Mortgage News
Your guide to mortgages, finance and property
Spring 2009]

Unlocking your investment opportunities

Ensure your share of burgeoning property opportunities by unlocking the equity in your home.

There's no doubt the current market is offering one of the most opportunistic times to invest in property in years. Interest rates are low, prices have softened and tight vacancy rates are ensuring strong rental returns.

But while some home owners may think their current mortgage commitments will bar them from making a move into the investment market, the reverse may in fact be true.

What is equity?

If there is sufficient equity in your home you can actually use existing property to fund further purchases and boost your property portfolio.

Essentially, equity refers to the value of your current property today, minus the balance you owe on your home loan. So, for example, if your home is valued at $400,000 and your current loan balance stands at $250,000, you have $150,000 in equity up your sleeve.

This equity can be a powerful wealth building tool, enabling you to broaden your investment opportunities and take advantage of prospects that might otherwise be out of reach.

In the current market a home equity loan is particularly appealing, meaning you can leverage off the strong purchasing conditions now characterising the market – namely low interest rates, soft prices and strong rental returns.

Tapping into your equity

If you're keen to build your property portfolio and think equity release sounds like something for you, give us a call to uncover exactly how much you'll be eligible to borrow. We'll also be able to help identify which lender and product will be right for you.

Just how much you'll be eligible to borrow will depend not only on the amount of equity you have built up in your home but your ability to service your loan repayments.

In basic terms, lenders will take into account your net income as well as your current assets, existing debts, regular outgoings and living expenses to determine exactly how much you can borrow.

Remember, your lifestyle aspirations and other financial goals will also influence how much debt you should take on, so think carefully about any other financial commitments you may have coming up down the track or changes to your personal circumstances.

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Starting from scratch

It requires careful consideration but knocking down an old home to build another can prove a rewarding move.

While renovating or moving home may be more traditional methods of solving a housing issue, knock down rebuild projects are becoming an increasingly popular housing strategy. According to the Housing Industry Association around 21,000 rebuild projects are undertaken every year in Australia and this is expected to trend upwards.

Why knock down and rebuild?

There are a number of reasons to consider a knock down rebuild project. The chief reason for knocking down a home is because it's beyond repair. As a general rule of thumb, the more work that needs to be done to a property, the more value a rebuild will offer. When it comes to especially old houses a rebuild is often the most cost effective solution.

In established inner city metropolitan areas where land is increasingly in short supply rebuilding is also sometimes the only way to get into a neighbourhood, or stay in one.

Many people also consider a knock down rebuild when a home is no longer suitable for their lifestyle but they don't want to change location. Many of us have a strong affinity with our local community – be it the shops, schools or our neighbours – and a rebuild project means this need not be disturbed.

And finally, people are often attracted to rebuilding because it can be much less stressful than renovating. We've all known friends who have spent months living without kitchens or bathrooms; a rebuild can be a much more hassle free solution.

Rebuilding and financing

The real financial benefit of a knock down rebuild is the fact that there are no hidden costs.

Renovations are notoriously difficult to budget for, with unexpected hurdles likely to conjure up countless additional expenses. Because of this finance can be difficult to arrange compared to a rebuild, which is fairly straightforward.

Of course, building a new home doesn't come cheap either, so it's important to seek professional building advice as well as a range of quotes to determine what will be most cost effective solution for you. And when it comes to financing your rebuild project be sure to enlist our expertise – we can find the financial solution to best suit you.

Important points to consider

- Don't forget that you may be eligible for new home incentives from the government if you decide to rebuild rather than renovate.
- Be sure not to overcapitalise – a new home always involves unexpected expenses.
- If you're knocking down your existing home you're going to have to pay for rent during that time, or find somewhere to live. So factor in possible extra costs.
- Council approval for rebuilding can be difficult, time consuming and expensive. But remember, carrying out any work without approval is illegal so don't be tempted to try to slide under the radar.

Beating tougher lending standards

The days of 100 per cent loans are all but gone so borrowers now need to ensure they have some savings at their fingertips.

The global financial crisis and resulting economic downturn have had significant consequences for home buyers.

Just last year borrowing 100 per cent of the cost of a home was commonplace however home buyers today are facing substantial deposit requirements as lenders adjust their lending standards in line with the deteriorating economy and expectations of rising unemployment.

The majority of mortgage lenders now require a deposit of between 5 and 10 per cent, with many requesting evidence that the deposit was saved overtime, which is commonly referred to as 'genuine savings'.

For many would-be home buyers these changes are disappointing as many have the income to service a mortgage, but just don't have the cash to stump up the deposit.

While your new home may now be a little harder to secure, don't despair. Here are some tips to help you enter the market sooner.

