Mortgage News

Your guide to mortgages, finance and property

Summer December 2007

Economic round-up

Time to prepare for the year ahead

Australian borrowers can breathe a sigh of relief as the RBA's December announcement confirms that interest rates will remain stable at 6.75 per cent.

But for some Australians, mortgage stress remains a major concern, with the latest Real Estate Institute of Australia home loan affordability index indicating that affordability is at its lowest in 22 years. On average, nearly 37 per cent of a family's income was spent on home loan repayments in the September quarter.

Despite the pain felt by some homeowners the good news is that the Australian economy continues to thrive. More people are in work than ever before, with unemployment now at a 33 year low according to the Australian Bureau of Statistics (ABS).

While the current strong growth is positive it does however increase concerns over inflation – or an overheating of the economy – which can lead to spiralling prices and in turn further rate rises. And the current mood of most economists is that we may see further rate rises in 2008 if inflation continues to climb.

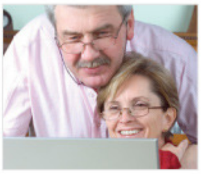
To make sure you're not caught unprepared in the event of an interest rate rise early next year, planning your finances can make the difference between struggling to pay your mortgage and feeling confident and secure about your household budget. The holiday period around Christmas and the New Year is the perfect time to sit down and set some goals for the year ahead as well as contingency planning should you see problems looming.

If increasing rates are ripping a hole in your finances for example, it's well worth considering locking in your mortgage at a fixed rate or even switching your current home loan to a lender offering a better rate.

And remember, if you do overspend during the holiday period, you can always consolidate your personal loans and credit card debts into your mortgage.

Planning remains the key to managing your mortgage – so give your broker a call if you have any questions or concerns about your current loan, or if you're looking to expand or even buy an investment property in the New Year.

In this issue:



Join forces to buy your home

Co-ownership might just be the solution you're looking for to gain a foothold in the property market

With rising interest rates and sky-rocketing property prices pushing affordability to unmanageable heights for many aspiring home buyers, buying a property may seem like a distant pipedream.

If the prospect of owning a home seems to be slipping from your grasp, take heart – co-owning a property with a family member or close friend might be something for you to consider.

Whether you're a first-home buyer or seasoned investor, co-ownership has become a sound option for two or more unmarried people looking for a step-up onto the property ladder.

It's a great way to not only split your mortgage costs but also share in the different responsibilities and expenses of purchasing a property.

Fool-proofing your deal

Whilst the idea of co-owning a property might appeal to some cash-strapped buyers, there are a number of legal factors to consider before you sign on the dotted line.

Most legal experts advise co-buyers to sign a "co-ownership agreement" or a legal document that outlines the rights and obligations of each person with a stake in the property.

To make sure you're covered for any legal hiccups pertaining to your claim on the property, the agreement rubber-stamps each buyer's responsibility to the purchase, including rules on splitting mortgage repayments, dividing operating expenses, and the conditions of sale should one party wish to sell out.

Another factor to consider is the amount of money your lender is willing to fork out for your purchase. Tougher rules may apply to tenants-in-common purchases – so remember to read the fine print, and consult your mortgage broker about your financing options!

Lastly, tenants-in-common are often required to be co-borrowers or guarantors for each others' loans – meaning both parties will be liable for repaying each other's loan in the case of a default. Although each party's liability is limited to the value of the property, lenders may charge penalty interest payments on the loan if repayments are not met – resulting in a possible forced sale of your property.

Ensuring your agreement is well planned out is essential to making co-ownership fool-proof for you and your co-buyer – so make sure you seek professional legal advice and talk to your mortgage broker to get the full picture.

Keep your garden in shape this summer - the eco-friendly way

With water becoming an increasingly precious resource, there's never been a better time to be water wise – especially in the garden. Keep your garden in top form this summer with these eco-friendly tips:

Think outside the square: Decorate your garden with pavers, pebbles, and urns in place of a water feature or plants.

Know your soil: Soil moisture probes can tell you whether your garden needs water – grab one for around $10 at your local hardware store.

Be water smart: Getting water straight to your plants' roots is important and easy with a home irrigation system. These affordable drip systems are easy to install and deliver water directly to where it's needed most, at the right absorption rate.

Keep the moisture in: Covering your garden with mulch prevents evaporation and keeps your soil damp for longer.

Shade your garden: Vines such as bougainvilleas and wisterias are great heat survivors while helping to shade your garden and reduce the drying impact of the sun.

Get with the times: Think about improving your garden's long-term sustainability – look at landscaping ideas that are appropriate for the climate to create a healthy, water-wise landscape.

Buying your home away from home

Not only can a holiday home give your family a whole new lifestyle, it also has the potential to be a very effective investment.

If you're on the hunt for holiday accommodation complete with the comforts of your own home, then buying a holiday property may not only be a good financial investment, it's also a great way to boost your lifestyle!

