Going to a lender offering the lowest interest rate is not necessarily the best option. There are other factors that need to be considered

FLEXIBILITY A KEY ISSUE

Don Crellin

Paul Moran

IS it better to sign up for finance with a major lender, chase the lowest interest rate on offer, or ensure the lender will take a flexible approach to repayments in the event of a job loss?

These sorts of questions should be on the tip of all potential first homebuyers' tongues as they consider making the plunge into what is likely to be their first major investment.

A first homebuyer should consider a broad range of issues and not just be dazzled by what seem to be bargain-based interest rates, say experts who are in the business of helping people to obtain finance.

Construction finance specialist Don Crellin, of Resolve Financial Solutions, says when it comes to choosing a loan, flexibility should be one of the key features.

Don says features such as an ability to pay fortnightly, redraw facilities, offset accounts and options for making extra payments and repayment holidays are all important.

He says that while the four major lenders are offering competitive interest rates and the prospect of repayment holidays for borrowers who lose their jobs, stricter lending criteria now mean more homebuyers cannot access the major lenders.

The announcement of the temporary policy of 12-month repayment holidays for those who lose their job is a great initiative, but many first homebuyers who have less than a 10 per cent deposit will not be able to use these sources. Don says this is because major lenders have reduced the maximum loan to valuation ratio of what they are prepared to lend from 95 per cent to 90 per cent.

He says homebuyers who find themselves needing a repayment holiday should talk to their lender now. Those who take a repayment holiday must also bear in mind that interest bills will continue to accumulate.

"The last thing that lenders ever want to do is foreclose on a mortgage," Don says.

"They would far prefer to work with their customers to keep them in their home via structuring a solution that's acceptable to both parties."

Finance broker Paul Moran says it is prudent to take a big-picture approach when choosing a financier rather than simply going for the lender offering the lowest interest rate.

Paul, a finance partner with McKinley Plowman, says before choosing a loan you need to make sure you consider things such as how long you plan to stay in the house; whether you need flexibility with repayments; ongoing fees, redraw fees and offset account costs; and if the loan comes with deferred establishment fees.

He says homebuyers should be very careful about deferred establishment fees in particular. These fees, which often run into thousands of dollars and can be as large as the break costs on a fixed-term loan, usually come into effect if a homebuyer tries to get out of a variable home loan within the first three to five years of a loan.

"It's not all about the interest rate," Paul says. "It may sound OK to save 0.5 per cent, but it's not worth it if you go to sell your property in two years and have to pay a deferred establishment fee of a few thousand dollars.

"On an average loan of say $375,000, a 1.25 per cent deferred establishment fee charge can amount to $4678.50.

"On the other hand, a set deferred establishment fee of $700 will be easier to cope with."

Paul says borrowers should bear in mind that competition between the banks, and not economic conditions, will determine the amount of good deals available in the market.

"Banks will still want as much of the market as they can get – with tighter credit controls in place – but they will all still want good loan customers and have deals out there at different times to pick up market share when they need to," Paul says.

Don says an often overlooked aspect to financing a home is the need to have comprehensive personal insurance.

Many homebuyers spend a great deal of time arranging things such as car, building and contents insurance, yet forget to insure their most valuable asset, which is themselves.

Evelyn Duffy

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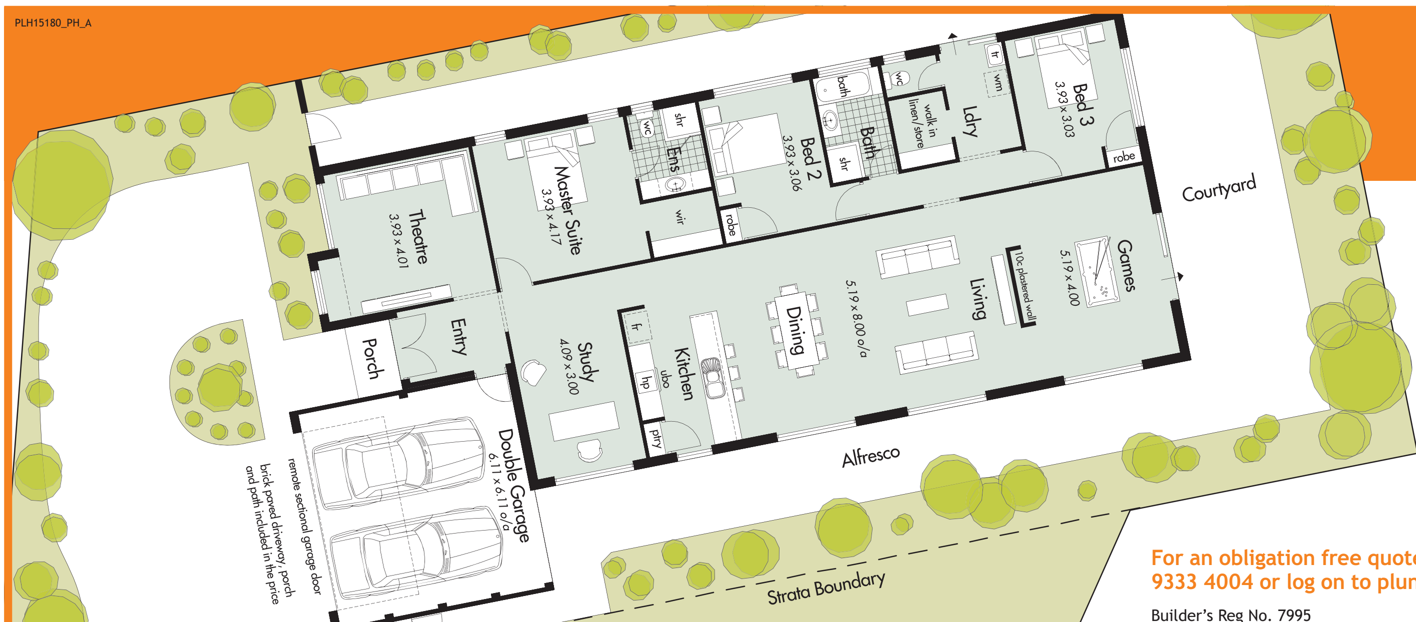

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