Lending Concepts Explained

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Bridging Loans

A bridging loan is a loan that bridges a gap when you are trying to secure a mortgage for a new property while you are selling your existing property. A bridging loan will allow you to buy a new place while you wait for the old one to sell.
Bridging loans are normally interest only loans that carry special lender conditions and would have a limited loan term.

There are two types of bridging loans:

Closed bridging loans –these are generally suited to borrowers who have already agreed on sale terms of their existing property and the date the contract for the sale will settle. Once the property settles on the pre-arranged date the proceeds from the sale are used to pay out the principal of the bridging loan.
Open bridging loans – the loan does not have an agreed settlement date but generally has a loan term of 6-12 months. These loans are more suited to people that have found their new home but are yet to find a buyer for their existing home. Lenders will normally require you to have a certain level of equity in your existing home and proof that the existing home is on the market. It is also common for lenders to charge a higher level of interest on this type of bridging loan.

Bridging loans normally works as follows:

One lender provides loan funds for the new and existing property.
The loan amount borrowed for the short period of time is known as the *peak debt*.
The repayments on your loan will change during the bridging period and will be an increased payment for one loan or a payment on two loans.
When you sell your home the proceeds from the sale is used to pay down the balance of your loan/s and the residual loan balance remains. This is also known as the *ongoing balance* or *end debt.*
The bank may or may not offer to convert you to a new loan product, such as a fixed term loan or one with principal and interest repayments.
Your new or remaining loan repayment amount and interest rate will most likely change. It is a good idea to ask what the loan terms and conditions will be after the bridging loan period.

A bridging loan ensures you can buy your new property right away without waiting for your current home to sell and may mean you could avoid having to rent a home between the sale of your new home and moving into your new home.
Whilst a bridging loan will help you achieve your objective of purchasing your new home it is important to note the disadvantages of using a bridging loan to finance a property purchase:

If you do not sell your old home within the required time the interest rate on your loan may increase.
Interest costs will be higher as it may be accruing on the loans and because the overall level of debt has increased.
Bridging loans may introduce additional valuation, application and loan fees payable to the lender.

A bridging loan may not be the only strategy to purchase a new home before you have sold your existing home. You may be able to negotiate a longer settlement period for your new home or obtain agreement to alter the purchase contact and add a 'subject to finance' clause on the contract, meaning the contract on your new home would not become unconditional until you have sold your existing home.

Construction Loans

A construction loan is a type of home loan designed for people who are building a home or doing major renovations, as opposed to buying an established property. It has a different loan structure to the type of home loans used to buy an established property.

A common feature of a construction loan is a progressive drawdown. You receive instalments of the loan amount at various stages of construction rather than receiving it all at once at the start of the loan period.

A number of lenders offer construction loans that are interest-only during the construction period and then revert to a standard principal and interest loan. As construction loans are progressively drawn down, interest is normally calculated based only on the funds used so far. For example, if by the third progress payment only $150,000 has been drawn down on a $300,000 loan, interest would only be charged on $150,000.

How do progress payments work?

Once a construction loan has been approved and the property is being built, lenders will generally make progress payments throughout the various stages of construction. Progress payments will typically be paid directly to the builder at the completion of each stage.

Slab down or base: This is an amount to help you lay the foundation of your property. It can cover the levelling of the ground, as well as the plumbing and waterproofing of the foundation.

Frame stage: This is an amount to help fund the build the frame of the property. It can cover partial brickwork, roofing, trusses and windows.

Lockup: This is to help you put up the external walls and put in windows and doors (hence the term 'lockup', to make sure your house is lockable).

Fit out or fixing: This is to help you install the internal fittings and fixtures of the property. It can cover plasterboards, the part-installation of cupboards and benches, plumbing, electricity and gutters.

Completion: This is for the conclusion of contracted items (such as final payments for builders and equipment), as well as any finishing touches such as plumbing, electricity, and overall cleaning.

For each stage of the construction process, you will usually have to confirm that the work has been done, complete and sign a drawdown request form, and send it to the construction department of your lender. Your lender may also request an invoice from your builder for the cost of the work done.

How to get a construction loan?

Gaining approval for a construction loan is a different process to applying for a standard home loan on an existing property.

In addition to being subject to normal lending criteria and income and expense documents, banks and lenders normally require you to provide documents including council plans and permits, a copy of your fixed-price building contract (for cost-plus contracts this will differ) and any applicable insurance (such as public liability insurance and builders all risk insurance).

When you apply for a construction loan, the lender may consider the expected value of the property upon completion of construction, as well as the total amount required to pay the builder. An independent property appraiser will then typically estimate the expected value of the property when completed. The lender will typically also require further valuations and inspections during the project.

If the loan is approved, your lender will give you a loan offer. You will then have to make a deposit, as you would with most other types of home loans. This acts as security at this stage of construction. A larger deposit can help to convince your lender that you are a less risky borrower. You'll typically need at least a 5% deposit, keeping in mind that you may have to pay lenders mortgage insurance if your deposit is less than 20%.

Owner-builder mortgages

An owner-builder loan is specifically designed for people who intend to build the house (or contract trades directly) without the help of a professional third-party builder.

Many lenders only finance construction of homes that are built by licensed builders. Lenders may be hesitant to accept applications for owner-builder loans, as they use the property as security against your mortgage. If you're building this property yourself, you are not considered to be a licensed builder and they may consider you to be a higher risk.

Lenders who do give owner-builder loans may limit the maximum loan to value-ratio for the loan. This means you may need to pay a higher deposit than you would for a typical construction loan. An additional interest rate loading or fees may also apply to owner-builder loans.

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Capitalisation of Lenders Mortgage Insurance Premiums

Lenders mortgage insurance (LMI) premiums are payable in two ways: as an up-front fee or by capitalisation. Capitalising your LMI premium essentially means adding it to the total loan amount and paying it off in regular instalments with your home loan. This will mean you are also paying interest on the LMI for the life of the home loan, so are likely to pay more. Capitalisation is the most common way of paying for LMI.

How does capitalisation work?

Newlyweds Tim and Erica are battling to save a deposit for their home, and currently spend approximately 32 per cent of their combined monthly salary on rent. Paying rent is putting a real strain on their ability to save a deposit and after speaking with their mortgage broker, Tim and Erica learn they can secure a home loan for up to 95 per cent of the value of the property they hope to buy if they take out LMI.

Tim and Erica have saved $25,000 for a deposit and additional funds to comfortably meet the other commitments associated with their property purchase such as solicitor and application fees.

