

Confused about the ins and outs of mortgage refinancing? There are two key considerations when you're looking at taking the step - why and how. Here, we examine both.

A home loan is generally a long-term proposition, but in some situations it can be suitable to refinance your mortgage. Refinancing involves taking out a new mortgage and using those funds to pay off your existing mortgage. Doing it right could deliver significant financial gains over time.

The two key things you need to know and understand before you go ahead are your reasons for doing it and how to go about it.

Good reasons to consider refinancing

You want a lower interest rate

The loans market is highly competitive and interest rates can vary significantly between lenders, so one of the most common reasons for refinancing is to get a lower rate. This could help you pay off your home loan sooner and save you thousands of dollars over time.

Even if interest rates haven't fallen since you first took out your loan, you can sometimes access a better rate if your financial situation has improved. This is where a broker can be invaluable; they can help find a better interest rate and advise you of lending facilities that may suit your lifestyle. Rather than moving banks, this could mean renegotiating a better deal with your existing lender.

Keep in mind, however, that not all mortgage products are the same. A mortgage with a lower interest rate may not have all the benefits of your existing loan, so be sure to carefully consider all rates, fees and features.

You want to change your loan type

You may want to switch from a variable loan to a fixed loan to lock in a low interest rate with either your existing lender or a new one. Depending on the type of mortgage you have, this may require refinancing into a different product. You might also have to refinance if you want to change to a split loan, which has part variable and part fixed rates.

You'd like to access the equity in your home for other uses

As you pay down your mortgage and property values increase, the equity you have in your property builds up and becomes a valuable asset. By refinancing, you can [access that equity](#) to generate funds to use in wide variety of situations - to renovate or extend your home, for a deposit on another investment property, or even to invest in shares.

Your circumstances have changed

Things change. Perhaps you've had a significant rise (or fall) in your income. Refinancing can help to manage your new situation. By taking out a new mortgage (or increasing your limit on the existing one) you may be able to consolidate other debts such as personal loans and credit cards, into one facility, lowering your monthly repayments and saving you interest. If your finances have improved, on the other hand, you may want a different kind of loan product with alternative features, such as a mortgage offset or extra repayment facility to allow you to pay off your mortgage sooner.

Starting the refinancing process

Once you've determined your needs and done your research, including speaking to a broker, beginning to refinance will be straightforward

The application

Your broker will evaluate your circumstances and help you submit your application. You'll need to provide identification documentation, proof of income (such as pay slips) and list your assets and liabilities. If you're staying with your existing lender, you may not need to provide as much information.

Getting a valuation

Lenders will often require a valuation on your home to determine how much you can borrow. This bank valuation generally requires an inspection of the property by a licensed valuer. Remember to prepare for the valuation, ensuring your property is presented in its best light to gain an accurate valuation price. Tidy the garden, reduce clutter in the house and finish those small maintenance jobs you've been putting off.

Receiving approval

Once your lender is completely satisfied, full loan approval is granted. In many cases you'll receive an approval letter with a copy of the loan contract to review, sign and return to the lender. Your funds will usually be cleared once all signed documentation is reviewed. Your lender will then arrange settlement of your existing loan and establishment of your new one. While refinancing can save you money, it may not be the right move for everyone. Take care and get advice on whether it's the best route for you. Before taking any action, talk to your broker, as they can help you select a suitable loan product for your needs and circumstances.

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