Mortgage News

Your guide to mortgages, finance & property

Autumn 2009

Select Financial
PO Box 464
Ermington NSW 1700

Contact:
Chris

Telephone:
0400 642 180

Fax:
02 9613 9622

Email:
info@selectfinancial.com.au

Web:
www.selectfinancial.com.au

Full speed ahead

With the beefed-up first home owner grant now in full swing it's time to get cracking if you want to take advantage of the attractive savings on offer.

There has never been a better time for wishful first home buyers to take the plunge into the property market. With interest rates lower than they've been in decades, house prices flattening and government incentives ripe for the picking, there's no doubt this is a golden opportunity to get into Australia's property market.

But time is running out; while many are hopeful the first home owner boost scheme will be extended after 30 June this year, there's no guarantee – so it's time to think fast and take action if you want to get your share of the savings.

Here are some tips to get you on track to securing your first home before June 30.

Educate yourself – Knowledge is power and it always pays to do some preliminary fact finding before diving into the property market. Make sure you do plenty of research on the area you're interested in and find out exactly what government concessions you are eligible for as a first home buyer.

Know what you want – Once you know your price range, think carefully about what's important to you in your property. Different features come at different costs, for example consider whether 4 bedrooms are an essential over a pool and a double garage.

Talk to a broker – With loan data at our finger tips, a mortgage broker is an indispensable asset when entering the mortgage market for the first time. We'll be able to answer all your questions – regardless how silly they might seem to you – and we can also save you precious time shopping around for the deal that best suits your situation.

Get a pre-approval – We can help you arrange a pre-approved loan. This will not only offer an indication of exactly what you can afford, it will essentially give you the green light to make an offer on the right property as soon as you find it and that can be a real advantage.

Get smart, get ahead

With households saving as much as $600 per month since the RBA began reducing the cash rate last year, a once-in-a-lifetime opportunity now exists for some households to get ahead.

If you had the chance to wipe more than $100,000 off your mortgage and pay it off in half the time would you? If the answer is yes, the good news is – it may be possible.

Since the Reserve Bank of Australia (RBA) started easing the cash rate in September last year the average household with a variable rate mortgage is now around $600 better off every month when it comes to loan repayments.

While some households may be enjoying the perks an extra hundred bucks or so a week delivers, those households who choose to use that extra cash wisely will be the ones enjoying the good life in the long term.

Here are just a few ways to stretch those extra dollars further. For complete, individually tailored advice be sure to give me a call and we'll discuss a strategy for you.

Reduce other debt: With such a substantial increase in cash flow take this opportunity to wipe out any other debts – particularly personal loans or credit cards, whose rates of interest may be more than double those on your home loan.

Save: If rising unemployment is a concern for you it's wise to dedicate at least some of the reduced interest payments to a savings account. Not only are savings a worthwhile contingency plan they are great for unexpected costs – such as a new baby or illness, and a way to make small pleasures like holidays a reality.

Keep your repayments the same: If your repayments last year weren't sending you broke, the best thing you can do is continue to pay the same amount off your mortgage.

Take a $250,000 home loan on a 30 year term, for example. If your interest rate is 5.7 per cent instead of 9.7 per cent your repayments would decrease from around $2,140 to $1,450 per month over the life of your loan.

If, however, you made repayments of $2,000 every month you could save over $140,000 in interest over the life of the loan and pay your loan off in just 14 years!*

**Assuming your interest rate remains the same for the life of your loan.*

Every little bit counts

So your finances won't permit you to pay the same amount off your home loan every month as you were a year ago? Fear not, even an extra $200 per month – that's around $50 a week – can generate substantial savings.

On a 30 year $250,000 home loan, for example, monthly repayments of $1,650, rather than $1,450, could take seven years off your mortgage (considering a 30 year term) and save $80,000 in interest.

Even an extra $20 a week could take three or four years off your home loan and somewhere in the vicinity of $40,000 – that's a new car, several years of school fees or a family holiday overseas.*

**Assuming your interest rate remains the same for the life of your loan.*

Take a closer look

While a pre-purchase inspection may seem inconvenient or unnecessary it is an essential step of any property purchase.

You love the kitchen, the balcony's great and the building appears to be in ship-shape. Time to sign the dotted line? Wrong!

While a property may appear to be in good condition to you and well worth its asking price, only a professional can really ensure you're making a smart purchase.

