Mortgage News

Your guide to mortgages, finance and property

Winter June 2007

Economic round-up

The new federal budget has had a positive impact on wallets around the country, but the real test for everyday Australians will be its affect on interest rates.

Creating a stir in the media last month, the federal government's budget has added a few extra dollars to the pockets of most Australians. But is it enough to help those struggling in the rental market looking to buy a first home?

While some have criticised the government for ignoring Australia's $60 billion housing industry through failing to introduce any new initiatives, buyers certainly aren't any worse off.

The real focus for everyday borrowers and investors, economists say, is whether the injection of more funds into the household sector will spark another rate rise?

Several influential economists in the private sector commented to The Australian in May that any additions to household spending could nudge interest rates higher, especially with the prospect of pre-election spending as the year progresses.

The financial markets, however, seem confident that interest rates will remain stable, estimating there to be only a six per cent chance of an interest rise at this month's RBA meeting, and a less than 50 per cent chance of a rise in the next year. Good looking odds when you think about it.

So, despite the fact that borrowers might not have been issued any significant breaks by this year's budget, the stable financial environment is at least encouraging for current homeowners as well as those hoping to enter the market over the next six months.

As meager as the tax cuts may seem, remember: every dollar saved can count. To get the most out of your tax breaks why not channel them straight into your home loan for an extra monthly boost!

Sources
Uren, D, 10/05/07, The Australian, Rate rise this year less likely, markets predict
Harley, R, 10/05/07, The Australian Financial Review, Big spending but rate fears stay subdued

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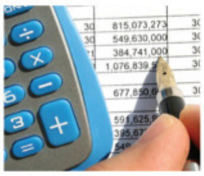

