Mortgage news

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Reverse mortgages: making your equity work for you

PAGE ONE

Making your real estate agent work for you

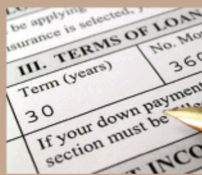
Getting on top of credit card debt

PAGE TWO

Smart insurance

Maximise your tax deductions

PAGE THREE



Pre-approval packs a punch

PAGE FOUR

Reverse mortgages: making your equity work for you

If you fall into the category of 'asset rich, cash poor', then a reverse mortgage may be the answer to help you tap into your locked-away wealth. But beware the fine print.

With the rise in property prices over the last decade, it's become more popular to put home equity to use rather than leave it sitting idle. This has contributed to the growth in reverse mortgage products, which allows people to unlock the value in their home by borrowing against its value.

While reverse mortgages are still relatively new to the Australian mortgage market, they've become a more popular product among mainstream lenders.

How they work

A reverse mortgage basically allows you to borrow against the value of your home. You'll receive either a lump sum or a regular monthly payment. Your obligation to repay the loan kicks in when one of the following happens: you die, sell your home or leave it (to go into aged care, for example). Then, you or your estate has to repay the debt (including interest), usually out of the sale proceeds of your home.

Who's eligible?

If you're 60 or over and own your own home, you should be able to borrow between 15 and 40 per cent of its value. If you're part of a couple, how much you can borrow will depend on the age of the younger of you. The older you are, the more you'll be able to borrow.

The pros and cons

Reverse mortgages can be great for retirees who have a limited income but have seen the value of their homes skyrocket. It's also a good way to free up money for urgent expenses or otherwise unaffordable purchases - whether a new holiday, an operation or home improvements.

Bear in mind, however, that a reverse mortgage is still a mortgage - i.e. a loan. You'll be paying fees and interests over the loan term. That means the longer you have the loan, the larger your debt at the end. According to consumer website www.choice.com.au, at current interest rates it's likely the amount owed on an average reverse mortgage will double in less than 10 years. There's also the risk of falling into 'negative equity': where your loan amount ends up being more than what your home is worth. You also need to be careful if you're on a pension, as the loan may be treated as an asset.

With competition for properties is an all-time high, it's good to have an edge over other prospective buyers. You can gain this simply by getting your mortgage pre-approved. In this issue we discuss some of the steps to arranging pre-approval as well finding good real estate agents - while there's plenty out there a few tips will help you find one that best suits your circumstances.

While on the subject of property, we also consider the necessary insurances to keep your home protected and take a look at a new option for older Australians to unlock the equity in their homes: reverse mortgages.

Your feedback on my newsletter is important; if you have any comments or suggestions - or would just like to discuss any of these articles - please feel free to get in touch.

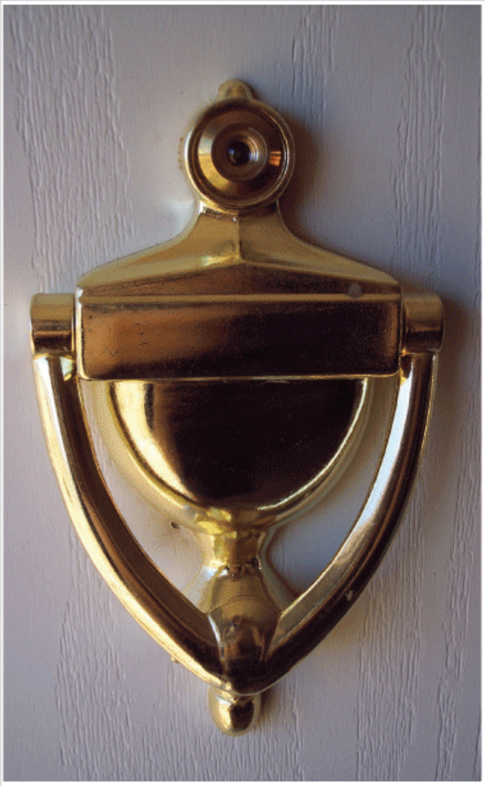
Sincerely,

Gus Martonhelyi

ALL Home Loans

MFAA FULL MEMBER

ACCREDITED LOAN CONSULTANT PLAN



Making your real estate agent work for you

Choosing the right agent can make the difference to your buying - or selling experience

Your home is one of your most precious assets. So when it comes to buying or selling, it pays to have an expert representing your interests so you know you've got the best deal possible.

Seek out a professional
We've all heard stories of unscrupulous real estate agents. But if you take the time to find a professional, there are lots of advantages to using an agent.

If you're selling your home, the right agent will be able to give you sound advice on how best to do it (by auction or privately), how to present your home for inspection and will help you negotiate the best price. They'll also be able to screen potential buyers and use their agency's resources to help market the property. If you're buying, a savvy real estate agent will go the extra mile to help you with your property search.