Boosting your borrowing prospects

- **Start a regular savings pattern now** – banks will look for a good savings history; it shows that you're able to manage your money.
- **Lenders are implementing tougher requirements when it comes to lending** – this might include looking deeper into your employment history (i.e. how long you've held a position for); so if you have a good job, stick with it.
- **Boost your borrowing power by eliminating other debts and liabilities** – pay off any outstanding loans, reduce and eliminate credit card debts and reduce credit card and/or overdraft limits; even if you're not using them, high limits will reduce your borrowing power.
- **Documentation is also more important** – be sure to have all supporting documents ready to fasten the process; this includes payslips and group certificates.
- **Be realistic** – don't seek a loan size you know you cannot service.
- **Be prepared for knockbacks** – getting a home loan is no walk in the park.
- **Give us a call** – we'll be able to assess your borrowing capacity as well as direct you to the appropriate lender and product types to suit your needs.

War of the hoax emails

Orson Welles accidentally caused chaos in 1938 when his radio play of The War of the Worlds had people believing Earth really was being attacked by aliens. We all like to think we wouldn't fall for something as outlandish as that, but in the face of panic, it's not always so certain.

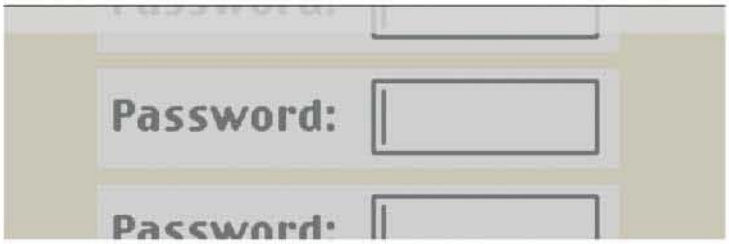
The relaying of personal information via the internet is a fact of life. But with new technology, scammers have more to play with than a radio and science fiction book. While some scams can be rather advanced, the large majority are easily avoided.

Professional financial institutions never distribute emails that encourage the receiver to click on a link to update personal information. Such requests are an easily recognised warning sign.

Many scams prey on emotions, causing you to panic with assertions like 'your account has been suspended' (they might add 'due to suspicious activity' for extra impact), or trick you into thinking you've struck gold by stating 'you are eligible for our cash-back offer'. Some scams have even included a telephone number in an effort to add extra credibility.

The best ways to guard against email fraud are easy; use strong passwords (a mix of letters and numbers, upper and lower case), be wary of emails from people you do not know, and if you suspect something isn't quite right, contact the organisation for confirmation. But don't immediately delete the email; the company involved may wish to obtain a copy for investigative purposes.

Most of us think we're far too clever to fall for flying saucers or email scams. With the proper precautions, most of us probably are.



Economic wrap

Much to the relief of home owners the Reserve Bank of Australia (RBA) left rates unchanged at 3 per cent in September – the fifth consecutive month at this level.

According to the RBA's governor Glenn Stevens, overall sentiment in the global financial markets continued to improve over August yet the affects of economic weakness still remains – one of the reasons for keeping rates stable.

However economic conditions in Australia have been better than expected, according to Mr Stevens, and investment over the remainder of the year should be stronger than originally predicted. Along with higher dwelling activity and increased consumer spending, growth is likely to firm going into next year.

Gross Domestic Product (GDP) figures released at the start of September indicates that an economic revival is currently underway. GDP for the June quarter grew by 0.6 per cent, which followed a 0.4 per cent increase in the March quarter.

While Mr Stevens' remarks plus GDP figures indicate that our economy is improving, they may also point to rate rises around the corner.

Indeed some economic commentators, including the National Australia Bank, have predicted two 0.25 per cent rate hikes before the year is out, plus another 0.25 per cent rise in February next year.

So how can you manage your mortgage in a rising rate environment?

While managing mortgage repayments can seem like an uphill battle, there are always ways to ease the burden of your mortgage commitments. Considering the threat of rate rises ahead it's best to focus on any potential issues now, before it's too late.

A good place to start is a thorough review of your household budget – mapping where you're spending your money and identifying any areas where you can cut back.

Also look to create a slush fund in case of emergencies.

A good rule of thumb is to try and set aside 10-20 per cent of household income to savings. If you don't need these funds to help ease the burden of rising mortgage repayments, it will build a nice nest egg – perhaps even fund a family holiday. And remember, you can also always channel these funds into your mortgage.

On the property front, it would appear that markets are approaching an upswing in their cycle.

Property has long been a sound investment choice for Australians – it's a relatively easy to understand investment option compared to the share market and traditionally offers good returns.

Low rental vacancy rates, an acute shortage of property matched low interest rates have created sound conditions for exploring investment opportunities. Whether you're a seasoned investor or looking to dip your toe in the investment market give us a call – we can run through your financing options as well as some tried and tested strategies.

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