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Finder's Housing Market Report

Navigating Refinancing in 2023

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Section 1: Background

Over recent years, the Australian home loan market has seen unprecedented change. In early 2020, a succession of rate cuts culminated in the Reserve Bank of Australia (RBA) slashing the cash rate target to a mere 0.1%. This move spurred numerous Aussies to explore refinancing options, keen to secure these appealingly low rates. Then, with rates on the upward trajectory from May 2022, a further swell of Australians turned their attention to refinancing, seeking a buffer against the inevitable future rate hikes. Concurrently, as the cash rate ascended, so too did the number of refinancers so too did the number of refinancers, in particular those switching lenders (external refinancers).

Monthly number of externally and internally refinanced loans

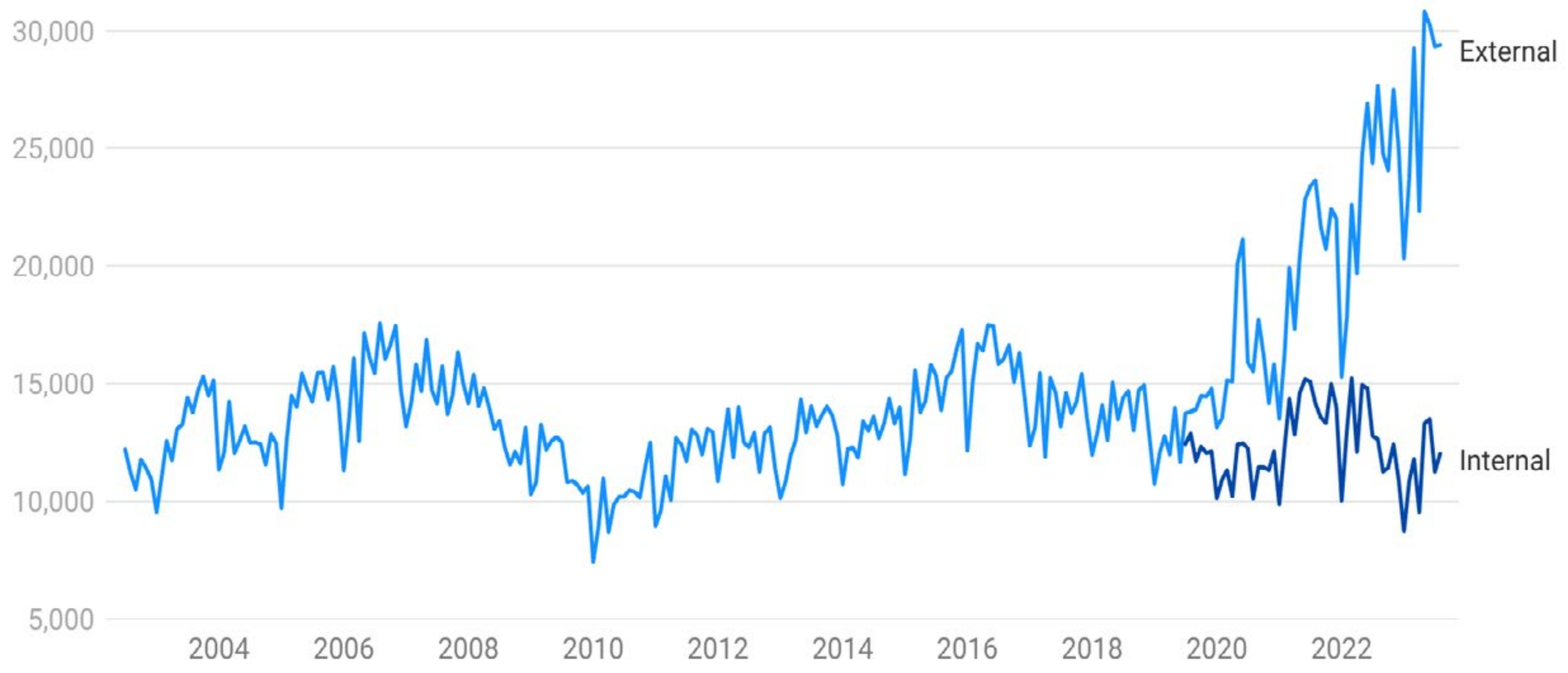


Chart: Finder / Source: Australian Bureau of Statistics

By mid 2022, an Australian borrower on a competitive home loan could have an interest rate below 2.50%. Today, the average variable rate is 5.41%.

These high rates, and the broader cost of living crisis alongside them, make refinancing a very significant cost saving measure and an incredibly urgent one.

Finder's Housing Market Report combines lending data with a survey of 1,016 Australians who have recently refinanced their mortgage, or are planning to. We have distilled these findings into actionable insights for the home loan industry.
This report seeks to better understand the behaviours and attitudes of refinancers:

What factors influence their journey from one lender to another? What information channels do they use to inform their decisions? Why are they switching? And what do they want from a new home loan?

The number of refinancers and the value of their loans is growing

In July 2019 the Australian Bureau of Statistics started measuring the number of borrowers who refinance within their existing bank and the value of their home loans. Back then, just over half (52%) of refinancers were external refinancers, rather than internal refinancers getting a new loan from their current lender. By July 2023, almost three-quarters of refinancers (72%) were external refinancers.

The dollar value of the refinance audience has also grown dramatically over the same period. In July 2019 the average balance left on a refinancer's home loan was $395,059. As of June 2023 that number had risen to $507,053, a 28% increase in 4 years. In June of 2023 the total monthly value of refinanced home loans peaked at $22 billion, up from $10 billion in July 2019.

Understanding how refinancers think, what they want, and how best to help them

Finder surveyed refinancers and borrowers who are planning to refinance soon. The responses paint a complicated picture of Australian refinancers. We found that borrowers are heavily motivated by mortgage stress, rising rates and cost of living pressures. Unsurprisingly, most refinancers want a lower interest rate above all else.

However, borrowers also feel they lack the necessary knowledge to refinance – and when they do refinance they're often not getting the best possible deal. When borrowers do seek out information channels, more than half (54%) use a comparison site, more than any other channel. We also found that refinancers are very willing to look at smaller lenders now, and find the switching process easier when they do move to a smaller lender.

Channels used to choose refinancing providers

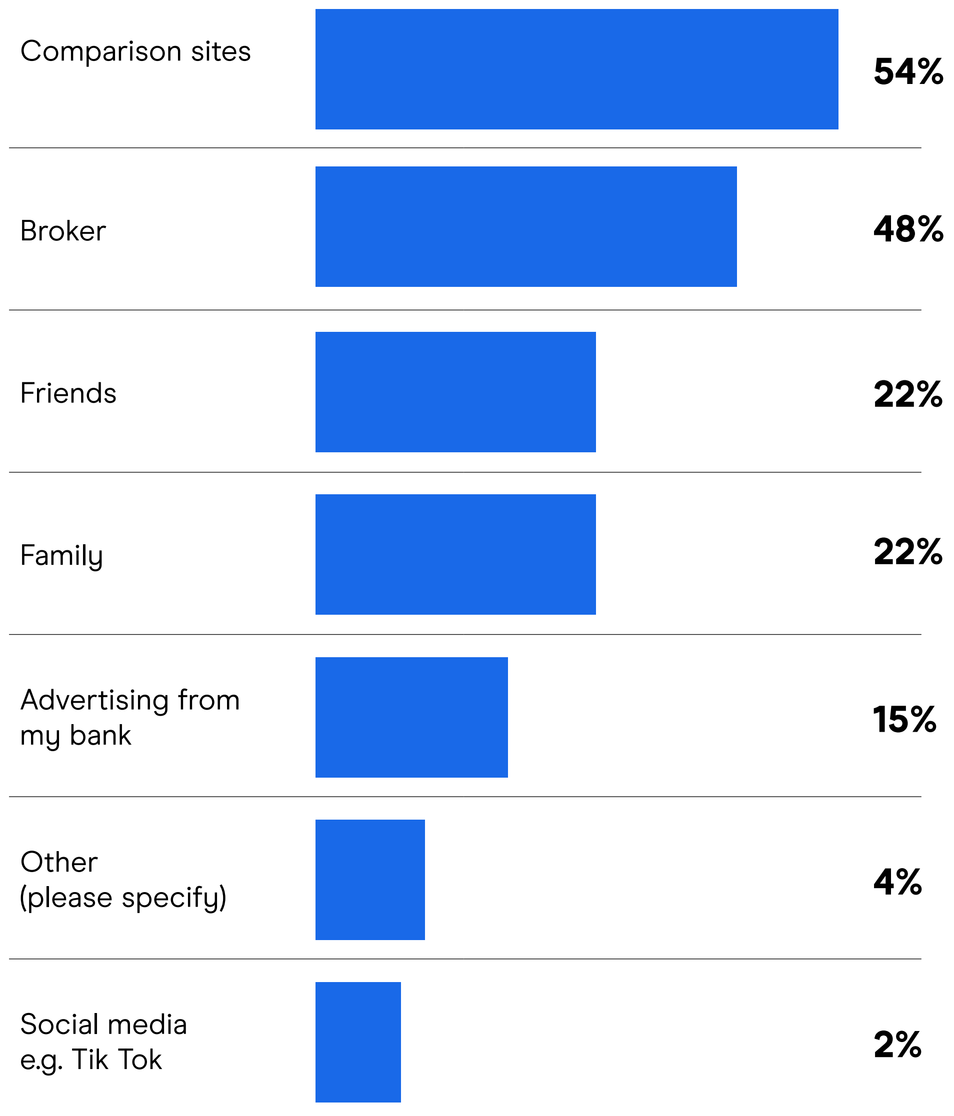


Chart: Finder / Source: Finder Refinance Survey 2023

Section 2: Refinancers today

Borrowers lack the knowledge to refinance confidently

According to our survey, many Australian consumers feel they lack the knowledge to refinance their home loans. 1 in 5 respondents (18%) say they're not confident in their knowledge, while 63% have only slight confidence in their knowledge of refinancing. Just 19% say they are very confident.

