**Teachers Mutual Bank**

**Podcast 1 – Understanding your home loan options**

**Announcer:** This is a Queensland Department of Education podcast.

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Australian’s have been adapting to new ways of working, learning and living since Covid 19. The housing market continues to be subject to many upheavals. So is it time to rethink your financial options?

Hi, I’m Virginia from the Queensland Department of Education and I’m talking with Steve McGhee from Teachers Mutual Bank about key considerations when refinancing or buying a new home. We’ll discuss the questions you need to ask before buying a property, the home loans available and what to look for.

Our guest, Steve McGhee, from Teachers Mutual Bank has worked in the finance sector for more than 15 years – longer than it takes to ‘grow’ a child from prep to leaving!

Welcome Steve!

**Steve McGhee:** Thanks so much Virginia. It’s great to be here!

**Virginia Bowdidge:** First up Steve, for those who don’t know already, can you tell us a little bit about Teachers Mutual.

**Steve McGhee:** Sure. Teachers Mutual Bank was founded by teachers, for teachers and their families more than 55 years ago. We started with a small group of teachers in a tennis shed, actually, in Hornsby in Sydney, with the goal of addressing some of the financial challenges that teachers were facing as a profession, which was largely made up of women. From those very, very humble beginnings and with the support of many teachers over the years, we have grown to be one of Australia’s largest mutual banks with a purpose of banking for good, for those who do good.

We’re extremely proud of where we stand in the market today and our continuing commitment to our members. As a bank we invest our member’s money, both responsibly and ethically. Meaning that we run our bank for both people and profit.

**Virginia Bowdidge:** Now, the housing market is something that’s on a lot of people’s minds at the moment.

**Steve McGhee:** Yes, and with interest rates on the rise that can to be expected. Home loan rates are now the highest that they have been, since 2013 and potentially looking like they could still increase, which is putting a strain on a lot of household budgets. But it’s also starting to push some housing prices down in some areas – including places like Brisbane, Sydney and Melbourne. Partly because as interest rates and the repayments on home loans go up people aren’t borrowing quite as much, which is starting to put some pressure on housing prices are starting to see some housing prices come down as a result.

**Virginia Bowdidge:** Can you run us through the steps people need to take to enter the property market – particularly first-home buyers.

**Steve McGhee:** Yeah sure. I think buying your home or your first home - or even a subsequent home, or someone refinancing - for the first time can make you feel like a bit of a student all over again! There’s a lot unknowns and uncertainty you may have a lot of questions. It really does pay to do your research. The amount that someone can borrow is not only determined by the amount they can afford to repay but it’s also impacted by the size of their deposit that they have managed to save up. You also need to think about the type of property that you are looking at buying, as well as where you might want to purchase the property.

Now, it can all be quite daunting but with the right guidance, research and support, it doesn’t really have to be.

It’s also important to factor in other costs, not just the cost of buying the house itself but other costs, like stamp duty and solicitor’s costs and the likes. It's a really good idea to talk to a few lenders first. It’s important to work out what your maximum borrowing amount is going to be and have an understanding of what those repayments will be and the deposits that you’re going to need as well as obviously the interest rate on the loan. It’s one thing for a lender to tell you how much they think you can borrow; but it’s important that you are going to meet those repayments.

Another good tip for first home buyers is attending a few open homes. It's a great way to build up your knowledge of the housing market in the area and will give you a bit more confidence when it comes to making that first offer on a property.

You also need to understand your options when it comes to fixed and variable rate loans and as I mentioned before, it’s important that you make sure you are aware of the other costs to consider, things like solicitor costs, paying rates for the first time etc. Any good lender should be able to support you with that and as a bank we’re here to help. Teachers Mutual Bank has lots of tools and calculators on our websites, to help people get started. I’d suggest for anyone to check those out, or simply call us.

**Virginia Bowdidge:** Interest rates and the possibility of further rate rises over coming months are obviously a major concern to anyone with an existing mortgage or someone hoping to enter the market right now. How can you help them decide the best home loan for to select.

