SEVEN COMMON MISTAKES

CHOOSING A HOME LOAN

moorr

Thank You For Downloading This Report

Choosing the right loan is one of the most important financial decisions you'll make. Whether you're applying for your very first home loan, securing finance for an investment property, or refinancing an existing loan, the lender and product you select can significantly impact your financial goals—not just today, but well into the future.

At Moorr, we believe in simplifying this journey.

Our platform is designed to equip you with powerful tools and insights to navigate the complexities of borrowing with ease. Our **Cash Flow Projection Tools** help you understand the long-term impact of your loan repayments on your overall financial position, while our **Offset Benefits Calculator** shows how offset accounts can save you thousands of dollars in interest. These features, combined with Moorr's comprehensive financial tracking tools, empower you to make smarter borrowing decisions.

This special report is your step-by-step guide to avoiding the seven most common mistakes people make when choosing a loan. And with Moorr, we hope you can avoid these mistakes and more.

So, whether you're just getting started, re-evaluating your financial position, or planning for your next big move, this report is here to guide you—and Moorr is here to support you every step of the way. Let's get it right together.

The 7 Common Mistakes

1. Paying too much Lenders Mortgage Insurance

Lenders Mortgage Insurance (LMI) is an insurance policy that protects the lender against the borrower defaulting on paying their loan. It protects the lender, but the borrower is the one who has to pay the one-off premium to obtain the loan.

LMI kicks in when the Loan to Value Ratio (LVR) of the property exceeds 80%. In simple terms, if you have a $500,000 property and a $400,000 loan, then the LVR is 80%, resulting in no LMI premium being due. But if the loan amount is $450,000 on a $500,000 property, then the LVR would be 90%, so a premium is due and payable by the borrower.

There are four main ways in which you might pay too much LMI:

A. Different Lenders Set Different Premiums

Here's a way to save big that is little known. Different lenders have different LMI premium rates – meaning that one lender might charge up to several thousand more in LMI fees compared to the next lender. A borrower might think they have chosen a great loan and lender because their interest rate was cheaper than the other lender, but in reality the cost of their LMI premium means the other lender with the slightly higher interest rate is actually a cheaper product!

B. Borrowing Bracket Levels

What is little known by most borrowers is that LMI premium calculations change in two different ways:

i) Loan Size

ii) LVR

The following table shows an example of LMI premium rates:

LVR Bands	Borrowing Bracket Levels		
	Band Up to $300,000	$300,001 to $600,000	$600,001 to $1,000,000
80.01% - 81%	0.45	0.58	**0.80**
81.01% - 82%	0.45	0.58	**0.80**
82.01% - 83%	0.68	0.87	**1.12**
83.01% - 84%	0.68	0.87	**1.12**
84.01% - 85%	0.84	1.10	**1.39**
85.01%- 86%	0.84	1.10	**1.39**
86.01% - 87%	1.01	1.31	**1.67**
87.01% - 88%	1.01	1.31	**1.67**
88.01% - 89%	1.36	1.78	**2.24**
89.01% - 90%	1.36	1.78	**2.24**
90.01% - 91%	1.87	2.44	**3.68**
91.01% - 92%	1.87	2.44	**3.68**
92.01% - 93%	2.10	2.74	**3.96**
93.01% - 94%	2.10	2.74	**3.96**
94.01% - 95%	2.33	3.04	**4.18**

Note: These percentages are indicative only and can vary between lenders. For precise LMI premium rates, it's advisable to consult directly with lenders or speak to a qualified mortgage broker.

Using this table as an example, if a borrower was thinking of borrowing $300,500 and LVR is at 86.5%, they would be charged 1.31% for the entire loan amount. However, if someone explained to them (bank staff are unlikely to get into this detail!) that simply reducing this amount to $300,000 would result in a charge of 1.01%; in overall savings that represents a 22.9% saving on the LMI premium.

C. LVR Band Tier Levels

Another way in which borrowers are being duped is via different LVR Band Tier Levels. Say a borrower has a $400,000 loan and the value of the property is $439,000 – that equates to an LVR of 91.1%. Using the example table above, the LMI premium will be 2.44%. Now what if the lender or broker tells the borrower that if they can get the LVR to 90% - i.e. only borrow $395,100, then the LMI premium will drop to 1.78%. This will be a saving to the borrower in premium fees of 27%, which could be hundreds or even thousands of dollars.