This is not surprising. A home purchase is a major but rare event in a borrower's life. As many consumers stick with the same bank for years or decades, the idea that you can even switch from one home loan to another may not occur to many borrowers.

While rising interest rates and cost of living pressures are pushing more people to refinance, borrowers are approaching it with limited prior knowledge. And this no doubt holds back many borrowers from making a decision to leave an unfavourable, uncompetitive mortgage to secure a better one.

Consumer education represents both a challenge and an opportunity for lenders. It also highlights the role comparison sites like Finder play in making it easier for borrowers to quickly compare offers from across the market and read detailed guides on every aspect of refinancing and mortgage management.

Overall confidence in knowledge of refinancing

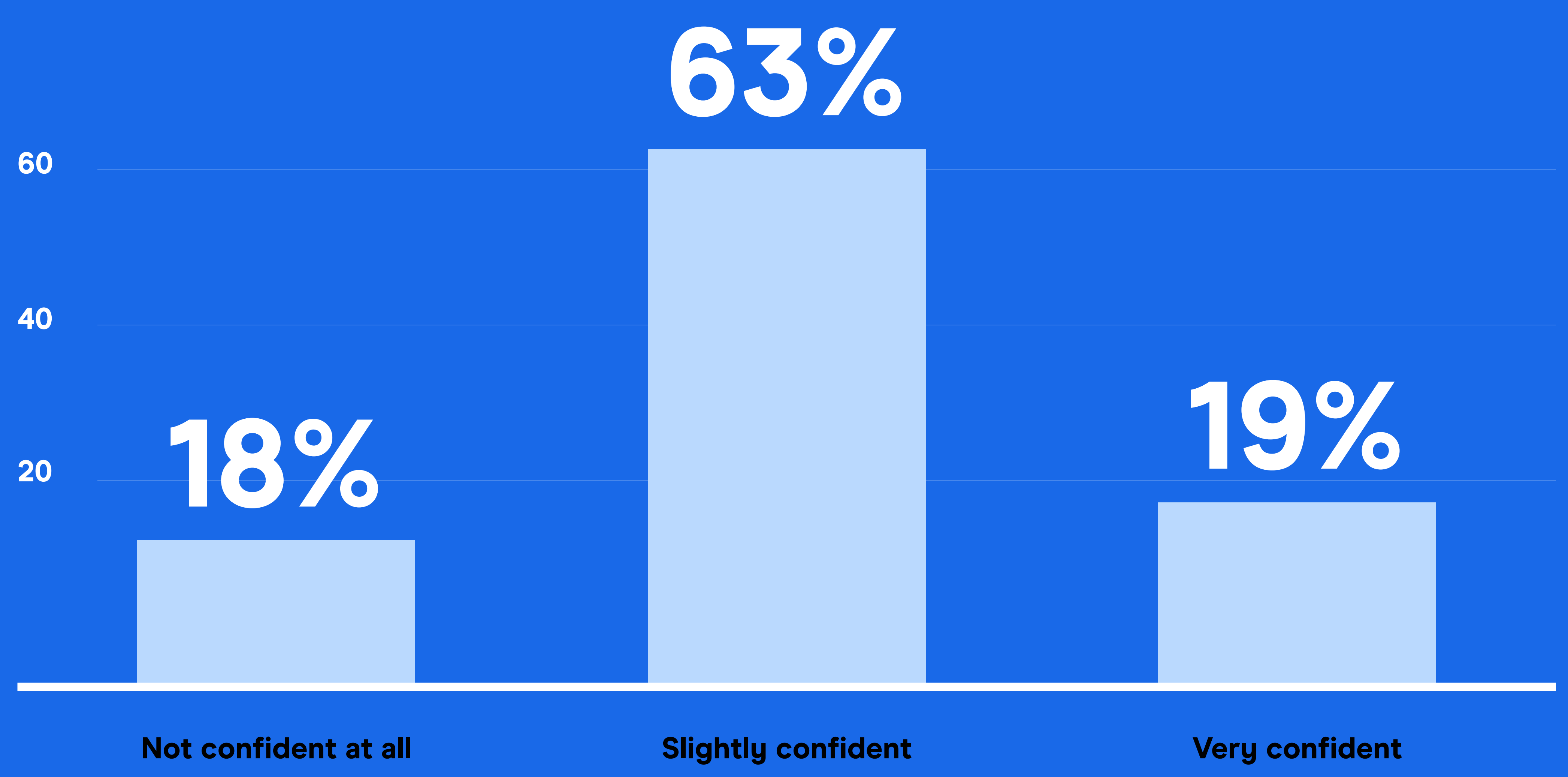


Chart: Finder / Source: Finder Refinance Survey 2023

Understanding the gender confidence gap in refinancing

When we asked men and women who manages the mortgage in a household, more than 3 in 4 men (76%) said they do so themselves. Only 56% of women said that they manage their mortgage.

This disparity affects the rates of confidence on the subject of refinancing, particularly among the most and least confident. While a similar number of men and women (64% and 62% respectively) feel slightly confident in their knowledge of refinancing, 24% of women are not confident at all. For men this drops to 10%. At the other end of the spectrum, more than 1 in 4 (26%) men feel very confident about refinancing, but only 14% of women say the same.

For most Australians, a home is the ultimate financial goal. Managing the home loan debt that comes with it effectively offers borrowers greater financial freedom. Refinancing to a better home loan can unlock greater savings via lower rates and fees, or access to more flexible savings tools like offset accounts. Switching to a lender with a helpful smartphone app gives borrowers more control over the loan repayments.

Reluctance to refinance stems from a lack of knowledge and experience managing a home loan. Finder data shows this is not only a consumer education issue but one of gender equity.

We know that there is a gender gap in superannuation levels, which disproportionately affects women and reduces their financial options and opportunities later in life. Perhaps it is time to think about debt management and refinancing in the same way.