**Steve McGhee:** It’s important that you choose the right loan for you–and your circumstances. Generally, there’s three choices: and you can choose between a variable interest rate, a fixed interest rate or a combination of both.

It’s a good time to understand the difference between both options. A variable rate loan is exactly as it sounds – the interest rate can vary – it can go up or down over the term of your loan. Which means your payments can change too. The interest rate goes up, your repayments will also go up along with it.

With a variable rate loan they are generally a little bit more flexible than a fixed rate load and allow you to do things like make additional repayments which helps you pay off your loan even quicker and has a big impact on the amount of interest that you’ll end up paying over the loan term.

The main disadvantage, I guess of a variable rate loan as interest rates go up then your repayments will likely go up with that as well. So something to bare in mind it you are on a fixed income or strict budget.

Fixed rates is a little bit different.

Your interest rate gets locked in at the start of your loan agreement and doesn’t change, during the fixed rate term – which means your repayments won’t change during that fixed rate period. The fixed rate period is generally between 1 and 5 years. At the end of your fixed-rate term, your loan automatically revert to a variable rate loan and you generally get the option to choose to either refix that loan at the available rate or move onto a variable rate loan at that point in time.

The advantage of these loans is knowing exactly what your repayments are going to be over the fixed term. It’s handy if you’re on a tight budget or fixed income. The thing to watch for with a fixed loan is there can be some additional costs – known as break costs- if you end the fixed rate term early so they may not be suitable for everyone, particularly if you are considering selling or making changes to your property during the fixed rate period.

And then the last option is a split loan, or what some people might refer to as, ‘hedging your bets’.

This is where you choose a combination of both fixed and variable. It gives you the flexibility of a variable loan and the certainty of a fixed rate loan.

You can generally choose to split the amount that you’re most comfortable with, it doesn’t matter if it’s 50% fixed and 50% variable or 30%/70%. The benefit of that is you get the best of both worlds. You get the flexibility that comes with the variable rate loan and the certainty of the fixed portion.

On the flip side, you don’t get the full benefits if the interest rates do go up, a portion of your loan will go up, likewise if rates go down, only a portion of your loan will go down.

**Virginia Bowdidge**: With a split loan you can choose to say, half of my actual loan, so half of my million dollars, will be on fixed and half will be on variable? Is that what you mean there?

**Steve McGhee:** Yes, absolutely. It’s important to remember that when you do split your loan, you are potentially still locking in half so you have the potential to have break costs if you do choose to pay off that portion of that loan early.

**Virginia Bowdidge:** Thanks Steve, that was very informative. Now that we’re clear about the different types of loans, we know there’s also a suite of important home loan features that are widely misunderstood or really not understood at all – I know there’s a lot of industry jargon. So could you run us through some of the features we need to know – again in plain English?

And run through of some of the lesser understood features on offer.

How about Redraw? Could you talk a bit about that?

**Steve McGhee:** Yeah, sure. Redraw is a facility allows you to pay money in excess of your minimum repayments and then redraw those payments back, as and when you need them. So, whether it be for emergencies, holidays or renovations. Or whatever is!

I guess the downside of a redraw facility is it could cost you a little bit extra in fees for the facility and some lenders may only offer redraw on variable loans or have limits on the amount you are able to pay extra or redraw at any point in time.

**Virginia Bowdidge**: Thanks and Offset Facilities?

**Steve McGhee:** Offsets are great, often just referred to just as Offsets. They’re an alternative to redraws, work in a similar way. They also allow you to pay off your loan faster. An offset operates as a separate transaction account to your home loan but it still reduces the amount of interest that you get charged. So the balance of your account gets offset against your home loan.

So to give an example if you have a home loan of $500,000 and $30,000 in your offset account, you’ll only be charged interest on the difference, so on $470,000 instead of the full loan amount. Which can have a really big impact on the amount of interest that you pay over the term of your loan.