Keen not to miss out on the property they've decided to purchase, Tim and Erica's broker advises that they can capitalise their LMI premium which means they can buy the property sooner but it will add to the cost to their home loan.

Purchasing an apartment for $400,000 with a home loan of $375,000, the monthly repayments on their 30-year loan (rate 5.22 per cent) comes to approximately $2,064. The LMI premium on their $375,000 home loan comes to approximately $11,400. If Tim and Erica capitalise their LMI premium, it will increase their monthly home loan repayments by $63, taking the total monthly home loan repayment to $2,127. Buying a property sooner using LMI means they will no longer be paying rent which in some cases may be more than the mortgage payments inclusive of capitalised LMI.

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Different ways to repay and access your home loan

Most lenders offer different ways to access and/or repay your home loan. Here are some of the more common features lenders offer to home loan customers.

Repaying Your Home Loan

Direct Debit Repayments

When you set up direct debit repayments you authorize your lender to automatically draw repayments from a chosen bank account. Apart from ensuring there is enough cash in the account, you do not have to remember to make repayments. Lenders normally allow payments to be made weekly, fortnightly or monthly.

Direct Salary Credits/Salary Deductions

Some lenders allow Direct Salary and Other Income Credits to repay a home loan. This feature allows you to have your salary (or other payments) credited directly into your home loan.

Accessing Your Home Loan

Debit Card

Some lenders offer home loans with a linked debit card.

To access home loans with linked debit cards you will need to have an offset account. The offset account can then be linked to your debit card, so you have the offset reducing the amount of interest payable on your home loan combined with the convenience of spending some money from that account when needed.

An offset account contains funds that substitute for part of the principal sum you have borrowed, and it can be accessed for drawdown without necessarily linking it with a debit card. It comes down to how you want to access the funds in your offset account and how quickly you want that access.

The advantage of an offset account is that the amount of interest you pay on your loan amount will be reduced, although you should always check the interest rate you are paying, and consider whether you are paying more for this feature than if you chose a 'no-frills' variable rate product.

Internet Banking

Internet banking allows you to view the details of your loan account online. Most lenders provide details of the loan balances, interest rates, repayments, term dates, statements, transaction history, redraw and mortgage offset information for your home loan account on their internet banking platform.

Telephone Banking

Similar to internet banking, telephone banking allows you to access the details of your loan account via the phone. Most lenders provide details of the loan balances, repayments, transaction history, redraw and mortgage offset balance information.

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Early Repayment Fees/Break Costs

Some lenders charge an early repayment fee or break cost if a loan is fully paid before the end of your loan term. These fees vary between lenders and loans and are disclosed in your loan contracts issued by your lender.

Fixed rates loans will generally charge a repayment cost which is referred to as an economic cost or a fixed rate break cost when you pay back your loan earlier than expected. Most lenders will allow you to pay off a small additional amount off your mortgage each year without being charged.

Lenders borrow money using the Bank Bill Swap Rate and their rate is locked in at the same time the fixed rate on a home loan is locked in. When you repay your home loan earlier and interest rates have fallen the lender may not have the ability to re-lend the money at the higher interest rate and will incur an economic cost. The economic cost is passed on to you as a break cost.

For example: you take out a home loan for $500,000 at a fixed rate of 4.00% over 3 years and decide to refinance or pay the loan off in 1 year or refinance your loan. During that year interest rates fall however the lender's cost of funds would remain the same as the time the loan was made. The lender will therefore need to carry on the loan at the original cost.

Economic costs can be costly so if you are hoping to pay your loan off early a fixed rate loan mightn't be a great idea.

There may be situations where a break cost may be less that the financial benefits you may receive from refinancing to a cheaper interest rate. It is best to compare the costs across the life of the loan to help you decide if refinancing or repaying your fixed rate home loan earlier is of benefit to your situation.

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Exit Strategy

An exit strategy is the term used for the plan and methods you intend to use to be able to repay your loan at the point of retirement.

Exit strategies can vary from person to person and may depend on age, financial position, income level and plans for retirement.

If your owner-occupied property is the only asset used as security against the loan you will need to provide a written exit strategy to the lender. Remember, simply downsizing to a smaller home at the time of retirement may not be an acceptable exit strategy for most lenders.

If you are unable to provide an exit strategy, lenders may require the term of the proposed loan to not exceed your expected age of retirement.

An accepted retirement age can vary between lenders, but it typically sits between 65-75 years of age.

Common exit strategy plans can include:

Downsizing to a smaller house when you reach the age of retirement (not accepted by all lenders).
The sale of collected assets such as investment properties or shares.
Lump sum loan repayments from superannuation (not accepted by all lenders).
Ongoing income from your superannuation to fund your home loan repayments.

Extending the Term of Your Loan

Extending your loan term when you refinance introduces additional interest costs that may outweigh the savings you can benefit from in your new loan.

As Adam and Rachel's example suggests; by extending the loan term by 5 years they will incur 5 years more of interest payments and increase the total amount of years they are paying interest, to 35 years.

If you are unable to negotiate the same loan term as your current one but would still like to refinance your home loan to a more competitive interest rate you can consider making higher repayments which will enable you to pay down your home loan in the same amount of years as your initial loan term or sooner.

Your mortgage broker can assist you to calculate the repayment amount needed to implement this strategy.

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Frequency of Repayments and Paying off your Mortgage Faster

Making higher or more frequent payments on your mortgage will save you money and help you pay down your home loan faster.

Switch to fortnightly payments

If you are currently paying monthly, consider switching to fortnightly repayments. By paying half the monthly amount every two weeks you'll make the equivalent of an extra month's repayment each year (as each year has 26 fortnights).

Make extra payments
Extra repayments on your mortgage can cut your loan by years. On a typical 25-year principal and interest mortgage, most of your payments during the first five to eight years go towards paying off interest. So, anything extra you put in during that time will reduce the amount of interest you pay and shorten the life of your loan.

Make higher repayments

Another way to get ahead on your mortgage is to make repayments as if you had a loan with a higher rate of interest. The extra money will help to pay off your mortgage sooner.

If you switch to a loan with a lower interest rate, keep making the same repayments you had at the higher rate and if interest rates drop, keep repaying your mortgage at the higher rate.

Consider an offset account

An offset account is a savings or transaction account linked to your mortgage. Your offset account balance reduces the amount you owe on your mortgage. This reduces the amount of interest you pay and helps you pay off your mortgage faster.

For example, for a $500,000 mortgage, $20,000 in an offset account means you are only charged interest on $480,000.

If your offset balance is always low (for example under $10,000), it may not be worth paying for this feature.