Confidence in knowledge of refinancing by gender

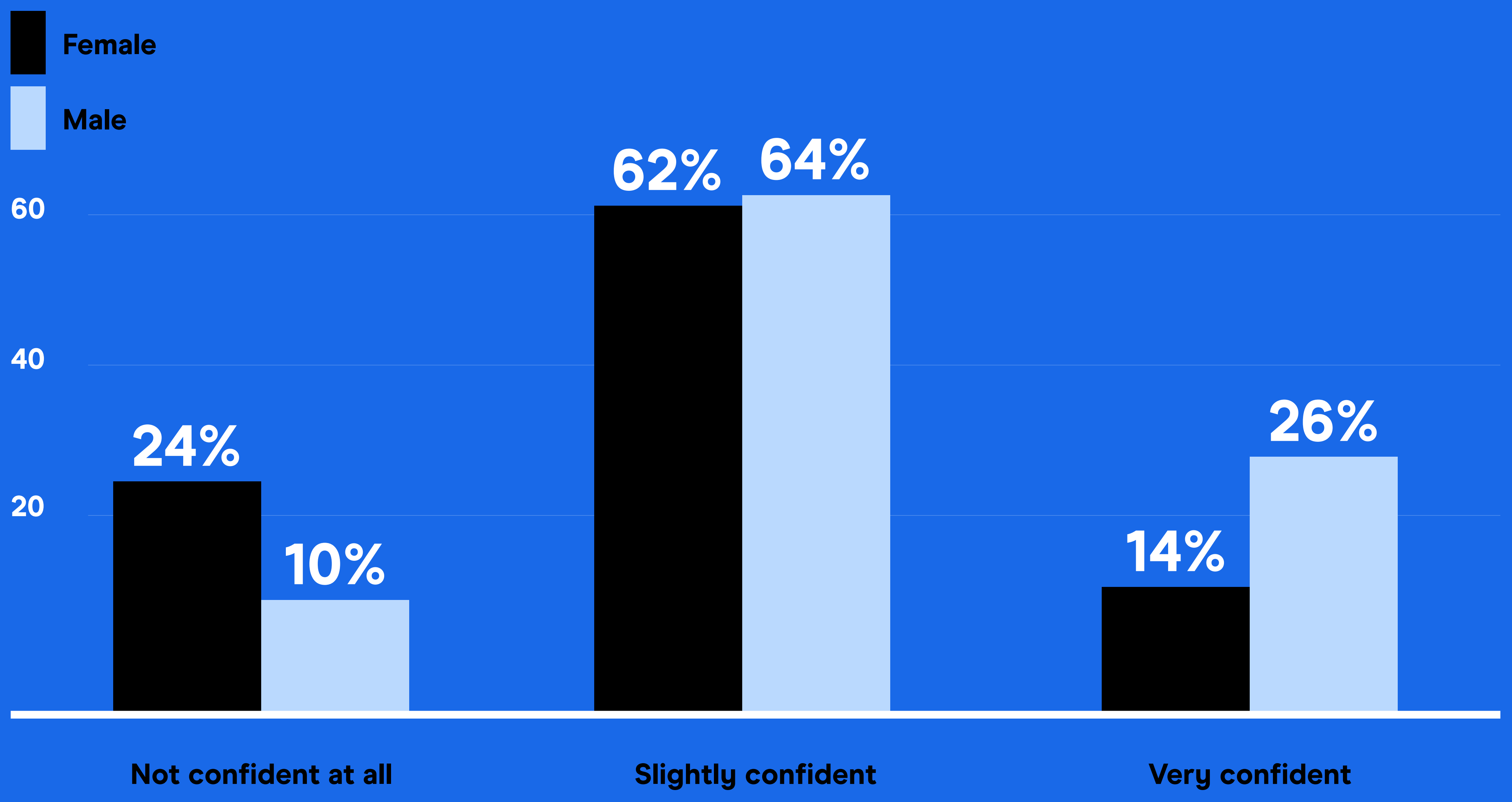


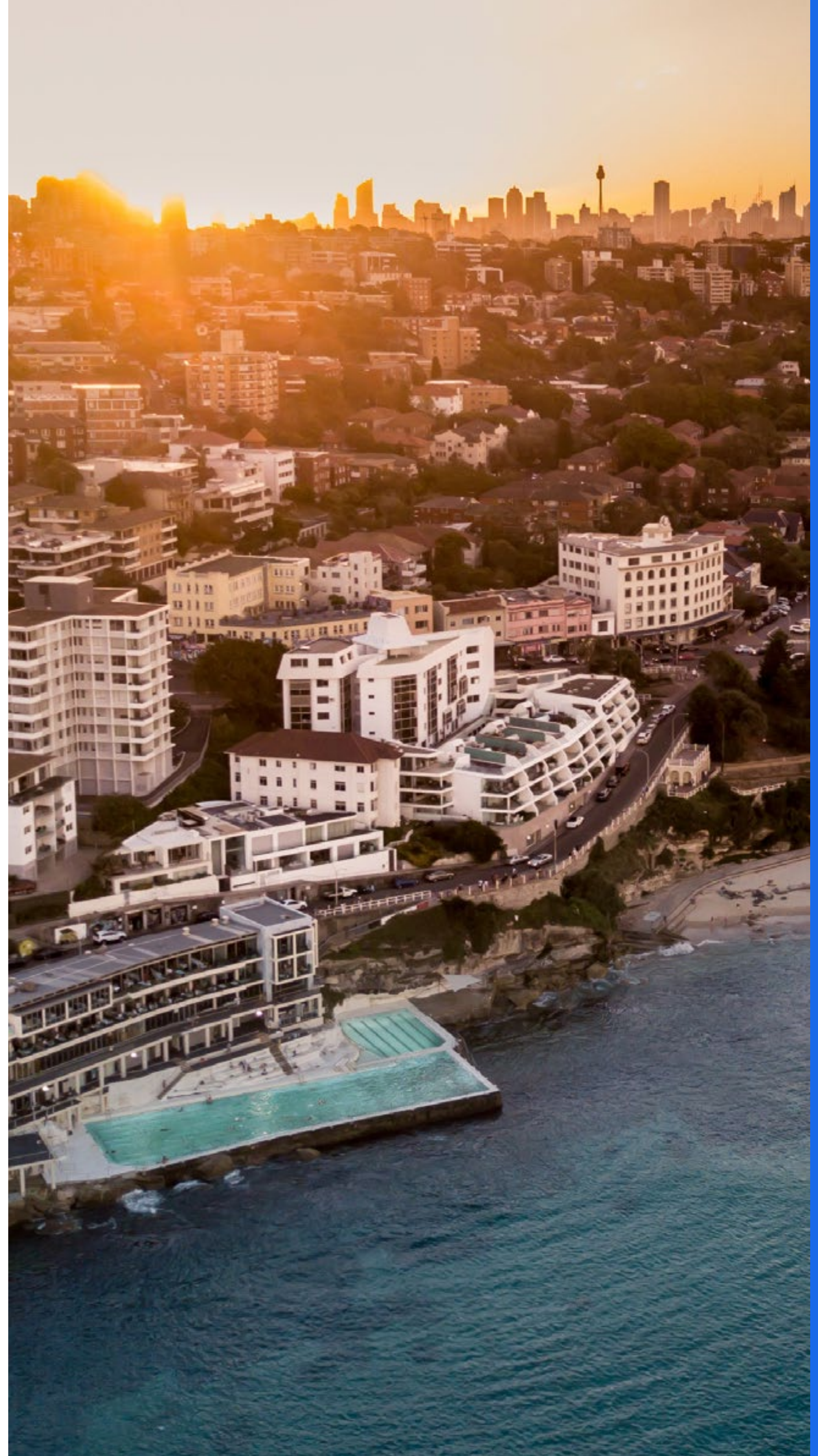
Chart: Finder / Source: Finder Refinance Survey 2023

Housing costs are borrowers' biggest stress

Australian property prices have risen dramatically over the past few years. Even rapid interest rate rises have not been enough to fully cool buyer demand.

The average Australian refinancer has an outstanding loan balance of $507,053 when they switch to a new home loan, according to the ABS. This is a 28% increase from 2019. While some refinancers may have paid off a significant portion of their original loan, and thus have smaller loan amounts, we can see that rising prices and rising new loan sizes have a follow-on effect on refinancers.

Finder's survey found that 60% of homeowners were stressed about their home loans in the 3 months leading up to the moment they refinanced. After refinancing, 49% of homeowners said they were stressed about their mortgage. This suggests that even refinancing is not enough to fully relieve mortgage pressures in a time of higher interest rates and high property prices, especially in the face of a wider cost of living crunch.



