

Mortgage News

Your guide to mortgages, finance & property

[Winter 2009]



Time to invest in property?

There's never been a better time.

With interest rates lower than they've been in years, property prices finally softening and rental returns on the up-and-up, you may be thinking that property investment has never looked so good.

And you may be spot on the money! Thanks to the combination of low interest rates and high rental yields, property investment may now deliver cash flow neutral or even cash flow positive returns – and that could mean that your property can pay for itself. Moreover, there may be significant tax breaks to boot.

Successful property investment does require homework and a little prudence. But don't be put off – it is by no means too complex for the average Australian. So whether you're a seasoned investor or a would-be first timer now may just be the ideal time to make it happen.

Know your capacity

Before you decide what to buy you need to establish your budget. With a clear idea of what you can afford to borrow you'll be in a strong position to determine what type of property to focus on and in which price bracket.

Not only can we quickly give you an indication of your borrowing capacity we can even help you secure a pre-approved loan. Our service doesn't cost you anything, just your time or a quick phone call.

Once you know your buying power you can think about what type of property to purchase. Most investors favour residential property, typically a house or a unit. Each comes with its pros and cons and there's no right or wrong decision – it really depends on the buyer's preference.

Do your homework

Regardless of the property type, the location can make the difference between a good investment and a lemon. While there can be exceptions, you're generally looking for a property that is close to public transport, has easy access to shops, parks, schools and restaurants, plus serviced by good road infrastructure.

With a clear idea of the right location you can set about researching the market. The internet is without doubt one of the most effective research options available to investors. As well as researching all the properties that are for sale you'll also be able to assess what kind of rental values other properties in the area are achieving. Be sure to also give us a call – we can run you through the various financing scenarios and products available to match your investment goals.

Remember, for the greatest success, property investment should not be considered as a short-term game. Rental values will always increase over time with a well located property and so too will your returns.



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Time for a check-up

There have been unprecedented changes to the home loan market in the past year and so a mortgage health check has never been a better idea for every borrower.

A lot has happened in the mortgage market in recent times. From variable interest rates pushing 10 per cent mid last year we are today looking at levels closer to 5 per cent. And with lenders now offering increasingly attractive fixed deals, there might be a more appropriate product available for your needs.

If you haven't taken the time to reassess your home loan this year, now might just be the ideal opportunity to get in touch with us for a mortgage health check.

Common symptoms

For most home owners the cost of covering a mortgage has fallen substantially since September last year. On a 30 year term \$300,000 home loan for instance, monthly repayments have fallen by around \$600.

While this may be a welcome reprieve, mortgage holders who have failed to reassess payments could be missing out on a string of opportunities up for grabs with that extra cash.