Avoid an interest-only loan

Paying both the principal and the interest is the best way to get your mortgage paid off faster. Most home loans are principal and interest loans. This means repayments reduce the principal (amount borrowed) and cover the interest for the period.

With an interest-only loan, you only pay the interest on the amount you have borrowed. These loans are usually for a set period (for example, five years).

Your principal does not reduce during the interest-only period. This means your debt is not going down and you will pay more interest over the term of the loan.

Frequency of Mortgage Repayments

As home loan interest is calculated daily; weekly and fortnightly repayments are better than monthly repayments to save you interest over the life of the loan.

If a bank allows you to make fortnightly payment as half of your monthly payment you will pay one extra payment per year as 26 fortnightlys is the equivalent of 13 monthly payments. This repayment strategy will save you interest and reduce your loan term.

	Monthly	Fortnightly	Weekly
Total paid per year	$23,208.00	$25,142.00	$25,142.00
Total interest over 25-year term	$233,054.00		

**Based on a home loan of $350,000 with a 25-year loan term, at the current average standard variable interest rate of 4.44% p.a.*

Guarantees

If you guarantee a loan for a family member or friend, you are known as the guarantor. You are responsible for paying back the entire loan if the borrower cannot.

If a lender does not want to lend money to someone on their own, the lender can ask for a guarantee.

Before you agree to be a guarantor, think carefully about your own finances. Make sure you understand the loan contract and know the risks.

Know the risks of going guarantor

If you are guaranteeing a loan, make sure you understand the risks. Take the same care as if you were taking out a loan for yourself.

You may have to pay back the entire debt

If the borrower cannot make the loan repayments, you will have to pay back the entire loan amount plus interest. If you can't make the repayments, the lender could repossess your home or car if it was used as security for the loan.

It could stop you getting a loan

If you apply for a loan in the future, you will have to tell your lender if you're guarantor on any other loans. They might decide not to lend to you, even if the loan that you guaranteed is being repaid.

You could get a bad credit report

If either you or the borrower can't pay back the guaranteed loan, it's listed as a default on your credit report. This makes it harder for you to borrow in the future.

It could damage your relationship

If you are a guarantor for a friend or family member who can't pay back the loan, it could affect your relationship.

If you don't feel comfortable guaranteeing a loan, there may be other ways to help. For example, you might be able to contribute some money towards a house deposit.

Understand the loan contract

Before you sign a loan guarantee, get a copy of the loan contract from the lender ahead of time. Ask lots of questions so you understand the details.

Loan amount

Check whether you will be able to meet the loan repayments if the borrower cannot. Work out the total you would have to pay back, including the loan amount, interest, fees and charges.

If you guarantee the total loan amount, you will be responsible for the loan amount and all of the interest. It may be better to guarantee a fixed amount so you know exactly how much you might have to pay if the borrower cannot.

Loan security

You may have to use an asset — like your house — as security. This means that if the borrower defaults on the loan, the lender might sell your house to pay the debt.

Loan term

A longer loan term may sound good, but you will pay more in interest. Be careful about guaranteeing any loan that has no specified end date, like an overdraft account.

Business loans

If you are asked to go guarantor on a business loan, you must understand the loan contract. You should also find out everything you can about the business. Ask for a copy of the business plan to understand how it operates.

Speak to the accountant and look at financial reports. Make sure the business is financially healthy with good prospects.

Being a guarantor might not work out as planned. In most cases, if the borrower cannot make their repayments, you won't be able to get out of the loan contract.

You should speak to a lawyer to obtain legal advice about your situation.

CASE STUDY: Mary guarantees a business loan for her son

Mary's son Leo has worked in hospitality for years. When he saw a popular local food franchise for sale, he thought it would be a great opportunity to run his own business.

The franchise director told Leo that the company had a strong brand, high profits and low costs. Leo thought it was a safe bet.

He applied for a $250,000 business loan with his bank. Mary agreed to go guarantor for the loan, using the family home as security.

Leo was hit with slower business and higher costs than he expected. After paying rent and franchise royalties, he is struggling to make his loan repayments.

Leo and Mary are talking to the bank about repayment arrangements. But the bank might sell the family home to cover the loan.

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Government Grants

The state and federal governments currently make several different grants available to First Home Buyers. What grants and/or concessions are currently on offer in your state or territory may vary and change over time however the information below provides an overview of the grants and schemes and links to relevant websites you can obtain more information relevant to your state.

First Home Super Saver Scheme

The First Home Super Saver (FHSS) scheme was introduced by the Australian Government in the Federal Budget 2017–18 to reduce pressure on housing affordability.
The FHSS scheme allows you to save money for your first home inside your super fund. This will help first home buyers save faster with the concessional tax treatment of superannuation.

From 1 July 2017, you can make voluntary concessional (before-tax) and voluntary non-concessional (after-tax) contributions into your super fund to save for your first home.

From 1 July 2018, you can then apply to release your voluntary contributions, along with associated earnings, to help you purchase your first home. You must meet the eligibility requirements to apply for the release of these amounts.

You can use this scheme if you are a first home buyer and both of the following apply:

You either live in the premises you are buying or intend to as soon as practicable.
You intend to live in the property for at least six months within the first 12 months you own it, after moving in.

You can apply to have a maximum of $15,000 of your voluntary contributions from any one financial year included in your eligible contributions to be released under the FHSS scheme, up to a total of $30,000 contributions across all years. You will also receive an amount of earnings that relate to those contributions.

More information on the First Home Super Saver Scheme can be found on the ATO Website HERE.

First Home Owner Grant (FHOG)

The First Home Owner Grant Scheme was introduced on 1 July 2000 to offset the effect of GST on home ownership. The FHOG scheme is a national scheme that is funded by each state and territory of Australia under their relevant legislation.

The FHOG Scheme provides a one-off grant to home buyers that meet the applicable eligibility criteria.

The scheme varies in each state. More information can be found via the following links:
ACT NSW QLD NT SA TAS VIC WA

Commonwealth Government First Home Loan Deposit Scheme

The First Home Loan Deposit Scheme is an Australian Government initiative to support eligible first home buyers purchase their first home sooner.

Usually first home buyers with less than a 20 per cent deposit need to pay lenders mortgage insurance. Under the Scheme, eligible first home buyers can purchase a modest home with a deposit as little as 5 per cent (lender criteria also apply). The National Housing Finance and Investment Corporation (NHFIC) guarantees to a participating lender up to 15 percent of the value of the property purchased that is financed by an eligible first home buyer's home loan.