Home loan stress before and after refinancing

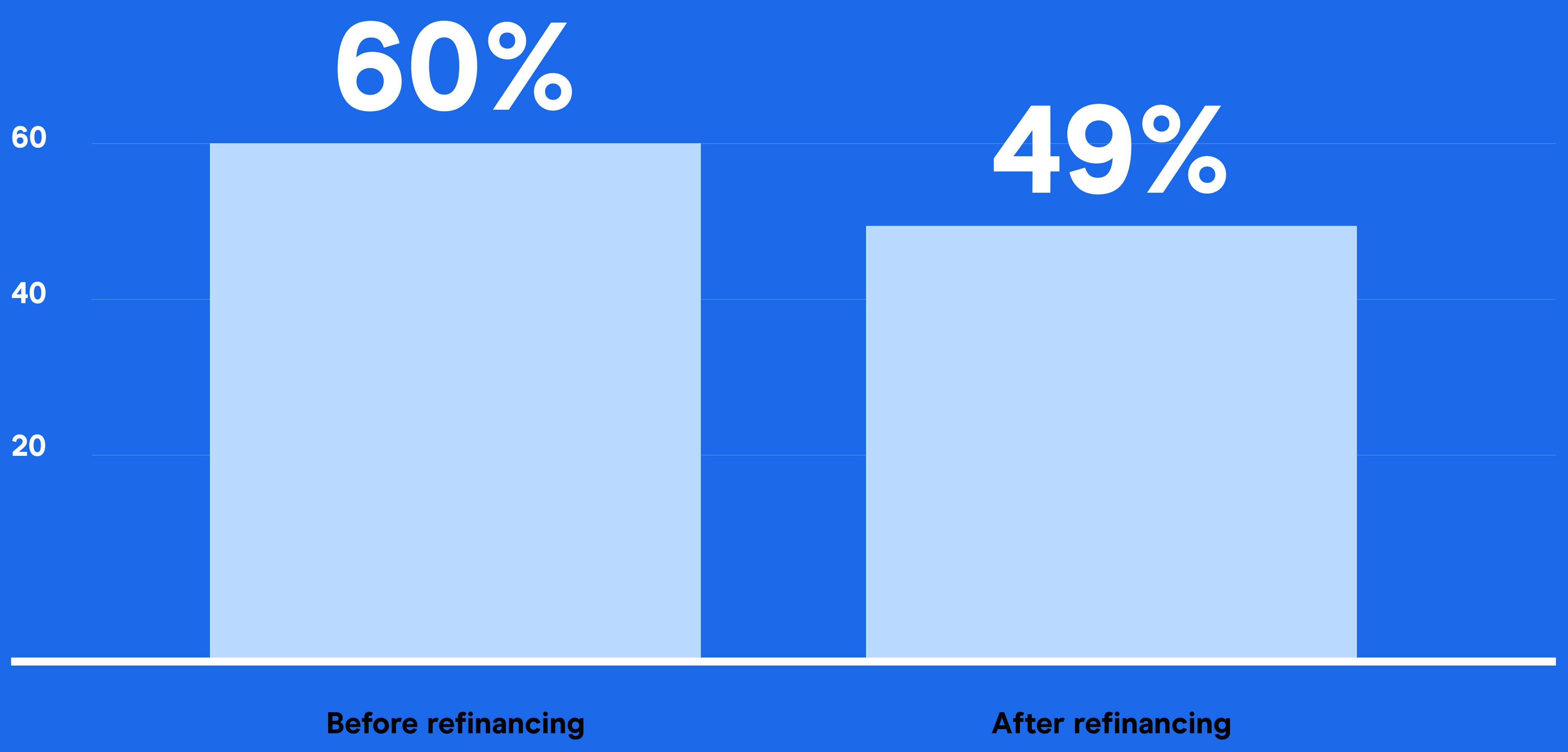


Chart: Finder / Source: Finder Refinance Survey 2023

Refinancers are not always getting a significantly lower rate when switching

When Finder surveyed refinancers on how much they saved by switching in the last 12 months, we found that borrowers were not always getting significantly lower interest rates. The average refinancer had a variable rate of 5.01% before refinancing. After refinancing the average new variable rate was 4.78%, or a 23 basis point reduction. This obviously represents a saving. Assuming a borrower had the average refinancer loan balance of $507,053 and was switching from one 30-year loan term to another, that lower rate would save a borrower $71 a month.

While 23 basis points represents a decent saving, it is surprisingly low. The RBA increased the cash rate target by 25 basis points 4 times in 2022. For 4 consecutive months the bank increased the target by 50 basis points. Meanwhile there is also a significant gap in rates offered by different lenders for comparable loan products, while many lenders keep existing borrowers on higher variable rates while offering lower rates for new borrowers. However, it must be noted that when we asked respondents the dollar figure of how much they saved when they refinanced, the average saving reported was $332 per month. This disparity is interesting, and suggests that refinancers may more accurately remember what they are actually paying each month rather than their interest rate. Borrowers are being pushed to refinance because of rising rates and cost of living pressures but they are not always getting the best deal.

This suggests that the lack of knowledge about refinancing holds borrowers back from making the best decisions possible. Additionally, borrowers in difficult circumstances may be rushing to refinance without considering a wider range of loan options.

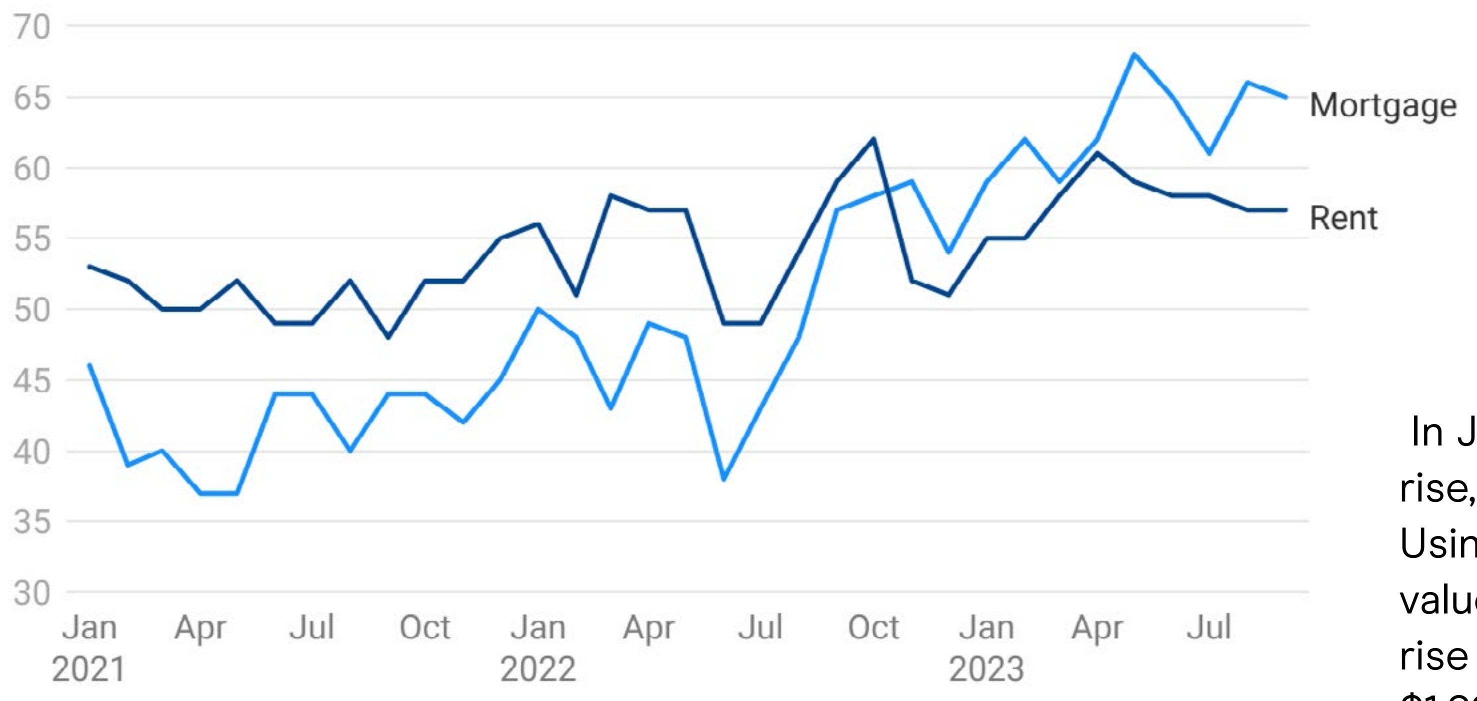
Section 3:
Refinancers in the future

Rising interest rates have added pressure on borrowers

Of the borrowers Finder surveyed who are planning to refinance soon, almost two-thirds (62%) are stressed about their mortgage. The rising interest rates throughout 2022 and 2023 have increased repayment costs, at the same time Australians are battling with rising inflation.

According to data from Finder's Consumer Sentiment Tracker, two-thirds (66%) of mortgage holders ranked their housing costs among their top 3 most stressful expenses. This was 8 points point more than the proportion of renters who ranked housing costs among their top 3 most stressful expenses. It was also 35 percentage points higher than the next most stressful expense of grocery shopping.

Percentage of homeowners vs renters listing housing costs as a stressful expense



*Respondents selected their top 3 most stressful expenses | Chart: Finder / Source: Finder Consumer Sentiment Tracker 2023

Lenders have typically been increasing their variable interest rates in line with the RBA's cash rate rises.

This means that most borrowers have seen their interest rates increase by 4 percentage points, or 400 basis points since April 2022. Looking at the RBA's data, the average variable interest rate on an outstanding mortgage was 2.86% in April 2022.

In July 2023, after the last rate rise, that figure was 6.23%. Using the average home loan value in April ($611,154), that rate rise would have meant an extra $1,224 per month in repayments.

Many borrowers fixed their interest rates during the record low rates of 2020 to 2022. While it is predicted that the majority of those low fixed rates have ended, many are still preparing for a big jump in their monthly repayments and are likely thinking about refinancing.

Mortgage stress is cause for refinancing - and millennials are struggling most

Struggling with interest rate rises is a key motivator for refinancers. 82% said that finding the cheapest rate was one of their three most important factors when looking for a new loan.

The generation facing the most mortgage stress is Gen Y (Millennials), with 64% of borrowers in this cohort looking to refinance because they're struggling with the cost of living. That's unsurprising when you look at the loan values they would be refinancing. The average loan size for a Millennials planning to refinance is $412,581, which is almost double the average loan size for Baby Boomers ($240,422).