D. Cross Securitisation

In simple terms, cross securitisation is when the bank or lender takes more than one security you own to secure the money they lend you. For example, if you have a home and an investment property, lenders and banks will try to protect the money they lend you by taking as much of your property as their security to get their money back if something were to go wrong. Sneaky, right?

Now imagine if they did this and the overall LVR goes above 80%. They would charge the LMI premium based on all of the total lending involved, meaning the borrower would be charged the premium in the higher borrowing bracket level. However, if they had not cross securitised the properties and had calculated the LMI premiums separately, the borrower would be significantly better off with a better structured loan. In fact, the mortgage brokers in our sister company **Empower Wealth** have helped in many of these instances – they've taken over customer loans before settlement and managed to restructure them correctly, i.e. saved clients over $18,000 in LMI premiums.

It's amazing to think that on any given day around the country hundreds if not thousands of new loans are being written where unsuspecting borrowers are likely paying too much LMI. The challenge is that most lenders won't openly disclose their premiums; staff just use calculators to work it out and tell unsuspecting clients what the premium is and they tell them they have to pay it with any lender they choose and there is no getting out of it. Wrong! If you choose to engage with a savvy mortgage broker, they should be able to calculate and compare LMI premiums for different lenders, effectively working out how to save you money.

2. Chasing the Best Interest Rates of the Day

In the ever-changing lending market, interest rates remain a hot topic for borrowers. While the Reserve Bank of Australia (RBA) sets the cash rate, lenders have increasingly exercised their discretion to adjust interest rates independently. This has become the norm in Australia, with banks and lenders ‘going on sale’ to attract new customers, only to later adjust rates in ways that can catch borrowers off guard.

Recent economic challenges, including inflation and global financial pressures, have amplified this trend. Lenders now compete aggressively, offering enticing rates or cashback deals to attract borrowers. However, these offers often come with conditions or timeframes that can lead to unexpected costs down the line. For example, the rate you sign up for today may not be the best rate tomorrow as lenders frequently adjust pricing based on market conditions or internal funding costs.

> Additionally, while regulations have made refinancing less costly by removing exit fees, other charges, such as discharge fees or government registration fees, still exist.

These, combined with the time and hassle of moving accounts, setting up direct debits, and managing transitions, can make rate-chasing a costly and inconvenient exercise.

It’s crucial to understand that the ‘best interest rate’ is not just about the lowest number on paper but how it fits into your broader financial strategy. Using tools like **Moorr’s Cash Flow Projection Tools** can help you assess how different interest rates impact your financial goals over time, ensuring you’re not swayed by short-term savings at the expense of long-term stability.

The key takeaway? Don’t let flashy promotions lead you astray. Work with a savvy mortgage broker who can help you find a loan that aligns with your needs and review your options regularly. If you choose to tackle this alone, arm yourself with knowledge about lender practices and always evaluate the financial security and reliability of the lender you’re choosing.

3. Not Shopping Around

Shopping around pays off – and not only when LMI is involved.

Different lenders use different calculations to determine how much they are willing to lend to a borrower. In fact, if you grouped together 10 different lenders you would get 10 different borrowing power outcomes.

Here's an example: Take a couple on a combined income of $150,000 with one child aged 6, a credit card limit of $8,000 and a car loan of $500 per week. 15 lenders gave 15 different maximum loan amounts for an owner occupied loan with principal & interest rate repayment with a LVR of 80%.

LENDER	MAX LOAN AMOUNT
Lender A	$676,483
Lender B	$668,589
Lender C	$496,025
Lender D	$463,341
Lender E	$459,838
Lender F	$455,014
Lender G	$453,724
Lender H	$453,608
Lender I	$452,650
Lender J	$450,306
Lender K	$437,341
Lender L	$437,169
Lender M	$436,049
Lender N	$432,502
Lender O	$431,806

The discrepancy between lenders is amazing. Now if you were looking to buy a home or even invest in an investment grade property, this type of borrowing variance could result in the unknowing borrower choosing an inferior location or property to live or invest in.

