MortgageNews
Your guide to mortgages, finance & property

Winter 2011

Welcome to our winter newsletter.

The Reserve Bank of Australia (RBA) left rates on hold in June for the seventh consecutive month.

While this rate reprieve will no doubt be welcomed by borrowers across the country, rhetoric from the central bank, plus the nation's economic commentators, would suggest that a rate rise is not far off.

Borrowers should be using this period of rate stability to assess their current mortgage with view to prepare for rates rises that now appear to be on the horizon.

This may mean refinancing your mortgage to a more appropriate loan - which will become all the more easier from July considering the government ban on exit fees; for others it might include debt consolidation to shift high interest credit card debt or personal loans into your home loan.

Whatever your circumstances, be sure to give us a call and we'll run through the scenarios available to you.

In this month's Mortgage News we take a look at some of these key issues, including an article on the realities of refinancing and the key points you need to keep in mind.

We also include a detailed article on the state of the property market and opportunities for buyers taking into account the number of properties now for sale.

This issue of Mortgage News also includes a feature on mortgage protection insurance - which covers your mortgage repayments in the event of accident, trauma or sickness. If you haven't yet considered this type of insurance I recommend that you take a look. Please give me a call and I'd be happy to help you get in touch with a qualified insurance adviser for your insurance needs.

Sincerely, Fred Rizio
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1.

Honing your negotiation skills

Capitalise on market conditions and negotiate yourself a bargain

There are now sections of the property market in Australia that are flat. Opportunities emerge for a savvy buyer with the finances organised and proactive strategy in place.

Where there are fewer buyers in the market for the number of properties available for sale, and properties taking longer to sell, that is a 'buyer's market'. In those circumstances there is greater scope for driving vendors down on price.

Buyers that have sound negotiation skills can score themselves a better deal. Here are some key tactics for becoming a smooth property operator.

Know the market
Attend as many inspections and auctions as you can to find out what's on the market, in the area you want to buy, and at what price properties are selling. Talk to agents and compare quoted prices with final prices. You might think a property is worth $500,000, but in that market it may be worth less. By knowing what properties are selling in your market for you'll avoid over-paying.

Don't be afraid to start low
Where there is a buyer's market, properties will usually sell for less than their quoted price. There is no golden rule, but start seeking a discount upwards to 10 per cent (or more) than the price the vendor has listed. You'll be surprised what you might be able to drive the price down to.

Consider a professional valuation
This may help you determine whether you're paying fair market value.

Don't set your limit at an obvious, rounded number, because most people will do the same
Put your final price in at a more unusual number such as $358,500 rather than $360,000.

Get in quick
The early bird catches the worm… so move fast.

Know thy vendor
Find out as much as you can about the seller, including why they are selling, why they've set the price they have, how long the property has been listed for and how much interest/ how many offers they've had. The more you know the more power you'll have in terms of negotiation.

Keep your cards close to your chest
Play it cool and don't reveal too much to the agent. If you're really keen you don't want them to know it.

How low should you go?

When making your initial offer the trick is to make it low but not so low that your offer is dismissed. You want to offer enough to get the seller interested.

If you are making a low offer, afford a decent reason - perhaps there's no garage or the house needs a paint job, for example.

To get a lower price, you may also need to offer the seller some kind of incentive. One of the best ways to become an attractive buyer is to offer a quick sale, or if required, an extended settlement time.

Remember: find out what's important to the vendor as use it as leverage.

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2.

Planning your renovations

Some areas of the property market have relatively low growth at the moment.

In those areas, there's a widening gap between demand for property compared to the number of properties available - giving greater scope for borrowers to negotiate on price. Combined, for many home owners these dynamics may influence your decision to not sell now.

If you're looking for a new home or more space, rather than selling why not look at improving your current property - and, potentially, adding to its value to boot.

Before you seek to renovate it is crucial to have a game plan to ensure the most successful outcome. Here's five sure fire ways to capitalise on a renovation.

Research
Seek out a professional, such as a licensed builder, structural engineer or a certified plumber, for advice to determine whether there is enough scope in your property to benefit from renovation.

Understand what adds value
Different features hold different value on different properties, so focus on identifying what additions are likely to generate the most interest from prospective buyers for your specific property.

Plan
Even though the sums may add up and a profit (should you choose to sell) can be turned, all your hard work can be undone if you don't plan which areas to direct your funds to. Make sure you set a budget and stick to it so you don't over capitalise the property. It's all too easy to let prices spiral out of control… successful renovators know their limits and know when to stop.

Finance
How you choose to finance your renovation can have a lasting impact on how much profit you make, plus the scope of works you're able to undertake.
There are a number of different scenarios to finance your renovation, such as refinancing or using equity currently in your home. Give us a call and we can determine the best plan of attack.

Seek advice from the experts
Get a building inspector to take one last look to see if your property is structurally sound and doesn't have any major problems. Renovations can sometimes reveal significant problems you were unaware of; for this reason be conservative in your estimates and factor additional funds into your budget in preparation for unexpected expenses.

Properties with potential

Not all properties were created equal, with some properties more ideal to renovate than others. Properties with a greater potential for renovation have:

- A desirable location
- A floor plan and structure that can be altered
- Structural soundness, free of pests
- Room to expand
- Significant scope for work
- Appealing neighbouring properties

3.