To arrange an expert opinion – and give you peace of mind – organise a licensed builder to visit your property before you buy. They can check the condition of the interior, the roof, under-floor and inter-wall spaces to determine whether there are any significant building problems or hazards you need to be aware of.

They'll then provide you with a detailed summary of the property's condition, usually in a checklist format.

What you'll gain

Such an inspection could save you thousands of dollars, in two key ways. First, if the property has some minor problems you may be able to drive down the purchase price. Second, the inspection could uncover more serious problems, which could see you incur substantial repair and maintenance costs in the long run, or even worse, threaten the value of the property. For this reason the inspection is vital!

What it will cost

The price of a pre-purchase inspection will depend on the property and the time taken to undertake the examination, but as a rule of thumb a standard report for a typical residential property should set you back around $500 – a worthwhile investment.

Don't forget, you will need to get the vendor's permission to have the property inspected.

If you're not sure how to arrange a pre-purchase inspection or have any questions give me a call – I can run you through the basics and even point you in the direction of a well-respected local builder.

Take heed

A property inspection can make or break your investment; however there are some things that an inspection may not cover, so be sure to address these with your inspector should you have any concerns.

Some exemptions may include:

- Gas fittings
- Footings
- Electrical wiring
- Fireplaces or chimneys
- Television reception
- Plumbing
- Concealed damp-proofing
- Watering systems
- Drainage

Mortgage reduction strategies

With rates now marching south borrowers have been handed a golden opportunity to drive their mortgage down.

The official cash rate is now at a 45 year low. While this highlights an economy whose health may be faltering, the flipside is that the interest rate on the typical standard variable rate mortgage is now dramatically lower than what is was last year.

Some Australian households are now up to $600 better off each month when it comes to mortgage repayments compared to September 2008 when rates started to nosedive.

This cash windfall has come at a time when many borrowers are doing it tough. But rather than living life a little better, this reprieve from high interest rates can offer borrowers the perfect time to create a buffer in their mortgage by driving the principal component down.

The lower the principal amount on your mortgage the less you'll pay in overall interest. So how can you drive down your principal? Easy: as interest rates continue to come down (and your interest repayments as a result should you be on a variable rate mortgage) keep your monthly repayments at the same level – every extra dollar will then go to reducing the outstanding principal.

This simple strategy can not only potentially save thousands in mortgage repayments it can take years off the life of your loan. The equity built up in your property as a result can be used for a range of uses, including underwriting an investment property.

If you'd like to discuss this as well as a number of other mortgage reduction strategies give me a call.

Economic wrap

Rate cut cycle may be nearing its end

The Reserve Bank of Australia (RBA) left interest rates on hold at 3.25 per cent in March – the first pause in its aggressive monetary policy campaign since September last year.

While some home buyers may have hoped to see a little more shaved off their home loan rate, the RBA's decision is a strong sign of its confidence in the Australian economy.

Since September last year the RBA has reduced the official cash rate by a substantial four per cent. The government has also set aside more than $50 billion to boost the economy.

In keeping rates stable the RBA will now have time to assess just how these extensive measures are working.

Nevertheless, conditions remain challenging for the Australian economy. Gross domestic product (GDP) shrank by 0.5 per cent in the December quarter – the first contraction recorded since the beginning of the decade.

Two consecutive quarters of negative growth would see Australia slip into a recession.

But while the outlook remains volatile, Australia's economy continues to perform considerably better than most of its international counterparts.

The housing market in particular has experienced increased activity off the back of low interest rates and the beefed-up first home owner grant.

Australian Bureau of Statistics (ABS) data has showed a strong increase in the amount of home loans taken out by Australians since last year while the level of first home buyers has now swelled to more than a quarter of all property purchases.

According to the Housing Institute of Australia, new home demand is also on the up: sales surged by more than eight per cent in January.

The RBA's decision to leave rates on hold may indicate that we're nearing the end of this current downward rate cycle.

For borrowers with variable rate mortgages now may be the ideal time to consider fixing your loan; you might be able to lock in one of the cheapest rates of interest available to home buyers in more than a generation.

Newsletter Subscription

The Select Financial newsletter keeps you up to date with all the important trends in the Finance Industry.

To subscribe to our free email newsletter simply fill in your details on our website and click subscribe.

SelectFinancial

ACCREDITED MEMBER OF PLAN AUSTRALIA

MFAA FULL MEMBER