There are currently 27 participating lenders across Australia offering places under the First Home Loan Deposit Scheme.

More information on the First Home Loan Deposit Scheme can be found in the NHFIC website - HERE.

HomeBuilder Grant

The Australian Government's HomeBuilder Grant provides eligible owner-occupiers (including first home buyers) with a grant of $25,000 to build a new home or substantially renovate an existing home.

HomeBuilder is a time-limited grant program to help the residential construction market to bounce back from the Coronavirus crisis. HomeBuilder will provide eligible owner-occupiers (including first home buyers) with a grant of $25,000 to build a new home or substantially renovate an existing home where the contract is signed between 4 June 2020 and 31 December 2020.

Construction must commence within three months of the contract date.

HomeBuilder complements existing State and Territory first home owner grant programs, stamp duty concessions and other grant schemes, as well as the Commonwealth's First Home Loan Deposit Scheme and First Home Super Saver Scheme.

More information on the HomeBuilder Scheme can be found in the Treasury Fact Sheet - HERE.

In addition to the HomeBuilder grant some States and Territories are offering a construction grant for a limited time with the aim of promoting investment in the residential market and to stimulate jobs in the construction industry.

In some states grants are available for eligible applicants who:

enter into a contract to build a new home on vacant land; or
enter into an off-the-plan contract to purchase a new home as part of a single-tier development on a strata plan or other land survey type.

Stamp Duty Concessions

As an incentive for first home buyers most states and territories in Australia offer stamp duty concessions to first home purchasers. Generally, first home buyers will be exempt from paying stamp duty charges for purchases of established homes up to a certain amount.

The scheme varies in each state. More information can be found via the following links:
ACT NSW NT QLD SA TAS VIC WA

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Interest Capitalisation

Interest capitalisation occurs when interest is added to the total loan amount or 'principal' of a loan but isn't immediately paid back on an ongoing basis to the lender. Allowing interest to capitalise can be a necessity for some borrowers in the event of financial hardship in order to reduce the size of, or completely pause, your loan payments for a period of time. In addition, this approach can be built into some investment loan agreements from the start. Not only does this increase the amount of debt, but it leads to compound interest, where interest is charged on the capitalised interest.

Interest capitalisation works by allowing a principal-and-interest borrower to temporarily stop paying off the interest that is being added to their loan for a period. A lender will then take this added interest into account when calculating interest on the new loan balance in the next period. This is known as compounding interest or paying interest on existing interest.

Interest Capitalisation is normally for a particular period of time – such as 3, 6 or 12 months. In some cases, it can be for more than one year.

Interest Capitalisation can provide the benefit of improving your cash flow because you don't need to pay the interest on the property; so you can then use that cash for something else. However, it is important to remember that while you are improving your cash flow, your interest costs are compounding over time. It's much the same as how compound interest on savings works, except you are being charged interest on your interest rather than earning it.

Here's a basic CASE STUDY that displays the extra interest a three month home loan holiday would add to a $500,000 home loan, as well as what you'd need to increase your monthly repayment to after the repayment holiday, in order to repay it within the same 30-year term.

CASE STUDY

Due to COVID, Bob would like to take a six-month mortgage repayment holiday form his recently established home loan.

Bob's loan balance is $500,000 and he has 30 years left on the mortgage. The interest rate for this loan is 5.00% and his minimum monthly principal and interest repayments are $2,684.

If Bob makes no repayments during the six-month repayment holiday and the interest is capitalized, the loan balance after this six-month period will be $504,175. When his repayments are reinstated his new repayment amount will increase to $2,710 and he will maintain the same loan maturity date.

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Interest Only

With an interest-only loan, you only pay off the interest on the loan for a fixed period, rather than paying off the interest and principal. Interest-only loans are an option if you cannot initially make higher repayments.

At the end of the interest only period the loan will change to a principal and interest loan and you will start repaying the amount borrowed as well as the interest, which will increase the amount of your repayments. You should work out what your repayments will be at the end of the interest only period and make sure the higher repayment amount is affordable.

It will take you longer to pay off the loan because you will still have to pay off the principal after the interest-only stage. You will pay more interest overall.

In a falling house price market, you will face a greater risk that you will end up owing more than your house is worth. The faster you pay down your loan the more likely it is that you will owe less than your house is worth (this is called having equity).

With an interest-only loan, the loan balance does not decrease over time until the interest-only period expires, and you start paying off the principal as well as the interest.

Lender Cash Back and Special Offers

Lenders sometimes offer things like discounted interest rates, promotional introductory interest rates and sign-up incentives such as cashback offers, rewards for switching, gift vouchers, and more to encourage customers to choose their bank.

While these offers can be attractive for some customers who are on the lookout for a home loan it may not be worth signing up for a particular product solely for a special deal.

The fundamental aspects of the loan, such as ongoing interest rate, fees and features, are still important considerations.

Cashback sales & promotions

Cashback offers typically involve a lender offering you an incentive to take out one of its products. You may receive this in cash, or it can be taken out of the fees you would otherwise be charged. You may also receive it in the form of gift cards for certain stores or brands.

Other sales & promotions – rewards points, reduced rates, and lower fees

Other sales and promotions offered by lenders allow you to take advantage of various other bonuses such as lower interest rates (fixed and variable), reduced or waived fees and bonus rewards points in some cases.

Consider comparing different home loans before committing

It may not be in your interests to pick a lender and its product because the sign-up offer looks good. A $1,000 bonus when you take out your loan may not ultimately prove to be good value if you are paying an interest rate that is higher than you could find elsewhere.

It is a good idea to compare different home loan products and their costs across the life of the loan and decide which home loan is best for you based on what you need, even if it doesn't have a sign-up offer attached.

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Lender Credit Policies

Lenders have a specific credit policy they use to assess and approve loan applications.

A lender's credit policy is a document that outlines the requirements and procedures for approving a loan and normally considers the following factors:

Borrower criteria
Residency status
Guarantors
Savings requirements – both genuine and non-genuine
Employment and income
Expenses and liabilities
Property and security
Loan to valuation ratio
Lenders mortgage insurance
Maximum loan amounts
Loan purpose; and
Interest only loans

Every lender has a different credit policy and the different documents a lender will ask for is set out in the lender's credit policy. If your situation falls outside of the lender's policy, it is likely that the application may be declined.

A lender's approval or denial decision and the criteria they base their decision upon may vary significantly from one lender to another, which explains why a loan application may be approved by some lenders but not others.

As your mortgage broker is accredited with a range of lenders, they are required to have knowledge of lender credit policies. Having this knowledge and access to a range of lenders gives your mortgage broker the ability to ensure they provide you with the outcome that meets your requirements and objectives.

