Mortgage News

Your guide to mortgages, finance & property

Summer 2010

Welcome to our summer newsletter

After a 0.25 per cent hike to the official cash rate in November, the Reserve Bank of Australia left rates on hold this month - much to the delight of home owners and prospective buyers across the country.

With Christmas now just around the corner, any extra cash in the household budget that would have been channeled into additional mortgage repayments can now be spent on Christmas essentials.

Just keep in mind that the Christmas budget can blow out, and you may be left with a credit card hangover in the New Year. So create some realistic budgets for Christmas spending, and importantly, stick to them.

With Christmas now upon us you can start to think about how you can effectively use your time over the break to get some renovations done around the house. In this issue of Mortgage News we offer some tips for undertaking smart renovations that can add value to your property without costing an arm and a leg.

We also consider some of the challenges facing home buyers when buying their first property - in particular managing expectations. While it's great to buy your dream home as your first home, it is not always realistic. This article looks at what buyers should consider and some of the help at hand.

This issue of Mortgage News also looks at the need for the regular review of your mortgage as well as some of the home loan options available outside of the major banks. With competition now opening up between banks and non-banks, there are some excellent deals on offer should you be seeking to refinance your loan or if you're buying for the first time.

Please feel free to give us a call should you have any questions about this issue of Mortgage News. I wish you and your family the best for the festive season,
Sincerely,
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1.

One size doesn't fit all

As we move from one phase in our life to another, so too do our priorities – and our financial needs.

There are no guarantees that a home loan that was suited to your needs a few years ago is still the best product for you today.

This could be down to changes in your personal situation but it could also be due to a change in policy from your lender - or simply that there are now better products on the market.

It is therefore well worth putting your present home loan under the microscope to ensure that it is still the best one on the market for your situation.

Time to review

On closer inspection you may find that you are better off with another lender. This could be down to the interest rate, the features, the offers, or even because you are looking to consolidate a number of debts.

Refinancing is relatively straightforward but there are a number of considerations you should address before taking the plunge.

Some loans may have break-costs associated with them - fixed rates in particular but also variable rate loans. But this need not necessarily be a barrier to bailing out of a loan that is no longer suitable as you could end up in a better overall financial position as a result of switching lenders.

If you have found a more competitive interest rate or are currently paying for features you do not use, this could also be another reason you may want to consider refinancing.

Pastures new

The process of refinancing is relatively simple in most cases. It essentially involves taking out a new loan and using part, or all of the funds, to pay out the existing loan.

While you can refinance with your current lender, if you are going to a new lender you will need to provide the same documentation that was required when you took out the original loan, as they will still need to assess your capacity to meet your repayments.

If you are thinking of putting your current loan through its paces, don't hesitate to contact us as we can help make the process easier for you.

Not only can we assess whether you are still in the best product, we can also help you with the application process with a new lender if you decide that there is a better option out there. Feel free to give us a call if you would like to review your current product or even if you just have some questions on how the refinancing process works.

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2.

Managing your expectations

It might be tempting to make your first home your dream home, but first home buyers should be careful not to overburden themselves.

When it comes to making that first move into the property market, many first home buyers begin their foray by browsing the market for properties they really like.

Make no mistake - it's important to like the first home you buy - and you want to have a good feeling about it - but good things come to those who wait, and sometimes the best strategy is to start small.

The price tag of Australian property doesn't come cheap. And for first timers, taking on a mortgage is not always a straightforward process.

According to research by the National Centre for Social and Economic Modelling (NATSEM), mortgage pressures for first home buyers have worsened over the past decade, with as many as one in two first home buyer households dedicating more than a third of their disposable income towards housing.

Dedicating more than a third of your income towards a mortgage is commonly referred to as 'mortgage stress', and by overextending yourself your first home can become more of a nightmare, than an enjoyable experience.

Aspiring property buyers should consider their first purchase carefully, starting with a balanced assessment of their borrowing options.

The best place to start is to determine your borrowing capacity - not only in terms of what a lender is willing to offer you, but also with

A great way to 'test'your mortgage serviceability is to work out what income you would have left if you were to take out a certain size loan and then start living by it. If you can't comfortably manage you might need to reassess your buying options.

