

IS REFINANCING AN OPTION?

Reasons to refinance are many and varied such as: Getting a lower rate; Choosing a more secure deal; Making home improvements; Finding a flexible mortgage; Consolidating debt; Buying a rental; Helping the kids onto the property ladder; Raising some capital; Getting a better service; Becoming a mainstream borrower.

While refinancing could be the answer, you may well be able to re-jig what you already have.

Better the devil.....

To work out whether or not you should refinance or change mortgages, you should look at the costs involved. Are there any break fees from your present mortgage? Will a fresh valuation be required? How much will my solicitor charge me to discharge one mortgage and take up another? Do I have to change my bank accounts? Are there any fees in taking up a new mortgage?

Banks will often offer incentives for people to change over, such as legal contributions to fees and no or low Lenders Mortgage Insurances. These offerings are also available through a registered New Zealand Mortgage Brokers Association (NZMBA) broker. Additionally they may be able to source quick, efficient and cheap legal processes so that transferring lenders may not cost you any legal expenses.

Always work out (with the aid of an independent NZMBA broker) how much it will cost you to move – and how much a new deal will save you over the long term. You may find it is cheaper to stick with your existing deal and your current lender.

OK, but I have a 2 year fixed term but 3 and 5 years are cheaper

The cheapest interest rate may not be the best for you. If you want certainty over a long period, then 3 to 5 years may be appropriate. Interest rates are at an extremely high point in relation to historical trends. They won't stay there forever. Remember when they were all below 7%. Most current recommendations are to fix for 2 years, in the expectation that in 2 years rates will have reduced considerably. (Note we don't expect decreases any time soon unless there is a depression). If this is the case you could feel pretty stupid stranded on a high 3, or worse 5 year rate, with substantial penalties to be paid if you want to break out. The message is 'be careful about the rates you choose. To some extent, it is a punt, as like the weather forecast, economic forecasts are difficult to get right on the button.'

Can your own lender offer a better package?

This may well be the case. When you first took out your loan, your situation could well have been different to now. Talk to your Broker about re-jigging your finances to get the best package. Check on such things as bank fees, transaction fees and interest rate discounts.

I have a mortgage and too much H/P

‘When we took out the H/P it all seemed OK. But then mortgage rates went up and now we struggle’. This can often be the reason people need to refinance, to take advantage of the lower mortgage rates in comparison to H/P interest rates and charges. A good dose of budgeting is generally required in these circumstances, looking at your future goals and what you are really trying to achieve. This is a time you do need to sit down with a professional and ‘put it right’. You will get an overall reduction in payments by combining your H/P etc with the mortgage. However, beware. H/P is short-term debt usually for articles that have a short-term life. A mortgage is a long term debt for an article that has a long life (leaky homes excepted). If you refinance short term debt, keep it on a relatively short term, if possible. After all you don’t want to be paying for your car in 20 years time after it has long expired.

Structuring Debt correctly is important

Speak to a NZMBA unbiased mortgage broker (we are one) who can examine your situation, give you comparisons, talk about the service record of various lenders, offer budgeting or planning advice (if wanted) and show you a debt structure that will achieve a best possible outcome for you. They will also arrange the whole process for you. In this way your shopping around is done all at one point.

Changing mortgages or refinancing can be cheap, easy and hassle-free as long as you are doing it for the right reasons and understand what you had before as against what you are going to get.

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