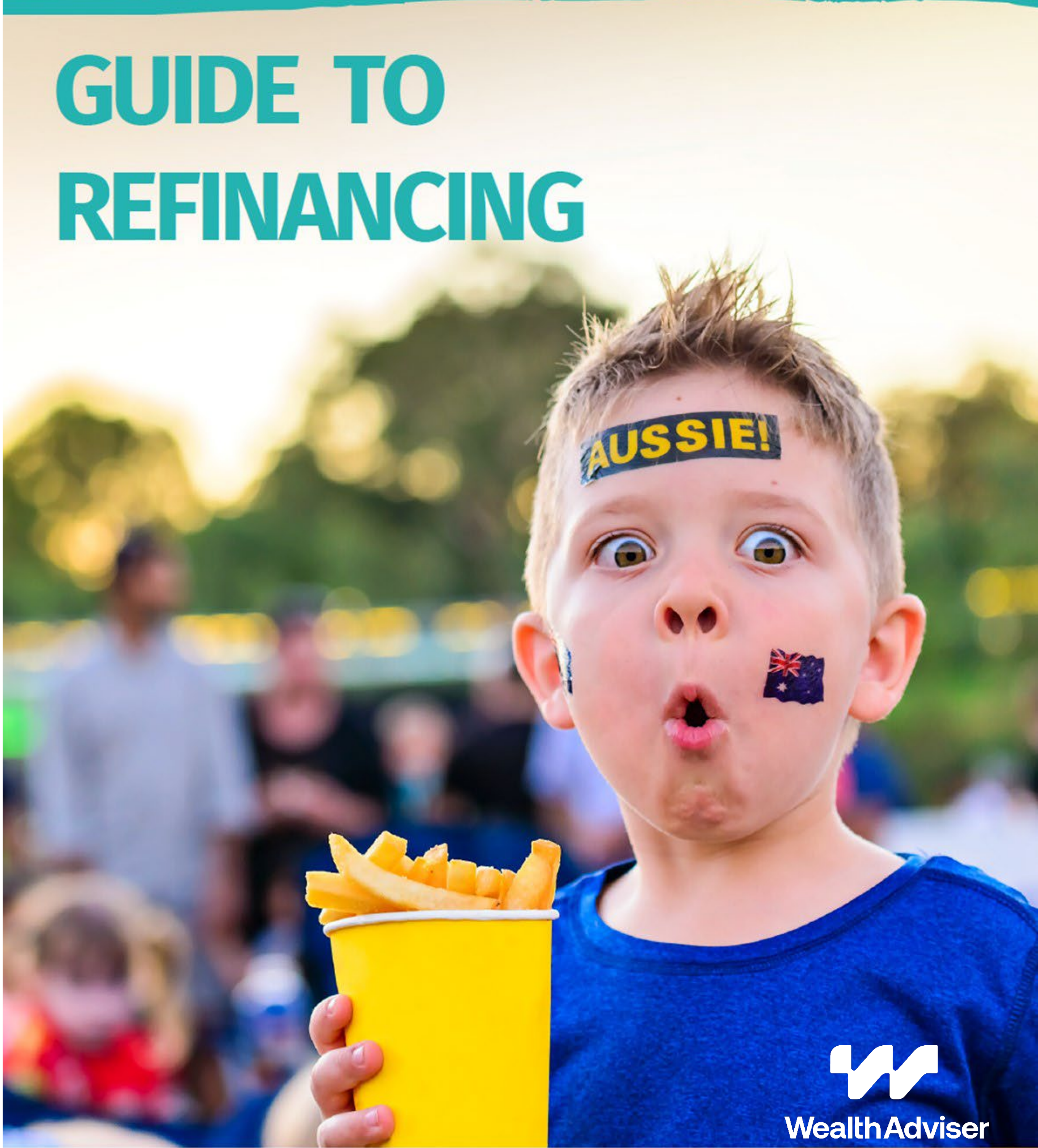
GUIDE TO REFINANCING



WealthAdviser

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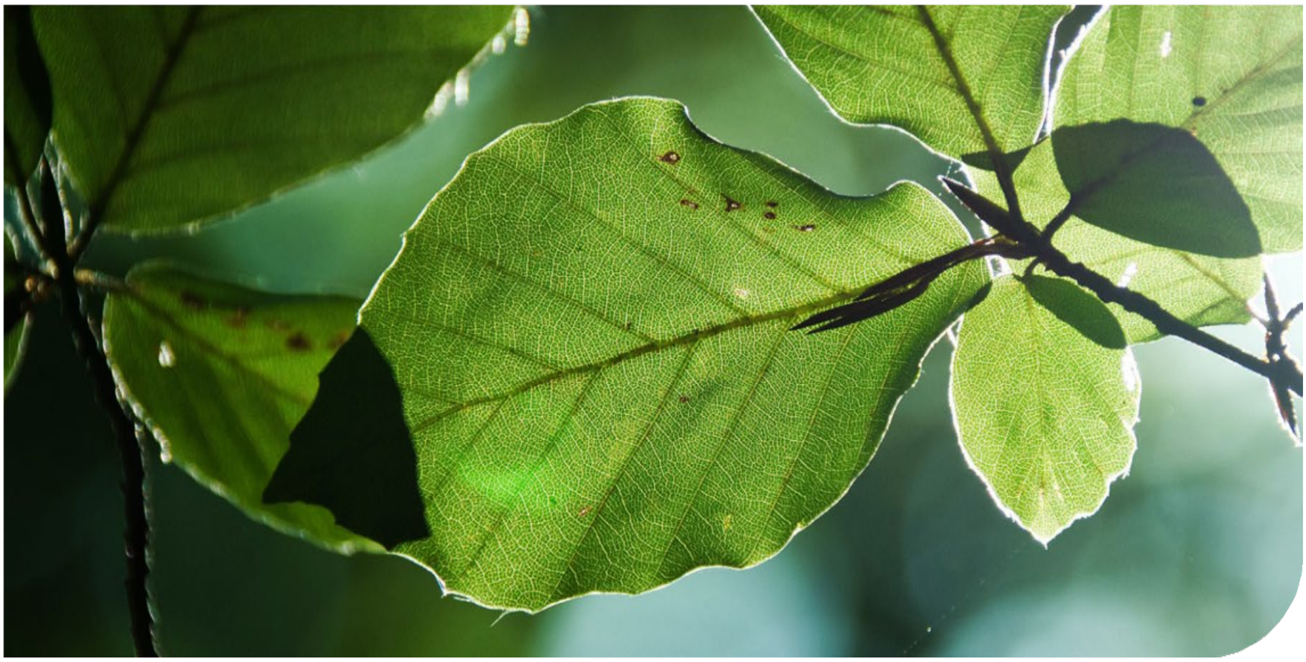

Before you get started

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- Wealth Today (AFSL 340289)
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Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

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Introduction

It should come as no surprise that if your mortgage is your single biggest expenditure, then cutting the cost of your mortgage is likely to be your single biggest money saver.

There are a number of reasons why people choose to refinance. The main one is easy: saving money.

Refinancing means moving your mortgage from one lender to another, in order to reduce the cost of finance over time. It can also mean staying with your existing lender but changing the terms of your existing loan.

Traditional lending/financing sources have changed in recent times, therefore more and more Australians are shopping around for the most suitable lender/financial structure not just before choosing a lender, but also throughout the life of their loan.

There are many reasons why refinancing could make sense for you -but the main one is simple: to save money.

How refinancing can save you money

For most people, their mortgage is their biggest financial commitment. It follows that streamlining this largest debt can produce the largest savings.

If you're the kind of person who shops around to get the cheapest television, then you're missing a big opportunity by not following the same principle to save on your mortgage.

To give you some idea of the possible savings, imagine you had a mortgage for $500,000 and were currently paying an interest rate of 6% per annum. If you were to refinance this loan to an interest rate of 5% p.a., you would save $5,000 in interest repayments each year.

Over the life of a 30-year loan term, the savings could be enormous. And, you may not even have to move your mortgage to another lender to get a better deal. Before you go anywhere, ask your current lender for a better offer.

If you do need to move, remember that, although refinancing can save you money, it's not something to be done in haste. You may have to pay exit fees to your current lender, as well as fees to establish a loan with a new lender.

By using a reputable mortgage broker to advise you, you will be able to work out whether or not it's worth moving lenders.

Other reasons to refinance

Not only could refinancing save you money, it can also be beneficial by finding a mortgage/ financing structure more suitable to your current and future needs.

