



Is It Time To Re-finance?

In a recent survey, surprisingly only 46.5% of borrowers knew their current home loan interest rate — down from 60% in 2018 and 71% in 2016¹.

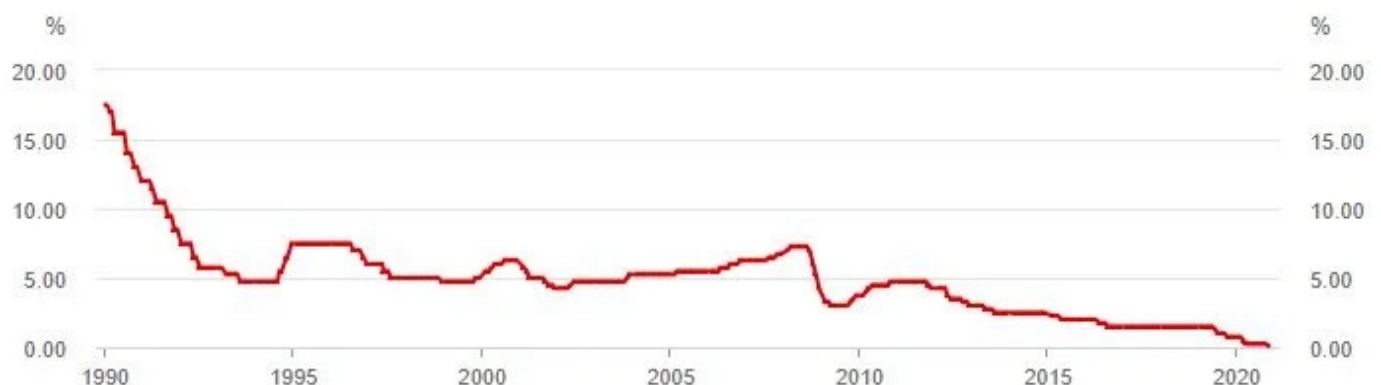
Why the continuing decline? Is it because when interest rates are low there is less concern? The real question is: if you are unaware of your existing interest rate, how do you determine if a re-finance is timely or if you are paying too much for your mortgage?

On average Australians are re-financing their loans every 4 to 5 years².

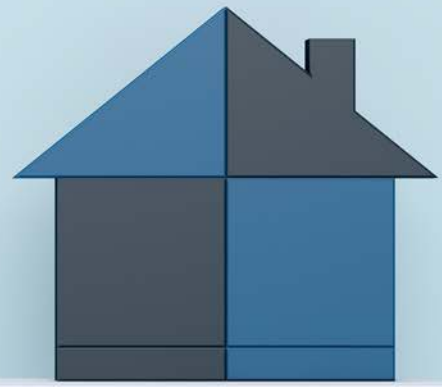
Are we just waiting for a reasonable period of time before considering to re-finance or is there a more scientific way of determining when we choose to re-finance?

A large determining factor in re-financing is obtaining the interest rate that will deliver potential savings.

Graph of the Cash Rate Target



Source: RBA



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In the 1990s, interest rates were in the teens and it was not uncommon for interest rate movements to be 100 basis points (bps) which is 1%. However since the early 2000s interest rates have generally not moved by more than 25 bps following a Reserve Bank of Australia announcement and significant movements could be far in between.

Therefore, in the last 20 years it was a reasonable proposition to wait every 4 years or so to re-finance.

Additionally, during these years there were also a few periods when official interest rates fell by more than 1.5% in an 18 month period (in 2009 and 2013).

So when is it worth refinancing?

Whilst it is not the only determining factor, when interest rates move significantly it could be the ideal opportunity to re-finance.

Why?

Taking for instance, a reduction in 1.5% may only seem like a small percentage it could have a significant impact on your repayments or loan terms. On a \$500,000 loan this could equate to a saving of approximately \$375³ each month, or if applied to additional repayments result in reducing your loan term by 37 months.

Recent interest rate movements

Since June 2019, official interest rates decreased by 1.4%, being the third most significant shift in interest rates over an 18 month period since the early 2000s.

Therefore, if you have not reviewed your loan since mid 2019 (being a period less than 4 years), it is likely that there will be some savings opportunities. It may be worthwhile to explore these potential savings.

Unsure if you're in a position to re-finance your home loan? Download our article 'Are You In A Position To Refinance?' to decide if it's in your best interests to re-finance.

As a general rule, we suggest that you check your loan interest rate annually to determine if there are benefits in re-financing. It is also advisable that you only refinance for the remaining

term of your existing loan because you may find yourself in a counter-productive situation. Although a review may not necessarily result in a re-finance, it will at least give you a sound understanding of your loan situation. If you are unsure, please contact the office and we will be able to assist in determining the merits of a re-finance.

Sources

1 <https://www.savings.com.au/home-loans/half-of-aussie-borrowers-don-t-know-their-home-loan-interest-rate>

2 <https://www.mortgageandfinancehelp.com.au/re-financing/when-would-i-refinance-my-mortgage/>

3 Calculated on a remaining loan term of 20 years and a starting interest rate of 3.75%.

Contact us for a copy of
'Are You In A Position To
Refinance?'

