Peter Cooper is a former state bank manager with 30 years in the banking sector. He is now Managing Director of his own company, Cooper Financial Connections.

HOW TO GET THE MOST OUT OF YOUR HOME LOAN

With the cash rate on hold at two-and-a-half percent, households will continue to enjoy cheaper repayments, but the expert advice is to avoid complacency and consider refinancing or even shifting lenders to get the most out of your mortgage.

Story **Jason Oxenbridge**

Profits at Australia's largest banks have swelled to a record $27.4 billion this year. According to a recent report, employee numbers at the big four total 170,200. While skyrocket profit growth is one thing our largest financial institutions have in common, each is unique in the way it carves up the mortgage market.

What most concerns credit advisers like Peter Cooper is not so much the difference between banks when it comes to servicing your home loan, but the fact that most people are unaware of how best to make the banks work for them. There are significant savings to be found – simply by asking the question – 'am I getting the best result from my existing lender'?

"What's most worrying is that people think they have to be loyal to their bank because they feel obliged in some way and this is potentially trapping people to debt levels that really should be negotiated," says Cooper, an adviser with more than 30 years banking experience.

"The difference between getting your dream house sooner or paying off the one you have a lot faster can be as simple as going to the bank next door. People are not always aware that banks have different policies."

Assessment Rate

All financial institutions have an obligation to consider interest rate fluctuations. That is why they use (refer to) servicing rates or plug rates in their considerations. This is usually two percent above the rate you are attempting to borrow to purchase or refinance the property. However this varies by lending institution and also by each product within the same institution.

Living Expenses

Each bank uses a different figure for living expenses and can vary by as much as $200 per month which impacts on borrowing capacity. It depends entirely on the individual banks and what their view of the world is. How much you can borrow depends on which lender and which product you select – a big difference when chasing your dream of home ownership.

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Banks vary in what they consider as important criteria, for example:

1) Margin Lending

- Some banks consider half the debt based on the servicing rate but ignore the income generated by the investments.
- Some banks ignore both the investment income and the debt altogether in their deliberations.

2) Other Lender Debts

- If you have debts with other lending institutions, it can make a mess of your capacity to borrow.
- Some lenders use the existing rate the money is borrowed at from that institution.
- Some banks add the two percent buffer and consider it to be principal and interest payments over 30 years.
- Some banks will use the fixed rate if interest only or principal and interest payments at the other institution.

3) Credit Cards

- Some banks ignore credit card limits if given three-month statements confirming debt is repaid to zero each month.
- Some banks assume the actual limit is fully drawn.
- Banks vary the assessment rate on credit cards from two to three percent of the limit per month.

Investment Property

The banks vary on whether they use 75 or 80 percent of gross rentals in their consideration. The added complexity that comes into play is that some lenders use your gross holiday rent based on historical facts while other lenders ignore the facts and only use what they deem to be a firm permanent weekly rent. In this case some rely on a local agent's letter while others will only use the figure placed on the valuer report.

Income

Every bank has a different view on perceived risk. It's crucial if you have a household where the second income is part-time, temporary, permanent part-time, casual or permanent casual. Banks will use 50 to 100 percent or can simply ignore it altogether.

Other sources of income taken into account include any commission, dividends, car allowance, salary packaging or contracts. All these incomes can be excluded or included depending on the lender.

Mortgage Insurance

Not all banks are charging the same premiums with mortgage insurance. In fact some give you a discount if you are a first home buyer but most don't. To add to the confusion they have different tiers ranging from $300,000 - $500,000 or $300,000 – $600,000 with each attracting a different premium. There could be as much as $6,000 difference, so seek advice and go with the one that works best for you.

Is a Fixed Rate Right for You?

What's missing out there in the debate around the cheapest rates and fees is people. It's about individuals and a needs analysis – helping people to see the whole picture.

There is any number of differences between banks when deciding on fixed rates. Strategically, think about a two to three year plan – it's easier than planning for five years. Breaking a fixed rate can be expensive if circumstances change.

In the Fixed Rate Space, Banks have Different Policies.

Firstly, there is the variation between banks based on how much you are able to pay in addition to minimal repayments on fixed rate loans. For example $15,000 per fixed period versus $15,000 per calendar year.

Secondly, the differences between banks on the cost to lock the rate, to guarantee the rate at settlement. Some banks will charge a set fee, while others will charge a percentage based on loan amount.

Thirdly, some banks will state the rate lock commences upon application for finance, others will be based on unconditional approval, which can take up to four weeks to achieve depending on conditions.

Cooper refers to the mortgage space as a 'minefield' and advises borrowers to seek professional assistance before making what for most of us, is the biggest financial decision we are likely to make in our lifetime.

"You don't need to be with the one bank – you need the right advice, so let's sit down and see what the market is offering. Banks change policy all the time. As an individual, you have different needs at various stages of your life," he says. pm

Top 5 Tips

1. INCREASE REPAYMENTS
Aim to own your property as soon as possible and pay as little interest as you can. Put salary increases, bonuses, Medicare rebates or any spare cash straight on your loan to reduce interest and lessen the time to pay it back.

2.DON'T BE AFRAID TO REFINANCE
Be prepared to go to a lender with a lower interest rate than your current one. It could be the bank next door. It's important to reassess your situation every two to three years and get a handle on what's happening in the market.

3. AVOID INTEREST ONLY
If a change in your financial situation has resulted in you paying interest only on your loan, change back to principal plus interest as soon as circumstances permit. Paying that little bit more makes a big difference.

4. DO YOUR HOMEWORK
Bank fees can chew into your repayments very quickly, so assess your loan regularly and find a lender who isn't charging you the earth in unnecessary charges. This can alter the course of your loan.

5. SEEK ADVICE
Banks often forget that they should be earning the right to keep you as a customer. Sit down with a credit adviser and assess your needs and work out a plan that suits your current situation. It might even be that you stay with your existing bank – but it's worth having the conversation if it means saving you thousands of dollars in repayments.

For more information visit Cooper Financial Connections
www.cooperfinconnect.com.au