

# The Essential Guide to Successful Refinancing

The 4 industry secrets vital  
to refinance and save



## R.E.F.I Reason-Explore-Formalise-Implement

Being an award winning financial services business requires a lot of dedication, knowledge and level of service beyond expectation.

At IQ Capital Group we understand this because we are a multi award winning organisation, and we apply these values across our various departments, especially IQ Finance.

At IQ Finance we understand the myriad of loan products available and the highly competitive backdrop that exists between the major banks and non-banks alike for your business. This can be very confusing, and consequently leads to a constantly evolving refinancing landscape as different lenders try to entice customers across to them.

Refinancing therefore is a big part of our business at IQ Capital, an area that evolves almost daily as the lending industry competes for your business with refinance offers of introductory rates, special offers or even prize draws. At IQ Finance we look past the fluff and cut through to the facts that matter, and what refinancing will do for you, our client. This is just one of the reasons IQ Finance has been awarded broker of the year consecutively for the past 3 years.

So, when considering refinancing IQ Finance has introduced the **R.E.F.I approach** to help you understand and begin the journey of refinancing.

### Reason

Why are you considering refinancing your current home loan...? Whether you realise it or not understanding why you are refinancing can have a significant bearing on the type of mortgage on which you ultimately decide and with what type of lending institution you use.

For instance, if you are refinancing simply to consolidate debt and payout some credit card bills, then a home loan product, with a competitive interest rate, or even an introductory rate, may be sufficient. Once you have paid out the credit cards or consumer debt during the introductory period, the applicable interest rate the loan reverts to will be offset by the savings in additional credit card interest costs and, as long as you change your spending behaviour and don't increase debts with further credit card spending, you can continue paying off your debts with a single home loan payment following refinancing.

Similarly, you may just be looking to reduce your monthly home loan repayments for as long as you can. In this instance a simple home loan product with a long term fixed rate may be appropriate.

If however your reasons for refinancing are more complex, part of an investment and retirement planning strategy using the equity established in your existing home, then a more structured and technical home loan product may be considered to take into account interest rate, both fixed and variable options, redraw and repayment options, an offset facility and any special conditions of lending imposed by the bank that may affect the use or limit the funds available from the refinance. In this situation you would need to be satisfied the lending institution understands the refinance is for the purpose of investing, if the investment is in property that it is in an area acceptable to the bank, with a competitive loan to value ratio and repayment options offering interest only, or even consider two banks in this situation that are individually suited to your intended use of funds.

Whatever your reason for refinancing, once you have established why you are indeed refinancing you can then begin to explore your options further.

## Explore

Now, knowing what you are looking to achieve from your refinance, you can begin to explore what options are available to you.

Simply consolidating debt isn't always that simple, whilst the product itself may only need to fulfil one simple outcome, lending institutions will apply a servicing calculation taking into account your income, current liabilities and obligations, as well as a post borrowing profile, that is credit cards or consumer debt that will remain active or need cancelling etc., in order to determine your maximum borrowing capacity. You will then need to decide whether this actually suits your needs and in fact includes the debts you were looking to consolidate, ultimately realising the desired result.

Likewise, if the refinance is for a more complex outcome like a release of equity from your home and further debt raised, the lending institutions still have the same basic criteria applied, with additional requirements based on the ultimate use of funds and debt profile.

Either way, to begin exploring what is available and suitable you may well ask what your existing bank is prepared to do for you, and whilst you may achieve something as this question alone will alert them to your disposition toward your current home loan, substantially better deals may still be available to you. Remember, you are already a customer of theirs, so they may not be as keen to keep your business as a competitor still out there trying to win your business. They are also only ever going to discuss and promote their own products with you. However, establishing your current banks "best offer" is a good foundation for comparison.

A search of comparison rates online through various web sites should then demonstrate who and what else is available, and don't be surprised with the disparity between products of one percent or more in interest rates, and in excess of a hundred mortgage products available.

Now better educated, or possibly confused, you may well consider talking to a reputable mortgage broker.

Remember, mortgage brokers are the professionals of the industry and at the forefront of ever changing product offerings. Unlike an individual bank, they have access to a full panel of potential lenders, with knowledge and ability to directly compare competitor products and offerings. Brokers are inundated daily and weekly with emails and alerts to new loan products and special offers from lenders, as well as industry groups and BDM's promoting the benefits of their products. A mortgage broker can analyse your particular circumstances, establish what you are trying to achieve, then "short list" preferred lenders and, with access available to them as registered professionals, run servicing calculators or even discuss with the banks directly your credit scenario to determine where you are best placed to apply for your new loan.

