

## **Four smart home loan refinancing strategies**

**Refinancing is replacing your existing loan with a new one over the same asset.**

Homeowners decide to refinance their property for a variety of reasons. Whether it's accessing a better home loan, releasing equity or consolidating debts, refinancing may be a smart way to improve your financial situation.

### **1. Debt consolidation**

One of the common reasons borrowers decide to refinance their home loan is to consolidate their debts. Depending on your financial circumstances, you could bring all your outstanding loans, such as your mortgage, car loan, credit card and personal loan, into one credit facility.

Ideally, this would result in a single repayment, with one interest rate and one set of fees, which can help you manage your finances better.

#### **Tip:**

Before taking any steps to consolidate multiple debts, do your research and get a good understanding of the pros & cons of debt consolidation.

### **2. Switching to a lower rate**

Many people consider refinancing to tap into a home loan with a lower interest rate as lower interest rate means less repayment. It is a good idea to review your current loan by comparing your current interest rates, fees and repayment amount with other lenders.

#### **Tip:**

Banks and non-bank lenders increase and reduce the rates they charge on their loan products for many reasons, so don't feel tempted to refinance just to chase a slightly better rate. It's not advisable to choose a new lender solely for a lower interest rate without reading the fine print. There could be fees and charges involved in moving your loan to a new lender, so do your research before you make the switch or speak to your Chocolate Money broker to see if refinancing will put you in a better position financially.

### **3. Added features to your home loan**

Everyone's circumstances change – it's not just the movement of interest rates that can trigger your interest in refinancing. If you've outgrown the home loan you originally organised, refinancing can help bring it up to date and open up a raft of useful features that can benefit your financial position.

For instance, choosing a loan with an offset account or a line of credit, can allow you to use your savings to reduce interest payable on your home loan, without paying it straight into the mortgage itself.

**Tip:**

Many borrowers choose to use their offset account in place of their everyday transaction account. This is a common method of money management, as it allows your existing funds to reduce your payable interest. But, if you're intending to use the account to pay your home loan off faster by reducing the interest, you should consider the account more like a savings account and avoid using the funds.

#### **4. Releasing equity**

If your property has increased in value, perhaps due to a hot real estate market or improvements you've made, you can access this increase in equity by drawing from your existing home loan. These funds can be used as a deposit for an investment property or a home improvement project.

This is only an option if your home is worth significantly more than you paid for it. Lenders require a formal valuation before allowing you to access the equity, the results of which might be less than you expected, particularly if you're looking to refinance with a traditional lender.

**Tip:**

There are certain risks associated with releasing built-up equity in your home. For example, if you release too much money now, you might find that you do not have enough equity later on when you may need it more. Consider your options carefully before making the move to use your home's equity.

While there are benefits when it comes to refinancing, there are also fees associated with refinancing. Although these vary from lender to lender, in general some of the fees include a discharge fee and new application fee. Depending on your loan, some lenders may also charge break fees – especially if you are considering breaking a fixed interest rate loan.

To review your options contact Chocolate Money on 1300 137 539.