Mortgage News

Your guide to mortgages, finance & property

Autumn 2011

Welcome to our autumn newsletter,

The Reserve Bank of Australia (RBA) left rates on hold early in March, news that will no doubt be well received by borrowers. With the current period of rate stability, borrowers on principal and interest home loans should be channeling as much cash as possible into their mortgage with view to drive down the principal amount.

Remember, any extra amount paid into your mortgage can make a massive difference to the total amount of interest you?ll pay as well as the overall length of your loan.

All indicators point to additional rate rises later this year. In this issue of Mortgage News our economic wrap takes a look at the current market and the drivers behind our current interest rate setting.

While the Queensland and northern New South Wales floods have put the brakes on potential rate hikes in the immediate future, strengthening economic fundamentals look set to hike rates later in the year.

We take a look at some effective mortgage reduction strategies borrowers can engage to drive their mortgage down and use the current level of stability in interest rates to get some good runs on the board.

This issue of Mortgage News also considers how you can best package and position yourself to secure a loan, with key tips on what you need to do, and the information you need to supply, to get your mortgage over the line.

We also have articles on how to spot a property lemon as well as avoid a holiday hang over. Please feel free to give me a call if you?d like to chat through any of the issues addressed in this issue of Mortgage News or if you have any other mortgage related questions.

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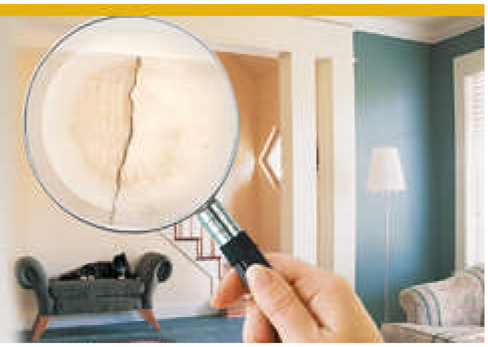
1.

Strategies for spotting a property lemon



Not knowing how to spot a property lemon can turn the sweetness of owning your own property into a sour experience.

Unfortunately when it comes to spotting a lemon, signs such as insect holes or water affected walls will be hard to recognise if masked with a fresh lick of paint.

While the best way to safeguard against buying a dud property is to have a comprehensive building inspection performed by a qualified professional, there are some warning signs that should flash up on every buyer's radar.

Not every property is built on solid foundations and cracks in the walls are a tell-tale sign that there may be serious problems with the property.

If you spot a crack that is wider than the width of your fingernail, or the bricks are out of alignment, then this could signal a major structural issue.

When inspecting a property's structure always take an extra pair of eyes along with you as your chances of locating any hidden defects are doubled.

There are also other senses that should come into play when it comes to unearthing potential problems.

If the property smells damp and musty there is the possibility of potential plumbing issues, such as leaking pipes.

Prodding around toilet, shower and sink areas should reveal any soft spots hidden from view that may conceal leaks.

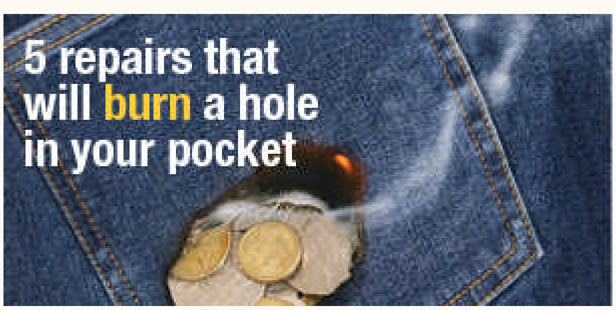
And a ceiling with bulges could hide a multitude of sins, so be sure to check every room.

By shining a light on the ceiling situation you can uncover most issues, like mould or roof leaks.

And sure fire sign of potential pest trouble is bubbling paint, wood powder or crumbling timber around door and window frames.

Lastly, if the property looks like it's been renovated make sure you can be sure that these improvements were done in accordance with council regulations.

This is vital because if improvements have been done illegally then you'll be responsible for bringing them in line with industry standards - and that could prove very expensive.



- **Fixing foundations**: This is a major undertaking that involves replacing shoddy stumps which hold up the entire house and can take months to execute.
- **Roof repairs**: A roof with faults can present a safety risk for the entire home. Expect repairs to climb into the thousands - worse still is a replacement!
- **Poor plumbing**: Problems to your plumbing will not only cause damage to your property it can also attract

- **Wrecked wiring**: Blackened areas on power points can be the first indication of bad wiring. Re-wiring will involve hiring a professional, which can be a huge project and expense.

termites. Repairing issues, such as leaking pipes, especially in older properties, can end up being a financial burden.

- **Pest problems**: Expect your bank balance to take a big hit if your property is infested with pests. Ensuring they are eradicated once and for all can be a huge endeavour.

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Mortgage reduction strategies

Make your dream of debt free home ownership a reality with a few simple mortgage reduction strategies.

The longer you take to pay off the principal amount you've borrowed for your home the more interest you will end up paying - it therefore makes sense to try and put a dent in your mortgage as quickly as possible.

Mortgage reduction is much easier and less painful than most people think, and with a few simple steps you'll be sure to drive your mortgage down.

Review your home loan
With the home loan wars running hot, lenders are now offering heavily discounted loan packages to win over your business.

Ensuring that your home loan still offers a competitive interest rate could save you thousands of dollars over the short, medium and longer term. However be sure to give us a call for advice on the most appropriate product for you and any fees or costs that are associated with switching before jumping ship.

Increase your mortgage repayment frequency
Changing from monthly to fortnightly repayments is the safest and most effective mortgage reduction strategy.