As a first step to finding one right for you, put together a list of possible agents. Check out the real estate pages in your local paper for agents who advertise their services. Also look out for listing agents' details on 'for sale' signs in your area.

Word of mouth is also a good way to choose an agent. Have any of your friends or family members bought property recently? Ask them about their experience with the agent they used. If it was positive, get the agent's details. Your mortgage broker should also be able to guide you in the right direction in your particular geographic area.

Ask questions
To separate the serious agents from the fly-by-nighters, you need to ask the right questions. These might include:

- how experienced they are and their track record
- how well they know the area in which you are selling or propose to buy in
- what criteria they use to arrive at a selling or buying price for a property
- how they plan to market the property (if you're selling) and keep you informed of offers

You might also consider asking them for contact details of people they've recently represented. Remember though that an agent with a good track record may still not be the right 'fit' for you. First and foremost, choose someone whom you feel comfortable dealing with.

Closing the deal
Once you've settled on an agent, make sure you get an agreement in writing that clearly sets out the agent's obligations as well as all fees and costs associated with their representation. To fulfil your side of the bargain, make sure you give the agent as much information as possible to help them match you to a property - or buyer.

Getting on top of credit card debt

Plastic can be fantastic - but not if you're continually in the red.

Australians love their credit cards. As at November last year, Australians owed around $33.2 billion on credit and charge cards, more than five times what they owed a decade ago according to Reserve Bank statistics. While credit cards can come in handy, it's easy to let the debt spiral out of control. But there are ways to avoid the debt trap.

Tips and tricks for cutting credit card debt;

- **Pay off more than the minimum:** If you can't pay off the entire amount each month, pay the maximum you can.

- **Spread the debt:** If you owe a large amount on your card, think about spreading the debt between a number of low rate or no fee cards. That way, you'll also be able to take advantage of any interest free or 'honeymoon' periods. Visit www.infochoice.com.au for a comparison of cards, including interest rates and features.

- **Link your card to your mortgage:** You'll be paying off the debt at a much lower rate of interest. Offset accounts, where you put all your salary into your mortgage and live off your credit card, may save you money in the long run.

- **Roll over the debt:** Think about consolidating your credit debt via a personal loan. Don't just look at what banks have to offer. Building societies and other non-bank lenders can also offer competitive rates.

Tips for insuring well

- Work out how much insurance you need
- Take out multiple policies
- Pay your insurance annually
- Know what you're insured for
- Start early to take advantage of concessions
- Take advantage of extras
- Consider using a licensed broker or agent

Source: www.seia.com.au

Maximise your tax deductions

A good accountant will help maximise your tax deductions. Here are three sure-fire ways to find one right for you:

Find a specialist - each and every profession can claim a variety of deductions from The Australian Tax office (ATO); it's just a matter of knowing which ones. Your accountant should be familiar with your profession or industry and what you're able to claim outside the standard deductions that are applicable to all workers.

Good communicator - the size of your tax return will be affected by your capacity to understand where you can claim deductions and keeping track of your expenses. For a lot of us financial terms and phrases can confuse; but a good accountant should be able to communicate to you accounting principles and terms in simple, plan language. They should also be proactive; if you're having trouble understanding, let them know…

Trust - as soon as you sign the required forms to submit your tax return to the Government all liability will be born by you. That means that if any deduction is questioned, and found to be inappropriate, you'll need to take responsibility - which means the possibility of incurring a fee, or worse. Just ensure that you feel confident your accountant is pushing the boundaries to get you the maximum return possible while completing your form within the guidelines stipulated by the ATO, not outside.

Smart insurance

Insurance is a must-have for protecting your most valuable assets. It can also be expensive. Here are a few tips to insuring wisely.

If you drive a car, are paying off a mortgage or take holidays, chances are you hold an insurance policy of some sort. Most of us need insurance in our everyday lives to deal with a multitude of situations. There are policies to cover a range of events, from income protection when you're unable to earn a living due to illness or an accident, to health insurance to cover your expenses when you have to go to hospital for an operation.

There are around 5,000 registered insurance products in the Australian market. With so many forms of insurance available, how do you choose what's best without breaking the bank? There are a number of ways to help make the choice easier.

What do you need to insure? Think about how you live and what your needs are. If you only insure for what you really need, you'll save money. You might also want to consider factoring insurance into your purchases. As a general rule, if you can't afford to insure an item, you shouldn't buy it.

Multiply your policies. Your insurer might offer discounts on your policies if you choose to insure a number of different items with them, for example your car, home and contents or life insurance. Having multiple policies with one provider will also save time in the event you need to make multiple claims.

