Mortgage News

Your guide to mortgages, finance & property

[Summer 2009]

Smooth sailing

Careful consideration about your home loan size will help make a more comfortable and stress free mortgage.

When it comes to buying a home, one of the first questions you need to ask is: "How much can I borrow?"

While your lender will make the final assessment concerning how much they are prepared to lend, it is essential that you make your own assessment of your finances first.

Your goal is to determine what you can comfortably afford to repay towards your mortgage each month – this will then help establish what you are able to borrow.

Ins and outs – The best place to start is to add up all your regular monthly outgoings and then subtract this from your net income.

Your outgoings include any regular commitments such as car or personal loans, credit card and store card repayments. Also add up other regular costs such as school fees, club memberships, monthly living expenses and your monthly discretionary spending.

Do not include your current rental commitments into these figures. It will no longer be relevant once you move into your new home as you'll be paying off your mortgage.

Now look at your income. This should include your after tax salary, dividends on investments, rental income and any other funds that flow in over the course of the month.

The dollar amount you're left with will give you an indication on what you have available to pay towards your mortgage each month as things currently stand.

Rising waters – The most important factor to consider is that if you have a variable home loan rate your mortgage repayments will increase as interest rates start to climb.

Economists expect the cash rate to rise by at least another one per cent in the next 12 months so be sure to factor this – at the very least – into your mortgage repayments and household expenses.

Lifestyle – It's also essential that you consider exactly how much you are prepared to let your home loan change your life.

The benefit of assessing your borrowing capacity is really twofold – to ensure that you don't borrow beyond your means but also to help identify where you can realistically cut back if needed.

Future plans – Lastly, be sure to take into consideration other personal factors, such as plans to have a family, or any dreams to travel. For more information about finding a mortgage to suit your lifestyle and future goals, feel free to give us a call.

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Rising rates: how to manage your mortgage

There are a number of proven strategies to help you better manage your mortgage in a rising rate environment.

There's little doubt that we're now firmly in an upward rate cycle.

The Reserve Bank of Australia (RBA) has already pushed rates up twice and all rhetoric coming from the bank – supported by current economic data – would indicate that there's going to be a number of additional hikes over the early part of next year.

Rate increases for borrowers on variable rate mortgages will translate into higher mortgage repayments.

While borrowers should have factored in a number of interest rate hikes when taking out their mortgages, the reality is that some borrowers will still struggle with higher repayments.

But if you're worried about the impact of higher rates, don't despair – there are a number of tactics you can employ to help you better manage your mortgage.

Act now

Don't stick your head in the sand. If you think you're going to struggle with increased mortgage repayments take immediate action. First up, undertake a solid assessment of your current finances. This means creating, or reviewing, your household budget.

Your budget should include all household costs over the course of the month – including food, mortgage repayments, utilities, entertainment as well as allocating the monthly instalment of yearly costs, like schools fees, car registration and insurance.

Once you've accurately determined your monthly outlay you'll be able to assess where you can realistically tighten up your spending. Repayments can spiral out of control should you try to ignore them – making it harder to rectify the situation in the future.

Seek expert help

If you think you're still going to struggle to meet your repayments – even after trimming back your budget – your broker should be able to help.

Today, most lenders would far sooner work with the borrower when they run into difficulties with their repayments than take the hard line.

As long as you're honest and address the problem early, there's every chance that your broker and your lender will be able to help you find a solution. One such approach is to switch to an interest-only option for a period of time – thus reducing the monthly payments.

While this means that you won't reduce the principal of your mortgage during this period, it is an effective strategy to minimise your repayments while you seek other alternatives to meet your commitments.

Remember, if you think you're going to struggle with increased repayments act now to avoid problems in the future. Contact us today if you need help.

Plan for a rainy day

If you've got a gap between your household expenses and monthly salary start to channel additional funds into savings.

A slush fund can help buffer against future rate rises or other unexpected costs – such as medical bills or unplanned emergency renovations. Try to aim to save at least 20 per cent of your monthly take home pay or even 10 per cent should funds be tight.

Even if you don't need to draw on these funds to meet increased mortgage repayments they'll make for good savings, which can be channelled into your mortgage or even used for a much needed holiday.

Freeing up equity for investment

Additional benefits

An investment property can be used to help you minimise your tax obligations. For example, the gap between the rental return and your mortgage commitments as well as utilities, council rates and other costs associated with owning the property can generally be offset against your taxable income.