By paying fortnightly you are effectively making a total of 13 monthly repayments over the course of a year, giving you one month's extra repayment every year.

At first glance this figure may not seem significant but you could essentially wipe more than 4 years of the life of a 25 year loan term and save tens of thousands of dollars should you engage this simple strategy.

Make lump sums
Whether you've just received a tax rebate, Christmas bonus or an inheritance, use every opportunity to drive down the principal amount of your mortgage. The more cash you drive into your mortgage, the earlier you'll repay your loan.

And remember, if necessary, you can usually release any additional repayments from your home if you have to unlock those extra dollars at some stage in the future.

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Application assistance

Having your home loan approval delayed as a result of not having all your required documentation ready to go could end up costing a lot more than just time - it could mean losing your dream property.

Ahead of applying for your loan it is crucial that you get all your affairs in order so that your application will go through as seamlessly as possible when you find that perfect property.Â

An ID check will be one of the first things any lender will perform, so make sure you obtain a copy of your driver's license or birth certificate and also have at hand copies of your Medicare Card, utilities bills or tax assessment notices as proof of identity.

Proof of saving and income will also need to be provided so that the lender can assess whether you have the means to service your home loan debt.

In addition, your credit record will have a huge impact on getting your loan approved so pay off any arrears or outstanding bills that have crept in before you approach a lender.

Your lender will require you to provide information regarding any current liabilities so get a hold of any HECS statements, credit card statements or other loan documentation you still owe.

You will also have to detail what your monthly expenses are, so take the time to calculate your expenses including what your rent, council rates and weekly travel costs amount to.

We're well geared to help you with every step of the home buying process - from identifying the best loan products, through to making an application. If you have any questions on the information you'll need to support your loan application please feel free to give us a call.

Loan application documentation

What you'll need to supply with your loan application:

Identity - Includes drivers licence, birth certificate, passport, Medicare Card
Income - Includes pay slips, group certificates, bank statements
Liabilities - Includes HECS statements, lease agreements, existing loan statements, such as a car or personal loan
Expenses - Includes rent payments, bills, general living costs, rates notices
Savings - Includes bank statements, term deposit statements

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There's no doubt that holidays help you achieve a better work/life balance but while it's important to get away, coming home to financial strain will be a burden.

But with the right approach you can treat the family to a well-deserved holiday without breaking the bank.

The journey begins with a frank assessment of your current financial situation. This will allow you to determine how much you can allocate to your trip, and how it will be spent.

Start off by lining up your credit cards and totting up how far you're in the red. Then look at any store cards, furniture finance and other debts that need servicing.

It's also important to look at any upcoming bills and expenses such as school fees, car rego or council tax that are likely to hit your hip pocket in the next six months.

Taking such a stark view of your finances may be unsettling but your financial commitments could come back to bite you if they are swept under the carpet for the sake of an over extravagant vacation.

Knowing where you stand financially will allow you to create a realistic and effective budget to be used for the trip.

And should you need to, speaking to us can be an effective way to help consolidate existing debts or even release extra equity that you've accumulated in your property.

Cheap tricks

If a holiday is out of the question, planning a series of day trips could be a cost effective solution. Here are few quick getaway ideas that'll keep the whole family smiling.

The great outdoors - Australians love the feel of being at one with nature and best of all it's a very cheap option. There's nothing better than a picnic or bush walk - and our beautiful national parks are everywhere. All the benefits of exercise and family enjoyment couldn't be easier.

Hit the city - There's always something happening in the city, so it's well worth taking a look at what's on. Annual events seem to run endlessly and with only a few minutes spent online you are sure to find hundreds of activities from heritage tours, art galleries, museums and festivals.

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Economic wrap

When the Reserve Bank of Australia (RBA) lifted interest rates in November 2010 it did so with one fundamental goal in mind: to rein in the pace of economic growth.

The RBA Board's 25 basis point rate hike achieved that, which was one of the key drivers behind leaving rates on hold at 4.75 per cent in December.

Recently released data from the Australian Bureau of Statistics (ABS) shows that Australia's economy is currently feeling the impact of higher interest rates, a still fragile global economy and a strong currency.

Growth in household consumption has almost halved in the past couple of months - dropping to 0.6 per cent from 1.4 per cent in October 2010.

In addition, last week's national accounts found that the household savings rate is currently sitting above 10 per cent - suggesting consumers have lingering concerns about the global financial crisis and the direction of interest rates.

Most economists now believe the next tightening phase will begin in the June 2011 quarter, which will certainly be comforting news for home owners with mortgages.

HSBC chief economist Paul Bloxham says inflation will remain largely under control until mid-2011 when stronger economic growth will ultimately result in an upwards drift in inflation, which will argue the case for higher rates.

Currently, the unemployment rate sits at 5.4 per cent, after rising 0.2 per cent in October 2010. Employment growth has been very strong over the past year, and some leading indicators suggest the moderate pace of expansion will continue into the period ahead. Any boost in mining investment will ultimately push the economy closer to full employment.

NAB's chief economist Alan Oster expects the unemployment rate to settle at 4.75 per cent in the New Year, which will give case for the RBA to start the next phase of tightening.

According to Mr Oster, the RBA should not raise the cash rate drastically next year; instead it should peak around 5.5 per cent in December 2011.

This would take the average standard variable rate (SVR) to around 8.5 per cent. At present, the average SVR of the majors is 7.7 per cent.

While it would appear that a reprieve from rate hikes looks likely in the immediate future, it is well worth reviewing your current mortgage to ensure it's still the right one for you.

With a solid understanding of your current position you can look to capitalise on the months ahead when rates look set to stabilise, which may include driving your mortgage down or alternatively, freeing up equity to purchase an investment property. Please feel free to give us a call and we'll talk through your options.

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