Mortgage News

Your guide to mortgages, finance and property

Autumn 2008

Cracking the market: tips for first home buyers

Even in today's tight market first time buyers can still beat the rental trap – you've just got to be smart about it!

With the price of the average home soaring, interest rates on the rise and spiralling rentals cutting into after tax dollars most would-be home buyers feel like the odds are stacked against them when it comes to purchasing a home.

But despite some obstacles, buying your first home is still possible. All it takes is a little time, mortgage know-how and the commitment to managing your finances.

Tip #1: Budget
First up, get to grips with your monthly incomings and outgoings – if you can develop and stick to a budget you'll be best placed for factoring a home loan into your life. Consider if, and where you need to cut back to cater for mortgage repayments, and consider what impact this may have on your lifestyle.

Tip #2: Save
Aside from a deposit, home buyers are faced with a string of costs including legal fees, stamp duty and moving bills – just to name a few. Start a dedicated slush fund early so when it comes to settlement you won't be caught short.

Tip #3: Get educated
Knowledge is power, so the more you know about the type of loan you need, the better equipped you'll be to find the product for your situation. Consider how quickly you want to repay your mortgage, and whether you'd like to fix your interest rate or would like some flexibility. While information is easily available on the Internet, your mortgage broker is well positioned to answer any questions you may have.

Tip #4: Obtain a pre-approval
Having a pre-approved home loan enables you to realistically look for a property in your price range. It also gives you power to bid for a house or put in an offer as soon as you see it – rather than risk missing out on it should you delay.

Tip #5: Get a good team
Having a mortgage broker on hand is essential for finding the most appropriate mortgage for you. Your broker has access to most of the leading loans and can really track down the products that suit your circumstances – especially if affordability is an issue.

It's also important to seek sound legal advice, an understanding of the government grants and incentives as well as a feel for where interest rates are heading. With the aid of a mortgage broker backed by other relevant professionals you'll be much better placed to make your first home buying experience a positive one.

As was widely expected the Reserve Bank of Australia (RBA) pushed rates up by 0.25 per cent in March, in a bid to curb inflation.

On top of February's rate rise you're not doubt wondering how this will impact your mortgage payments, and where you can cut back each month to meet your financial commitments.

If you're a would-be first homeowner, the dream of owning your own home probably now feels further out of reach than ever before.

But despite the increasing costs associated with funding property, the rising rate environment can be managed. Careful budgeting and prudent spending will go a long way to safeguarding you from slipping into unnecessary and unmanageable debt.

However if you're concerned about your ability to manage the recent rises I urge you give me a call and we can chat through your options. There are a number of effective tools and strategies we can engage.

With interest rates still looking more likely to rise than to fall in the near future our refinancing article in this issue of Mortgage News is particularly pertinent. If you're considering switching to a new product, these points should prove valuable.

Moreover, for first homeowners, our piece on tips and tools to enter the property market will give a sound starting point from which to embark on the quest for home ownership. We also look at buying off the plan, interest-only loans and planning weekend jobs around the house.

I trust you'll enjoy this issue of Mortgage News.

Gus Martonhelyi
All Home Loans (Aust) Pty Ltd

Ready to refinance?

Recent interest rate hikes have driven many borrowers to re-think their home loan. Should you be refinancing too?

If you aren't happy with your home loan or are having difficulty servicing it, you might be interested in refinancing. This can mean switching products, consolidating debts or even changing your lender entirely.

Even if you're comfortable with your current mortgage it's advisable to also assess it regularly, particularly if you've experienced any major lifestyle changes recently – such as a new job or you've recently shifted to a one-income household.

Here are some issues worth considering as you re-evaluate the opportunity offered through refinancing with your mortgage broker:

Potential refinancing benefits

- **Better affordability:** A more competitive interest rate could reduce your monthly repayments.
- **Lifestyle improvement:** Your broker might be able to find features that would compliment your lifestyle – such as an offset account or a holiday period.
- **Simplicity:** Consolidating all of your debts could make repayments more manageable and as well as cut down repayments on higher interest debt – such as on credit cards.
- **Pay off your loan faster:** Changing your repayment options may enable you to pay your mortgage off earlier, potentially saving you thousands of dollars in interest repayments.
- **Flexibility:** Your current lender may be slamming you with fees should you step outside your loan's parameters. A new mortgage may give you better flexibility without the excessive costs.

Potential refinancing pitfalls

Refinancing can incur costs so it's important to make sure that you end up better off should you switch mortgages.

If you decide to refinance you may be hit with exit, entry or early termination fees. If you're unsure, ask your mortgage broker to review your current mortgage to determine if any fees or charges will apply.

Purchasing property off the plan

If you decide to buy off the plan here is some wise advice to take on board:

- **Choose the right location:** Choose an area where there is a demand for property but a current undersupply – this should help boost your property's value over time.
- **Suss out the developer:** Make sure they have a good reputation and a sound track record – go and see other projects and talk to their previous clients.
- **Examine the plan:** Make sure you obtain a professional opinion on the plans to ensure they are satisfactory. If you can't find an architect, talk to a builder or a seasoned investor for a second opinion.
- **Do your homework:** Find out what's in the pipeline for other developments in the area – other projects could help or hinder your potential for return depending on what's planned.
- **Know what you're paying for:** Thoroughly examine the schedule of finishes and make sure everything is detailed in the contract – leave nothing to a verbal agreement.
- **Read the fine print:** Have the contract examined by a legal professional before signing on the dotted line.