Realities of refinancing

With the government set to ban exit fees from the start of the coming financial year, a greater number of borrowers are reconsidering their current mortgage commitments and opportunities offered through refinancing.

There are a number of key reasons why borrowers should consider refinancing. Importantly, while your home loan might have been right for you when you purchased your property, there's a good chance there might be a more appropriate product on the market that meets your changing needs.

Perhaps you've recently had a child and moved to one income, for example; maybe you've changed jobs and have greater earning capacity - all of these factors can influence the relevance of your mortgage.

As well as ensuring that your mortgage is right for your current situation, refinancing has a range of other usages. You can refinance your mortgage to finance a renovation, free up funds to cover the deposit on an investment property, consolidate high interest rate debts, or even help your children raise a deposit for their first home.

The good news is that if you'd like to take advantage of refinancing your mortgage, it's easy to arrange. However there a number of key points you need to consider.

Importantly, there may be fees and charges associated with refinancing - so before you make any decision to move your mortgage do your sums to ensure you will be better off in the short and long term.

If you are unsure whether refinancing is right for you, give us a call. We can determine whether refinancing is the best option as well as assist you with identifying the products most suitable plus coordinate the application process.

The cost of refinancing

While it certainly has its advantages, refinancing also has its pitfalls - including potential fees and charges. To avoid being caught off guard and out of pocket, here are a few fees you may possibly incur:

- Applications, establishment and handling fees when applying for your new loan
- Early settlement fees on your existing loan
- Valuation fees
- Mortgage insurance
- Discharge fees on your existing mortgage and registration fees on your new one
- Stamp duty

4.

Insure your family's future

What would happen if a serious accident or illness left you unable to meet your mortgage repayments or other obligations?

Nobody likes to think about falling ill, suffering a serious accident, or worse still, dying, but the truth is sometimes serious illnesses or misfortunes may happen.

If you have substantial obligations, such as a loan for a family home, and have a family to think of, what would you and your family do should you no longer be able to earn an income?

When it comes to taking out a home loan you may wish to consider whether it is appropriate to take out mortgage protection insurance, illness, accident, or total or permanent disability insurance, to cover you if anything goes wrong.

Covers, types and levels will vary from one provider to another but usually you will be able to take out cover for the total value of your home loan. There could be a cap or limit or different circumstances when cover could apply.

Types of illness cover vary but can include Life Cover and Terminal Illness which provides lump sum benefits in the event of loss of life or terminal illness. Some types of insurance may also cover you in the case of accident and trauma. It may also cover heart attack, cancer, stroke and coronary artery bypass surgery.

Cover can vary according to your individual needs and budget and you may be able to pay for your insurance in full or via instalments.

If you're a household with limited assets and you depend largely on one income, you may wish to consider your insurance needs. Call us today and we can put you in touch with qualified insurance advisers who will look after your needs.

The information in this document is not advice and does not take into account any person's particular objectives, needs or financial situation. We recommend customers speak to a qualified Insurance Sales Adviser. Before acquiring a product from an Insurance Sales Adviser a person should obtain a Product Disclosure Statement (PDS) relating to that product and consider the contents of the PDS before making a decision about whether to acquire the product.

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5.

Economic wrap

The RBA's decision to leave the official cash rate on hold for the seventh consecutive month has done little to improve consumer confidence.

Data from the Australian Bureau of Statistics shows consumer caution continues to sit at an all-time high, despite the fact that rates have not increased since November last year.

Annual retail sales have endured sluggish growth of just 2 to 3 per cent. Pre-GFC, this growth historically hovered around the 6 per cent mark. Similarly, the household savings ratio has increased to 11.5 per cent from zero just six years ago. So why have consumers become so cautious?

AMP's chief economist Shane Oliver says there are several factors at play behind the new found caution of consumers, mainly an attitudinal change towards debt and savings.

"From the mid-1980s until about five years ago, consumer spending was supercharged by a combination of rising household debt levels and a fall in the household savings rate from around 15 per cent to zero," he says.

"Debt was in, saving was out. This was driven by a combination of easy credit post financial deregulation, falling interest rates making debt more affordable, younger generations becoming more comfortable with debt as memories of serious economic problems faded, and rapidly rising wealth levels making active savings seemingly less necessary."

But this trend has since reversed. The GFC provided consumers with a long overdue reminder that debt is indeed risky. In addition, it warned borrowers that their jobs aren't as secure as they first thought.

As a result, savings are now back en vogue and the pace of increase in household debt slowing to a crawl.

In addition, the debt build-up of the past has left households very vulnerable to higher interest rates. This is particularly so for those who entered the housing market on the back of the first home owners' boost and generational lows in mortgage rates in late 2008 and 2009.

So talk and the reality of higher interest rates have only added to a more cautious attitude on the part of consumers. Moreover, the portion of the household budget allocated to necessities such as power and water bills, fuel, rent, insurance and health is rising rapidly.

Genworth Financial's mortgage trends report released earlier this year found the rising cost of living was deterring Australians from jumping onto the property ladder. And this is now evidenced in falling auction clearance rates.

Data from the Real Estate Institute of Australia shows auction clearance rates have slumped to 60 per cent from 75 per cent this time last year.

It seems Australians feel happier and safer saving their money rather than investing it in property. And the RBA's decision to leave the cash rate on hold at 4.75 per cent in June is unlikely to change this trend.