An offset account is great, because all of the money that’s in your transaction account is working for you, but a possible downside can be that you might spend it more easily, because it’s in a transaction account. Whereas with redraw facilities lenders often require you to redraw that money out of the home loan into a transaction account before you can spend it.

**Virginia Bowdidge:** With the offset facility I’ll just clarify, if you had a $500,000 loan balance, you can put a certain amount into an offset facility, can you? Like the $30,000 into an offset facility, and then you only pay the interest on the $470,000, was that right?

**Steve McGhee:** Yeah, absolutely, that’s perfectly correct. With an offset facility it’s often linked to a transaction account. So even if it’s just your pay and a small amount of savings, interest is generally calculated daily, so as your pay goes in, that money is offset against your loan balance and as the balance of your transaction account fluctuates through the month, any money you have sitting in that offset account is being offset against the amount of interest that you get charged on your home loan.

**Virginia Bowdidge:** It’s not that you can take money out of your loan to put in an offset account, that’s your savings, is it?

**Steve McGhee:** Correct, yes. So it’s your own savings that is getting offset against your loan balance, but it’s sitting in your own transaction account, whereas with the redraw facility it’s very similar impact to the amount of interest that gets charged but it’s where you pay the money off your home loan first, rather than leaving it in your savings account, and as that advanced amount that you pay bills up, you are able to redraw that money back out of your loan. So, it’s a great way to get ahead of your loan.

**Virginia Bowdidge:** And is one of those better than the other, or it just depends?

**Steve McGhee:** It does depend, in terms on how the interest savings works, they are extremely similar. We have similar loans that actually allows you to have both which is a great feature. For some people having the money off the home loan, definitely is a bit of a better place for them because they are less likely to spend the money as opposed to having a large saving amount sitting in a transactional account. Whereas for other people they like the flexibility of knowing that the money is working for them in their transactional account and they have really easy access to it.

**Virginia Bowdidge:** Equity in your home?

**Steve McGhee:** Yes, Equity is the difference between the value of your home and the amount of your home loan, that you owe against that property. So as the value of your home goes up, so will the amount of equity you have in the property and likewise as you pay the loan down the amount of Equity may also increase.

The benefit of equity is you can put it to work for you, so you can use equity in your home to do things, like borrow more money for renovations or even use it to purchase another investment property.

**Virginia Bowdidge:** The last home loan feature I would like to ask a question about is Additional Repayments.

**Steve McGhee:** Well, I’m not sure if it’s jargon persay, but I can understand why it’s a common question. Additional repayments is essentially a feature that lets you pay your home loan off quicker by making extra payments over and above the minimum repayments that are required.

Making additional repayments can reduce the impact or reduce the overall term of your loan and have a very big impact and the amount of interest you pay over the life of the loan. Generally speaking variable rate loans allow you to pay extra repayments although it’s worth noting some banks, including ourselves at Teachers Mutual Bank, do offer some fixed rate loans that have the options that allow you to make some additional repayments.

**Virginia Bowdidge:** Thanks for that information, that’s really useful.

Thinking now about– First Home Buyers. It can be difficult to save for a deposit and understand what you can afford and how to go about getting a home loan.

Have you any advice for this group?

**Steve McGhee:** Yeah, most lenders require a 20 % deposit or 20 % of the purchase price. On a purchase price of say $600,000 the deposit requirement would be $120,000 plus on top of that you would still have your government fees and taxes like stamp duty.

It can be extremely hard to save a deposit, especially with the cost of living pressures that everyone is facing today.

As a First Home Buyers, the first step is to check if you’re eligibility for the Australian Government’s Home Guarantee Scheme (HGS). It’s an initiative that helps people get into their own home sooner.

The scheme lets people qualify for a home loan with a deposit of just five % – or, for single parents, two %. Generally, as I mentioned, banks require a deposit of around 20% of the value of the property you are looking to purchase so this can make a really big difference for a first home buyer, and their ability to purchase a home sooner.