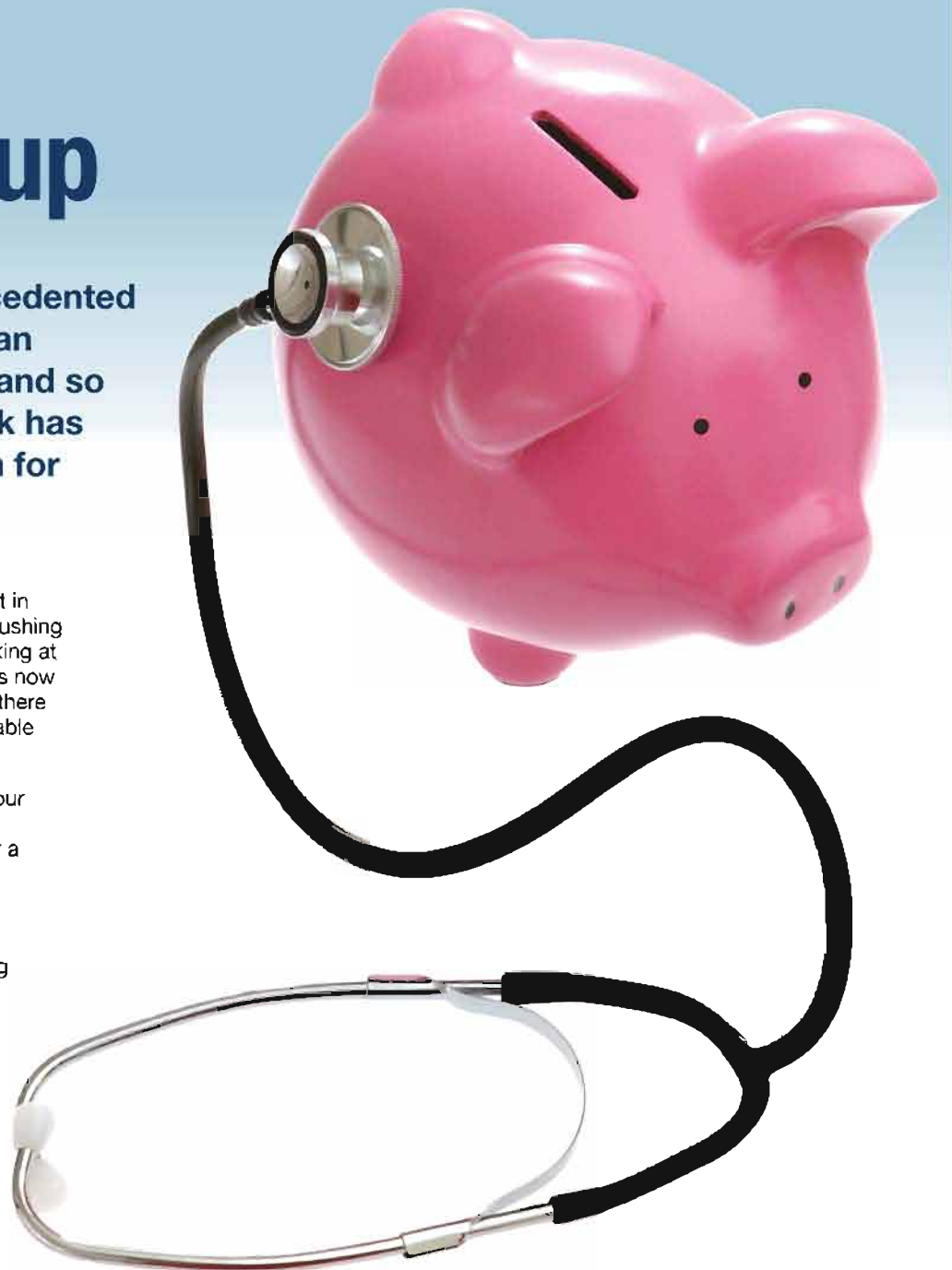
Bang for your buck

If you've got a substantial chunk of extra cash freed up as a result of the dramatic fall in the cash rate, using it wisely can make a really big difference to your long-term financial situation.

For example; using a \$300,000 home loan over a 30 year term, with a drop in your interest rate of 4 per cent, monthly repayments should now sit at around \$1,900. This compares to \$2,500 per month with an interest rate of 9.5 per cent.

But if you continue to pay \$2,500 every month towards your home loan, rather than the minimum \$1,900 required, you could save up to \$200,000 on your overall home loan cost and take more than a decade off your home loan servicing time!

This is just one of many strategies we can run through with you during a health check, so be sure to give us call so we can determine if your loan is still right for you or whether there's a more appropriate product on the market.



Key reasons for a mortgage health check:

- You are planning to have children
- You are struggling to manage your repayments
- You want to find out about investment options
- You or your spouse have had a change in employment
- You would like to upgrade your current home
- You are looking to start/buy a business
- You would like the security of fixing your loan repayments
- You can't remember the last time you assessed your home loan arrangements

Entertainment on a shoestring

Keeping the family entertained need not break the bank.



There's little doubt we're all on the lookout for smart ways to save cash and spend more wisely. Here are some of our top tips for keeping the family happy and entertained without spending a small fortune.