Current size of home loan for future refinancers, by generation

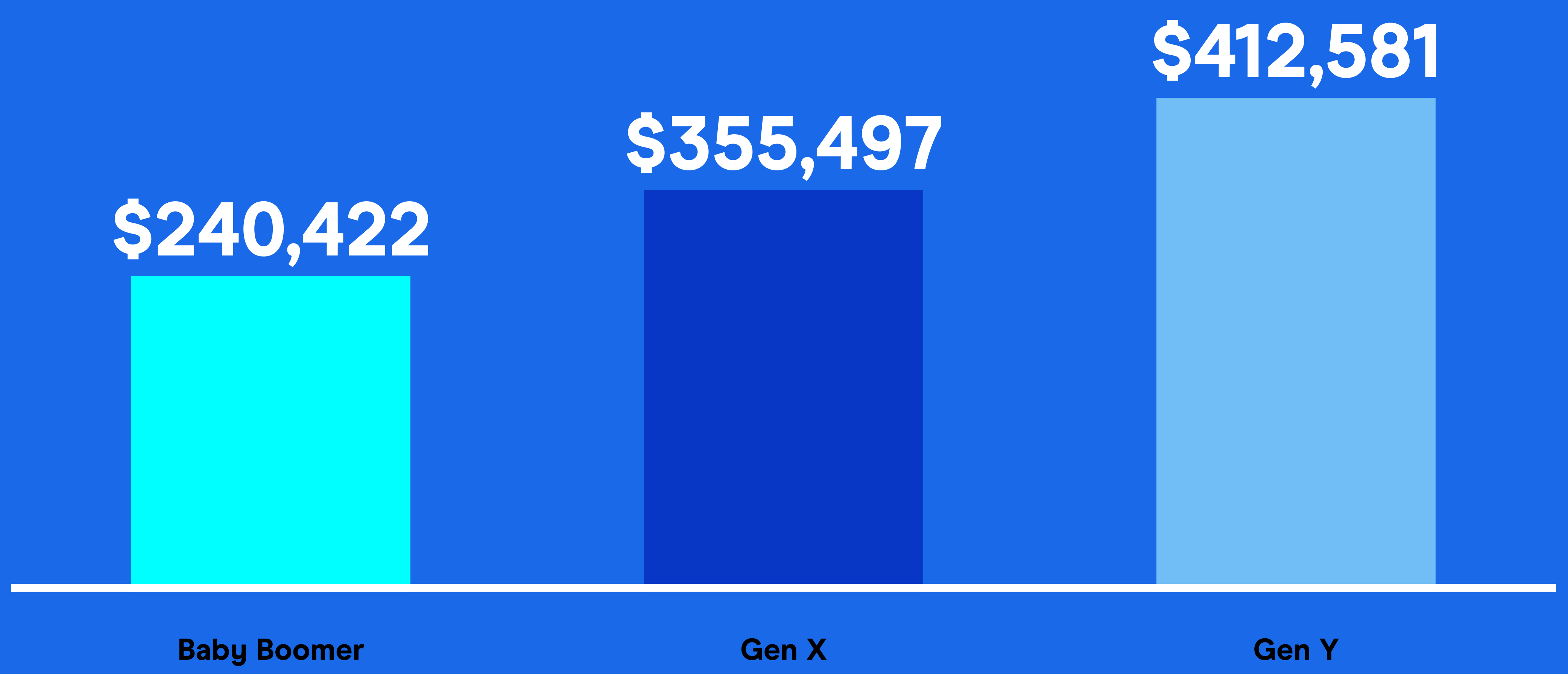


Chart: Finder / Source: Finder Refinance Survey 2023

This could be due to the fact that baby boomers bought when prices were lower, and have had their loans for a longer time and so have paid off more of their debt. Baby Boomers are also more likely to have downsized and so may be paying off smaller loans, rather than their gen Y counterparts who are often young families buying larger properties.

Younger generations settle for higher rates when refinancing

From the borrowers Finder surveyed, the average interest rate of those looking to refinance was 5.70%. This is a fairly low interest rate for the current market, which suggests that borrowers are thinking about refinancing ahead of their lower fixed rates ending. This shows proactiveness in a higher-interest-rate environment, where borrowers are nervous about their monthly repayments increasing and adding further stress.

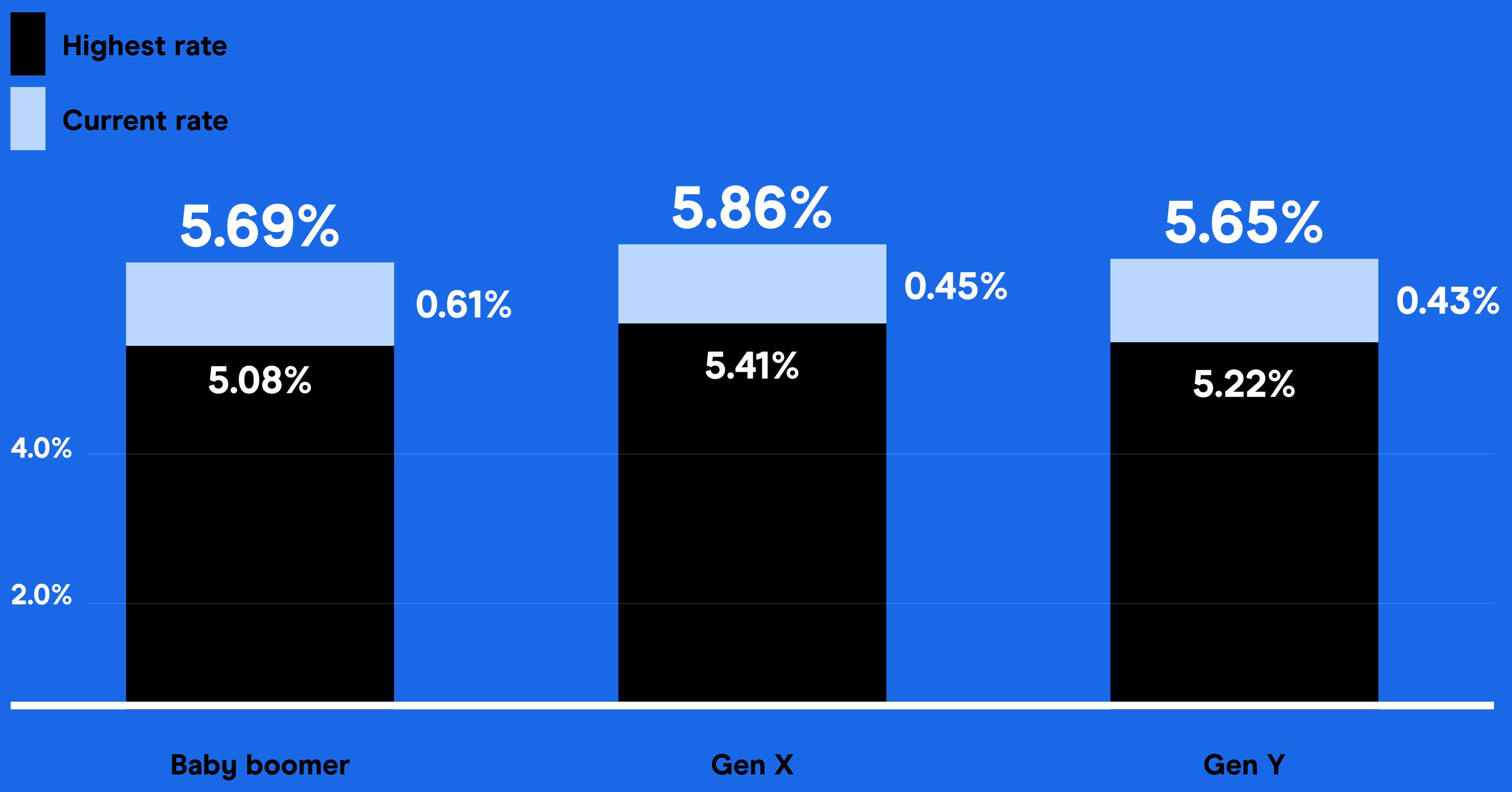
Interestingly, when asked what the highest interest rate was that they would consider refinancing to, borrowers on average said 5.25%. That's only a saving of 45 basis points, signalling that borrowers are taking whatever savings they can get at the moment.

The research also suggests that different generations have different ideas on what is a good interest rate to refinance to.

Baby Boomers are the generation with the highest savings expectations. Currently sitting on an average interest rate of 5.69%, Baby Boomers want to see a drop of 61 basis points before they would be happy with their rate.

Gen X are currently sitting on the highest average interest rate of all generations (5.86%). The highest interest rate this generation would consider refinance to is 5.41% – a reduction of 45 basis points.

Average interest rates for prospective refinancers and the highest rate they would switch to, by generation



*Average rate includes all loan types i.e. fixed, variable and split
Chart: Finder / Source: Finder Refinance Survey 2023

No loyalty to lenders when it comes to searching for a better deal

As borrowers hunt for a better deal on their home loan, most are happy to cut ties with their existing lender.

2 in 3 future refinancers (64%) plan to lock in their loan with a different lender. That's continuing the ongoing trend seen from ABS figures in July 2023 where 72% of refinancers switched to a new lender. Not just happy to switch lenders, borrowers would also consider completely switching the type of lender they have their mortgage with.