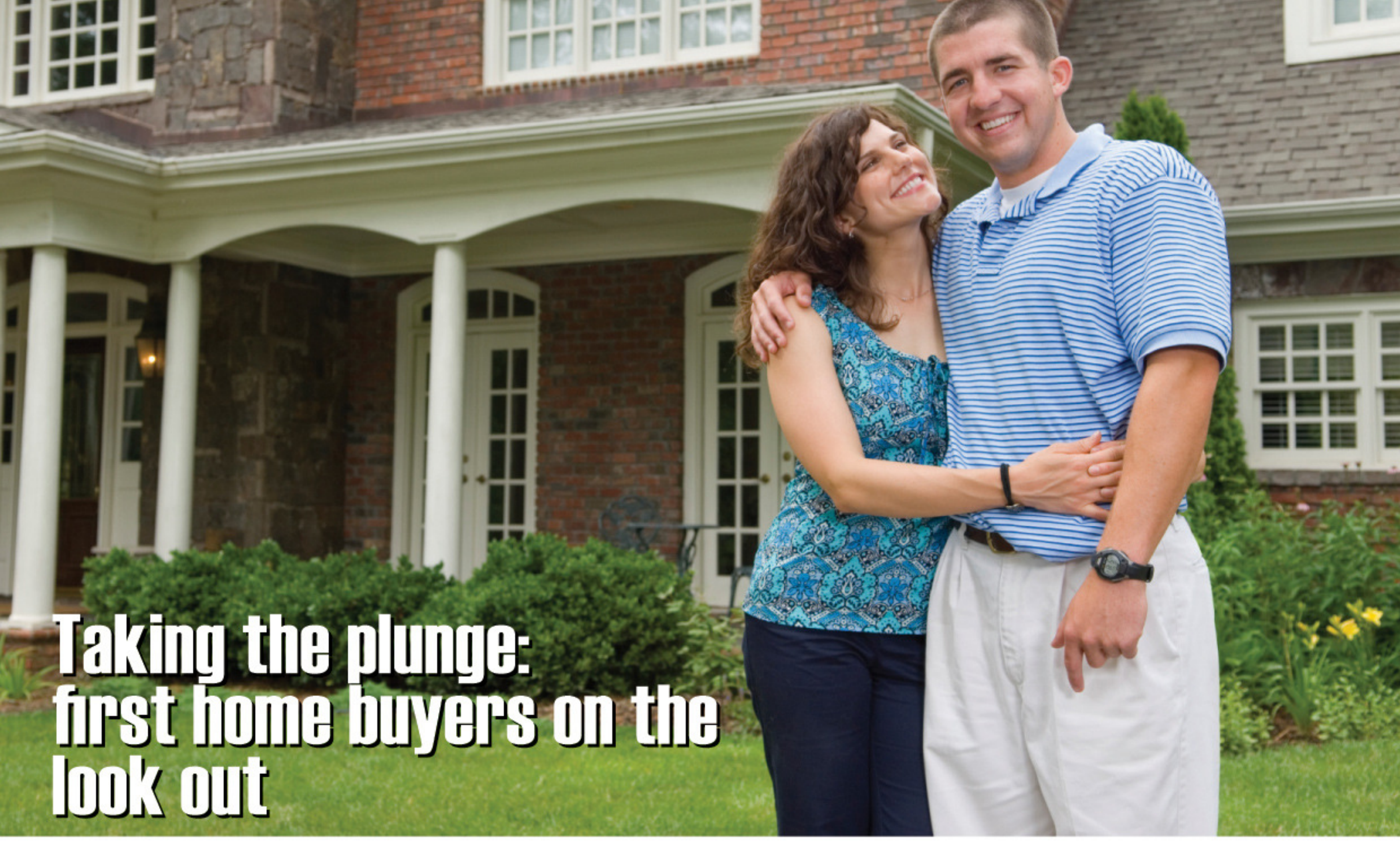

Taking the plunge: first home buyers on the look out

Looking to escape the tightening rental market? First home buyers ready to move into home ownership can now borrow the full purchase price – and beyond!

First home buyers are again eyeing the property market as a combination of escalating rent costs and predicted stabilising interest rates make homeownership an attractive option.

There's no doubt that budgeting and opening an interest-bearing savings account are sound ways to build up funds, but it may still be insufficient for a traditional 20 per cent deposit. Borrowers, however, now have more options with many lenders offering 100 per cent home loans.

The 100 per cent loan allows you to borrow the full amount of the property's purchase price. If you're a first home buyer with little or no debt and a clean credit history, a higher percentage loan could help you secure your property quickly, side stepping the need to save for a deposit.

Bear in mind that the more you borrow for your property the greater the repayment will be. That could mean higher monthly payments or a longer term to repay the loan. But many Australians are undeterred by these factors, with current statistics indicating the increased number of first-home buyers financing their first foray into the property market with high LVR (loan-to-valuation ratio) loans.

So is a 100 per cent loan right for you? Here are its pros and cons:

The pros

- You can borrow up to 100 per cent of the property's value. Shop around for a lender that will allow you to borrow the amount you are looking for, with reasonable interest rate charges. You're mortgage broker is well geared to help you explore the different options available.
- Some financiers offer high LVR loans at standard variable rates.
- Most high LVR loans have redraw facilities, often at little or no charge

The cons

- Higher loan fees and/or interest rates.
- Some lenders may restrict the location of acceptable properties.
- You may be required to pay mortgage insurance; as such you must meet the insurers' credit standards.

Ten tips to sell your home - fast!

First impressions count - Make sure your home makes a good impression with a well-groomed front yard.

1.

Get with the times - Your home can feel instantly updated by changing fixtures such as cupboard handles and doorknobs.

2.

If it's broke, fix it - Don't ignore your grotty carpets or the cracked hot plate – prospective buyers wont! These little things are easy to fix and will improve the chances of selling your home.

3.

Freshen up - Nothing can give your home a better lift than a fresh coat of paint. Light, neutral colours are best as they can make rooms feel bigger and appeal to most people's tastes.

4.

Time for a spring clean - Have your carpets professionally cleaned and tidy your house from top to toe.

5.

Splitting your loan options

The RBA's decision to leave interest rates steady at 6.25 per cent p.a. was fantastic news for mortgagees and investors; better yet are the predictions of a stable rate environment for the remainder of the year. So what options are available when it comes to choosing or refinancing your mortgage?

Homeowners have been on an uphill ride lately and with three interest rate hikes in 2006 alone it's no wonder many borrowers locked into fixed rates to protect themselves. Calmer prospects, however, bring with them an opportunity to reboot your home loan's saving potential where rates are concerned.

Steady interest rates create the perfect environment to test the features and flexibility of your home loan. Loan options, such as splitting your rate, can really make a difference to the overall amount you payback.

Split loans – also called 'combination loans'– combine the advantages of variable and fixed interest rates into a single loan. The key to split loans is flexibility – you can decide what portion of the loan is fixed or variable to suit your needs and current market conditions. Just remember that the fixed proportion of the loan will be locked in for a set time frame – usually one to five years – and there may be break costs if the loan is repaid early.

With steady interest rates for the foreseeable future, now could be the time to make your move and select a higher variable rate component on your loan: for example: 65 per cent variable, 35 per cent fixed.

