


The Australian

Switching loans is not a painless process

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Cost to refinance from a major bank to a low rate home loan

Lender	Loans.com.au	CBA	NAB	ANZ	Westpac
Product name	Dream Loan Express	Wealth Package	Choice Package	Breakfree Variable	Premier Advantage
Interest rate	6.58%	6.96%	6.97%	7%	7.16%
Ongoing fee	Nil	\$350pa	\$395pa	\$375pa	\$395pa
Current monthly repayment*	\$3401.07	\$3521.15	\$3524.33	\$3533.90	\$3585.09
Difference in monthly repayment to Loans.com.au		\$120.07	\$123.26	\$132.82	\$184.02
COST TO REFINANCE:					
Discharge fee		\$350	\$150	\$160	\$250
Loans.com.au upfront fees		\$75	\$75	\$75	\$75
Total cost excluding government charges**		\$425	\$225	\$235	\$325
Time to recoup bank outlays#		3.5 months	2 months	2 months	2 months

* Monthly repayments are based on a \$500,000 loan taken over 25 years. This does not include any ongoing fees.
 ** The total cost is the sum of the cost to discharge from an existing loan and apply for the loans.com.au loan. This does not take into account any government charges that may be applicable. This also does not take into account any early exit fees that may be charged. # Time to recoup bank outlays is the total cost excluding government charges divided by the difference in monthly repayments. Comments: Linked for the first five years to the Reserve Bank cash rate. The package ongoing fee from the four big banks may also include fee waivers on the ongoing fees for transaction accounts and credit cards. Further discounts may be available on other products such as insurance and personal loans.

Source: www.canstar.com.au

Many borrowers underestimate the costs of switching loans.

Source: The Australian

MOST home loan customers would probably think the most important cost of their loan was their interest rate, but they might be surprised, particularly if they were on a fixed rate.

Home loans are an area riddled with those bankers' favourites, fees and charges. And while an ultra-competitive market has many mortgagors ready to switch at any time, these fees can very much muddy the waters.

Dean Rushton, chief operating officer of mortgage broker Loan Market, says a person contemplating switching a loan could face fees "coming and going".

On the exit side, the loan may have an early exit or deferred establishment fee, although these will be banned from July 1. Depending on the lender, Rushton says this fee can be as high as \$2000 or even higher.

If the loan rate is fixed, there could be break costs: if applicable, he says, these "can be in the thousands", depending on the contract, where fixed-rate loans are priced in the market and the tenure of the loan. Last, there could be an account closing fee, usually levied at about \$300 to \$350.

Moving to the new loan, there could be a discharge and registration of mortgage fee of about \$190; a settlement fee of \$100 to \$250; and, potentially, an application and valuation fee of about \$600.

"About the least you would normally expect to pay for switching is approximately \$600, assuming there are no early repayment penalties or fixed-rate break costs," Rushton says. "Not surprisingly, there are a couple of banks offering up to \$700 to switch your home loan to them."

The removal of early exit fees makes it easier to switch loans, but that is "only one layer of cost", senior financial analyst at research firm Canstar Cannex Mitchell Watson says.

"For people who have recently taken out a home loan, that certainly gives them a little more freedom in their ability to move between institutions. But there are still going to be application fees and other fees involved in starting up when moving from one institution to another. You will still get charged a discharge fee from your current lender and you will potentially be charged application and start-up fees at your next institution," Watson says.

Damian Smith, chief executive of financial comparison website Rate City, says many borrowers underestimate the costs of switching their home loan.

"The challenge with refinancing is to understand that on day one you will actually be almost certainly worse off because you will have had to shell out additional costs."

Smith says the time and hassle involved in refinancing aren't trivial. "In fact in many ways it's more than the cash cost and it's an issue that holds people back."

The actual cash cost has three components, he says.

"The first is the early exit fee. Of the 300-plus home loan products that Rate City has on its database, 54 per cent of them still have exit fees, at an average of just under \$800. Then there are the establishment fees on the new loan, which average about \$1000. The third component, which we think is actually a much bigger issue than it is given credit for, is lenders mortgage insurance."

Any borrower who wants to borrow more than 80 per cent of the value of a property will be charged a lenders mortgage insurance premium, which covers the lender in the event that the borrower defaults on the loan and the lender has to repossess the home but is unable to sell it for more than the value of the mortgage.

"If you don't have 20 per cent equity, then you will almost certainly be charged LMI; and the big problem with that is that the policy is not portable," Smith says.

"If you are in that loan-to-value ratio territory, you can't take the LMI with you."

Tanya Du Preez, partner in broking co-operative the Loan Clinic, says lenders mortgage insurance is "probably the biggest impediment" to people switching their mortgages.

"LMI certainly introduces another layer of cost, and at the moment those policies are generally not transferable between banks," Du Preez says.

"Someone who takes out a loan at more than 80 per cent LVR -- and given how expensive house prices are, that is increasingly common -- can pay a LMI premium of anywhere between a couple of thousand dollars and \$20,000. If they go to refinance that loan while they're still above 80 per cent, they will pay LMI again.

"The problem is that with the property market softening and valuations coming in short, a lot of people who were close to getting themselves under 80 per cent LVR now find themselves back above it. So we're seeing LMI come into play with more clients than before."

Rushton says the question of whether switching makes sense comes down to what the borrower's circumstances are.

"It's not always about price. Some people might start out with a loan that has a lot of bells and whistles with it -- maybe it has a line of credit with it -- but they find that they're not using the line of credit, they're really just paying down their debt in a normal manner.

"In that instance, they can switch to a basic loan because even the basic loans in the market these days have a relatively rich level of functionality compared [with] 10 years ago. Back then you couldn't redraw, you couldn't make extra payments. In the basic loans these days you can do all of those things."

How the borrower is going to use the loan plays an important role, he says.

"If they are moving to a loan with offset facility, and they take advantage of that facility, there's no question that they're going to save money over the term of the loan. If they move to an offset facility and don't use it, it's probably going to be much of a muchness."

Not all refinancings make people better off, Smith says. One of the key things that people have to look at is ongoing fees. "Ongoing fees behave like an interest rate," Smith says.




"The establishment fee is a one-time cost, so provided the rate difference is good enough, you can afford that. But a lot of the low-rate discount products that the major banks offer come as a package: there might get a credit card attached, there might be some discounts on some of the other products, for example transaction accounts, and for that package you might pay an annual fee of \$300 to \$500.



"That acts like an interest rate, so when you're calculating the interest saved, you've also got to take into account the additional cost of that package fee."

Cam Clemens, general manager of home loans at online comparison site and loan brokerage iSelect, says borrowers should take into account the fact some of the savings from mortgage refinancing can take years to materialise.

"For instance, one of our people last week was working through comparisons with a client that indicated the client could save more than \$1000 a month in outgoings, or the equivalent of 15 years on the client's loan. But there was \$5000 in switching costs, so the customer didn't want to go ahead.

"However, when it was explained to him that he could save \$150,000 over the life of the loan by doing the refinancing, all of a sudden the \$5000 switching cost wasn't so important to the customer."

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