Lenders Mortgage Insurance

Achieving the dream of home ownership is one of the most exciting times in your life. However, it also comes with a big challenge – the time it takes to save the substantial deposit lenders often require (typically 20% of the home's purchase price).

If you do not have a substantial deposit saved, your lender may be prepared to provide you a home loan with a smaller deposit (as little as 5%), by taking out Lenders Mortgage Insurance.

Lenders Mortgage Insurance is an insurance policy that your lender takes out to protect itself against the risk that you (the borrower) default on your loan repayments and your lender is unable to recover the full outstanding loan amount. The lender protects itself with Lenders Mortgage Insurance and a borrower buys a home sooner with a smaller deposit.

Lenders Mortgage Insurance protects your lender, not you, the borrower
It is important to note that Lenders Mortgage Insurance does not protect you (the borrower) or any guarantor. It should not be confused with Mortgage Protection Insurance which is a separate insurance policy that protects you (the borrower) if you are unable to make repayments on your loan.

How does Lenders Mortgage Insurance help you, the borrower?
Lenders Mortgage Insurance enables you (the borrower) to obtain a home loan that might not otherwise be available, by reducing the deposit you are required to provide. This means you will be able to:
Buy a home sooner and stop paying rent; or
Buy a more expensive property with the deposit that you have.
It may also enable you to borrow at an interest rate that is comparable to a borrower with a substantial deposit.

Lenders Mortgage Insurance is a one-off cost
Lenders Mortgage Insurance is arranged by your lender and the premium is a one-off cost your lender pays to the insurer upon settlement of your property purchase. This cost is passed on to you (the borrower) by your lender, as a fee.

Your lender will tell you how much it will cost after you apply for your loan. The cost will depend on various factors including the size of your deposit and the type of loan you take out.

You may be able to add the cost of this fee to your loan amount, which means you will pay interest on it over the term of your loan. Otherwise you will need to pay it up front before your lender provides your home loan.

Refunds
The Lenders Mortgage Insurance fee that your lender charges you may be partially refundable if your loan is terminated within the first two years.

Alternatively, your lender may not provide a refund because it has arranged to receive a larger up-front discount on its Lenders Mortgage Insurance premium (instead of the right to a refund). In this case the full amount of this discount is passed on to you. This means that if you were to refinance your home loan with another lender or increase your loan amount, you may be required to pay a Lenders Mortgage Insurance fee again.

You should check with your lender to find out if they have a refund policy and if it applies to you.

What happens if you default and your property is sold?
If you default on your loan your property might be sold. If the money received from the sale of your property is not enough to repay your outstanding loan, your lender can make a Lenders Mortgage Insurance claim and the insurer will pay your lender the shortfall.

Once a claim has been paid, you (the borrower) continue to be responsible for the outstanding shortfall debt. Typically, this debt is passed on to the insurer by your lender and we may seek to recover the outstanding shortfall debt directly from you (the borrower) and any guarantors.

Line of Credit

With a line of credit loan, you use a single account for your home loan and your everyday spending.

The limit on the line of credit loan is fixed and does not reduce as you repay the loan. This means you can always draw up to this limit.

You can make everyday purchases directly from the loan. You may also use a credit card with an interest-free period that is automatically paid by the line of credit loan.

Your wage and other money stay in the loan account and your credit card is paid off each month from this. The money in your account reduces how much you owe on the loan for part of the month and therefore the interest you will pay.

Unless you are a careful budgeter, you could end up spending more each month than you pay off on your loan and never reduce the loan balance. So instead of saving money, it will cost you more.

Be aware that, if you take out this type of loan with someone else, either person can take out money on the loan (up to the credit limit)without the consent of the other person, unless you specify when you set up the account that both signatures are required for withdrawals.

In a falling house price market, you face a greater risk that you will end up owing more than your house is worth. The faster you pay off your loan, the more likely it is that you will owe less than your house is worth (this is called having equity).

With a line of credit loan, you need to be disciplined about reducing your loan balance, because repayments that reduce the balance are usually not required.

Negative Gearing

'Negative gearing' happens when the costs of owning a rental property exceed the rent returns you earn. When you take an investment loan, your property is 'geared'.

Investors negatively gear as they can generally claim a tax deduction for the investment loss. The aim is for the capital growth to offset the loss in earlier years. Negatively gearing investment properties normally plays an important part in investor strategies.

If you are making an investment loss, it is still costing you money. You will need to have cash from other sources, like your salary, to cover interest and expenses. Most investors use some gearing in the form of their mortgage, to fund their rental property.

How does negative gearing work?

When the cost of owning a rental property outweighs the income it generates each year it is a taxable loss which can normally be offset against other income including your wage or salary, to provide tax savings.

CASE STUDY

Let's take an example of a negatively geared property in Australia. Let's say that Bill owns a rental property generating $25,000 in rent each year. The costs of holding the property, including mortgage interest, come to $30,000. This gives Bill a taxable loss of $5,000, which he can use to reduce the tax payable on his salary.

Important: This information is general in nature. Mortgage brokers and their licenses do not provide taxation advice. You should consider seeking independent taxation advice and how negative gearing relates to your individual circumstances.

Mortgage Offset Account

What is an offset account?
An offset account is a savings account or transaction account linked to your home loan account. The account's balance (or a proportion of that balance) is 'offset' daily against your home loan balance. As a result, you are only charged interest on the difference between the total loan balance and the amount offset.

For example, if you had a loan of $350,000, with $100,000 in a linked 100% offset account and $100,000 repaid, you may only pay interest on $150,000 of your balance. This means you will be charged less interest because your interest is not calculated on the remaining full balance of your home loan.
Lenders may offer offset accounts that are linked to either a variable rate loan or a fixed rate loan.

Types of offset accounts

There are two types of offset accounts:
Balance offset account: These accounts offset the interest payable on the mortgage by the balance of the account. The percentage of the balance that will be offset can range right up to 100%. However, a partial offset account may only offset your mortgage by a portion of the balance, for example, a 50% offset account will only offset the interest-bearing portion of your mortgage by 50% of your offset account balance. So, the higher the percentage of the offset account, the more you will save in interest on your mortgage.
Interest offset account: These accounts offset the interest payable on your mortgage by the interest earned in the account. However, this could be substantially less than the interest rate of the mortgage. Depending on the interest rates of your mortgage and offset account these accounts are likely to be significantly less favourable than balance offset accounts. They are also less common.

