Mortgage News

Your guide to mortgages, finance & property

Summer 2008

In search of greener pastures

The hunt is on for a better deal as interest rates finally come down.

With interest rates having fallen dramatically over the past few months no borrower would be alone in wondering whether their home loan still offered the best rate.

The Reserve Bank of Australia (RBA) has now lopped three per cent off the official cash rate in just four months – which equals around $600-$650 off the repayment due each month on a $300,000 mortgage.

However the amount each bank and mortgage lender has passed back to the borrower has varied so there is no guarantee that your lender still offers the best rate on the market.

While there is more to the right mortgage than simply the interest rate, there's every chance that you can still find a cheaper loan that still has all the features you need. But before you start searching for a better deal, consider the following points:

Read the fine print

If you decide to switch lenders you may face some hefty break costs if your loan is only a few years old.

Before making any decisions call your broker to find out what costs you're likely to be hit with should you decide to go elsewhere. It's essential to ensure that any saving you make on a cheaper monthly rate is not cancelled out by excessive fees or charges.

Fixed versus variable

Plenty of lenders now offer some very attractive fixed rates. However it's worth considering that we are in a downward rate cycle and there may well be more rate cuts to come.

The big plus for a fixed rate loan is the security of knowing exactly what your repayments are each month during the fixed period. If you do pick a fixed interest loan remember that you will have to stick with it even if rates fall further.

More to your loan than rate alone

Not every home loan is the same and so it's important to look beyond the interest rate when thinking about moving to another lender.

The rule of thumb is that the more bells and whistles a loan the higher the interest rate. While features like redraw facilities and offset accounts can be powerful tools for some borrowers, they may not suit everyone. On the flip side it's important to keep in mind that a low rate loan may offer little or no features.

To quickly identify whether there's a better loan package available call your broker. They will be able to tell you if you still have the most appropriate product on the market and if not, whether it makes sound financial sense to swap.

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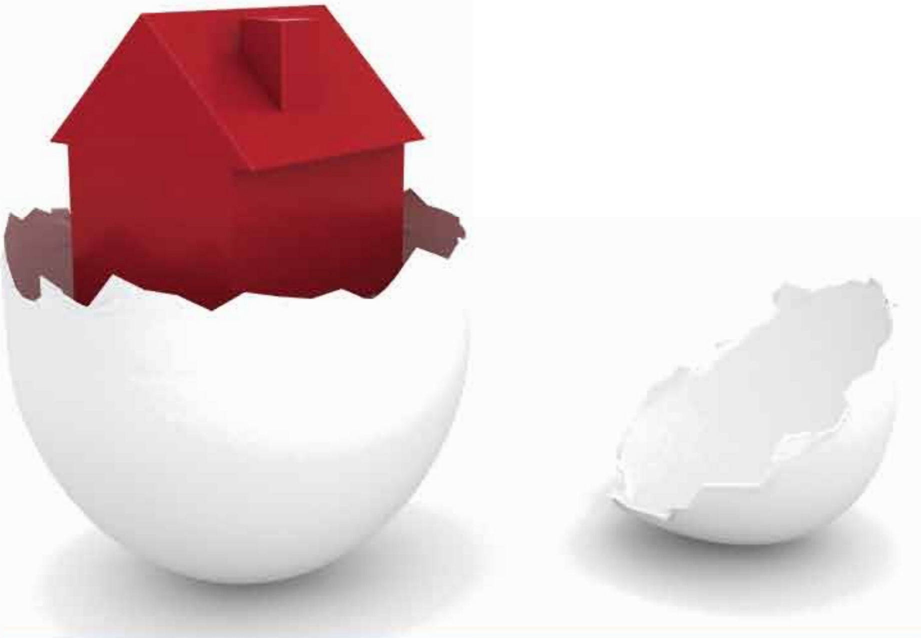
Prepare for ACTION

Falling property prices and a dramatic drop in interest rates have created a very attractive market for would-be property investors.



Interest rates now sit at their lowest level in more than six years and economists are tipping further cuts in the future. Property markets cooled some time ago and while it's hard to call the bottom of any market, there is unlikely to be much more downside for house prices.

These fundamentals alone are all positives for investors but when you consider that there is also an acute shortage of property to let, and rental values have soared, you'll realise that now is a very good time to become a landlord.

If you're looking to take advantage of these favourable market conditions, some solid research, planning and preparation will go a long way towards ensuring you choose the right property and are poised to snap it up when the time comes.

Know what you want

Take the time to think about what you're looking to achieve with your investment before dipping into the market. Are you looking for long term capital gain or cash flow – or perhaps both?

Your ultimate property goals could determine what you buy and where. It's also important to consider what type of property will rent the fastest and for the highest rate; for example are you looking for a low maintenance apartment or a house on its own block? Do the homework on the market you plan to invest into to ensure you get the best return.

Know your limit

There's no point looking at properties that require a $600,000 loan if your income will only service repayments for $350,000.

Visit your mortgage broker before you start looking to see what size loan you'll qualify for and more importantly to establish what repayments you can afford.

A pre-approved loan is quick and easy to organise and will give you much more negotiating power when it comes to taking the plunge.

