# Domain

# Staying ahead of the refinancing game

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**More borrowers are restructuring loans but shifting lenders can be a costly move.**

Most of us are undaunted by the prospect of refinancing our debt obligations these days.

According to research by Fujitsu Consulting, many mortgaged property owners in Australia now apply for an internal refinance - where you change mortgage products but stick with the same lender - once every 31⁄2 years.

Those who apply for an external refinance - where you change all your loan arrangements, including the lender - do so on average once every 6.2 years. This is a seismic change from the home-buyer behaviour seen in the 1960s and ’70s.

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Back then, most people bought a house when they were in their 20s, sat tight for two or three decades and built up their net wealth by paying off the mortgage.

A chartered accountant and housing investment specialist, Sue Prestney, says people today are far more prepared to move house than previous generations were.

‘‘It used to be that once you had paid off your mortgage, you were set for life,’’ she says. ‘‘These days, people just keep upgrading and increasing their mortgage.’’

When you refinance, you replace an existing debt with a new debt obligation under different terms. It’s possible to do a partial refinance, under which you keep your original loan but hive off part of it to a new loan to increase flexibility or reduce risk.

Investors with more than one property can also negotiate a partial refinance using a mix of lenders and a combination of internal and external loans.

The chief executive of theMortgage and Finance Association of Australia, Phil Naylor, says: ‘‘The most common reason for refinancing at the moment is renovation. Consolidation of debt is another.’’

If you’re refinancing to consolidate other debts into one loan, to renovate or free up cash and reduce your monthly repayment, your new deal will result in a longer loan term. That means you’ll be paying out a lot more money over time, so it’s vital to work out what you want to achieve and to be aware of any extra costs and penalties.

You also need to compare apples with apples when it comes to the products offered by different lenders so you don’t end up being short-changed or slugged with costs in excess of market norms.

Mr Naylor says a borrower’s circumstances never remain the same. ‘‘If you take out a loan today, your circumstances in five years’ time will be quite different and a different sort of product may be more appropriate for you,’’ he says.

‘‘Often the refinancier, or a mortgage broker, will recommend you don’t go to another lender. It may be that they can negotiate a different arrangement with your existing lender based on their knowledge of what’s on offer in the industry.’’

It costs money to refinance to a new lender. While many banks have axed mortgage exit fees, you still have to pay loan-discharge costs and government charges to move from one lender to another.

Ms Prestney, principal of accounting firm MGI Melbourne, stresses that if you are under financial pressure, your existing bank is highly likely to allow you to change the terms of a loan.

‘‘It is always worth talking to your current bank to tell them what you are doing before you rush off and start moving to another lender.’’

Investors who refinance need to maintain a clear accounting link between the initial borrowings they transacted when they bought their investment property and the refinanced amount, so they can offset interest paid on the loan against their taxes. This is best done by keeping loans separate.

Don’t fall into the trap of including a home and investment property in the one general mortgage, Ms Prestney says, or the tax office may disallow your interest claim.