Pros and cons of an offset account
By having a decent amount of money in your offset account you might effectively cut years from your home loan and pay thousands of dollars less in interest. You do not necessarily need a *huge* amount of spare savings though – with a 100% offset account every cent is saving you money in interest off your loan.

Secondly, an offset account is simple for most people to manage. You could have your salary deposited into a standard savings account or transaction account every payday, and if it was linked as an offset account to your loan it would automatically save you money on your interest payments.

In addition, having an offset account can be an easy way to keep excess funds at hand while still minimising the interest payments on your mortgage, so if your financial situation changes or if something unexpected like a medical emergency were to happen, then you will be able to easily access the money that has been offsetting your mortgage. An alternative strategy of having to redraw on extra repayments you have made on your home loan is often limited to minimum amounts and/or come with fees.

Offset accounts can be a great tool for some homeowners, particularly with the flexibility they can provide. They can also potentially save you money and cut time off your mortgage.
However, keep in mind you may find yourself either paying an additional fee for a loan with an offset account, or alternatively, you could end up paying a higher interest rate on your mortgage. The financial benefit of a mortgage offset account will depend on a number of factors, such as the interest rate and fees of comparable loans (with or without an offset facility) and how much money you are likely to keep in your account. So, it is important to weigh up your individual circumstances and determine if an offset account is right for you.

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Are your monthly repayments the same with an offset account?
When you have an offset account your monthly repayments typically stay the same in dollar amounts. This can be a good thing because it means you can repay your loan faster.

Each month, more money is going towards paying off the principal (your loan amount) because the offset amount is reducing how much interest you owe. Reducing the amount of interest you pay each month can help you to put more of your money towards repaying your loan faster.

How to choose an offset account
When choosing a home loan that allows an offset account consider features such as:
An account where 100% of your total balance is offset against your loan.
No minimum balance, so every cent in your offset account is working for your loan.
No maximum balance limit, so you can keep growing your savings and paying less and less in interest on your home loan.
Low or no fees on the offset account.
The ability to use your offset account for the transaction types you need, e.g. debit card, ATMs, EFTPOS, BPAY, direct debit, and in-branch.
The ability to link multiple accounts as offset accounts to your loan.
An equal or superior savings interest rate to your mortgage interest rate, if possible.

The last dot point is particularly important if your mortgage is being offset by an interest-paying offset account. If this is the case, you do not earn interest in the traditional sense, but rather you are offsetting the interest of your mortgage. This may have different tax implications for you compared to if you were earning interest in the traditional sense, so consider contacting the Australian Taxation Office or seeking professional tax advice.

Important: This information is general in nature. Mortgage brokers and their licenses do not provide taxation advice. You should consider seeking independent taxation advice for your individual circumstances.

Offset account or redraw facility?
Offset accounts and redraw facilities are both common features of a home loan, and it is important to know which would work best for you:
Money sitting in an offset account remains at call and accessible, whereas you must make an application to withdraw money using a redraw facility, so it is not always accessible the same day.
An offset account holds any spare savings you have, while a redraw facility is only available for any additional repayments you have made above and beyond your usual monthly repayments. You can only "redraw" the extra that you have already paid.
Offset accounts may have low or no account-keeping fees and some transaction fees, compared to the redraw fee that is typically charged to redraw money using a redraw facility.
Offset accounts require self-discipline to save money instead of spending it, while redraw facilities enforce discipline for many people, because you must apply in advance if you want to redraw money to spend.

Packaged Home Loan Products

Many lenders offer packaged home loans which allow you to sign up to a home loan as well as other financial products such as a credit card and transaction account with the same bank or financial institution.

A packaged home loan generally comes with the advantages of a discounted interest rate and lower fees, however there may be other products that could provide you with similar discounted interest rates and lower fees without the need to obtain a credit card or transaction account.

The credit card and transaction account may also introduce further ongoing fees and charges that should be considered when comparing the overall ongoing costs of packaged home loan products.

Standard home loan products may offer cheaper rates and fees with no frills or features but may charge a fee each time you want to access money through a redraw facility.

Every borrower's situation is different and the additional credit card, transaction account and other benefits may not be appealing to all people looking to secure a new home loan. Therefore, when comparing products, you should ensure you prioritize the features of a package that you would use or value. You should also include those features that do not have a dollar value but are important to you such as having all of your banking in one place.
Considering all the features and information you will enable you to do the sums and make an informed decision.

Principal and Interest Repayments

Most people take on this type of home loan. You make regular repayments on the amount borrowed (the principal), plus you pay interest on that amount. You pay off the loan over an agreed period (loan term), for example, 25 or 30 years.

The interest rate on a standard home loan will often be cheaper than a more sophisticated loan that offers additional features.

Fixed, variable and partially fixed rate loans are all variations on standard principal and interest loans. There will always be penalties for paying out the fixed rate portion of a loan early.

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Portability

Many home loans have the option of taking your loan with you when you move. This is known as loan portability. Loan portability allows you to transfer your existing loan to your new property without having to go through the hassle of refinancing and the inconvenience of closing one loan and having to apply for a new one. It also means you can keep the features and facilities you already have set up with your loan, such as online banking or a linked offset account.

How does loan portability work?

When you port your home loan to your new property, you will be transferring the current balance and interest rate as well as any attached features such as a linked offset account to your new home. Instead of the loan being secured against your old home, it will instead be secured against your new home.

What are the benefits of porting your home loan?

The process is generally much quicker than applying for a new loan and you can avoid potential upfront costs involved with applying for a new loan.

When you port your home loan you could also switch your loan from fixed to variable (or variable to fixed) and may also be able to top up your loan with extra funds (if needed) when you move your loan to a new property.

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Rate for Risk (Risk Based Pricing)

Risk based pricing is the interest rate that lenders offer to a client based on factors such as their credit rating, the security type, employment status and financial situation. Rather than specify an interest rate they will have a minimum and maximum rate range for the loan and will offer you an interest rate within that range based upon these factors.

If the lender decides that you are low risk and that you are likely to repay the loan on time you will get a lower rate. If you are a higher risk, which may be because you have more debt or a lower income, the lender may charge you a higher interest rate.

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Rate Lock

Rate lock is an option offered by some banks and lenders that locks in the interest rate offered when you applied for the loan so you are not affected if interest rates move before your loan is settled.

How Rate Lock Works
Interest rates may rise or fall from the time you agree to proceed with the loan.

For example, you see that a bank has a fixed rate home loan for 4%. Prior to settlement the rate could rise to 4.3% or fall to 3.7%. By choosing a rate lock option the interest rate you locked in at application would be applied to your loan when it settles.

