

## Refinancing - what not to do

5/08/2010

Refinancing your loan is a great way to access more competitive interest rates, better customer service and a product that more closely matches your needs. But when it comes to tinkering with your mortgage, there is definitely a right way and a wrong way to go about it.

There are plenty of situations where refinancing makes perfect sense. If your current lender's interest rate is higher than its competitors, for instance, or you need to access cash to finance renovations, investments or your child's education, then refinancing is a great way to tap into your equity.

However, you need to enter the process with your eyes wide open, as there are many factors that can influence the outcome of a refinancing application.

Before you get stuck in a legally binding contract to move your mortgage to another lender, make sure you carefully answer the following questions:

- **Has my financial situation changed?**

If your income has changed for any reason, you may not have the same borrowing power today as you did when you applied for your existing loan. Financial factors that can impact your borrowing power include: moving from full time to part-time or casual employment; starting a new business, so you're now self-employed; increasing your personal debts, such as credit cards or car loans; and/or dropping an income temporarily to have a baby.

- **What is my motivation for refinancing?**

If your personal debts such as credit cards and personal loans have escalated, and you wish to refinance so you can consolidate them into your mortgage, tread carefully. "People usually 'bundle' to reduce their monthly commitment, rather than to pay down the debt more quickly," says Margaret Lomas, director of Destiny Finance Solutions. "Under those circumstances, it will greatly increase the amount of time you'll take to pay off your home loan."

- **Will I have to pay exit fees to get out of my current loan?**

Lenders don't want you to take your valuable business elsewhere, and they can financially penalise you for doing so. Make sure you check your loan contract carefully: exit fees, pre-payment penalties and deferred establishment fees can equate to thousands of dollars, which can cancel out any benefits you'll receive by refinancing.

- **Has my credit rating changed since I first got this loan?**

If your credit history has taken a hit due to outstanding debts or financial difficulties that you've experienced since you were approved for your current loan, you may have trouble accessing a good rate and/or a competitive product when you refinance. It's best to do a credit check prior to applying elsewhere; call Peter 0405 153 090 he can arrange a copy of your credit profile.