Furthermore, the financial services industry in Australia is one of the most regulated, scrupulous industries out there, and following the GFC and numerous industry reviews and subsequent recommendations and amendments, a licensed and registered mortgage broker is highly professional and determined to meet your requirements.

## Formalise

Now that you have exhaustively researched and, whether online, directly yourself with multiple visits to various banks, or with a mortgage broker, have most likely now decided on where you wish to apply for your refinance loan and reached probably the most critical point of the process.

Detail and timing is paramount.

Whether refinancing to consolidate some debts or moving forward in your life with a new plan toward savings and retirement, unsuccessfully lodged applications or a lengthy, inefficient process will quickly undermine and negate the benefits and outcomes sought when you initially undertook the process.

Your employment status, whether it be employed or self-employed, will determine the documents and process when applying for your refinance loan.

A general guide however to the information that will be required is;

### TWO FORMS OF PERSONAL ID FOR EACH APPLICANT

- Drivers licence
- Passport
- Birth Certificate

### PAYG INCOME CONFIRMATION

- Pay slips x 2 – no older than 30 days, computer generated showing company name and ABN, period paid and Year to Date, gross and net incomes.
- Last year's group certificate
- ATO tax assessment notices
- Letter of employment, stating position held, status of position, salary annual or monthly, probation period or not, date commenced employment. This should be on Company Letterhead with ABN.

### SELF EMPLOYED

- Last two years tax returns submitted to ATO, Company and/or Personal tax returns
- ATO Tax assessment Notices
- Sometimes supporting documentation or letter of verification from an accountant

### INVESTMENT PROPERTY INCOME (if any)

- Letter/statement from renting agent or signed Tenancy Agreement verifying the rental for each property

### EVIDENCE OF OWNERSHIP

- Copy of current rates notice for each property – No older than 6 months
- Copy of title deeds

### EVIDENCE OF EXISTING LOANS

- Last 6 months home and investment loan statements showing financial institution name, borrowers name and account details and running balance
- Last 6 months statement of any other debt, personal loans, leases etc.
- Last 3 months credit card statements

### OTHER

- Details of any Business Loans
- Details of any Investment Policies
- Last 3 months bank statements for the bank account your salary/s is paid into (must be up to date)

If you have decided to undertake this process with a mortgage broker you may well already be further advanced at this stage of the process from when you were exploring your options and initially sought their services. Your mortgage broker after analysis will have short listed potential lenders, and further armed with industry knowledge understand what particular documentation and process each lender expects and will have already asked you to collate and provide this documentation to facilitate your submission.

### **Remember, detail and timing!**

A comprehensive and detailed application submitted for refinance that ticks all the boxes with the lending institution you have chosen will be reviewed and processed in a timely manner, resulting in an efficient and positive outcome for you.

Conversely, a poorly submitted application that leads to requests for further supporting documentation, clarification of facts or even a refusal of finance can be very costly in terms of time, outcome and out of pocket expenses with lost fees that may well undo any immediate or short term savings or future goals.

Noteworthy also is the fact that unsuccessful applications for finance, regardless of the reason, will most often be shown as an enquiry on your credit file and consequently have a negative impact on your credit score over the short term and possibly affect how the next application is perceived by another lending institution.

## **Implement**

Implement. Here you are, after what has possibly seemed an arduous and tiresome task you have refinanced, settled and are reaping the “benefits” of a lower interest rate or cash surplus sitting in your bank account... But, make sure it was worth the effort.

If you have successfully refinanced and consolidated debts you must make sure that you do in fact implement your refinance as was initially intended and not lose any gains with poor or ineffective use of your new competitive loan. Applying for new credit cards, reverting to past impulse consumer behaviour, and simply increasing poor non-deductible debt again is easily done and its consequences potentially long lasting.