If you can manage, then you know your borrowing capacity as well as your property budget and it's time to start house hunting - without wasting time on properties you simply can't afford.

By starting smaller, you'll be able to pay more off your loan quicker, which means you'll be building your personal wealth and getting yourself on track towards upgrading to a better property in the future, rather than swimming in debt.

Buying your first home is great, but don't ruin the experience by biting off more than you can chew. Give us a call and we can help you realistically determine your borrowing capacity as well as the mortgages that would best suit your situation.

Help is at hand

A mortgage broker can be a great port of call for aspiring home buyers looking for guidance on their borrowing capacity. Not only can we help you determine what repayments you can afford, we can work with you to develop strategies to boost your serviceability, suggest alternative financing options and of course help you find the best deal.

regards to your individual circumstances and lifestyle in order to match your mortgage commitments to your other life priorities.

First home buyers should factor in a rise of two per cent in their interest rate to avoid any chance of slipping into mortgage stress in the years ahead.

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3.

Maximise your reno potential

A smart renovation can add thousands to your property if you set a solid plan from the outset.

Renovating is a national pastime - just one look at a TV guide and the plethora of shows dedicated to renovating will instantly highlight this. The process of turning an old house into a new one is engrained in the Australian culture.

But while renovating a property can add significant value, there are numerous issues that need to be considered before you start knocking down walls or ripping up carpet.

As well as making your home more liveable, the number one driver for renovating a property should be to add value. Here are a number of key points to keep in mind to get the biggest bang for your renovation dollar:

Be smart

Often the things that add the most value to a property can be done on a shoestring budget. By simply applying a coat of paint, replacing the carpet, undertaking a bit of landscaping or adding new lighting fixtures; an old property can have both life and interest breathed into it.

Set realistic budgets

It is crucial that you set yourself a budget before you begin renovating. It is not a matter of simply estimating the overall costs; you have to sit down and plan it out based on research, strong costs analysis, and most

Tips for cost effective renovating

If you look like you are heading over budget, here are some tips that can ease your cost load.

- Reduce your labour costs by doing what you can yourself or calling in favours from friends
- Look to use fittings and materials that are lower in quality and cost
- Cut back on the scale of the renovations

importantly, appreciation of what types of renovations add the most value.

When you are accounting for your renovation costs, build a buffer of at least 10 to 20 per cent into your budget as very rarely do renovations go off without a hitch. Even professional renovators underestimate costs, so be conservative with your forecasts.

Know your target area

Before you start your renovations, get to know the style and structure of other properties in your area. By understanding the type of people that are likely to buy in your area can you style the property to suit the majority.

While you might be renovating with view to live long-term in your property, keep any changes modern and contemporary - don't be too outrageous with your design. What you might find appealing and attractive others might think otherwise. This may therefore impact the price you receive should you sell the property or decide to let it out.

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Banks vs. non-banks

With competition on the rise between lenders, borrowers should look beyond the major banks to see how a mortgage broker can assist.

Competition is again heating up between the banks and non-banks as liquidity returns to the lending market.

When times were tough during the global financial crisis, borrowers turned to the safety of the majors. Government backing of the banks was enough to convince most borrowers that they were in safe hands with the major financial institutions.

But times have changed. Today it is the major banks that are coming under government scrutiny when most lenders pushed their mortgage rates up by as much as 0.2 per cent above the Reserve Bank's

Why should I use a mortgage broker?

- Saves you time and money
- Gives you choice
- Helps you find the right loan for you
- Can help you with making

November rate rise.

Non-bank lenders have seen an opportunity to win back the borrowers lost to the banks in previous years and in many instances they have provided competitive rates.

But it is not interest rates alone that have prompted borrowers to look beyond the banks. Self-employed, credit impaired borrowers and business owners that have been turned away by the banks have often found their business welcomed by the non-bank sector.

So when you are looking for the right lender for your situation, mortgage brokers are a great point of call when it comes to looking across the full spectrum of products.

We are not only able to find the most competitive rate but we can also help you evaluate the suitability of the product and the lender. We listen to your needs.

an application

Source: Mortgage Finance Association of Australia

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5. 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.

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.

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.

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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