Most lenders will allow you to take the lower rate if interest rates fall however that is not the case with all lenders and some may apply the higher rate you locked in to prior to settlement.

Rate lock normally lasts for a specified period and will be different for each lender. Normally this may be 60 days or 3 months. It is usually better to rate lock for the maximum period to ensure you are covered in the event the approval and settlement of you loan takes longer than anticipated.

Rate Lock Fees
Most lenders charge a fee for rate lock and the fee will vary from lender to lender. Some charge a set $ fee and others will charge a percentage of the amount you are borrowing i.e. 0.15% of a $400,000 loan would incur a $600 fee.

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Redraw

A redraw facility lets you access extra repayments you have made on your home loan and helps reduce the interest payable. Different lenders have different ways to redraw and different rules on the frequency and the amounts permissible.

How does a redraw facility work?
When you pay more than the minimum monthly payment on your home loan the extra funds accumulate in your mortgage account over time which may then be available to withdraw at a later date.

For example, if you minimum monthly payment is $800 and you pay an extra $200 per month for 12 months you have an extra $2400 that may be available for you to withdraw at a later date.

How to redraw money
Every lender is likely to have different options. Most will let you request redraw via online banking, by making a phone call, or by visiting a branch. Lenders may also have different minimum and maximum redraw amounts and may also charge a fee for each redraw you make.

Redraw facilities vs a savings account
Redraw facilities can be an effective place to keep your savings. But instead of earning interest as you would in a savings account, you are reducing the amount of interest you pay on your home loan.
This may work out better in the long run.

Generally, the interest you will save by having your money in redraw will be more than you would earn from keeping the same amount in a savings account because home loan interest rates are normally higher than the interest rates offered by savings accounts.
Redraw vs offset accounts
Offset accounts and redraw facilities both have the potential to save you interest on your home loan but there are important differences.

An offset account works much like an everyday transaction account. You can withdraw money at ATMs and buy things using a debit card.

A redraw isn't an account as such, but rather a facility attached to your home loan, so it doesn't give you the flexibility to access money in the same way that an offset account can. For some people this can be a benefit as it may reduce the temptation to spend the money in the same way they would if it was available in an offset account.

Equity Release & Reverse Mortgages

If you are aged 60 or over, own your home and need to access money, 'home equity release' may be an option.

As there are risks involved it is best to consider the long-term financial impact, advantages and disadvantages. It is essential to get independent financial or legal advice before you go ahead.
How home equity release works
'Equity' is the value of your home, less any money you owe on it (on your mortgage). 'Home equity release' lets you access some of your equity, while you continue to live in your home. For example, you may want money for home renovations, medical expenses or to help with living costs.

Equity release may be available in the form of a Reverse Mortgage.

The amount of money you have access to using equity release depends on your age, the value of your home and the type of equity release.

A decision to release equity could affect your partner, family and anyone you live with, therefore it is important to take your time to talk it through, get independent advice and make sure you understand what you're signing up for.
What is a Reverse Mortgage?
A reverse mortgage allows you to borrow money using the equity in your home as security. If you are aged 60, the most you can borrow is likely to be 15–20% of the value of your home. As a guide, add 1% for each year over the age of 60. So, at 65, the most you can borrow will be about 20–25%. The minimum you can borrow varies but is typically about $10,000.

Depending on your age, you can take the amount you borrow as a:
regular income stream
line of credit
lump sum, or
a combination of these.
How does a Reverse Mortgage Work?
A reverse mortgage allows you to stay in your home and does not require you to make repayments while living there. Interest charged on the loan compounds over time, so it gets bigger and adds to the amount you borrow. When you sell or move out of the home you repay the loan in full, including interest and fees.

Some banks and lenders may allow you to make voluntary repayments earlier if you wish. You may also be able to protect a portion of your home equity from being eroded by the loan. For example, to ensure you have enough money left to pay for aged care if you need it in the future.
What are the costs involved in a reverse mortgage?
Reverse mortgage costs depend on how much you borrow, if you take the amount you borrow (for example, a lump sum will cost more due to compounding interest), the interest rate and fees (for example, loan establishment, ongoing fees, valuation), and how long you have the loan.
Advantages of a reverse mortgage
You remain owner of your home and continue to live in it.
A small amount of money each year could supplement your income in retirement.
A lump sum may fund renovations on your home so you can stay in it longer.
You could free up money for an urgent need, such as medical treatment.
It may help secure aged care accommodation until you sell your home.
Disadvantages of a reverse mortgage
Over time, your debt will grow, and your equity will decrease.

Interest and fees compound and add considerably to your loan balance.
The interest rate is likely to be higher than on a standard home loan.
It could affect your eligibility for the Age Pension.
It could affect your ability to afford aged care.
It could eat into money you need for future medical bills or home maintenance.
You may not have enough money left for living expenses or to support family, if needed.
If you are the sole owner of your home and someone lives with you, that person may not be able to stay when you move out or die.

If you are borrowing to invest, it puts your whole home at risk — not just the portion you are investing.
Negative equity protection
Reverse mortgages taken out from 18 September 2012 have negative equity protection. This means you cannot end up owing the lender more than your home is worth (market value or equity). If your reverse mortgage contract does not include negative equity protection, talk to your mortgage broker or get independent legal advice on what to do.

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Self-Managed Super Funds ('SMSF')

What is an SMSF?
An SMSF is a private superannuation fund you manage yourself, regulated by the Australian Taxation Office. SMSFs are different from mainstream funds regulated by the Australian Prudential Regulation Authority (APRA) which pool members' savings and invest the money for them. SMSFs can have up to four members. All members must be trustees (or directors if there is a corporate trustee) and are responsible for decisions made about the fund. If you have an SMSF, you are responsible for managing it and complying with all relevant laws.
Self-managed super fund property rules
You can only buy property through your SMSF if you comply with the rules.

The property must:
meet the 'sole purpose test' of solely providing retirement benefits to fund members
not be acquired from a related party of a member
not be lived in by a fund member or any fund members' related parties
not be rented by a fund member or any fund members' related parties

If your SMSF purchases a commercial premise, it can be leased to a fund member for their business. However, it must be leased at the market rate and follow specific rules.

SMSF property sales may have many fees and charges. These fees can add up and will reduce your super balance. Find out all the costs before signing up.
SMSF borrowing

SMSF home loans are more complex than regular home loans, as any property purchased must be for the sole benefit of the SMSF, not the individual trustees.

The property must also provide a market return, that will be used to benefit the super fund members when they reach the retirement age of 65.