Start early. The younger you are when you take out insurance, the more you'll save in the long-term. As you get older, premiums go up. Many health insurance providers require you to pay an extra premium if you join them after you turn 30, for example. If you've started early, you may be able to benefit from premiums or discounts available to long-term policyholders.

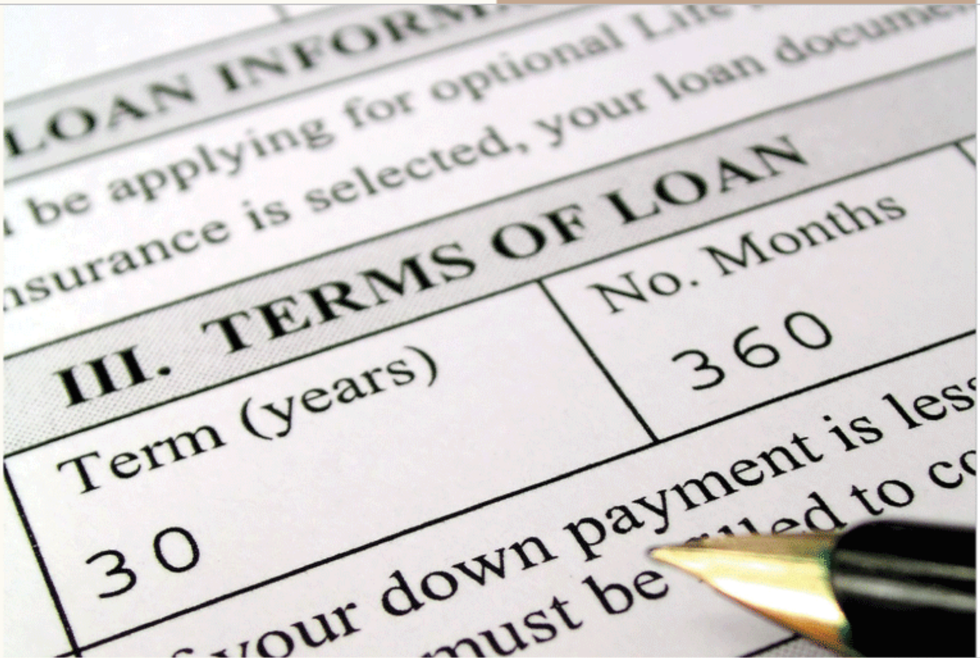
> "As a general rule, if you can't afford to insure an item, you shouldn't buy it"

Pay more, annually. Paying your premium annually rather than in monthly instalments may save you thousands. Increasing your excess (the amount of money you pay to make a claim) will also reduce your premium. It means you'll pay more for each claim, but you'll save in the long run. Also remember to take advantage of the many extras that policies offer to get the most out of your premium.

Read the policy. Make sure you read the fine print. Know what your obligations are and when the insurer will pay out on a claim.

Pre-approval packs a punch

Getting your home loan pre-approved lets you put your money where your mouth is



With competition for properties at an all-time high, it's good to have an edge over prospective buyers. Whether you're looking to buy a rural retreat, your first home or an investment property, pre-approved loans can give you that edge.

Most banks and mortgage brokers recommend that first homebuyers get pre-approval or 'pre-qualify' for a loan. Why? If you're buying your first home, it's good to be able to make an offer knowing you've got the money behind you. It also shows real estate agents - and vendors - that you're serious about doing a deal, which can help in negotiations. If you're an investor, having a pre-approved loan not only means knowing your top price, it also gives you bargaining power. It also means that you can act quickly once you've seen a property you like.

Who offers it? Most banks and lending institutions. It costs nothing to arrange and your mortgage broker can help you secure it. Some lenders offer on-the-spot pre-approval that can last up to two months. The period of approval will vary from lender to lender however. So work with your broker to explore which lenders and products best suit your situation before you settle on a property.

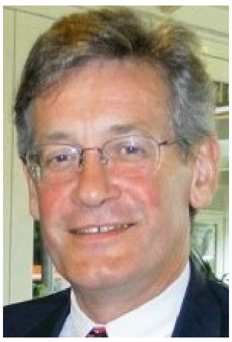
How it works. The lender will look at how much you earn and your credit history in assessing your ability to repay the loan. On that basis, they'll decide how much they're prepared to pre-approve. Again, work with your broker to explore all your options.

How it's provided. Usually via a letter or certificate verifying that your finance has been approved and for a certain length of time. You can show the letter or certificate to a real estate agent or vendor as evidence that a lender is prepared to loan you a certain amount.

How much will you qualify for? That will depend on your financial circumstances and the lender's criteria. Your broker will help you to work out roughly how much you can borrow based on your salary and your existing financial commitments.

3 Three reasons to get pre-approved

1. Gives you certainty and bargaining power
2. Agents and vendors will take your offer seriously
3. No cost to apply



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