In fact, 76% of refinancers say that the cost of living crisis has pushed them to look outside of the big 4 banks. Only 8% say they already bank outside the big 4, which is consistent across all generations.

Around a quarter (26%) of borrowers would stick to a lender of a similar size to their existing provider. But 17% would go to a larger lender and 21% say they would like to back a smaller lender.

Planned movement for future refinancers

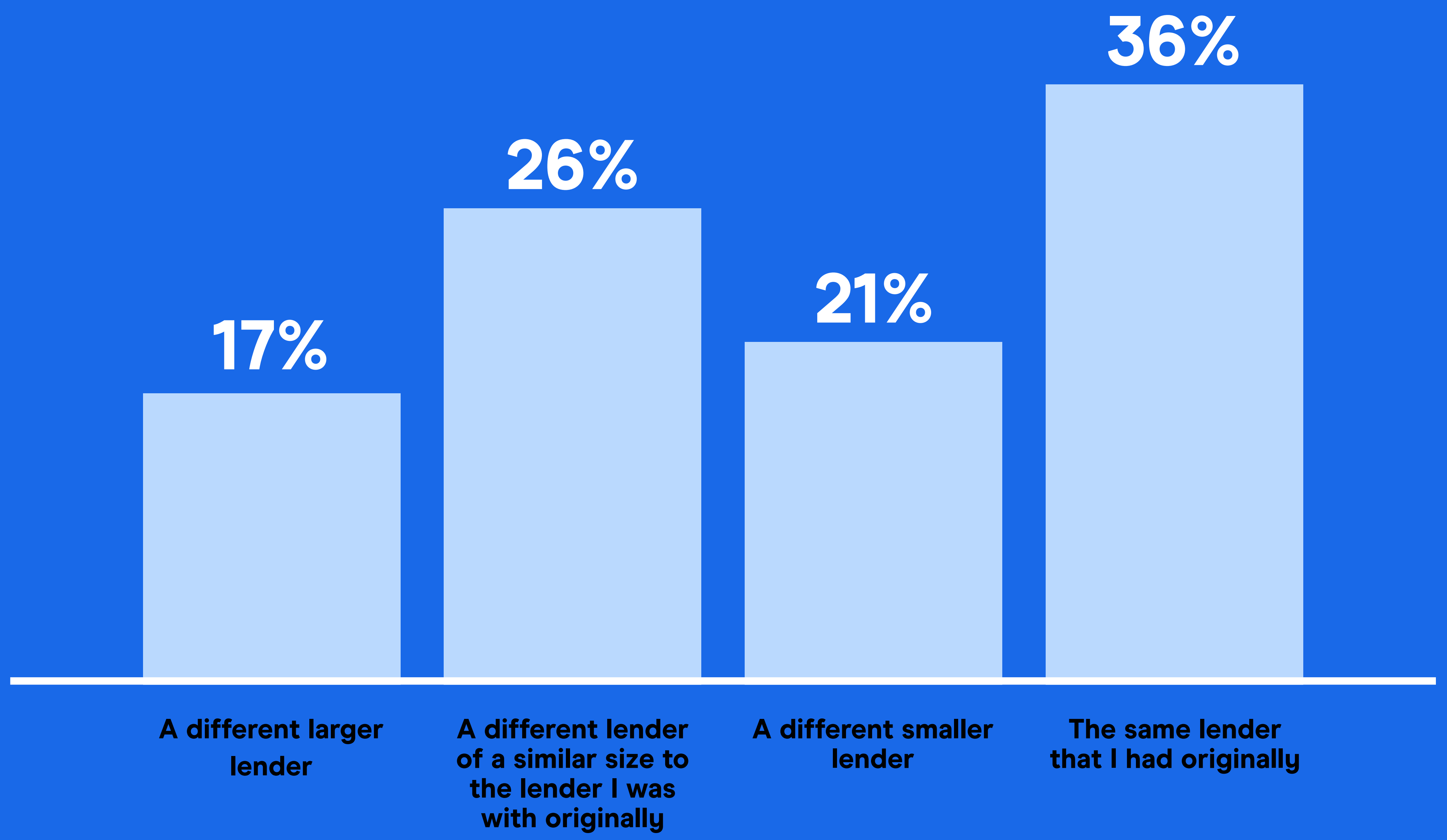


Chart: Finder / Source: Finder Refinance Survey 2023

Section 4: Industry

Consumers prefer comparison sites to other information channels

The decision to refinance is the second most important decision behind actually taking out a mortgage for many homeowners. There is often a high level of financial and psychological risk involved in this decision. The choice of home loan could cost, or save, thousands of dollars over the long term and can have a significant impact on a borrower's level of financial stress, especially in the current high-interest rate environment.

The relatively high risk of this decision helps to explain homeowners' need for a high-touch experience. Only 15% of respondents indicated that advertising from their respective banks played a role in their choice of provider when refinancing. Notably, comparison sites emerged as the preferred service in this decision-making process, with 54% of homeowners relying on them.

It is worth mentioning that older homeowners tend to use comparison sites more than their younger counterparts with 59% of Baby Boomers and 56% of Gen X using a comparison site compared to 51% of Gen Y.

In contrast, Gen Y homeowners lean more towards brokers, with 56% of Millennials opting for their expertise. Only 32% of Baby Boomers do the same.

Channels used to choose refinancing providers by generation

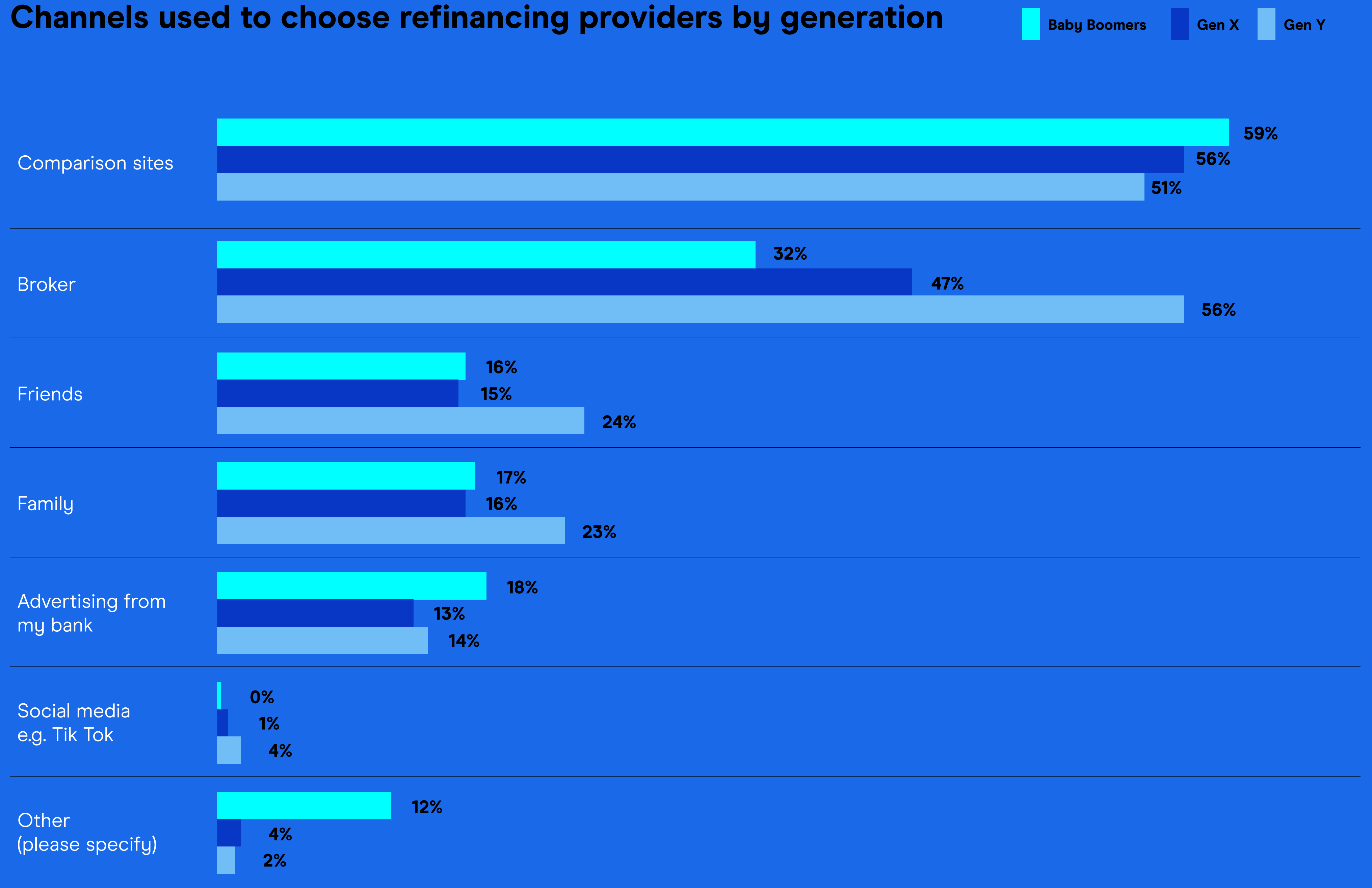


Chart: Finder / Source: Finder Refinance Survey 2023

Consumers find the refinancing process quicker and easier to understand with smaller lenders

Staying with the same lender is the best way to keep the process quick and easy. However, loyalty usually doesn't get the best deal. Of those consumers who did move, 78% who went with a smaller lender found their process easy to understand. This is compared to 72% of consumers who went with a larger lender. Switching to a smaller lender had 66% finding the process efficient, while only 56% said the same with a lender that was a similar size or larger than what they were already with.