- You need extra cash and want to take advantage of the fact that your house has gone up in value -say you borrowed $500,000 to buy a house for $550,000. If that house is now worth $750,000, then if you were to refinance your mortgage, that $250,000 growth is like extra cash in your pocket. Your Loan to Value (LVR) ratio has now decreased– which means the ratio of what you own versus what you owe has improved.
- You want to make extra repayments but your home loan won't allow it -if you've had a pay rise or inherited some money, for example, it may be prudent to use this money to reduce your mortgage. Switching to a loan which allows you to extra repayments without a penalty could prove beneficial in the long run.
- You need to be able to miss a payment -maybe you've decided on a career change or overseas travel. Whatever the reason, there are mortgages which offer the flexibility you to take repayment 'holidays'.
- Your financial situation has changed since you first took out your loan and you are struggling with the repayments -extending the length of your mortgage, and thereby reducing repayments, is one way to

take the pressure off. Keep in mind, however, that overall your loan will cost more.

- You want to consolidate your debts - adding outstanding debts to your home loan can mean you will enjoy a lower interest rate on those debts, as home loan interest rates are generally lower than on personal loans, car loans and credit card debt. The real cost of borrowing is calculated based on both the interest rate charged and the length (term) of the loan. If your other debts are absorbed by your home loan and you don't pay them off as quickly as you would have otherwise, you will end up paying more overall. Another thing to consider is that you are securing this additional debt against your home. If, at some point in the future, you are unable to make your repayments, your house is at risk.
- You want to add other borrowings to your mort- gage -adding non-housing debts to a mortgage, whether it's for a new kitchen, a holiday or consolidating existing borrowing, needs careful consideration. It can be a good move in many situations; for example, if your loan permits you to make extra repayments, you can benefit from a lower interest rate –but only if you do pay off the extra debts rather than have them absorbed into the mortgage for the entire term of the loan.

When shouldn't I refinance?

It's worth pointing out that refinancing is not for everyone. If you're on an exceptionally good deal, the costs may not make it worthwhile.

Likewise, if you're locked into a bad deal with steep penalties for leaving early, you also probably won't benefit from refinancing.

At the very least, speak to your lender or mortgage broker, and in the meantime do your homework so you're ready to move as soon as you can. The last group who probably won't benefit from refinancing are those with a very small mortgage –simply because the amount of money you will save is very unlikely to outweigh the cost of switching

What type of loan do I want?

Whatever flexibility you want/need in a mortgage, chances are it's out there. But remember, these features don't come for free. You can expect to pay for extra features with slightly higher loan account fees or interest rate; therefore, it is wise to choose these extras only you will actually use them.

Loans that require regular periodic payments of principal and interest over a loan term:

Loan type	Features	Advantages and drawbacks
Basic Variable Rate Loan	The interest rate rises and falls with market changes.	Generally inflexible, but often the least expensive type of loan if you don't plan on making adjustments to the loan. There might be penalties for early repayment.
Standard Variable Rate Loan	As above, but with extra features and flexibility.	Usually slightly costlier than the 'basic' loan, but might allow you to make more frequent repayments to save interest. You may be able to pay out your loan early without penalty, or use an 'offset' account (see below) to reduce interest. May also allow limited redraws. (see below) Standard variable rate loans are generally a couple of percentage points or so higher than base. As the Reserve Bank moves its rate up and down so lenders move their standard variable rates. But beware, lenders aren't required to pass on the full move, so even if the Reserve Bank cuts rates by 0.5%, your lender might only change its rate by say 0.35%.
Fixed rate loan	The interest rate is fixed by the contract and cannot change, regardless of market fluctuations. The interest rate may be fixed for a set period, most commonly 3 or 5 years, after which you can choose to renegotiate another fixed rate term or revert to a variable rate for the remaining period of your loan term.	Offers security when interest rates are rising and gives you the ability to budget accurately as your repayments don't change in the fixed rate term. Not as flexible as a variable rate loan as your ability to make extra or lump sum repayments is limited. You can incur large fees for extra repayments or breaking a fixed term loan.
Split loans: Combination of fixed and variable loan	Interest on the fixed interest portion is fixed for a set period, typically up to five years. Some loans revert to standard variable rate automatically at the end of that term. Others leave scope for re-negotiation.	Offers you the flexibility of a variable rate loan along with the security of a fixed rate loan. Can cost more in account and establishment fees as you have two loan accounts instead of one.
"Honeymoon" loans	These loans offer low 'introductory' interest rates for a short period, typically 1 to 2 years, before reverting to higher standard variable interest rate.	Can help when you are coping with the initial costs of purchasing and moving. Be careful to budget for increased repayments. Many buyers have lost their homes because they made the mistake of budgeting based on lower initial repayments, and could not manage the higher repayments.

