How to choose a home loan

There are key considerations before you shop around for the lowest rate, writes **Kate McIntyre**

With interest rates ranging as much as 2 per cent across different lenders, a refinance has the potential to save you tens of thousands of dollars off the life of your home loan.

But before you start applying for the lowest rate loan you can find, there are a few things to consider.

WHAT ARE YOUR PLANS?

Mortgage broker Sarah Thomson of Loan Market Geelong says before you start shopping around, it's important to have a good idea of what your plans are over the next couple of years.

If you're refinancing with a view to renovate or build, it's essential to find a lender that will support this, she says.

"If someone goes on maternity leave, does this bank have a good mat leave policy?" she says. "If you wanted to revert to an interest-only loan to ease up some cash, would that bank do it?"

Your plans over the short term may also shape the length of the loan term you decide to refinance into, says First Choice Mortgage Brokers director Tony Bice.

If you're planning to sell the property within a few years and you have 20 years left on your mortgage, it might make sense to revert to another 30-year term when you refinance to have the flexibility of paying the lowest instalment – but certainly not if you are staying put and want to pay off the property quicker.

FEATURES AND PERKS

If you do want to pay down the loan as quickly as possible, mortgage broker Daniel O'Brien from PFS Financial Services says it's a good idea to look for features

like 100 per cent offset accounts and unlimited extra repayments.

But on the other side of the coin, if you already have a loan with all the bells and whistles and you don't make use of them, it may be worth refinancing to a simpler product with a lower interest rate, says Bice.

"It's important to ensure you aren't paying higher interest or package fees to access features that you really aren't benefiting from," he says.

TRUE SAVINGS

Once you have established what your plans are and what you need in a loan, it's important to see what the actual savings would be if you refinanced, says O'Brien. While the interest rate could be lower than your existing one, there could be hidden costs such as discharge fees from your current lender and application or valuation fees from the new one.

His business does a cost analysis to determine exactly what the savings would be for the client.

"This will soon determine whether it's worthwhile and what the actual savings are, net of costs," he says.

"Most mortgage brokers I know do something similar."

He says there is also a mortgage switching calculator on the government's Moneysmart site that shows you how much you could save.