Thinking of switching loans?

Don't do it alone...

The current bank war...

If you've been watching the media recently the banks have jumped back into competition with each other by making various offers to consumers to attract business back to them.

Some things we are seeing the big 4 offer are:

- paying your exit penalties (or a portion of them up to a certain amount) if you switch to them from certain competitor lending institutions,
- to waive the first year annual fees on particular products,
- discounting standard variable rates for loans of specified amounts,
- limited time offers to attract urgent business

Remember, with discounts there are always costs hidden somewhere. And if you do switch, there will more than likely be deferred establishment fees built in to your new loan product if you want to leave them later on. So beware.

Switching lenders has now become more complicated than ever and advice on the right move for your individual circumstances is crucial. Please talk to us before you take any action.

We are expecting many calls, which we will be delighted to take, however please read the following for a brief explanation on what deferred establishment fees are and their impact on your loan. Then call us if you'd like to chat about your options.

What is a "Deferred Establishment Fee" (DEF)?

When you take out a mortgage it is fairly well known that fees to establish the loan usually have to be paid. Most borrowers don't like or want to have to pay these fees when the loan is established. To overcome this issue most lenders allow borrowers to delay paying these fees and ONLY pay them if the loan is paid out early (usually before four years from taking out the loan).

Times have changed

When your parents took out a home loan they would generally retain the loan for its full term of 20 to 30 years with the same lender. With market competition, changing interest rates and more informed customers, the average life of a loan has been reduced to around three to five years.

Most of us tend to switch loans every few years to take advantage of lower interest rates or special introductory offers.

Lenders are generally not happy about loan switching as they miss out on interest and the opportunity to recoup the cost of establishing the loan. To mitigate their losses they often write a deferred establishment fee into the loan policy which is activated in the event of a refinance or the early discharge of a loan.

DEF's allows lenders to be more competitive in the market place when attracting borrowers to the product. The problem is, however, that when interest rates soar and the borrower wants to change to another loan to save money, they are then required to pay DEF a before they can exit the mortgage.

When does a DEF apply?

- A DEF applies if your loan is paid out early (including internal refinances) within four years from the date of the first loan drawing.
- Older home loans may well have a DEF that extends beyond four years.
- In some cases these fees may be payable even where the loan is not repaid in full. For example the fee may be triggered if the loan balance drops below a certain percentage of the original approval amount.

But I want to change lenders...

In some cases changing the loan to a different one becomes unproductive because the fees can be quite significant (anywhere from a few thousand dollars or a percentage of the remaining loan). So any savings by switching are often offset by the added cost of switching over to the new lender.

If the loan is relatively new and you have 20 or more years remaining on the term, you may recoup that cost by switching to a loan with lower or fixed interest rates. However, if you switch several times over the next 20 years or so, you are more than likely not going to come out in front.

To switch or not to switch? Just don't do it alone!

If you (or any of your family and friends) have been talking or thinking about switching loans and are not sure about possible exit fees, please call the office for assistance.

Our role as your mortgage specialist is to help you make the best financial decision for your personal situation. We take into consideration things like:

- **how long you are planning on having the loan**
- **your employment status, age and financial position**
- **what job/personal circumstances may be happening in your future**
- **your family situation and potential future financial expenses (known and unforseen)**

Call or email the office for our article on:
'Is switching loans a suitable alternative for me?'