While you can both borrow and loan money from an SMSF for the purpose of buying property, there are many restrictions, regulations and conditions that you must meet to ensure that the purchase is legal. If the purchase is not legal as per the Australian Taxation Office (ATO) guidelines, you may risk losing half of the assets in your SMSF, and face thousands of dollars in fines.

Borrowing or gearing your super into property involves very strict borrowing conditions. It is called a 'limited recourse borrowing arrangement'. You can only purchase a single asset with a limited recourse borrowing arrangement. For example, a residential or commercial property.
You should assess whether the investment is consistent with the investment strategy and risk profile of the fund.

Geared SMSF property risks include:
Higher costs – SMSF property loans tend to be more costly than other property loans.
Cash flow – Loan repayments must come from your SMSF. Your fund must always have sufficient liquidity or cash flow to meet the loan repayments.
Hard to cancel – If your SMSF property loan documents and contract are not set up correctly, you can't unwind the arrangement. You may have to sell the property, potentially causing substantial losses to the SMSF.
Possible tax losses – You cannot offset tax losses from the property against your taxable income outside the fund.

No alterations to the property – You cannot make alterations that change the character of the property until you pay off the SMSF property loan.

Property developers and SMSFs

Property developers must have an AFS Licence to provide financial planning advice. This includes advice on setting up an SMSF.

Property developers may have a pre-existing business relationship with the professionals they recommended. They may receive a referral fee or other benefits that could amount to thousands of dollars.

Do not be pressured into making property purchase decisions for an SMSF. Watch out for sales tactics like competitions, free flights to sales meetings or being taken out for free meals.

It is always important to do your own research first and obtain independent legal and financial advice before making any decision regarding an SMSF or making a property purchase with your SMSF.

Split Loans

Depending on your circumstances, splitting your home loan between fixed and variable interest rates can enable you to get the best of both worlds. You can split your loan at any time, from when you've just settled or throughout the life of the loan as your circumstances change.
Split home loan explained
A split home loan is when you divide your loan into multiple parts - meaning you could nominate a portion of the loan to have a fixed interest rate and the remainder could have a variable interest rate.

For example, if you split your $500,000 home loan relevant to your needs by implementing 60 fixed:40 variable split. Your home loan would then be divided into two loans - a fixed interest rate would be charged on $300,000 and the remaining $200,000 would have a variable interest rate.
What are the advantages?
There are advantages to both fixed and variable rate home loans. With a split loan, you can get the most out of the features and benefits that are most important to you.

While a portion of your home loan is fixed, you would be protected if interest rates rise (however, you wouldn't benefit from a drop in interest rates), and you'd always know what your repayments will be.
With the variable part of your home loan, you'd have the flexibility to make unlimited additional repayments, which could mean paying off that portion of your home loan faster, as well as potential access to benefits such as redraw and an offset account depending on the type of variable rate home loan you choose.

You may also benefit from an interest rate drop, however that also means your repayments would increase if the interest rate goes up.

If the interest rate does drop, your repayments will not automatically change. You can choose to lower them or keep your repayments at the same level, so you repay your home loan faster.
Make sure you consider your options
Before you decide to split your loan and what ratio you choose to split your loan, you may want to consider things such as:
whether your main objective is certainty and reducing the impact of interest rate fluctuations or if you'd prefer the flexibility to make additional repayments and a redraw facility or access to an Everyday Offset account.
If your personal and financial circumstances are likely to change in the future; and
What fixed rate timeframe you are ready to fully commit to (from one up to five years), as there are penalties for breaking a fixed rate term.

Staying with a Particular Lender

Refinancing does not have to involve finding and moving to a new lender. You can refinance with your current lender and save on refinancing costs and time.

Benefits of Staying with the Same Lender
By keeping your home loan with your current lender and merely switching products or asking for a lower rate, you can enjoy important advantages.

If you are refinancing solely to enjoy a lower interest rate and lower your mortgage repayments, staying with your current lender makes it possible to enact a quick, simple rate change. Your lender can apply a discount rate.

Even if you are interested in a different home loan product, for example if you want to refinance to a fixed rate mortgage or a line of credit home loan, you can save on discharge and settlement fees by staying with your existing lender.

In some cases, your mortgage broker may be able to negotiate a better rate or home loan deal because the lender may want to keep you as their customer. Your mortgage broker will negotiate on your behalf with the lender. They will do this with their knowledge of the mortgage market across a range of lenders and your personal and financial circumstances.

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Switching Home Loans

Refinancing your home loan to take advantage of a lower interest rate might save you money. When switching home loans, it is important the benefits outweigh the costs. Here are some other things to consider before switching home loans:

Ask your current lender for a better deal
Tell your current lender you are planning to switch to a cheaper loan offered by a different lender. To keep your business, your lender may reduce the interest rate on your current loan.

If you have at least 20% equity in your home, you'll have more to bargain with and having a good credit score and loan repayment history will also help with negotiations.

Any deal your current lender is prepared to offer should be compared to the other loans you are considering.

Negotiate the length of the new loan
Some lenders will only refinance with a new 25- or 30-year loan term. You could end up with a longer loan term than the years left to pay off your current mortgage.

The longer you have a loan, the more you will pay in interest. If you do decide to switch, negotiate a loan with a similar length to your current one.

Weigh up the cost of lender's mortgage insurance
If you have less than 20% equity in your home, you might have to pay lenders mortgage insurance (LMI). This can increase the cost of switching and outweigh the savings you will get from a lower interest rate. If you decide to switch, ask for a refund of some of the LMI from your current loan.

Compare the costs of switching your mortgage
Get at least two different quotes on home loans for your situation.

Compare the fees and charges
Your broker can help you find out what is available by comparing some or all of the following things.

Term	Description
Discharge (or termination) fee	A fee when you close your current loan.
Switching fee	A fee for refinancing internally (staying with your current lender but switching to a different loan).

Your mortgage broker will calculate if you will save money by changing home loans and show how long it will take to recover the cost of switching.

Time to Settlement

Securing a home loan for a new property can be a daunting process if you are new to the process or you are trying to manage the process without the support of an experienced mortgage broker.

Generally, it takes between 4-6 weeks from the time your broker submits your application to reaching settlement on your property, depending on the state in which you live. Some other factors may determine how quickly you get approved including the lender, the complexity of your situation and how quickly you return your mortgage documents.

If you have limited time until your settlement day your broker may compare and recommend lenders that are able to meet your required timeframe.

Once you have agreed on a loan, your broker will manage the application and make sure everything is in order for the approval and settlement process to complete.