

ESTRAFINANCE

Empowering Dreams, Enriching Lives.

REFINANCING HOME LOAN GUIDE

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WHAT IS REFINANCING?

A refinancing loan, a refinance, or a refi, is a type of loan that replaces your current home loan with a new one that has more desirable terms for you. You only borrow the remaining amount of your existing loan at your new bank to take advantage of the better terms.

They may not be popular in the Philippines, but around the world refinancing is used by almost everybody due to many reasons. If their circumstances have changed, or if interest rates have dropped, or if there's a new promo worth taking advantage of – these are all great reasons to refinance.

WHY DO PEOPLE REFINANCE?

There are lots of reasons why people refinance, but essentially, if you no longer feel like your loan is suitable for you, refinancing is a great option to look into.

The most common reason why people choose to refinance is the opportunity to secure a better interest rate. As interest rates change borrowers can potentially save big by moving to a loan provider that offers lower interest rates, lower monthly payments, or a different promo that's more beneficial in another way.

You may also consider refinancing if you wish to consolidate your debts. This financial management strategy is very common if you have several loans and run the risk of losing track of your payments, therefore paying more in the long run from missed payments or late fees. Putting all your various debts into one easy loan makes your finances more manageable. Not every bank in the Philippines does this, but it's a good option to look into.

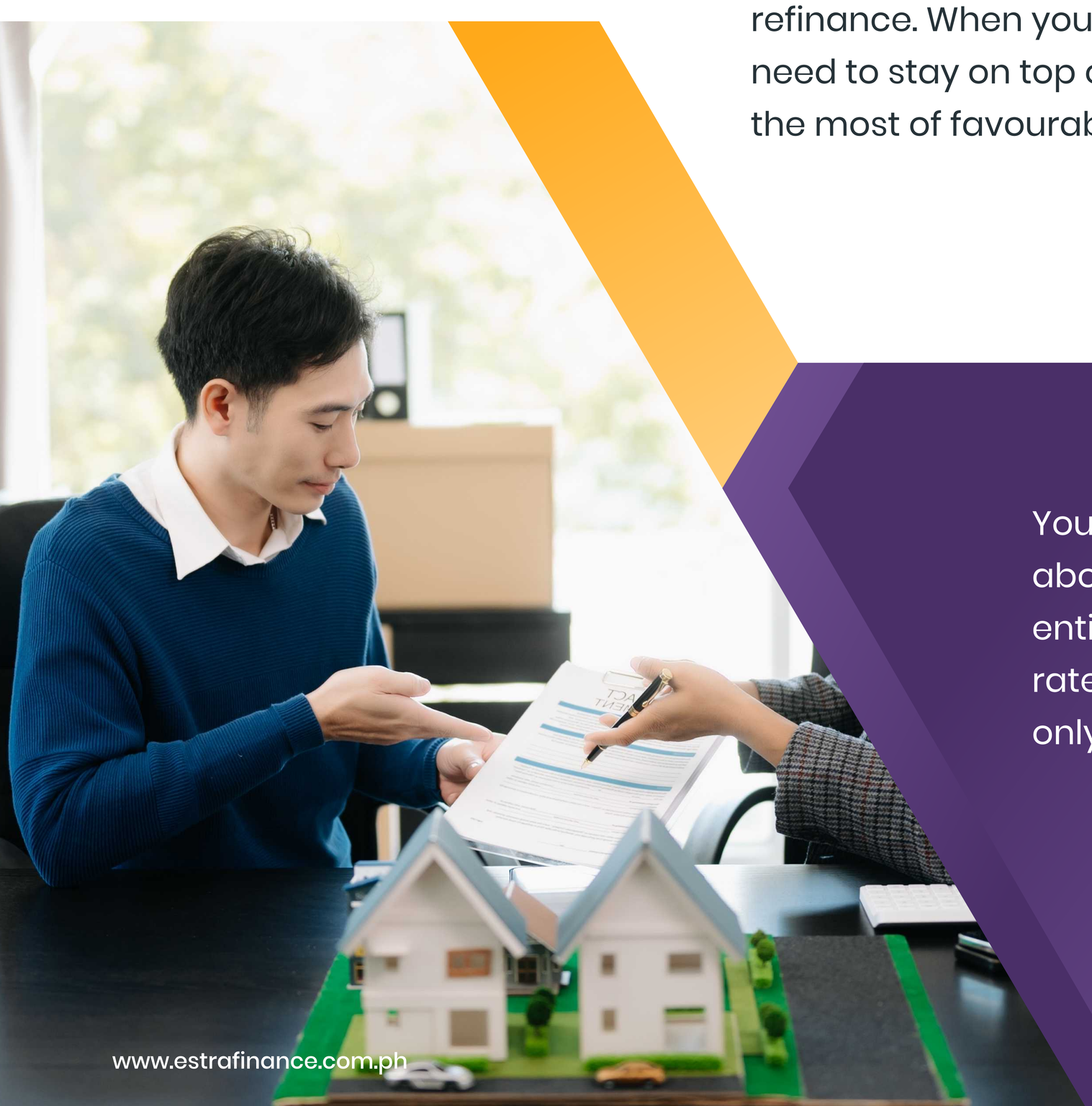
Another reason why you might refinance is if your situation changes. This can be both positive and negative in the way it affects you. Getting married, changing jobs, or receiving an inheritance can uplift your finances and allow you to pay larger monthly amortisations. Likewise, a death in the family, sudden illness or disability, or losing your job can impact you negatively, leaving you with the need to extend your loan term with smaller monthly repayments.