Most banks and lending institutions offer fixed and variable rate loan packages – so call your mortgage broker to discuss ways to maximise the different loan features. Here are a number of key considerations:

Why select a split product? Split loans are versatile and can be used for investment and owner-occupied property purposes. Through splitting your loan you get the best of both worlds – the security of a fixed interest rate coupled with the flexibility of a variable rate loan.

Take advantage of variable rates. Higher variable rate loans are suitable for times of economic certainty and unchanged interest rates. This gives you the opportunity to make additional payments to your variable rate loan to suit your needs. The goal? Paying off your overall loan faster!

Why choose a split loan?

Pro

- You are protected in times of high interest rates through the fixed rate portion of your loan

Con

- Lenders might charge set-up, account, and discharge fees on both portions of the loan.

Less is more - Remove unnecessary furnishings to create a spacious and inviting atmosphere for your home.

6.

Improve the mood - Ensure your home feels warm and inviting by opening blinds and using lamps to create a cozy atmosphere.

7.

Don't let the dogs out - Don't shatter the illusion of a pristine home with dog hair, or worse…! Be sure to remove all traces of pets while your home is on the market.

8.

Rent it - Shipping in furniture for the sale period may cost a few hundred dollars but it could add thousands to the sale price. There are specialists who can deck out a room to an entire home.

9.

It's the little things - Give your house a fabulous finish with last minute touches such as fresh flowers and the delicious smell of coffee or home-baked cake.

10.

Raise your rent

Letting your property can be a bit like running a business. To be a profitable landlord you need the right combination of a well priced property and responsible long-term tenants. So how can you foster favourable landlord-tenant relationships when it's time to increase the rent?

Know the market

Research the rental property market in your area to make sure your increase only matches market rates. Most good tenants will understand the need to pay a higher rent amidst a tightening rental market and low vacancy rates.

Maintain your property

As with any business, success comes through consistent planning and efficiency. Nipping small maintenance problems in the bud – fixing a cracked window for instance – can prevent minor problems escalating into major catastrophes. As an added bonus, your tenant will be satisfied, making your property more attractive to future tenants or buyers should you choose to sell.

Rent increase notices and reminders

If the market indicates a time for a rent rise, then you'll need to give your tenants fair warning in advance. Sixty days is the usual time frame, but check with your agent to be sure. Send a letter and have your agent explain the terms in full to them. This way, tenants can expect their rent to rise in the near future, without the shock of an overnight increase. If you don't have an agent, follow a similar process in terms of time frames and procedures.

Be professional

When it comes to bumping up the rent, tenants respect and respond better to landlords with a professional demeanor. Try asking your tenants out for a coffee, or arrange a convenient time for a visit and then follow up in writing. Conduct yourself professionally, and listen to any requests or concerns your tenants have. If you handle your property privately, it might be a good idea to bring in a third party to manage these discussions.

A professional manner is important but don't forget that you're dealing with people too. Good tenants can be hard to come by, so don't push them too hard for the sake of a few extra dollars.

Fighting fit, winter veggies with a kick

Nothing makes winter more unbearable than catching a bout of office flu! Try boosting your diet with some of these naturally occurring vitamins and minerals to give yourself the best chance of a flu free winter!

- **Vitamin C: proven to reduce the severity of colds.** Delicious sources of vitamin C include oranges, kiwi fruit, pineapple, broccoli, cabbage, tomatoes and cranberries. But don't forget, your body can't store vitamin C for long, so if you're feeling under the weather be sure you keep up a constant supply.
- **Vitamin A: essential to strengthening your immune system.** Found in a wide range of foods – leafy green vegetables, carrots, sweet potato and eggs will all help to keep you running in top gear!
- **Zinc: helps defend your body against viruses and infections.** Rich sources of zinc can be found in red meat, poultry as well as seafood, beans, lentils, nuts and dairy products.

As we place our hands in our pockets to warm up against the winter chill, most Australians find we have a few extra dollars in them, added from the federal government's budget. We've investigated if it's going to be enough for those looking to buy their first home, and we discussed 100% home loans and if it is right for you.

And if you're keen to take advantage of the stable interest rates, we've looked at some of the options available for choosing or refinancing your mortgage. I hope you've enjoyed this edition of our new look newsletter and if there's anything you'd like to discuss, please don't hesitate to call.

Sincerely,
Gus Martonhelyi

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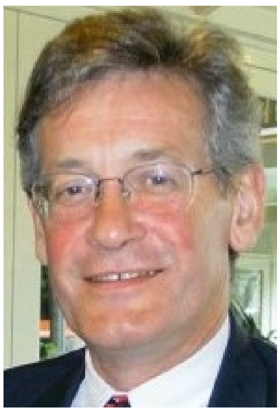

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