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## **Switching home loans? Check your exit fees first**

CANNEX shows all exit fees on variable rate home loans.

Unwary borrowers can be hit with exit fees of up to three times their monthly repayments if they sell or refinance their home loan in the first five years.

Financial services research group CANNEX warns home owners thinking of switching their home loans to take exit fees into consideration before doing so.

“Some people think switching their home loan is like returning a tee shirt that’s the wrong colour,” CANNEX senior financial analyst Harry Senlitonga said.

“Just as the tee shirt refund depends on the store’s terms and conditions, a home loan is a contractual obligation subject to individual banks’ policies which, unfortunately, often involve substantial exit fees.”

The key to avoiding unnecessary exit fees is to be aware of them, something now made easier with the CANNEX website listing exit fees that could apply to loans at different times.

CANNEX also cuts through the confusing jargon used by the banks and explains the terminology clearly so homeowners can see at a glance exactly what fees may affect them and when.

“In a nutshell, exit fees on variable rate loans consist of early termination fees which are sometimes called deferred establishment or deferred admin fees, and other fees such as discharge fees,” Mr Senlitonga said.

According to CANNEX, the rules vary from loan to loan. Some home loans have zero exit fees but the majority range from the first one to five years of a mortgage.

“These early termination fees can be a straight-out dollar amount, a percentage of the original amount borrowed or extra monthly repayments.”

“While early termination fees may decrease each year, discharge fees can still apply if you pay out your loan at year 21 of a 25-year loan,” Mr Senlitonga said.

Exiting a fixed loan could leave you paying an additional break cost, the size of which largely depends on interest rate movements between the time the loan was taken out and the time you are looking to break the loan.

“If the current interest rate is higher than the rate you locked in, you probably won’t be charged a break cost,” Mr Senlitonga said.

“However, if you took a fixed rate loan earlier in the year at, say, 9%, it’s likely that a break cost will apply because the average three-year fixed rate now is 7.24% across major banks and you may have to compensate the bank for their loss on the interest rate difference.”

CANNEX estimates over 60,000 fixed rate loans were taken out at the beginning of the year and these would all be subject to hefty break costs if switched to variable.

“The way banks calculate break costs on fixed loans is complex and in this highly volatile market the costs can vary within days,” Mr Senlitonga said.

“Before rushing to refinance fixed loans to take advantage of low interest rates, I would advise home owners to take into account the effect break costs could have on any perceived benefit.”

According to CANNEX, the time to think about exit fees on loans is before, not after, you take out the loan.

“We’ve taken the confusion out of exit fees and break costs with a full explanation of both and, best of all, borrowers can look up all variable rate mortgages to compare exit fees attached to the loan,” Mr Senlitonga said.

This information is available at no cost on [www.cannex.com.au](http://www.cannex.com.au)

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