COMMON MYTHS ABOUT REFINANCING

REFINANCING IS A BAD THING

Refinancing is a smart decision usually made to take advantage of lower rates, usually resulting in lower monthly amortizations, which is usually a good thing. However, it's only a good thing if you take into consideration the costs involved with moving, and they are outweighed by the amount you save.

It is always a good thing to keep your options open and be proactive about your loans, even if you decide not to refinance. When your situation changes drastically, you need to stay on top of your finances to ensure you make the most of favourable rates or don't fall into debt.



Your loan provider will never tell you about a better deal unprompted. It is entirely upon yourself to find better rates – though this is a service that only Estra Finance offers for free.



REFINANCING HURTS YOUR CREDIT

This may be true in Western countries where the credit score is far more important than in the Philippines. The reality is the credit score is only one factor taken into consideration when applying for a loan, and will not be the defining factor of a loan approval. Therefore, whilst refinancing technically does affect your credit by lowering your score, it's only very minimal, and it's only temporary. It's not enough to harm your score long-term. Your credit score will rise again!

I CAN ONLY REFINANCE WITH MY CURRENT LENDER / REFINANCING WITH MY CURRENT LENDER IS BETTER

This is not true, and is not always the case. You can choose any lender to refinance with, but sticking with your current lender may be the best option purely because they offer a better deal. Staying with your current lender may be cheaper upfront because you might be able to avoid paying for any application fees, home evaluations, or similar with managerial approval, but these are small short-term costs that should be weighed against long-term savings with another bank.

REFINANCING IS COSTLY

Yes and no. Ultimately, how much you pay to refinance depends on the remaining balance of your loan. Expect to pay anywhere from 3-6% of your loan amount when refinancing as part of the costs, though this is only a rough estimate and may be more or less depending on which bank you're refinancing from, where you're refinancing to, and your banks' willingness to waive any fees. You may also need to open a bank account with a minimum balance or monthly/ annual maintenance fees.

The positive to this is that many banks in the Philippines offer "all in" financing where there are little to no upfront fees.

INTEREST RATES ARE TOO LOW TO GARNER ANY SIGNIFICANT SAVINGS

Sometimes, yes. You need to consider at what stage the cost of refinancing is outweighed by the savings of your new rate. But, you might want to refinance for other reasons – such as extending your loan term for smaller monthly amortizations.

REFINANCING IS DIFFICULT

It can be if you're not adequately prepared. If you have all the required documents gathered ahead of time, you can submit your application quickly.

The majority of refinancing occurs outside of your control – meaning, directly between the banks. This is where the majority of issues arise and where delays most often occur.

GET THE MOST OUT OF REFINANCING YOUR LOAN

If it's been a while since your loan started, think about the following: Has your family grown? Have you switched jobs? Have you bought or sold an investment property?

If your lifestyle or situation has changed since you made your very first repayment on your loan, it's a good idea to take a look at alternative loans just to make sure you've got the best deal for you.

Remember: when it comes to your own finances, you're the expert. But there are a few things to consider before you switch home loans to help you make the right decision.

The greatest reason people refinance is because of the savings they can gather from a new loan. Whether that's a lower home loan interest rate, improved loan features, or lower fees, any of these changes could help you get ahead financially. Some people choose to refinance to consolidate their debts from credit cards, personal loans, or auto loans into a single loan, which can save money. Other things to consider beyond the potential savings are:

1. Decide whether a fixed-rate loan, variable-rate loan, or a combination of the two, will suit your needs best. Think about how interest rates have changed in the recent past, and what is predicted for the future.