If you have however refinanced in order to invest in your future wellbeing and welfare ensure you continue to seek appropriate professional advice, making use of your cash surplus efficiently and effectively by implementing these funds as initially intended and part of a long term structured strategy. Surplus cash suddenly sitting in a bank account is far too often seen as a “windfall” and the temptation to impulse purchase or holiday may be irresistible. However, you must remember how hard these funds were to achieve, years of mortgage payments and timing of property cycles that can't always be replicated, or accomplished in a timely manner. These funds must therefore be applied with discipline and professional guidance, and subjected to regular review for tax efficiency and outcomes.

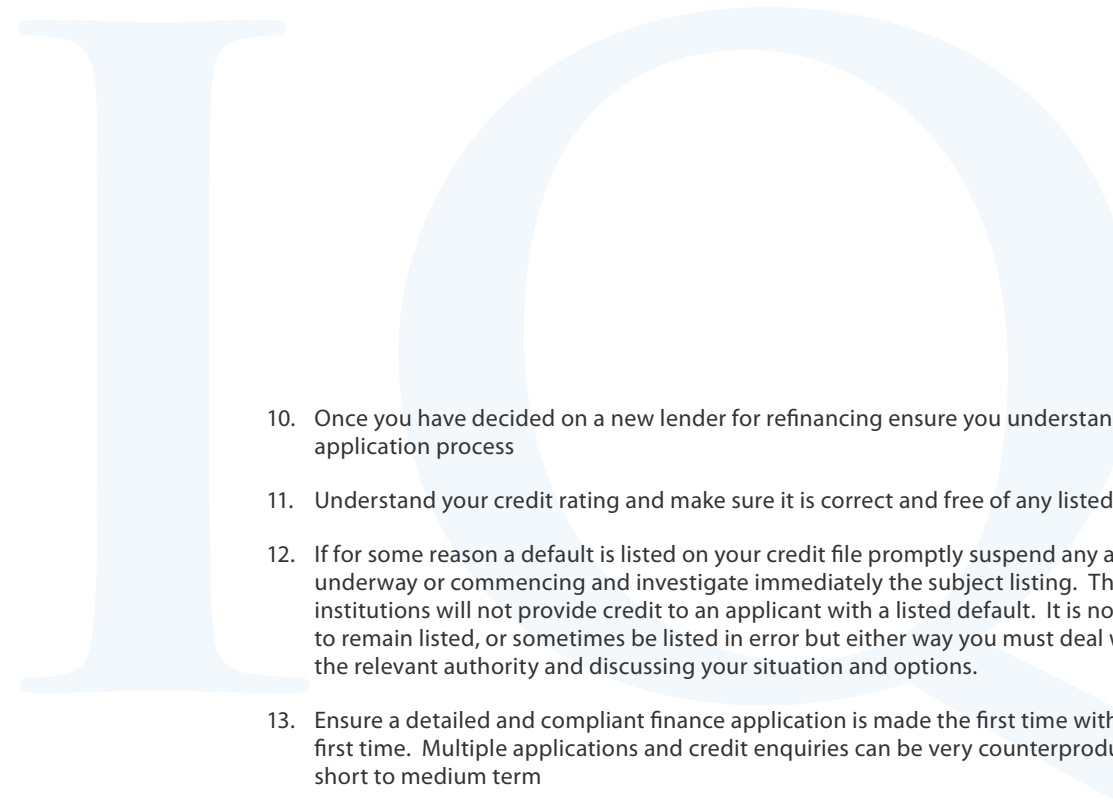
## Summary

In summary the philosophy we have developed at IQ Capital Group with our **R.E.F.I approach** toward refinancing recognises that a competitive interest rate or better mortgage product are only as good as the reason for refinancing in the first place and, as importantly, the implementation of a successful refinance on completion. Any gains or upside can quickly be squandered through poor choice of new lender, an inefficient or poor application process or lack of discipline in implementing the refinance as intended.

In fact we can further elaborate on our approach with our comprehensive 20 point checklist of our

