow or other non- recurring commitments.

In addition, when you refinance your loan it may initially allow you to make lower repayments, but result in larger total interest costs over the life of the loan. It's important to calculate the upfront, ongoing and potentially variable costs of refinancing before taking the plunge.

Speak to a mortgage broker

Before deciding whether or not to refinance, it's important to speak to an expert who understands your objectives and goals. An experienced mortgage broker will be able to take you through your options and explain any potential advantages and disadvantages to refinancing in your particular situation. For more information call us today.