But before you begin your holiday home hunt, stop and consider whether returning to the same place for holidays year in, year out, is for you. If it is, then a sea or tree change investment property might be your ticket to paradise!

One of the most important issues to consider when choosing your property's location is its distance from your own home.

If you have a young family, for example, it's probably easier to buy in an area that is within driving distance of your home – ideal for short weekend escapes from the city!

For a young professional couple or empty nesters with time and money, an interstate holiday hide away may be more manageable.

If you're keen to explore the option of a holiday home, you should consider getting financial/tax advice, see your broker for recommendations. Here are some other key considerations:

The Pros

- Earn rental income by leasing out your property
- Claim tax deductions for the periods when you rent out your holiday home
- Purchasing the property can be a long-term investment to set you up comfortably for your retirement

The cons

- Rental returns may fluctuate in line with the holiday season
- Regional properties may take longer to sell than their city counterparts
- The cost of property management and maintenance may be high

Buying a holiday home can be rewarding financially as well as positively impact on your lifestyle. Speak to your broker to discuss which funding options best suit your needs and aspirations.

Five tips to make the most of your holiday home

1

Choose the right location

2

Two and three bedroom properties are better for families and groups of friends

3

Keep the property well-maintained to increase its rental as well as sale value

4

Look at hiring a letting agent if you're opting to lease your property

5

Fully insure your home

Reverse mortgages: Making equity work for you

If you're retired and looking to better your lifestyle, unlocking your property's equity can set you up for life!

Many Australian retirees are increasingly finding that they have hundreds of thousands of dollars tied up in their homes and are looking for ways to make their cash go the distance for a comfortable retirement.

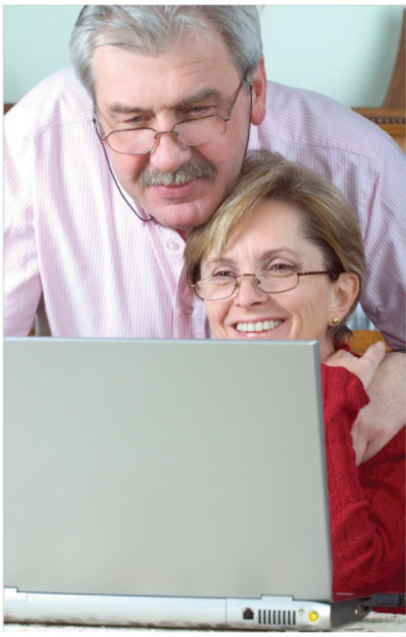
If you're retired, asset-rich but cash-poor, reverse mortgages may be an effective option to release the equity in your home – allowing you to tap into cash that is otherwise tied-up in your property. Here's what you need to know about reverse mortgages:

Working your equity

Reverse mortgages typically allow you to borrow money against the equity in your home. You can choose to receive the cash in a lump sum, a regular stream of income, or a combination of both to suit your needs.

Contrary to traditional home loans, borrowers will not have to make regular repayments on reverse mortgages since the loan is repaid from the borrower's estate upon death, usually after the home has been sold.

Securing a reverse mortgage means you continue to own your home; the lender simply registers a mortgage over the property.



Reversal of fortune

Benefits

- No current income requirement to qualify for the loan
- You keep your property

Considerations

- Typically higher interest rates compared to conventional mortgages
- Your debt can rise quickly because the interest compounds over the term of your loan
- The loan may affect your pension eligibilities
- You may have obligations that become quite arduous as you get older, such as maintaining the property to a high standard required by the lender

How can I get a reverse mortgage?

Unlike conventional home loans, you'll need to be aged 60 and above to qualify for a reverse mortgage. And if you're thinking of getting a reverse mortgage with your partner, then both of you will be required to be at least 60 to apply.

Is my property eligible?

A residential property will typically qualify for a reverse mortgage even if you still have a mortgage over the property; some lenders will also lend against an investment property.

Reverse mortgages can significantly improve a retiree's lifestyle through giving access to equity locked in their home – typically their biggest asset. I'd you're interested to learn whether you're eligible and how this option can help, give your mortgage broker a call today.

As the New Year approaches, borrowers can take heart that interest rates remain stable for now. And while it's too early to say what may happen to rates next year, this is indeed positive news as we enter the expensive festive season.

Keeping costs down is important to each and every property owner, so we hope you found this issue's co-ownership feature interesting if you're looking to break into the property market or thinking about purchasing an investment property.

And for those looking for a sea or tree change - and with an eye for investment - we also gave the low-down on how to go about buying your holiday home.

Finally, for those of you who are preparing for retirement we looked at how you can unlock your property's equity with a reverse mortgage and free-up cash flow.

Whether you're looking for mortgage advice or would like to chat through property investment feel free to give me a call to discuss your finance options.

Have a very merry Christmas and a safe, happy New Year.
Gus Martonhelyi

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