Another example of the benefits of shopping around is getting a great deal. If you really break it down, a home loan is simply a product you buy to meet a need.

In this case it's usually a property purchase of some type. Sure, it is a bigger amount than going out to buy a pair of shoes, but it works on the same principles. If you shop for shoes and you know that the basic function of one pair of shoes to another is the same, then the appeal and satisfaction of a purchase when there are sales on is no different to nabbing the best home loan.

So if you don't look around you don't really know what's available. And if you don't negotiate you may not get the special discounts that might be on offer.

Mortgage Brokers do have an advantage here, as they know what deals are worth looking at and which ones are no good. Also, some top performing brokerage businesses often get special deals that the general consumer may not be privy to, because the lenders know they are a great source of business and bring in more loans every week, as opposed to a consumer shopping for a single loan (a bit like getting a discount for buying more than one pair of shoes or buying in bulk).

The very clear message here is that it does indeed pay to shop around. It is very time-consuming to be able to compare lender after lender to get an idea of who is going to lend you the amount you want, but there are benefits and gains to be had.

4. Being Enticed by an Attractive Short-Term Interest Rate

First home buyers and inexperienced borrowers are often drawn to 'honeymoon rate' loans, which offer a low introductory interest rate—typically for 12 months—before reverting to a much higher rate. While the initial appeal of lower repayments may seem like a great opportunity to make your new home more comfortable or manage costs, these loans often end up costing significantly more over time.

The period from 2019 to 2024 highlights the short-term nature of interest rate movements.

During the COVID-19 pandemic, the Reserve Bank of Australia (RBA) set record-low cash rates, leading to some of the cheapest home loans in Australian history. However, as the economy recovered and inflation surged, the RBA raised rates rapidly, pushing borrowing costs to their highest levels in over a decade. This rollercoaster demonstrates just how unpredictable interest rate movements can be and why it's essential to plan for the long term.

Jumping from lender to lender or relying on short-term promotional rates may seem attractive, but it's a costly and time-consuming exercise. Beyond the honeymoon period, borrowers often find themselves locked into less competitive rates or burdened with fees associated with switching lenders. Remember, there's no guarantee the lender offering the lowest rate today will remain competitive tomorrow.

Instead, take a strategic approach to your loan. Plan for a product that works well over a 3–5 year period, factoring in potential rate increases and changes in your financial situation. Tools like **Moorr's MoneySTRETCH** can help you assess how much flexibility you have in your budget to absorb interest rate fluctuations. This tool provides a clear view of your financial resilience, ensuring your loan remains manageable even when market conditions shift unexpectedly.

Don't be lured by shiny short-term offers. Focus on finding a loan that aligns with your financial goals and withstands the test of fluctuating interest rates. It's always worth engaging with a trusted mortgage broker or leveraging modern tools to ensure you're making informed decisions.

5. A Home Loan is NOT a Prison Term

As much as there are often no benefits to continually refinancing your loan every year, there are still people out there who think that once you select a lender and loan product, you are locked into that product for the term of the loan, which is usually 25 or 30 years or until you pay it off.

This couldn't be further from the truth.

A loan is an evergreen product and can be renewed by refinancing to another lender from your existing lender. Furthermore, if you have gained equity in your home, you can seek to get more funds out for other purposes, such as a deposit for an investment property, or funds to do renovations, or buy a car at cheaper interest rates than car loan rates etc. Just make sure the 'hidden costs' of switching lenders are factored in, and be sure to ask your mortgage broker to demonstrate the proposed savings and ensure all costs of refinancing are factored into your calculations.