Percentage of refinancers who found the process easy to understand and quick and efficient, by size of new lender

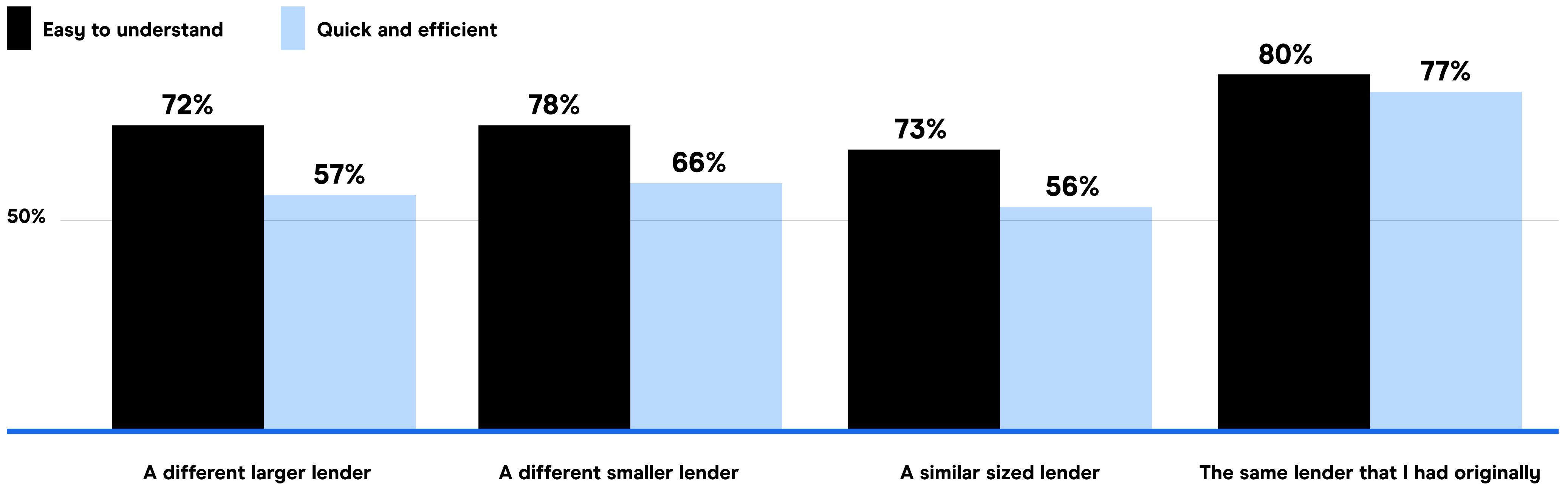


Chart: Finder / Source: Finder Refinance Survey 2023

What are consumers looking for when refinancing?

Refinancers were asked to choose the top three most important factors when refinancing. 4 in 5 (82%) respondents rated getting the cheapest interest rate in their top three factors.

Access to an offset account followed this with 34% rating it as a key factor. Only 1 in 5 (22%) respondents rated sign-up cash bonuses in their top three. A clear fee structure and smooth application process (21% and 19% respectively) had similar levels of importance.

CATEGORIES	PERCENTAGE
Cheapest interest rate	82%
Access to an offset account	34%
Sign up cash bonus	22%
Clear fee structure	21%
Smooth application process	19%

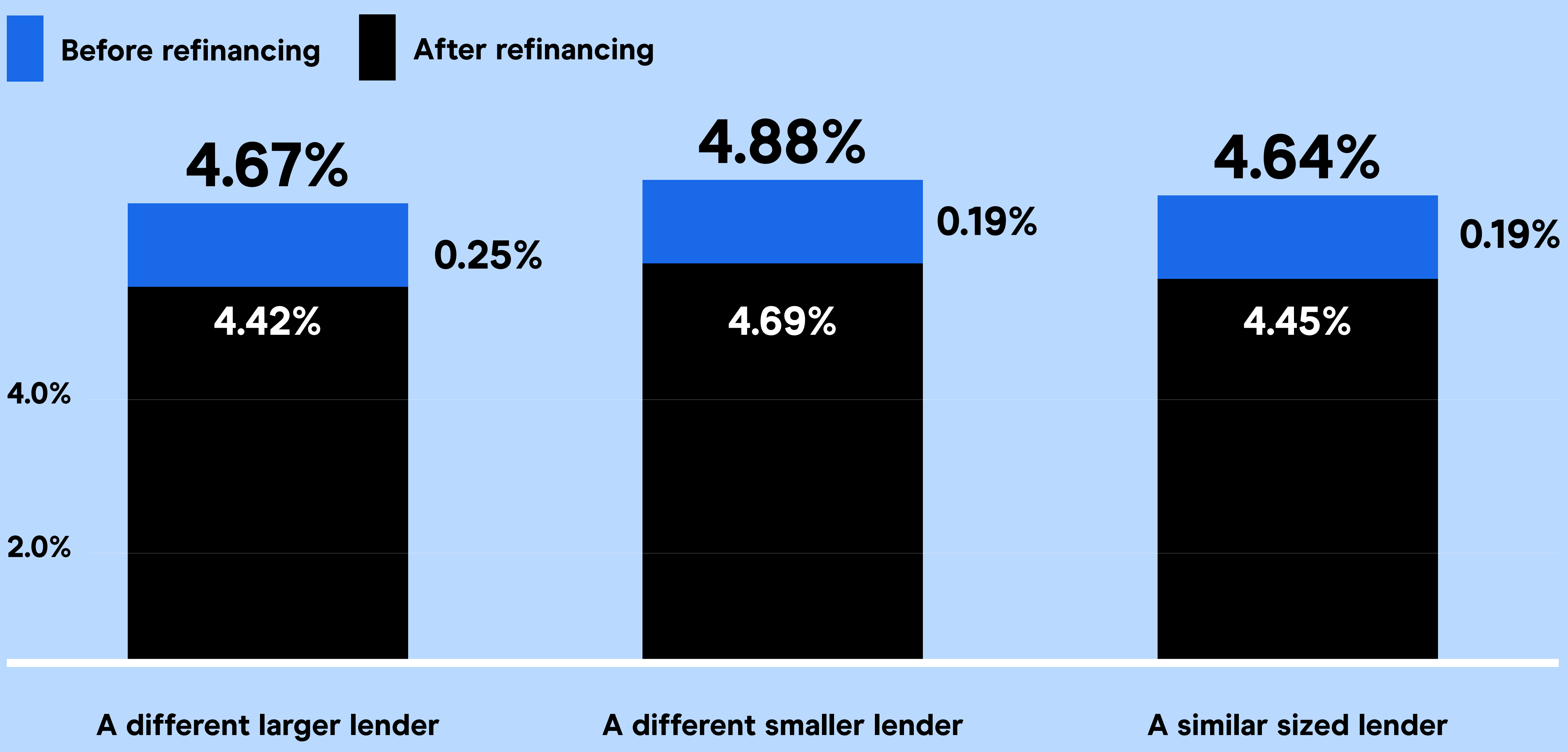
Those refinancing to a smaller lender are sacrificing the opportunity for lower rates and lower levels of stress for unique features

The above insights are quite predictable, however, those who moved to a smaller lender seem to be bucking conventions. Only 69% of homeowners who switched to a smaller lender value getting the cheapest interest rate. This group is more focused on features and convenience.

For example, 1 in 5 (20%) value a redraw facility compared to 13% of those who went with a similar sized lender. Additionally, 1 in 4 (25%) homeowners choosing a smaller provider value quick approval times compared to only 11% of those who went to a larger lender.

Those refinancing to a larger lender reported netting the largest reduction in rate (0.25%) while the savings reported from switching to a smaller or similar sized lender were slightly lower at (0.19%).

Average interest rates before and after switching, by lender refinanced to



*Average rate includes all loan types i.e. fixed. variable and split
Chart: Finder / Source: Finder Refinance Survey 2023

The proportion of respondents that reported stress continuing after refinancing follows a similar trend making it clear the added features that smaller refinancers value aren't reducing the stress added by higher rates.

