

## Six Critical Things To Do Before Refinancing...

### 1. Decide on the reasons why

It is very important to clearly understand why you want to refinance. Is it because you want a better deal? Is the product not suiting your needs? Is service an issue? Once you have decided why, make sure you return to these reasons throughout the process to ensure you are on the right track.

### 2. Always consider the cost

It can be very costly to refinance – in terms of time and money. These costs can be charged by your existing lender, the State government and your new lender. Some of these costs include:

- Break or early repayment fees – these fees may be payable if your loan is less than five year old (or sometimes even older). These fees will be stated in your original loan documents.
- Discharge fees – This is an administration fee that all lenders charge. This fee is charged by your existing lender for preparing the required forms to discharge your mortgage. This fee normally ranges from \$50 to \$300.
- Mortgage deregistration and registration fees – This is a State government fee. A separate fee will apply for a deregistration and a registration (e.g. in Vic 2 \* \$59 = \$118). These fees are:
  - Victoria: \$59
  - NSW: \$75
  - Queensland: \$105.60
  - SA: \$98
  - WA: \$77
  - Tasmania: \$185
  - NT: \$90
- Mortgage Stamp Duty – Mortgage stamp duty was abolished in Victoria from 1 July 2004. In NSW, duty will only be payable if you increase your loan balance. However, in Queensland you will have to pay for mortgage stamp duty again (some concessions apply). See State revenue office websites.
- Application/settlement fees – Any fees charged by the new lender.

These fees can be confirmed with your existing and new lender (or mortgage broker).

### 3. Discuss your concerns with your lender

You should always discuss your concerns with your existing lender in the first instance. This may end up saving you a lot of time and money. A solution may be as simple as the lender offering an interest rate discount or transferring your loan into a different product (for no, or low fees). It is very expensive for lenders to lose clients. Therefore, they would prefer to discount and retain your business rather than have to win a new client. Play this to your advantage.

### 4. Shop around

If your lender doesn't seem keen to retain your business then it might be time to look around. If you are going to switch mortgages then make sure you do enough research. Using a professional mortgage broker that will crunch all the numbers for you will probably save you lots of time. Remember; make sure you choose the right product as well as the right lender.

### 5. Do the numbers

Make sure it's financially beneficial to refinance (if that's your dominant reason). Add up all the one off or upfront costs. Compare this cost to the annual savings in interest expense you expect to enjoy. Generally, we prefer to see a net benefit in the first year (i.e. interest savings more than pay for any costs) before we recommend a client to refinance.

### 6. Some other tips

Here are some other refinancing tips:

- ✓ Aim for an interest rate equal to at least 0.5% less than the standard variable rate.
- ✓ Ask your new lender if they will pay for some of your refinance costs. If you are borrowing a significant amount (say over \$400,000) lenders will be keen to win your business.
- ✓ Make sure that you remember to change all your direct debits, salary credits, etc when switching to a new lender.
- ✓ Consider other banking costs such as transaction accounts and credit card fees. Some mortgage packages include these.
- ✓ Make sure your next loan offers flexibility and doesn't lock you in. Maintaining the ability to change your mortgage when your circumstances change may save you lots of headaches in the future.

**More information:** This is one of a series of new fact sheets prepared by ProSolution. Other topics include using a mortgage broker, the home buying process and negotiating with lenders. Refer to our website (fact sheets page) to download a copy of these fact sheets.

## Client Profile – Negotiating the waiver of mortgage insurance

All lenders in Australia will charge borrowers Lenders Mortgage Insurance (LMI) when a person borrows more than 80% of a property's value. LMI can be costly. The actual cost depends on the loan amount and the proportion of the property price to be borrowed. However, this cost normally ranges from 0.50% to 2.50% of the loan amount – which can be significant.

Mr Jones (not the client's real name) contacted ProSolution because he wanted to purchase a home in Sydney. He had a total deposit of just over \$150,000. However, to purchase the property he wanted was going to cost him approximately \$720,000. After paying for stamp duty he would need to borrow 82% to 83% of the property's value. LMI was going to cost over \$3,000. However, after approaching one of the lenders on our panel we were able to negotiate the waiver of LMI saving the client over \$3,000.

To get LMI waived, the borrowers normally have to agree to an accelerated repayment program which allows them to repay the loan down to 80% within two years (repayments can return to normal levels as soon as the loan to value ratio equals 80% - either by repaying the loan, an increase in the property's value or both). Lenders will normally only consider a waiver where the amount to be borrowed does not exceed 85% for strong applications.

