Interest rates are coming down.

Discover what homeowners should know about refinancing.

The Reserve Bank of Australia cut the cash rate by 0.25%. It now sits at 3.85% – the lowest for a few years.

Australia's big four banks were all quick to announce they would be passing the cuts on to borrowers. If you've got a mortgage, you might be wondering if this is your cue to act.

Refinancing your home loan – whether by negotiating a better deal with your current lender or switching to a new one – could save you thousands of dollars over the life of your loan.

However, it won't be the right decision for everyone. And there are some important things to know about how the process works.

What is refinancing?

Refinancing simply means replacing your existing home loan with a new one – either from your current lender or a different one. The goal of doing this is to take advantage of better loan terms, rates, fees and charges.

If you're on a "variable rate" loan, your lender may already be passing on some or all of the recent rates cut (though you may have had to opt in).

If you're on a "fixed rate" loan, your repayments will stay the same until your fixed term ends – meaning you might not benefit from the cut unless there's not much time left on your fixed term or your fixed rate is lower than the new variable rate.

Switching to a loan with a lower rate can mean smaller monthly repayments. Or, by keeping repayments the same size but with a lower interest rate, you could potentially pay off a loan faster and save in the long term.

To fully understand whether refinancing is the best option for you, contact your trusted Chocolate Money credit advisor by calling 1300 137 539 or emailing the Director on harry@chocolatemoney.com.au

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