Other loan types:

Loan type	Features	Advantages and drawbacks
Interest only loans	Usually short term, up to 5 years. Interest may be fixed or variable. You pay regular periodic payments to cover the interest, but you don't have to repay the principal until the interest only period expires.	Usually considerably more expensive overall, because reducing the principal reduces the interest cost. Used frequently for investment properties as the owners select the minimum repayment possible and "buy time" for the investment property to increase in value. Helps when short-term cash flow is tight. You can secure a property without agreeing to large monthly payments. And remember that if you can't pay it on the due date, the lender might not be obliged to extend or renew your loan agreement.
Bridging loans	Short-term loans, often used if you want to buy a new home, but the sale of your current home hasn't completed, or you have other assets you need to sell to fund your purchase.	Helpful short-term, especially if you fall in love with that dream home and want to secure it. These loans are generally more expensive, and if you are unable to sell your existing asset for the expected price or within a reasonable time, you could end up in serious trouble. Plan carefully!
Vendor finance	Loans, or deferred payment agreements offered by the seller of the property. Usually short-term, or for only a portion of the price. Often offered by vendors who are struggling to sell their property at the asking price, or for properties that banks are reluctant to finance (e.g. tiny studio apartments, or farms).	Can be very attractive if the terms are right, but make sure you understand why the vendor has resorted to this strategy to close a sale, and consider potential risks carefully.
Line of Credit	A Line of Credit is like a giant credit card facility secured against your property. The lender agrees to you drawing loan funds as needed, up to an agreed limit. The interest is charged to the account regularly. You can add to the balance of the account and spend money from it, provided you don't exceed the agreed limit. Depending on the terms, you may be required to pay a minimum amount each month or have the interest expense capitalised (using available funds to cover the interest repayments).	Often comes with a cheque book and credit or debit card, for convenience. Can save a lot of interest by allowing you to pay all of your income into the account (thus reducing the balance considerably), then pay your bills from it as they fall due. It can also put cash at your disposal for unplanned large purchases, without you incurring interest costs on any unused funds. Be aware that if the lender doesn't renew the agreement at the end of a term, you may have to refinance in a hurry! These loans are great for good money managers and a disaster for those who can't budget. Be honest with yourself when entering this type of agreement!

Cost of refinancing

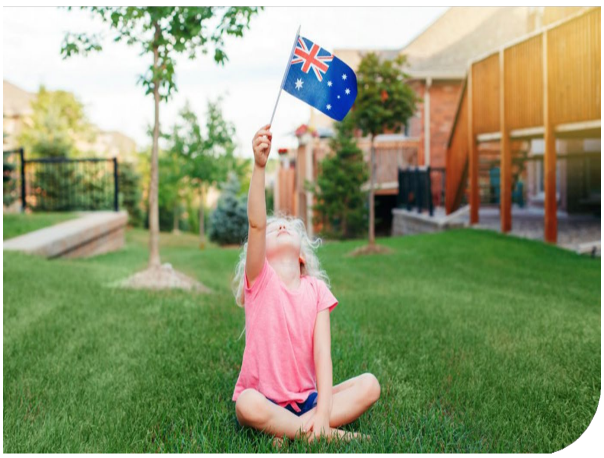
Although refinancing can save you a lot of money, there are costs involved. Exit fees and early repayment fees normally apply and vary from lender to lender. Break fees apply on fixed rate loans and are calculated using various methods –your lender will be able to give you the cost of your loan's break fees. Keep in mind they change from day to day, and will change as your fixed term duration changes.

Is it worth it?

It's important to make sure you'll save more than you'll spend on fees, or there's no point in switching lenders or refinancing your loan facility. The biggest pitfall to avoid is: not knowing exactly what your costs will be if you refinance. A mortgage broker can be invaluable not only for shopping around for the most competitive deals, but also for helping you understand the real costs of refinancing and the right mortgage/financial structure for you.

Pitfalls of refinancing

By losing sight of your purpose for refinancing, you may be enticed into making the wrong decision. There is no single issue that should sway your decision making when you are considering refinancing. It is critical to consider the whole package; how it will affect your short and long terms goals, and if you will ultimately gain financially.



Take the next step

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We now invite you to take the next step and meet with an adviser to discuss what it was you were hoping to achieve when you downloaded this handbook and to establish if we can help you achieve your goals and objectives.

Next you will find details on how to book an appointment with an adviser.

We look forward to meeting you soon.

Appointment booking request form

About the Adviser

Our services

Contact details

Please complete the Appointment Booking Request below and scan and email to:

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Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Preferred appointment day and time

Day ______________________________

Date ______________________________

Time ______________ am/pm ______________

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

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Your Details

Title ______________________________

First name ______________________________

Last name ______________________________

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Reader Notes

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Wealth Adviser

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