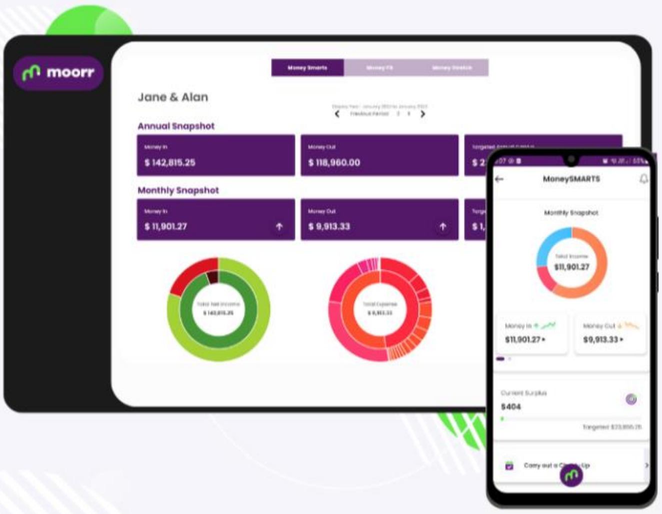
6. Looking at a Home Loan in Isolation

It's true that some people have a home loan with one lender and their day-to-day banking is with another financial institution. And often the compelling reason to do this is once again the attraction of what looks like a cheaper option.

Our award winning sister company, **Empower Wealth**, who help clients build significant property investment portfolios, often use more than one lender to accommodate more sophisticated lending needs, the same way in which big businesses also use several lending partners. But they also advocate for one primary lending partner, and it usually includes getting clients' money affairs linked in for efficient usage.

You see, a home loan is only part of the bigger financial picture for either a person or a household. Money coming in, money going out and money left over for paying down debt, savings or investing for greater wealth. Having the convenience of one primary lending partner provides time saving benefit to a household. Most internet banking services now offer automated transfers, BPAY payments, auto-sweep payment of credit cards, offset account benefits, account keeping fee waivers, etc.

In a time-poor world like the one we live in today, it's never been more important to put a value on your personal time. Having to run around to branches, pay bills online, transfer money between accounts, set credit card payments up etc., this all takes time. So the more you can automate it the more time savings you can achieve. And there's real value in this personal time, so it is worth looking at your loan as part of your bigger financial picture to really get greater benefits.



A home loan is just one piece of your financial puzzle. To truly maximise its benefits, it's essential to view it as part of your broader financial picture.

That's where **MoneySMARTS,** Moorr's proven money management system, can help. By automating and simplifying your money flows—like income, expenses, and savings—it ensures you're making the most of your resources while staying on track to achieve your financial goals.

Learn more about MoneySMARTS ›

7. Loan Strategy and Structuring

We've left the most important point to the last. Pages and pages could be written on this point, but for these purposes here are some key technical elements to consider.

Home loan strategy and structuring refers to the strategic planning and tactical structuring of loan products to achieve significant objectives and goals, both short and long term.

Let's explore this more with a couple of examples:

A borrower is seeking to secure a loan and wants to lock in the vast majority of it into a fixed loan, as he thinks interest rates are going to go up. So he thinks he's done a great job when over the next 12 months rates go up a couple of times.

Now the following year, he gets a long-awaited inheritance from the passing of a parent which he knew was coming before he set the loan up and it's a significant figure. He goes to put this money into the loan to pay it down, but is informed that the loan product has a cap on how much he can pay down in principal reductions and this extra money will significantly exceed this limit, meaning he has two options,

i) pay a significant penalty fee to get the money put on the loan, or
ii) put the money into a term deposit which will earn him interest (that he will have to pay income tax on).

Both do not give him the same positive financial outcome that he would have achieved if he had kept the loan as variable and paid the higher interest rate. He had no idea that he would be penalised for paying down his loan, as he wasn't informed of this and he didn't mention the inheritance because he didn't think it was important at the time of getting the loan.

> Now this is an extreme case, but there are far more common cases of people not adequately forecasting the income they will generate and therefore exceeding the capped limited on their loans, meaning them missing out on good to very good amounts of interest savings and missing out on paying down their loans earlier.

Another example:

A household is looking to create wealth through investing in property. They have a property investment plan drawn up and they are ready to improve their financial wellbeing over the long term.

They secure the first property and have it rented and things are looking good, so they go back to their existing lender to obtain more finance. However, they are declined because the servicing criteria of that lender won't allow them to borrow the money they seek, because they only took into account 50% of the rental income and didn't take into account the negative gearing add backs in assessing their income.

So they decide to wait it out until their income position improves, which is frustrating for them as property values in the area they were looking to buy went on to increase by 15% that year, meaning this result has cost them a significant windfall.

