Refinancing

Refinancing is simply replacing a loan you already have with another loan. It can occur with your current lender or you may go to a different lender.

***IMPORTANT**: getting a loan is a big financial decision and you should always take your time to consider your options and shop around.*

Why refinance?

There are many reasons why you may consider refinancing as an option, including to save money on your home loan, to borrow more money, to save money on your other loans, or because you are in financial difficulty. Refinancing can be a great way to save money, so long as you take the actual cost of refinancing into account in your calculations, but there can be many pitfalls. Refinancing because you are in financial difficulty is especially risky and you should always get advice first.

Save with our special mortgage deal!

Some businesses try to convince people who already have a home mortgage to switch to a special mortgage plan, sometimes called a ***debt reduction plan***, or ***mortgage minimisation** plan*, to save money.

There are a number of variations on these plans but they usually involve the borrower refinancing to a line-of-credit home loan, or an offset account, they usually involve the use of a credit card, and they invariably involve significant fees being paid to the person or business selling the plan.

As a general rule these plans will cost you more to set up than you save, involve a higher interest rate than the most basic home loan, and could land you in financial difficulty if you overspend on the credit card. If you want to save money on your home loan, the most reliable way is to pay extra on your existing loan, or refinance to a lower interest rate, not a higher one!

Debt Consolidation and Debt Agreements

Consolidating all your loans into one personal loan can sometimes be useful, especially if you make sure you don't incur more debt again afterwards. However, many people report that it is difficult to find a lender who will consolidate their debts. Some companies who advertise debt consolidation actually sell ***Debt Agreements*** (under Part IX of the Bankruptcy Act). A ***Debt Agreement*** can be expensive and has many of the same consequences as going ***Bankrupt*****.** It is extremely important that you get independent advice before considering a debt agreement.

Refinancing to consolidate debts into your home loan and/or because you are behind in your home loan repayments.

Being in financial difficulty is very stressful. If you are behind on your mortgage repayments, it can be very difficult to negotiate with your lender who may be threatening to take your home. Even if you are managing to make your mortgage repayments, but you are being pressured by other creditors, it can seem like the easiest option is to refinance your home loan and consolidate your debts to get everyone off your back.

Before you refinance take a deep breath and think about the following:
- You are placing your home on the line – if you cannot pay this loan you will lose your house!
- You are cutting off options that may have been available to you such as surrendering your car (for car loans) or negotiating a reduced debt or repayment arrangement with your credit card company.
- Refinancing your credit card debts (for example) might save your skin (at least for now), but it usually won't save you money and it won't stop you running up more debt afterwards (particularly if you are struggling to make higher home loan repayments).
- Refinancing always costs money. If you are in financial difficulty now, you will nearly always be better off financially if you can come to an arrangement with your existing creditors. If you can't negotiate an arrangement yourself, see a financial counsellor.
- Beware of lenders of last resort – see ***Predatory Mortgage Lending***.

Consolidating Credit Card Debt – the truth of the matter

Consolidating credit card debt into your home loan will not necessarily save you money

While home loan interest rates are generally much lower than credit card interest rates, home loans tend to be paid off over a very long period of time, meaning you could still pay more in interest over the life of the loan. You also have to take into account the cost of refinancing. If you are refinancing just to save money, you will often be better off simply increasing the amount you pay on your credit card rather than refinancing. If you are refinancing because you cannot meet your repayments or reduce your debt, get advice!

People who consolidate credit card debt often end up with still more credit card debt

Overseas research has found that borrowers who consolidate credit card debt into their home loans often incur more credit card debt afterwards, completely defeating the purpose of the debt consolidation. So if you must consolidate, cut up all your credit cards you are repaying. Better still, don't consolidate! Just pay off your existing credit card debt without getting further in debt.

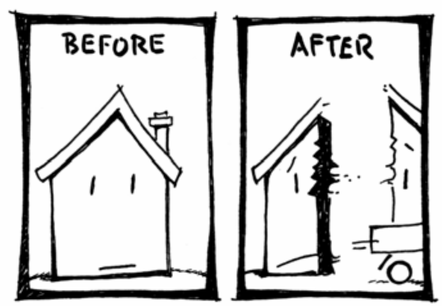
Predatory Mortgage Lending

There are lenders who specialise in desperate borrowers. Those lenders often advertise with slogans like "bad credit-no problem", and "sheriff at the door". You can tell if they are a lender of last resort because the loan term will be very short (1 or 2 years usually), you will pay a large fee to a broker, you will be asked to sign a declaration that the loan is for business or investment purposes when this is not true, and your loan will be significantly higher after refinancing because of all the fees and charges added.

Because your loan will increase significantly on refinance you will probably have difficulty making repayments. This may lead to you losing your home anyway and having much less money left over (if any) after paying out your bigger loan.

So what can you do? Firstly, get advice, the earlier the better! It may be possible to negotiate with your existing lender. Even if your situation is hopeless it may be better for your home to be sold than to refinance and get a much bigger loan just to live in your house for one more year.

Eli and Liz's Story



Eli and Liz had a home mortgage for $170,000. When Eli was made redundant from his job they fell behind with their mortgage repayments. Eli eventually found another job, but the lender said that they were too far behind in their repayments and their house would be taken and sold if they did not pay all the arrears on their home loan within 14 days.

Liz saw an advertisement about loans for people in financial difficulty. Eli and Liz managed to refinance their loan but it cost them over $26,000, including enforcement costs on their old loan. Their new loan also has a much higher interest rate and they are in trouble again because Liz is pregnant and will soon have to leave work. They have put their house on the market but their loan balance is now $205,000 and growing every day with default interest. Liz wishes they had sold the house a year ago, and put the extra $35,000 in their bank account.

Getting help --

FINANCIAL COUNSELLING

Credit and Debt Hotline: information and referral to a financial counsellor who can advise on your options if you are behind with your payments, negotiate with your creditors or refer you to other relevant services: **1800 808 488**

LEGAL ADVICE

Consumer Credit Legal Centre (NSW) Inc. gives free legal advice to people who are experiencing difficulty with consumer loans: **(02) 9212 4111**

Law Access helps callers find information and services to assist with legal problems and questions: **1800 806 913**

OTHER

Financial Ombudsman Service for disputes with your financial institution or lender**: 1300 780 808**

Australian Securities and Investment Commission: 1300 300 630

TRANSLATING AND INTERPRETING SERVICE

You can call this free service and ask for an interpreter to assist you to explain your problem to one of the above services on the telephone: **13 14 50**

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