Teachers Mutual is really proud to participate in the Home Guarantee Scheme (HGS). We’re one of only a few banks to do so.

**Virginia Bowdidge:** Who can apply for this Home Guarantee Scheme?

**Steve McGhee:** First-home buyers can apply for the [First Home Guarantee Scheme](https://www.nhfic.gov.au/what-we-do/support-to-buy-a-home/first-home-guarantee/) if they are an individual earning up to $125,000 a year or part of a couple earning up to $200,000. You’ll need to put in a minimum deposit of 5 % towards the purchase of the home.

Single parents earning up to $125,000 a year, with at least one dependent child, can apply for the [Family Home Guarantee Scheme](https://www.nhfic.gov.au/what-we-do/support-to-buy-a-home/family-home-guarantee/) and that’s whether they are a first-home buyer or not and that scheme allows you to purchase a property with as little as 2 % deposit.

The Home Guarantee scheme now also includes the Regional First Home Buyer guarantee.

There are also State Government programs, such as the Queensland First Home Owners’ Grant and the Queensland Regional home building boost grant. The Queensland First Home Owners' Grant is a state government initiative to help you get your first home. If you're eligible for the grant, you can get $15,000 towards buying or building a new house, unit or townhouse (valued at less than $750,000) and you do need to live in the property.

The great news is your lender can usually help explain the different Government grants and schemes available and help guide you on your eligibly and in some cases help you complete the applications.

The grants and schemes do change so it’s a good idea to make sure you keep checking both the federal and state based government websites for the most up to date information.

**Virginia Bowdidge:** There’s another way of getting into the market too, isn’t there, when you only have as little as 5 % deposit? Can you tell us about Lenders Mortgage Insurance? What exactly is it and how does it help? And any downsides?

**Steve McGhee:** Lenders Mortgage Insurance - often referred to as LMI - allows you to borrow a higher amount against the purchase, more than the 80% many banks require. This means that you could need a smaller deposit and you potentially may be able to purchase your home sooner with as little as a 5 % deposit.

LMI typically costs anywhere between 1 – 2% of the loan amount. The LMI premium generally depends on a combination of the loan amount and how much deposit you have. So the bigger your loan, the higher your LMI fee will be and likewise the smaller your deposit that you have the higher the LMI will be.

The lenders will generally pass on the cost of the LMI as a fee which can be added to your loan amount and included in your loan repayments or can be paid upfront as a lump sum cost.

If you do add the LMI fee to your home loan it can increase the amount of your loan repayments marginally, so it’s worth being aware of that.

**Virginia Bowdidge:** Are there any disadvantages to Lenders Mortgage Insurance – and would it be better for potential homeowners to wait and rent until they have a larger deposit?

**Steve McGhee:** That really depends on the borrower.

With the volatility of housing prices people may be eager to get into the property market sooner rather than later. If you don’t have a 20 % deposit saved up, Lenders Mortgage Insurance can really help you get into the market sooner.

But if you are happy to wait and save up a larger deposit, it’s less likely that you’ll need to pay for Lenders Mortgage Insurance, or with a larger deposit it could reduce the overall cost of that Lenders Mortgage Insurance. The downside however is, if property prices do go up then so does the 20 % amount that you’ll need to have saved up before you’ll be able to save up for the Lenders Mortgage Insurance.

**Virginia Bowdidge:** Thanks Steve. That’s really helpful information for first home buyers. But let’s talk for a moment about existing homeowners who already have a mortgage and their dream home. The market and rates have changed tremendously over a short period. How do you know if your loan is still the best one for your needs – and what can you do if it’s not?

**Steve McGhee:** Really good question Virginia. Maintaining your financial health is really important just like it is looking after your emotional and physical wellbeing – they’re all connected in a way..

