Is it time to refinance?

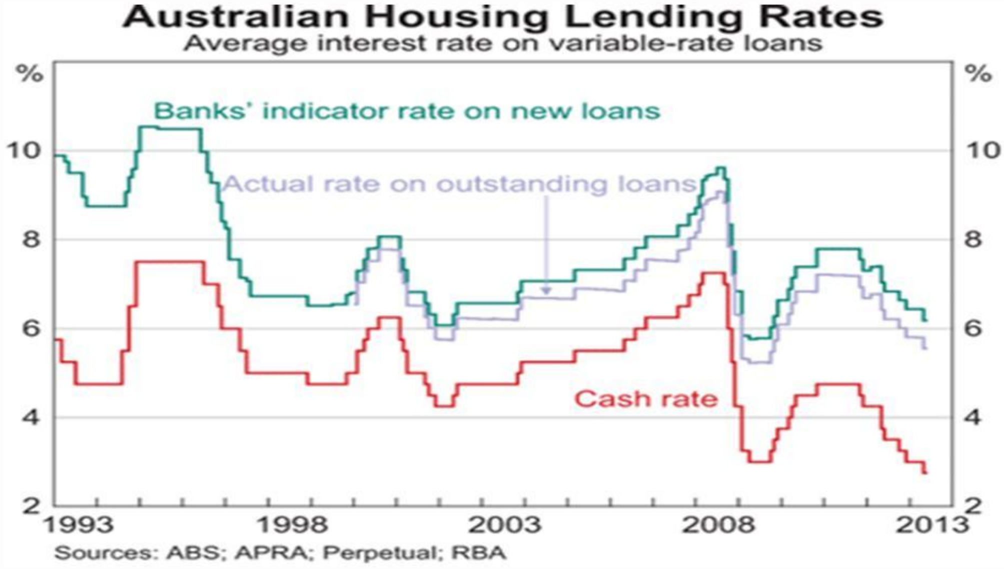
REID CONSULTANTS

Time to Refinance?

The Reserve Bank of Australia (RBA) has just left the cash rate at 2.75%. This is the lowest it has been since 1960. There is a view that the RBA still has the ability to drop another 0.25% if the economy is showing further signs of faltering. The RBA has the duty to maintain price stability, full employment and economic prosperity and welfare and they use an inflation target of 2-3 per cent on average as a measure to do this. While they may drop rates again, at some point the cash rate will rise to more historical averages.

More interesting is what the major lenders are doing. It has been well published that the lenders have not passed all the rate cuts to mortgage holders and certainly have passed very little to credit card holders and when they do, it is often weeks after the announcements by the RBA. No wonder record profits are being made by banks.

The graph below gives a view of the differential between the cash rate and lending rates.



When the major banks started to move independently from the RBA, it has been more difficult to assess if you are still getting the best deal you can. Some lenders offer high discounts from their standard rates, but their standard rates less discounts may well be higher than the rates from other lenders. The competitive variable rates at the moment are down to 5.15% and can be even better for higher loan amounts and/or lower loan to value ratios (LVR).
Fixed rates can be down to 4.64% for a 1 year, 4.69% for 2 years and 4.84% for 3 years.

If you are paying anything over 5.30%, you need to consider refinancing. A 0.1% rate difference on an average $250k loan means $250 per year additional interest. If you have some credit card debt not being paid off every month, even an ongoing $1,000 balance at 19.99% means a savings of $148 per year if you looked to refinance using home equity. If you have an ongoing $50k in credit cards, that equates to nearly $7k additional interest per annum.

Situations where you should consider refinancing:

- Where your current mortgage interest rate is greater than 5.30%, most likely you can get a better deal with significant savings
- Where you have credit card debt or personal loans that you cannot get on top of and have equity in a property. Look to consolidate your debt using home loan rates.

· Where you have a large line of credit (LOC) facility that could be converted into a part term loan, this may mean significant savings as well depending on the lender.

· Where all your loans are variable and you want to lock in some certainty with the low fixed rates on offer.

Situation you should look to stay with your current lender and loan/s:

· If you have an existing fixed loan, more than likely the break fees will be higher than the savings, but it is worth considering.

· If you have a loan settled prior to July 2011 where there are deferred establishment fees (DEF), often these have a four year period until extinguished. Again it is worth enquiring to at least consider the impact of these against potential savings.

The lower rates has also meant some lenders have dropped their servicing rates, so borrowing ability is now easier than 6 months ago.
Is it time you had a loan health check? Give me a call for your free borrowing assessment and loan health check to see you are getting the best deal you can. There is no cost or obligation for this.

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