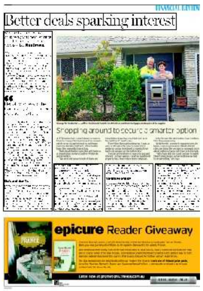

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Better deals sparking interest

With cuts to mortgage rates, it could be a good time to refinance — but be sure to weigh your options, writes **Bina Brown**.

CONSUMERS were delivered an early Christmas present from the Reserve Bank this month with the first cut in interest rates in almost three years.

Even better news than the official rate cut of 0.25 per cent to an 18-month low of 4.50 per cent was the quick action taken by major lenders to cut their variable and fixed rates by the same amount.

As a demonstration of how keen lenders, in particular the big banks, are to retain existing customers and entice new ones, they are throwing in all sorts of other incentives for people considering refinancing their loans.

In addition to lower rates, some of the sweeteners include waiving or significantly reducing application fees, discounting annual fees on professional packages and even paying borrowers up to $1000 to help cover costs associated with leaving an existing bank.

> "Flexibility, access to the loan and customer service are also important.

All this in addition to the abolition of exit fees, which came into effect from July 1.

Competition among lenders is enough to get people to at least look at their existing loans with a view to refinancing, Pier Wernigk of Brisbane-based personal mortgage adviser Smartline, says.

Wernigk says the other notable trend in the mortgage market is the drop in some fixed-interest rates below the standard variable rate.

The lowest fixed-rate home loan for three years is from Suncorp at 5.99 per cent, according to Infochoice. The lowest one-year fixed rate is from Newcastle Permanent at 5.94 per cent. The lowest variable rate is from UBank at 6.39 per cent. This includes a loyalty discount of 0.2 per cent for the first 1000 customers who are refinancing.

Do's and don'ts

Refinancing a loan definitely has its benefits. But there are pitfalls. First of all you should be doing it for the right reasons.

While a lower interest rate might seem like the only thing that matters, you need to do some research to ensure you are still getting the best deal after taking into account the costs involved and the features that come with the new loan compared to your old one.

Flexibility around repayments, access to the loan and customer service from the institution are also important.

If you are refinancing a home loan to consolidate other debts, your minimum regular repayment commitment will drop in the short term. But consolidating debts can stretch them over the home-loan term – which is generally a longer time frame. This attracts more interest owed on those debts.

If you are refinancing to access equity from your property then this will increase your loan size. This means you will owe more on it and pay interest on those newly accessed funds.

This may or may not be the best strategy for your financial needs, all of which means you need to be clear on why you want to refinance.

HSBC Bank recently launched a refinancing site, hsbc.com.au/homeloanwork, to help you work through refinancing issues. Other sites that compare rates and features include infochoice.com.au, canstarcannex.com.au and homeloanfinder.com.au.

Negative equity

One of the worst positions a property owner can be in is one where the mortgage makes up a greater percentage of the property's value.

Yet this is something that could be happening across the country due to a fall in national median house prices. And it may be a nasty surprise for those who go to refinance their property only to find that the value of their loan compared to the value of their house has actually gone backwards.

Median house prices around the country fell 3.5 per cent in the year to September 2011 compared to the previous year, according to Australian Property Monitors data. Brisbane house prices fell most, with the median property value down 6.7 per cent in the period, followed by Perth, down 5.7 per cent and Adelaide, down 5.1 per cent.

This may be less of an issue for many Canberra, Melbourne and Sydney home owners. But it could be a real issue if you have an investment property or live in south-east Queensland, for instance, and you borrowed, say, 95 per cent of the value of the property.

Even if refinancing doesn't make sense now, you should always be doing some research into the home-loan market. With competition the way it is, you may even be able to negotiate a better deal with your existing lender.

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Shopping around to secure a smarter option

AFTER asking their current lender numerous times to change their home loan from interest-only to principal and interest but getting no response, Kerstin Knott and Jeffrey Meikle knew they needed to take action.

Their dissatisfaction coincided with being at a presentation involving Godfrey Pembroke and Smartline.

"We went and spoke to both of them and immediately knew they could help put us on the right track," Kerstin says.

"Everything they said made sense. It was so easy to refinance the loan on our principal residence and an investment property. All we had to do was sign on the bottom line."

The loan on their home is now principal and interest – as they wanted – and the investment property has a fixed-rate, interest-only loan.

In both cases the rate is about 1 per cent less than they were paying.

While Kerstin, a property manager, says she keeps a vague eye on what official interest rates are doing, the decision to move was more about not being happy with their existing bank.

"With fours kids, life is just too busy to watch these things closely, but we just knew we had to do something," she says.

Change for the better ... Jeffrey Meikle and Kerstin Knott refinanced their mortgages and could not be happier.