Reviewing your mortgage, current interest rates and market trends, is part of this. Especially if you’ve had your home loan for a while – there may be better options available now. For example, you might not have a redraw facility or an offset facility on your home loan, you may be able to get a better rate or that better suits your needs if your circumstances have changed.

The best option for many homeowners is to look at refinancing their home loan, which could help you get a much lower interest rate or reduced fees, and even get you some extra funds if you are looking at doing renovations, or thinking about investment, or a new car, is often a good time to also review your home loan.

It’s important to make sure you do your sums, there can be costs involved, with changing your loan so you want to make sure your new loan will leave you better off overall.

The process of refinancing is very similar to what you would have done when you first took out your home loan. Once you’ve done your sums, you simply complete a home loan application and we’ll take care of the valuations and paying out your existing home loan.

Once you’re clear on what you want to achieve, it’s much easier to ask the right questions of lenders that you are considering and making sure the loan does best suit your needs. Doing your research before you apply could help you make a decision that serves you down the track and helps you reap the rewards from the different features of the loans that are available.

**Virginia Bowdidge:** Before we finish can you just remind our listeners of the benefits on offer with Teachers Mutual?

**Steve McGhee:** Sure. Teachers Mutual Bank really has designed its products and services in a very industry specific way – everything we do is about ensuring the financial health of teachers, educators and their families. Including things like how we lend to casual and contract teachers.

We’re here to help you pay your loan off sooner. Our Your Way and Your Way Plus Home Loans have been designed so that you can structure your loan, your way to suit your needs.

For instance with our Your Way Plus packaged Home Loan you get to choose between fixed, variable or a split rate. Teachers get an additional discount off the variable rate for the life of the loan, and there is no establishment fee and the annual package fee is substantially lower than a lot of other banks.

Plus, with our fixed rate loans they’re on offer within our Your Way Plus package, you get additional flexibility that a lot of other banks don’t offer– such as an offset facility and the ability to pay some extra inter-redraw up to $10,000 a year at a fixed rate, meaning you get reassurance of knowing you rate won’t change for the duration of that fixed term while also having the opportunity to get a little bit ahead on that loan. And then when you come off your fixed rate loan, you’ll get our Your Way Plus discounted variable rate, with that discount that I mentioned that teachers are eligible for. So, rather than going to the standard variable rate or the higher variable rates that a lot of fixed rates refer to that discounted rate.

If a packaged loan isn’t right for you, we have our Your Way Home Loan still offers great flexibility and choice. You still get to choose from variable, fixed, split, with redraw facility - we can work with you to make sure that the loan that you choose, suits you and your circumstances.

We can also help with access to government schemes to assist you with getting into your home sooner and guide you through the mortgage insurance or LMI process, if that’s the right option for you.

You can reach us through our contact centre which is based in Australia, or through our app or digital banking and our mobile bankers are available to meet people after hours at a time that suits them.

And lastly, another thing we are really proud of, and hope you will be too, is our commitment to the environment, sustainability and socially responsible, ethical banking which is evidenced by the many awards and certifications that we continue to receive. For instance, just recently we became a certified BCorp which requires us to meet exacting standards and transparency and we were also awarded Finder’s Green Bank of the Year for 2022.

**Virginia Bowdidge:** Thanks so much for joining us today Steve. It’s been really interesting and informative.

**Steve McGhee:** It's been an absolute pleasure Virginia. I hope the information has been useful. If anyone would like any more information they can contact one of the team at 131221 or jump just jump online to our website tmbank.com.au

**Virginia Bowdidge:** We hope you enjoyed today’s podcast. It’s the first of a four-part series we’re doing with Teachers Mutual to help ensure your financial health and wellbeing. Stay tuned for the next one.

We need to remind listeners that this podcast is for education and entertainment purposes. Any advice offered is general financial advice only and doesn’t take into account your objectives, financial situation or needs.

Because of this, you should consider if the advice is appropriate before acting. If you do choose to buy a financial product, read the product disclosure statement and obtain appropriate financial advice tailored to your needs.