## Property Negotiation Tips – Submitting An Offer

Purchasing a property is potentially the biggest asset you'll probably ever buy. Therefore it makes sense to do as much research as possible and to put your "shrewd negotiators" hat on. Here are a few tips to consider.

- Put your offer in writing. This holds more weight and in some States real estate agents must only tell the Vendor about written offers (however agents may forget or disregard verbal offers – especially if they are low).
- Perhaps staple the deposit cheque to the offer. This can make the offer even more tempting.
- Perhaps even use the draft Contract of Sale as an offer document. Just fill out the Contract of Sale with your details, price, deposit, etc. Once the Vendor/s sign then the property is off the market straight away and you don't have to wait for the agent or solicitor to draft the contract.
- There are many things you can negotiate on besides price. For example, if you know the Vendor needs to sell because they have purchased another house then offer less money for a shorter settlement period (especially if you have your finance

already organised). If you are purchasing an investment property then negotiate access to the property prior to settlement so that you can show the property to tenants. You may be able to minimise or even eliminate the property being vacant (which will cost you lost revenue). Your options are only limited by your imagination.

- Force the Vendor to accept less for a shorter settlement. For example, when submitting your offer give the Vendor two options. One option can be close to asking price but on a 90 day settlement and the other can be a lot less for a shorter (say 30 days) settlement.



- If there are things that need fixing then include the repair of these items in the purchase price. For example, if the Vendor wants \$700,000 but you know you want to paint the interior of the property then offer the asking price conditional upon the

interior being painted. This way you might be able to get a freebie that you would have otherwise had to pay for. I read a story of a person buying a property with an old shed on it. The purchaser knew they would have to dispose of the property and it would cost \$2,000. So he increased his offer by \$1,000 subject to the Vendor disposing of the shed.

- Make sure that you include a “get-out” clause so that if negotiations turn bad you can walk away. The most common clause is to make an offer “subject to adequate finance approval” or “subject to satisfactory due diligence”.
- Include a sunset clause. These clauses will specify when the offer will expire. This adds urgency to the offer to make sure it is considered promptly.
- Remember that the property is not yours until you sign a Contract of Sale so make sure this happens as soon as possible after the Vendor has verbally accepted your offer. The real estate agent is working for the Vendor so they will not

necessarily tell you if the Vendor has received another offer (after verbally accepting yours).

- Be wary of the other buyer! Many agents will tell you that they are also speaking with another party that is interested in the property. They then urge you to hurry up and make a decision. Sometimes there are other parties but I would guess than in many cases there isn't. Just be aware that real estate agents may try and “hustle” you.

How often do we negotiate the purchase of a property? One or two times in our life? Property advocates or buyers agents do it every day. The goods ones will be able to save you heaps of money through their negotiating skills, knowledge of the market and knowledge of the reputation of real estate agents that operate in the area. Consider using their services because they may well save you more than what they will charge you. Also it takes the stress out of the whole process. ProSolution can refer you to a reputable buyers advocate in either Melbourne or Sydney.

## Consumer Protection – Finance Broking Contract

From 1 August 2004, all mortgage brokers assisting NSW residents will have to ask them to sign a Finance Broking Contract before being able to assist them. This requirement was introduced by the State government to protect consumers and to make them aware of any fees that they may have to pay a mortgage broker and the commissions that the broker may receive from the lender to which they deal with.

The Finance Broking Contract must include a number of things including:

- The broker's details.
- The commission that the broker may receive from the lender.
- Details (including interest rate) of the proposed loan.
- Any fees paid to referrers.
- If the broker is able to influence the interest rate (some lenders allow brokers to charge a higher interest rate in return for a higher trailing commission).

ProSolution has already introduced this protection for all clients regardless of State.

## As Requested – Home Buying Process Document!

Many clients have mentioned to us that they felt lost in the whole buying process not knowing who does what and when. They suggested that it would be good if we could put a document together setting out the home buying process. So we have done just that!

We have just finished writing a detailed document with tips, checklists and timelines. We have also published an abridged version on our website (see Fact Sheets page).

If you would like a copy of this detailed home buying process document just email Josie Caia at [josie.caia@prosolution.com.au](mailto:josie.caia@prosolution.com.au) and she will email a soft copy (or if you give her your postal address she will post you a hard copy).

## Topic Idea???

If you have an idea of a topic you would like to see covered in the next edition of our newsletter we would love to hear from you. Just drop us an email ([info@prosolution.com.au](mailto:info@prosolution.com.au)) or give us a call.