- **Get gardening:** Not only is a veggie patch a great way to keep all members of the family occupied, it's a cheap hobby that can actually save you money! Planting your own vegetables will save considerably on grocery bills while creating a project that can bring the whole family together.
- **Create a playgroup:** If you've got young children and are looking for ways to entertain them start a parents' club or playgroup involving a home rotation of bi-weekly play times. This will serve as a great novelty for the kids but will hardly cost a cent compared to public play gyms or other outings.
- **Backyard fun:** Dinners with friends can really add up when it comes to restaurant prices and taxis home. Think outside the square – start an annual backyard cricket competition or an indoor monopoly challenge. You'll be surprised at how cheap – and fun – it can be.
- **Trash and treasure:** Make a quick buck and have a laugh with friends with a trash and treasure afternoon. You might also find something you like without spending a fortune.

Be a bookworm

New books can cost a fortune so join up with some friends and start a book club. A monthly book catch up for tea or coffee is also a cheap and cheerful social activity and a great way to catch up with friends without the cost of an expensive dinner. And guess what; it's a great activity to get the kids involved in as well – it will promote reading as well as discussion with friends... skills to help set them up for life.

Understand your TOTAL commitments

Safeguard yourself against any unexpected mortgage fees and charges by reading the fine print before you sign on the dotted line.

If you're in the market for a new home loan you might be reasonably excited about some of the offerings up for grabs.

Variable rates as low as 5 per cent and fixed rate deals as low as 3 per cent are certainly very attractive. But sometimes, as is often the case in life, deals aren't as good as they first appear – so it's critical to be confident your home loan is right for you.

The interest rate

While some interest rates can be compelling it is important not to take them at face value. Make sure you find out what the comparison rate is – something we may be able to help you with. This takes into account the overall cost of the loan including any fees, and is usually a better indication of the total costs you're up for.

If it's a fixed rate you're looking at, be sure to find out what the loan reverts to after the fixed period ends – honeymoon rates for example can increase to a much higher interest rate one or two years down the track.

Fees, fees, fees

From phone bills to online shopping, "transaction fees" or "additional costs" seem to crop up all the time – and home loans are no different.

Your mortgage may incorporate any number of fees so make sure you are aware of all of them before making your choice.

Possible fees include application fees, establishment fees, service or account keeping fees and early termination fees. These can amount to thousands, so don't just wave them off.

Enlisting the expert assistance of a broker may help ensure you aren't hit with any surprise expenses and will make trailing through the array of products and their associated fees a lot less work. Give us a call today and we'll help run you through your options.



You pay for what you get

Remember, when it comes to choosing your home loan you pay for what you get. In other words, a 'basic' or 'no frills' home loan will usually be cheapest but may be restrictive. However if you want all bells and whistles, such as an offset account, it's likely you'll pay for it through a higher interest rate plus other fees and charges. These costs aren't necessarily a bad thing, just make sure you're paying for features you need!

Economic wrap



Like the rest of the world the Australian economy continues to experience its challenges. Nevertheless there are encouraging signs that conditions are stabilising.

The Reserve Bank of Australia (RBA) left the cash rate on hold at 3 per cent for the second consecutive month in June in a bid to monitor existing rate cuts and stimulus measures.

The bank also continues to express confidence in the fundamentals of the Australian economy with indications that a recovery could be underway as soon as Christmas. In its Quarterly Statement on Monetary Policy in May, RBA governor Glenn Stevens said there were reasonable grounds to expect a recovery to begin by then provided global conditions continued to stabilise.

The Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity three to nine months into the future, also forecasts a return to positive economic growth in the not too distant future although it points to a recovery next year.

The Index rose from -6.0 to -5.1 per cent in May, its first substantial increase since April 2008 and a first step towards economic recovery.

Despite this, the Index remains deep in recession territory and a return to positive growth is unlikely before the December quarter, Westpac chief economist Bill Evans said.

On the property front the outlook is improving with Australian dwelling values recording a healthy 2.8 per cent increase in the first four months of the year, according to RP Data and Rismark.

The strong performance of the property market, particularly in contrast to countries such as the UK and USA – where prices have plummeted, highlights the solid fundamentals of Australian housing as an asset class.

With interest rates at record lows, the current market continues to represent an ideal opportunity to jump in or scale the property ladder.

If you're thinking about investing, upgrading or buying your first home, give us a call and we'll help you navigate the string of products and policies out there as well as find the most appropriate finance to suit your individual needs and circumstances.

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