If they had known that they could have refinanced to a new lender who will take 80% of rental income and also included the negative gearing add backs, they could have bought that investment property, and would likely be a lot wealthier thanks to the smart and strategic finance planning they undertook.

One more example:

A couple are seeking to invest in property and are feverishly saving for a deposit on their first investment property. Based on what they are saving it will take them another 3 years before they have this money to invest.

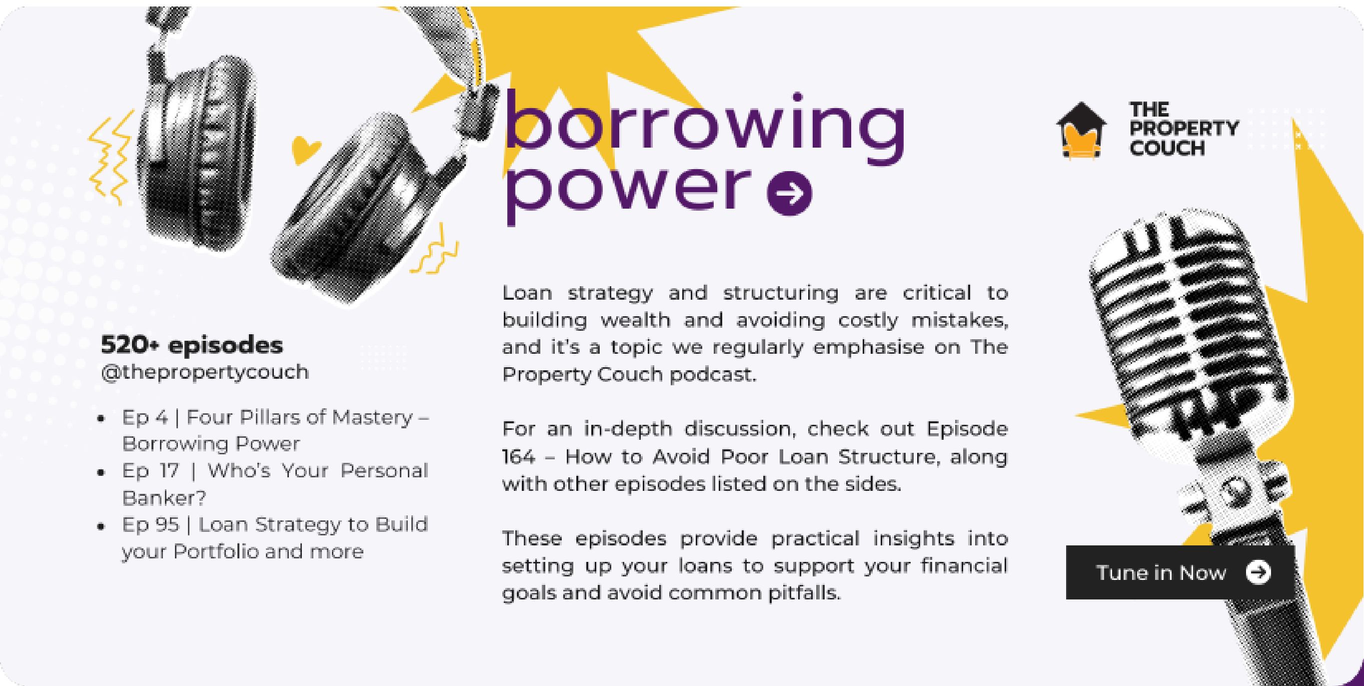
Unbeknownst to them, they could in fact have bought the property straight away, because they had equity in their existing home. Through a restructuring of their loans, they would have been able to release a separate loan split which would cover the 20% deposit on the investment property.

By structuring it away from the existing owner occupier debt, they would be able to claim the interest on this loan as a tax deduction on their personal income tax assessment each year. But the tax benefit is not the reason they have investment, it's again to enjoy the capital growth and rental return income they are hoping to obtain to build greater household wealth.

Another couple have just settled on their home. On the well-intentioned advice from their parents, they are focusing on paying down their loan as quickly as possible, so all their surplus money is going into the home loan account. Fast forward five years and they are ready to purchase a bigger home. They have solid income which allows them to be in a position to turn their current property into an investment property. Because they have done such a great job in paying down the loan, the property is now generating them a positive cashflow each month, which will result in them having to pay income tax on this extra money they are making. That's okay, because they realise that the more passive income they generate, the less work they have to do to earn an income.