2. Compare the costs of any new home loan, not just the headline rates, because all home loans have different amounts of fees. Compare the features too – some are handy, but don't end up paying for features you will not use.

3. If you are thinking of going to a new bank, find their application fees and other caveats - some banks require you to open a bank account with them in order to receive and pay back the loan, which you may not wish to do.

4. In working out your loan affordability, factor in potential further rate increases so that you are prepared for increases to your minimum repayment amount in the future.

5. Determine whether you have the capacity of buying a second home or starting your own business. Refinancing can help you leverage your equity for a loan that requires collateral.

THINGS TO CONSIDER BEFORE REFINANCING

Do you have enough time to refinance?

There have been reports about banks being uncooperative with refinancing a loan (taking 6 months to process, if not longer).

From a business perspective, this is understandable – banks don't want to lose a client, because it's a loss of profit. From a client perspective, this is a terrible way of handling someone who is supposed to be a valued client.

What this does mean, however, is that if you wish to take advantage of a promo rate, applying to refinance earlier rather than later is definitely required. You will be given the prevailing interest rate at the time of application approval – NOT at the time of application. Therefore, you may end up receiving an interest rate you didn't expect.

Whilst we at Estra Finance work extremely hard to facilitate communication between banks and fasten the refinancing process for the benefit of our clients, we must be upfront about the fact that it is a lengthy process outside of our control. Therefore, being prepared is key.



Do the long term savings outweigh the short term costs?

As with every financial decision, you need to look at your current loan repayments and figure out if the long term savings outweigh the short term costs. You will be expected to pay a termination fee (a prepayment fee, for example, for 'paying off' your loan early with a new one) with your current loan provider, whilst also paying for a new home loan with your new loan provider (usual home loan application fees apply). Fees vary depending on which bank you are currently with.

You should also consider when your "breakeven" point is – that is, how long will it take before you start saving money, after the initial loss of these fees? If you lock in a new rate for 5 years but it takes you 4 and a half to save the money you just spent towards refinancing, it may not be worth doing.

A commonly overlooked factor is the need to get your home re-evaluated depending on how old it is and how long you've had your current loan for. This can be a slow process that can be inconvenient for full-time workers who may need to take time off to accommodate this. Or, you might be planning on moving to a new place soon. In which case, paying more on your loan in the short-term may not be suitable.

In short, you need to weigh the short term costs with your long term savings to see if it not only balances, but provides profits to you.

Look at your current loan. Is there room for improvement?

What is the interest rate you're currently paying?

If it's lower than the current market rate, you might not want to lose it and end up paying more.

Is it a fixed interest rate, and how long do you have left?

You might benefit more from an adjustable rate sooner.

What are the monthly amortisations?

Can you afford to keep paying the same amount each month?

How long do you have left on your loan?

Are you coming up to the final due date? Do you want to extend your payments in exchange for smaller monthly dues?

Look at your personal situation. Has it changed?

Are you newly married, widowed, or have you had kids recently?

Having extra income from a partner or an inheritance might mean you can increase your monthly payments, but having children may mean you'd prefer to lower them.

Do you have a different job from when you first secured your loan?

A higher or lower paying job can affect your ability to pay your amortisations. A sudden illness, disability, or job loss can happen to anybody, so factor in these risks as well.

Are you planning on moving, buying a new property or selling your old property?

Any of these choices can affect which loan you choose.

Now, think about the new loan you want. You need to consider all variables, just like you did when you initially got a home loan.

Decide whether a fixed-rate loan, adjustable-rate loan, or a combination of the two, will suit your needs best.

How have interest rates changed in the recent past, and what are they predicted to do in the future? The most common reason why people choose to refinance is the opportunity to secure a better interest rate.

As interest rates change borrowers can potentially save big with lower interest rates, lower monthly payments, or a different loan repayment period.

Compare the costs of any new home loan, not just the headline rates, because all home loans have different amounts of fees.

It never hurts to call up a bank and ask for a rough estimate of the fees you can expect to pay. This is a great way to ease your mind about whether refinancing is even worth considering right now. You should also ask if all-in financing is an option for refinancing.

Look closely at the fine print of any promos on offer.

There are limits on how much you'll save. Even though the headline offer says something tempting, that's usually not what you'll get. You may also be tempted by a persuasive list of things on offer, but will you use these features? Or are you paying for things you won't use?

SHOULD I REFINANCE?

There's no harm in considering it. You are the expert in your own finances, but if you're curious about what you could potentially save, it's worth talking to an expert at Estra Finance or doing your own research.

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