Refer to your accountant to discuss maximising the tax efficiencies associated with owning an investment property.

Property investment has long been an effective wealth building tool for Australians, and for very good reason.

Property typically doubles in value on average every seven to 12 years – potentially offering investors solid capital growth.

But investment property can also yield strong cash flows for the here and now, as well as having the potential for future gains.

With current low vacancy levels coupled with rising rental values and continued low interest rates, would-be investors could consider the current market as a good time to enter the investment market.

If your home has increased in value over the years, or if you've reduced the amount that you owe on your mortgage, you may be able to unlock some of the value of your home (equity) through refinancing – or borrowing against the equity that's accumulated.

This equity can be used for a deposit on an investment property, with an additional loan used to secure the remainder of the purchase.

In determining your ability to service a mortgage for an investment property, a lender will take into account your salary or combined salary should you be purchasing with a partner. They may also consider the potential rental the property may return.

Importantly, they'll need to ensure that you're able to cover the shortfall between the rental return and mortgage costs – if any. Give us a call and we'll run through the numbers with you to see if this strategy will work for you.

How to find a good agent

Finding a good real estate agent is the first step to maximising your chances of a smooth sale and a good price for your property.

Many people make the mistake of seeking out the highest selling agent from the biggest company, but while a good track record does count, there's a lot more to picking a good agent.

As a starting point, look for a referral from a friend or colleague who has had a good experience with an agent. Most real estate agents stay in business because satisfied clients refer them to friends, family, neighbours and co-workers.

Through talking with previous clients, you'll have the chance to gain a customer's perspective on an agent, which is many times more reliable than an agent's own sales pitch.

If you don't have the chance to find a referral, you can still help maximise your chances of tracking down a good agent by doing a little research.

It's well worth visiting an open house in your area. This will give you the chance to see firsthand how the agent deals with prospective buyers – it will also give you an opportunity to probe them about their local knowledge, years in the business and their qualifications.

Collect business cards and make notes on them. If you're thinking about selling your home, pay attention to how the agent is showing the home.

It is also good to pay attention to the listing signs in your neighbourhood.

Make a note of when the sign goes up, who the listing agent is and when the property is eventually sold. An agent who sells a property quickly is going to be more valuable than an agent with the greatest number of 'for sale' signs.

Getting a bad agent can mean less money for you, less return on your investment and an uncomfortable experience, so it is essential you pick the right agent the first time.

Key tips to find the best agent for you

Consider the following:

- Seek referrals from your friends and family.
- Check out the print advertising in the various weekend newspapers and decide which agents specialise in your local area and who has the most effective advertising.
- Search online for agent listings: There are plenty of websites that will refer agents to you but there is no assurance of quality. Google the top real estate companies in your area, go to those websites and look up profiles of individual agents and customer testimonials.
- Accreditation is key: Most good agents are associated with the Real Estate Institute of Australia. Make sure your agent is accredited before making a commitment.

Economic wrap

RATES COOL SPENDING

SUMMER 2009

Interest rates have now risen for the third consecutive month bumping up the cash rate by three quarters of a per cent since its low of 3 percent between April and September 2009.

But for most homeowners, mortgage rates have increased above the cash rate level as the banks have looked to offset the impact of higher funding costs at the expense of the borrower.

This is a concept that is confusing for borrowers because there is an expectation that the Reserve Bank of Australia (RBA) dictates where interest rates should sit – and in normal circumstances that would be the case.

Unfortunately we are still not in a 'normal' market as far as funding is concerned. Though Australia has well and truly sidestepped the recession that has gripped much of the developed world, our banks and financial institutions are still very much dependant on the international money markets for our mortgage funding.

You may wonder why we depend on the financial markets at all for mortgages – surely the banks bring in deposits through one door and lend them through another? The reality is that today there are fewer savers out there than there are borrowers and so the banks must look elsewhere to fund their customers' property purchases.

But while the December rate rise may have hit us a little harder than expected there may be a silver lining.

One of the reasons the RBA increases rates is to cool consumer spending. With the banks bumping rates up even higher there is a reasonable chance that the cash rate may stay at its current level for a while longer.

The reality is rates are still at historic lows and there is a fair way for them to go before they reach normal levels. While we hope that this transition will be a slow one, it makes sense to start factoring the potential for higher repayments into your budget.

Your first port of call should be to target reducing any high interest debts such as credit cards and store cards. If you're concerned about your debt levels, or are unsure what rates you are paying, feel free to give me a call to discuss.

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