Tips for the first time investors

Here are some tips to make the most of your first investment property:

- There are attractive tax incentives for property investors so be sure to seek professional advice as to how this affects you.
- Rental payments may not always coincide with mortgage repayments so keep a slush fund in your mortgage transactional account to ensure you don't slip into arrears.
- Consider employing a property manager – it will cost you five to ten per cent of your rental but it could save hassle and ensure that your property is never vacant.

Did you know?

First time buyers can purchase a property for investment rather than a home to live in. Indeed this particular strategy is growing in popularity with first time buyers living at home with parents looking to build their property portfolio. While government incentives are available to help first home owners enter the market, different conditions apply should you choose to purchase for investment purposes – so speak with your broker for full details.

Help for first time buyers

If you're a first time buyer, the good news is that the government has introduced a number of incentives to help you enter the property market

It can be hard for first time buyers to get a foothold on the home ownership ladder, but take heart – there are various government grants and concessions that can help offset some of the expense when getting started in the property market.

So before you start searching for your dream home, take some time out to learn more about these benefits. If you'd like an explanation on any government incentive, give your mortgage broker a call.

First Home Owner Grant

First home buyers across Australia may be eligible for the First Home Owner Grant (FHOG) – which is a one-off, tax-free gift from the Federal Government.

Until recently the grant was $7,000, however to help stimulate housing activity and to give first home buyers a better chance to enter the market, the Government has increased the grant.

From October 14 2008, first home owners that purchase established properties can be eligible for a $14,000 grant, whereas buyers that purchase newly-constructed homes may receive $21,000.

As long as you and/or your spouse are a first home buyer over 18 years of age, and an Australian citizen or permanent resident, you are likely to be eligible for the grant.

For more information on the FHOG in your state visit www.firsthome.gov.au or speak to your mortgage broker. The scheme will be limited to all contracts entered into by June 30 2009.

Stamp Duty Breaks and Concessions

Australia's State Governments have also introduced breaks for the stamp duty associated with a property purchase. For more information ask your mortgage broker or visit your state's website.

ACT – www.revenue.act.gov.au	NSW – www.osr.nsw.gov.au
NT – www.nt.gov.au/ntt/revenue	QLD – www.osr.qld.gov.au
SA – www.revenuesa.sa.gov.au	TAS – www.treasury.tas.gov.au
VIC – www.sro.vic.gov.au	WA – www.dtf.wa.gov.au

Line of credit

Make every cent count towards your home loan with the flexibility of a line of credit.

What is a line of credit?

A line of credit is often chosen by borrowers to offset interest while having easy access to funds and cash flow management in an 'all in one' account.

How does it work?

Typically your salary is paid directly into the line of credit loan each month, driving the principal sum down. You then meet your monthly living expenses with a credit card that's linked to the loan account with an interest-free period. At the end of the month, the credit card balance is repaid from your line of credit.

Why are they effective?

Used with discipline, it is possible to take years off the life of your loan. Interest on a home loan is typically calculated on a daily basis and so the lower the outstanding principal, the less interest that's charged.

That means for a whole month the principal loan amount will be much lower than it would ordinarily be with a traditional mortgage. As long as you consistently channel back every dollar saved into the principal amount, and do not overspend on the credit card, the savings can be substantial.

Just be aware that the interest rate on a line of credit is generally higher than a standard variable rate loan as you're paying for a lot of features. It's also important to remember that if you don't eventually drive down the principal loan amount you'll never be mortgage free.

Keep in control

Line of credit mortgages can be a powerful tool for mortgage reduction however they should only be used if you're truly disciplined in your spending.

Keep a close track of your monthly spending and make sure you follow a tight budget. Set a monthly target for additional repayments and aim for a set number of years to make your repayments.

Make sure that you speak to your broker in establishing whether this product is best suited to your financial goals and your financial situation.

Economic wrap

The official cash rate fell three per cent in the final four months of 2008, ending the year on a level of just 4.25 per cent – an enormous relief for home buyers as they enter the summer holiday season.

While Australia is still expected to weather the global financial storm better than most other developed countries, economic prospects have weakened substantially and the outlook for 2009 remains subdued.

Forecasts from the Organisation of Economic Cooperation and Development (OECD) indicate that domestic economic growth will be just 1.7 per cent in 2009. This is the result of the flow-on effect of the international financial crisis, in particular the slowdown in demand for our exports – especially commodities.

Unemployment is likely to trend upwards over 2009 from around four per cent to close to six per cent by year end.

But the result of a slower economic outlook will mean lower interest rates for the foreseeable future. The Reserve Bank of Australia (RBA) is expected to maintain a low cash rate until consumer confidence shows signs of improvement and economic growth starts to pick up.

In line with slower conditions, house prices are likely to remain relatively flat over the coming months but unlike some international markets there is little danger of a sharp drop in values, rather growth of between zero and three per cent can be expected according to BIS Shrapnel.

With property prices staying relatively static and interest rates at a six year low, property may now be in the grasp of more and more Australians – whether that's purchasing a new home or investment property.

With the boost to the First Home Owner Grant, the first half of 2009 will offer a good time for first home buyers to make their first step onto the property ladder. Rising rents also represent attractive opportunities for investors.

Whether you're a new home buyer, investor, or an existing borrower looking for a better deal, visit your mortgage broker to make sure you have access to expert advice and the best deals on the market.

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