### TOP TIPS & RECOMMENDATIONS FOR REFINANCING

1. Consider refinancing with a clear reason as to why and what you wish to achieve
2. Maintain your financial wellbeing and good credit history by keeping all your loans and bills up to date and paid on time
3. If you have what is referred to in the industry as “poor conduct”, that is bills and loans etc. paid but paid in arrears of their due dates, then understand any potential implications of this with your chosen new lender or better still undertake several months, at least three, of payments and obligations met on time. This will ultimately produce a new finance application with a “good conduct” rating further enhancing your prospects of a successful refinance
4. Explore your refinancing options in detail. A poor choice in new lender may not improve your situation or achieve your goals at all
5. Don’t just accept your banks offer of dropping your rate to keep your business, there may still be substantially better deals available from alternative banks or non bank lenders
6. Don’t feel obliged or convinced to stay with your current bank through misplaced loyalty. Banks are a business and as such have an obligation to be profitable and you are part of their profitability. If they are not prepared to at least match, or better meet your desired outcomes that another organisation can then you must act in your own best interests and refinance
7. Don’t just assume however that a lower interest rate will save you money, consider all fees and charges involved and any introductory periods that will expire
8. Seriously consider the use of a professional mortgage broker. This may well turn out to be the most valuable decision of all when refinancing. Following the GFC there has been a lot of commentary on how mortgage brokers are paid and where they are paid from with many conflicting and varied recommendations as to the best way. This has however possibly further confused many people, the fact is everyone deserves to be paid for their work and with choices of fee based, trail, or a blend of remuneration are nothing but positive and when consideration to the value and long term benefits of having utilised a mortgage broker are taken into account the reasons for using a broker are compelling. A professional broker will be more than willing to discuss all of this with you.
9. Also consider where you are in the life cycle of your current home loan, that is how far advanced into the loan term you are. It is often a neglected fact when considering refinancing the repayment profile of existing and potential new loans, standard variable and interest only facilities in particular for instance have a repayment profile that ensures the bank receives its interest payment first before reducing any of the principle debt, in other words the first decade or more is simply paying interest without reducing any of your debt. Therefore if no consideration is given to the present timing of your current home loan you may well be refinancing and simply embarking on another substantial period of interest payments with no substantive reduction to your debt in the foreseeable future. Again if you are undertaking a refinance with a mortgage broker this will form part of the discussion and consideration toward achieving your desired outcomes

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10. Once you have decided on a new lender for refinancing ensure you understand their credit criteria and application process
  11. Understand your credit rating and make sure it is correct and free of any listed defaults
  12. If for some reason a default is listed on your credit file promptly suspend any application that may be underway or commencing and investigate immediately the subject listing. The fact is most lending institutions will not provide credit to an applicant with a listed default. It is not uncommon for a default to remain listed, or sometimes be listed in error but either way you must deal with this first by contacting the relevant authority and discussing your situation and options.
  13. Ensure a detailed and compliant finance application is made the first time with a successful outcome the first time. Multiple applications and credit enquiries can be very counterproductive and detrimental in the short to medium term
  14. Continually review your credit file. If you have been unsuccessful with a refinance application understand how this may have affected your credit score. You can make as many enquiries on your own file personally without this being officially recorded as an enquiry
  15. Upon successfully refinancing ensure you follow through with the intended use of funds
  16. When consolidating debts make sure all other debts are indeed paid out, implement a budget and be disciplined with your spending behaviour. Simply spending with new credit cards or consumer debt will quickly undo any gains and place you in a worse position
  17. Pre prepare a list of debts and credit cards you wish to pay out. Be realistic, you will need a credit card for everyday living so chose the best card for your needs and retire the rest that have simply been accumulated over the years
  18. As with consumer debt you may wish to get rid of, if you have multiple consumer loans, maybe electronics from one and furniture from another say, and can only pay out one then check each for the applicable interest rates or chose the loan with the longest term to expiry as this may often be the biggest source of savings in terms of interest
  19. If refinancing for the purpose of investment in retirement and welfare, ensure you engage appropriately qualified professionals ongoing and implement the use of your funds effectively. A perceived sudden “windfall” or temptation of surplus funds in your bank account spent on a holiday or impulse purchase will seriously undermine your long term future and goals
  20. If further investment in your future is your goal when refinancing then ensure you are seeking the advice of appropriately qualified professionals and recognise that this will involve multiple disciplines from various advisors, a mortgage broker for instance is qualified to advise and secure the best mortgage but not qualified to further advise on the best use or tax efficiency of additional investment that will then consequently alter your asset and liabilities profile. This should be reviewed by another qualified professional to determine your new risk profile and any subsequent recommendations. So ensure if you are refinancing for this purpose you embark with a clear and defined plan in place, having discussed this with the professional advisors required, and that all are on topic and understand your desired outcomes in order to avoid fragmented and ad-hoc advice that could undermine or disrupt the entire process