Just the interest thanks

Interest-only loans can be the perfect solution for investors looking to maximise cash flow while boosting the tax efficiency of their investment property

Paying nothing but interest on a loan might sound like madness, but it's the preferred product for most investors.

The property market is currently offering strong returns across the country so it's well worth taking a closer look at your options if you're considering breaking into property investment.

The average Australian house price grew by around ten per cent in 2007, Residex data shows. And some markets achieved much higher growth – Brisbane property values for instance grew by 18 per cent while Melbourne's by as much as 21 per cent!

Rising rental yields are also making property a smart investment choice with tight rental markets sending rental prices through the roof.
This combination of long-term capital growth and regular rental income is what makes property such an ideal investment choice right now. And with an interest-only loan, would-be investors can easily capitalise on these market conditions.

Why choose interest-only?
The most obvious benefit of an interest-only loan is the reduction it gives borrowers on monthly payments. By only paying interest, servicing costs can be cut by at least 10-15 per cent.

Who is it best suited to?
Interest-only loans are suitable for both young and old investors alike. If you own your own home you may be able to use the equity that you've built up to secure an investment loan.

On the other hand, for younger investors, interest-only loans represent an opportunity to minimise monthly repayments – helping you get into the market for significantly less. Because you only need to pay the interest on a mortgage – rather than also chipping away at the principal component – means your loan shouldn't impact as much on your lifestyle, yet you should still see your investment appreciate over time.

But remember…
If the property market falls, paying interest only could leave you without any profit. If you understand the property market you intend to buy in, you can however, help maximise the benefits offered by an interest-only mortgage. Make sure you also speak to your accountant for advice.

Economic Round-up

While global economies such as the United States flail under the weight of a potential recession, Australia's economy continues to steam ahead. Indeed, the question being asked is how we can slow it down.

The Reserve Bank of Australia (RBA) attempted to put the brakes on the economy again in March, lifting interest rates 25 basis points. Coupled with the 25 basis points rate rise in February, Australia's official cash rate now sits at 7.25 per cent – the highest in twelve years.

The news does not get any better however, with talk that the RBA may have to raise rates again at some point soon in order to reduce inflation. Moreover, some borrowers have already been hit with a double whammy from their banks in February – with an additional rise over and above the RBA 25 basis points.

If you're feeling concerned about the recent rate hikes, and how they'll influence your ability to meet your mortgage repayments, there may be ways to mitigate their impact.

Your mortgage broker may be able to ease the pressure of rising rates, for example, by adjusting your repayment terms or changing your loan to one that more appropriately meets your current circumstances.

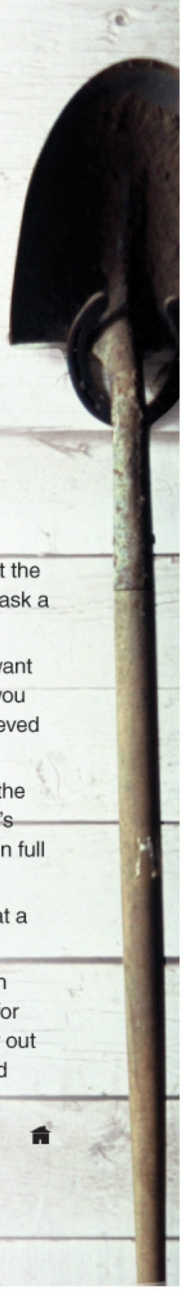
Remember, if you are feeling squeezed speak to your broker sooner rather than later – they'll help you regain control of your mortgage, rather than letting it control you!

While the outlook for interest rates may look gloomy right now, homebuyers should take heart in the promising prospects for property markets however.

House prices in all capital cities rose during the last quarter of 2007, Australian Bureau of Statistics (ABS) data revealed in February. The weighted average growth in value for the quarter was around three per cent.

If growth continues at this pace throughout 2008 property values should rise by a healthy average of 12 per cent – representing significant opportunities for homebuyers and investors alike.

It's time for a working bee



For many of us there are plenty of household jobs that we never get around to doing. The days are getting shorter as we move into Autumn and Winter, however instead of curling up in front of the fire just yet, there are some holidays and weekends you can take charge of and get your house in order! Here are some tips for a productive weekend working bee:

- **All hands on deck:** Make sure you enlist the help of the whole family. It will make the task a lot easier as well as more fun.
- **Action plan:** Draw up a list of jobs you want to get done and then prioritise them – if you have set goals you'll feel like you've achieved something by the end of the weekend.
- **Right tool for the job:** Make a list of all the gear you'll need well in advance so there's less chance of downtime when the job's in full swing.
- **Bit by bit:** Tackle one part of the house at a time to avoid creating a chaotic mess.
- **Fuel up:** Have a steady supply of food on hand ready to reward friends and family for a hard day's work. Don't pull out the beer out too early in the day however, as you'll find productivity will quickly slow.

Insert your Newsletter introduction and your personalised message here.

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