However, they could still be getting the same income from the property, but also be getting a tax refund as well, instead of having to pay more tax. This is because they didn't have the correct loan structure and strategy to start with. Overall, they would have lost a real opportunity to gain a greater financial benefit because they didn't know what was possible because they didn't get professional advice to help them plan strategically and tactically.

There are many more ways in which having the right strategy and structure of your lending will benefit you in the short and long terms. Ensure you either do your own proper research or get specialist advice from experienced professionals.



Additional Resources

At Moorr, we are committed to empowering you to take control of your financial journey with confidence. Whether you're just starting out or refining your strategy, we provide the tools, knowledge, and expert support you need to achieve your property and financial goals. To further support you, here are some valuable resources:

The Moorr App

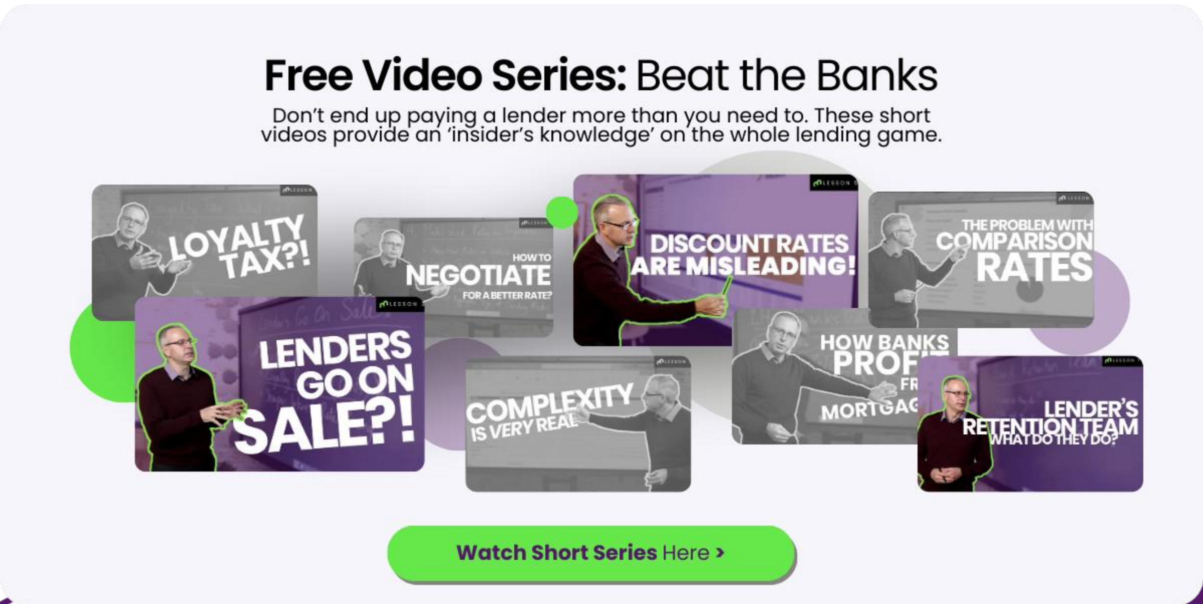
Your ultimate financial companion! Moorr offers powerful tools like **MoneySMARTS** for managing your budget and cash flow, and **WealthCLOCK** for tracking your financial progress over time. Simplify your finances, manage your property investments, and make smarter decisions—all in one intuitive platform. **Learn more >**

The Property Couch Podcast

Australia's #1 property podcast is packed with insider tips, expert advice, and real-life stories to help you make informed decisions about property and finance. With hundreds of episodes covering everything from loan strategies to wealth-building tips, it's a must-listen for anyone serious about achieving financial success. **Learn more >**

Empower Wealth Advisory

A national award-winning firm with years of experience helping thousands of Australians achieve their financial goals, Empower Wealth offers expert advice tailored to your unique circumstances. From property investment planning to mortgage broking, we provide integrated services designed to help you build wealth and create a secure future. **Learn more >**



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