Proportion of refinancers still stressed after refinancing, by lender refinanced to

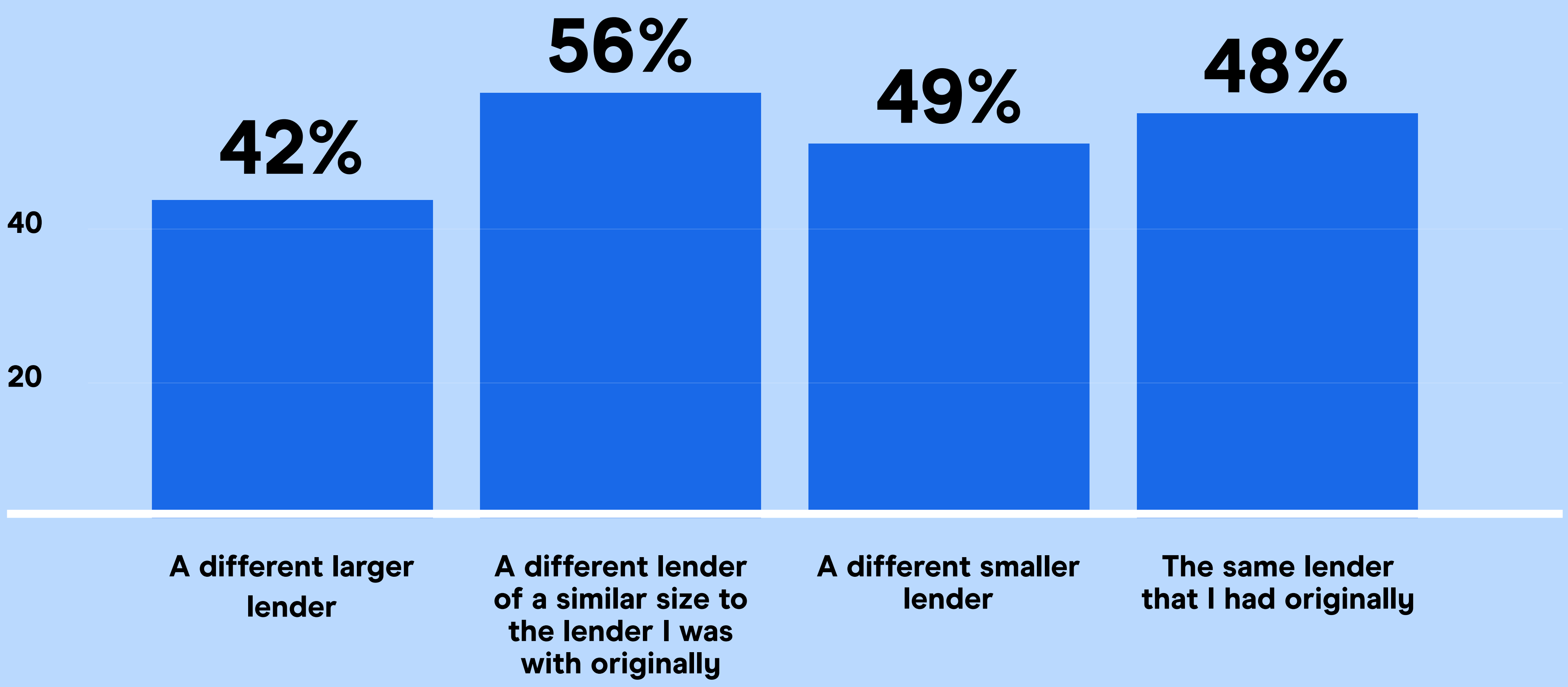


Chart: Finder / Source: Finder Refinance Survey 2023

Consumer education and the role of comparison sites

We know from our survey that many borrowers lack confidence and knowledge about refinancing. And this may keep some borrowers from leaving their current lender and securing a lower rate or more suitable loan product.

With more than half of refinancers using a comparison site when deciding on a new lender, sites like Finder serve an important role in educating borrowers and equipping them with the knowledge and tools they need to feel confident in making the decision to find a new home loan.

By surfacing a wide range of loan products from various lender types (banks, online lenders and credit unions), Finder helps would-be refinancers quickly see a broad snapshot of the lending market and filter loan offers based on interest rates, fees and features. This allows borrowers to find lower rates and is an environment in which lenders with market-leading rates can stand out from the competition.

Finder’s guides serve a wide audience of financial consumers looking to find better financial products and solve difficult financial problems, from debt consolidation to budgeting and cost cutting. This audience, motivated by personal circumstances to compare and switch, are empowered by the information we provide.

Finder’s comparison tools, calculators and guides provide borrowers with some of that missing information they need to make a better financial decision about the biggest debt most Australians will ever have.

Takeaway: How lenders can serve the growing refinance audience

External refinancing rates have reached all-time highs and look set to continue growing, with 83% of economists from Finder’s RBA survey predicting the total value of refinancing will continue to increase over the next 12 months. It is no coincidence that the last year has seen stress levels amongst mortgage holders also hit new highs, pushing Australians to lose their loyalty. Cashbacks, existing primarily as an incentive for customers to switch lenders, have likely contributed to this trend too.

What used to be a handful of savvy savers, roughly 14,000 of them in the month of September 2019, has now more than doubled in 2023. As we have seen, the refinancers of today are ultra-focused on any tangible way they can save money.

It seems that most of the industry is focused on grappling for market share and attracting new customers. However, Finder’s research presents a case for going against the prevailing tide and focusing on long-term value for long-term customers.

Lenders cannot take borrower loyalty for granted any longer. And offering a lower rate is only part of the solution. Lenders that make refinancing easier and equip borrowers with the necessary knowledge about the process can win new borrowers.

Expert commentary

Graham Cooke
Head of Consumer Research

While navigating the refinancing landscape, Australian homeowners exhibit notable trends, revealing a shift in financial behaviours and preferences. A striking inclination towards exploring refinancing options beyond their existing banks signals a potential erosion of traditional bank loyalty, urging financial institutions to recalibrate their strategies to meet evolving customer needs. Furthermore, the willingness of homeowners to refinance for even marginal gains underscores the pervasive cost of living crisis, reflecting a desperate search for any fiscal relief. This scenario amplifies the necessity for strategic interventions that provide genuine, sustainable financial help to Australian families.

For homeowners, a proactive approach to financial management is paramount. Regularly reviewing and comparing home loan options ensures alignment with financial goals, while utilising digital platforms and comparison sites can simplify and demystify the refinancing process. Engaging with financial advisors and educational resources further empowers homeowners to navigate their refinancing journey with confidence.

The intersection of shifting consumer behaviour, financial strain, and the evolving lending landscape presents both challenges and opportunities. Moving forward, a balanced approach, prioritising informed decision-making, transparency, and customer-centric practices will be crucial in steering towards financial stability and sustainability in Australia's housing market.

Rebecca Pike
Senior Writer, Money

After 13 years of not seeing an interest rate increase, Australian borrowers have had to get used to them coming in fast over the last year and a half. With a 400-basis-point increase over 12 rate rises, thousands of homeowners have seen their monthly repayments soar. After a record low cash rate of 0.10% when borrowers were scoring interest rates beginning with a 2, it's a shock for many to see them now around the 6% mark. It's little wonder then that not only has the refinance market been so strong, but it's mortgage stress that's driving it – especially when we take into consideration high inflation.

Some of the concerning factors are that so many refinancers are not completely confident with the process, that they are refinancing for minimal savings and that millennials are struggling with their loans.

Even after going through the home loan process at least once before, borrowers are in need of support and education when it comes to refinancing and finding the best deal. That might be why we're seeing so many refinancers jumping at the chance to save just 23 basis points, when often there are better rates on the market. Millennials struggling the most out of all the generations is a concern because they are the generation which has bought most recently. This could be a sign that they jumped in when rates were at record lows and were unprepared for an environment where rates and repayments increased. This shows the need for education and support across all stages of homeownership.

Richard Whitten
Money editor

I follow interest rate movements more closely than any normal person. It's my job after all. And yet the pace and frequency of rate rises since May last year have still left me reeling. The ordinary borrower has been hit extremely hard in the RBA's quest to fight inflation.

While the bank may not have had many other options, it's still a huge burden for Australian borrowers. We have seen this over and over in the data. Australian borrowers report higher levels of financial stress and cite home loan repayments specifically as a major issue.

The only silver lining is that the lending market is a competitive one, and lenders are always offering better deals for new borrowers. But if borrowers want to become successful refinancers they need to put effort in to research and compare their options. Our refinance report shows that many borrowers currently feel unequipped to make good decisions about their home loan.

A home loan is a gigantic debt. But a properly managed home loan with a reasonable rate and features that suit a borrower's needs is also an incredibly useful financial tool and a means for people to achieve a greater level of financial freedom. In the current environment of higher rates and inflation, refinancing has never been a more important decision.

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