Mortgage News

Your guide to mortgages, finance and property

Spring September 2007

Economic round-up

Preparation key to surviving rate rises

Household budgets have been squeezed as the Reserve Bank of Australia (RBA) nudged interest rates up by 25 basis points in August – taking the current rate to 6.50 per cent.

On the positive side the Australian economy continues to thrive, surging 4.3 per cent in the past 12 months. Latest figures from the Australian Bureau of Statistics (RBA) also report a 0.9 per cent rise in economic growth for the June quarter.

A piping hot economy spurred by low unemployment rates, a strong demand for finance and spiking housing confidence, has, however, been a catalyst for the RBA's northbound rate movements. While Australian borrowers were granted a reprieve from another rate rise in September, the big question is whether or not home owners should brace for another rate rise before the year's end?

The economists are divided.

Speaking with *The Herald Sun*, Deutsche Bank chief economist Tony Meer said "the only thing that may trigger a rate hike this year is if the global credit crunch eases, and the equity markets bounce back strongly".

Whatever the future might hold for interest rates, borrowers should always plan ahead, factoring in a further rise into their budget.

Whatever the situation in the short-term, borrowers need to remember that rates do go up and down. It's a sad fact that most home owners take out their mortgage and forget about it. But with careful management, as well as keeping an eye on how a rate rise may impact on your budget, you can help safeguard against any changes.

It's always worth remembering that a few extra dollars pumped into your mortgage early saves on the total interest paid in the long-term.

Most lenders will let you make extra repayments, however small. So get into the habit of putting a few extra dollars into your mortgage each month and you'll knock down its overall term, potentially saving thousands in interest. And should rates rise, you'll already have factored in the increase – meaning the impact on your own personal budget will be reduced.

If continued rate rises are a concern, it may be worth considering fixing part or all of the interest rate on your home loan. Give us a call to discuss your options.

In this issue:

Ready, set, offset

An offset account can be a powerful tool to pay your mortgage off quicker.

Mortgage reduction is a priority for most property owners, with debt free homeownership the goal. But what are the most effective ways to achieve this?

The 'offset account' is one tool that is growing in popularity with borrowers looking to drive their mortgage down, but still have access to cash should they need to draw on it quickly.

An offset account is simply a savings account that's attached to your home loan. It operates like a regular transaction account but any money that goes into it is deducted from your loan balance before the interest is calculated. Your savings remain in the offset account and can be easily accessed when needed.

Why use an offset account?

Some of the key benefits of using an offset account include:

- Your income works for you the minute it lands in your account as it saves interest on your home loan.
- While your income and savings work to reduce your loan, your funds are still easily accessible should you require cash quickly.
- Though interest isn't paid on your savings, through using an offset account you're saving through lowering the principal of your mortgage, which means paying less interest!
- Since the 'earnings' in the account go towards paying off your mortgage, it's not considered taxable income.

Is an offset account right for me?

An offset account is an effective mortgage reduction tool for most borrowers as it allows easy access to your cash, but still ensures that regular payments go towards reducing the loan. Offset accounts are particularly effective for borrowers with higher disposable incomes since the larger amount of excess funds placed into a mortgage has a greater impact on reducing the loan's principal.

If you're interested in looking at how an offset account might work for you, ask us what products we recommend. When discussing your options keep the following points in mind:

- There are two types of offset accounts, 'partial' and 'full'. Partial offset accounts are usually less beneficial than full offset accounts as the interest rate is generally below the mortgage rate.
- Some offset accounts charge monthly fees or transaction fees, and you may be charged a higher interest rate on your mortgage for the privilege of adding an offset facility.
- Most offset accounts require a minimum balance.
- You may incur charges if you decide to refinance your current home loan to include an offset account.

Family holidays that won't break the bank

Dreaming of a summer holiday that's relaxing, fun and most of all affordable? Taking a great family holiday without impacting too heavily on your mortgage repayments is possible – it just takes some careful planning and budgeting! So what's the secret?

- **Get organised -** book in advance and not only will you find better deals, you'll also avoid any last-minute stress.
- **It doesn't need to be five star -** think outside the square; a family holiday doesn't need to be an expensive foray to a fancy island resort. Camping is one cost effective idea to keep kids busy exploring the bush or beach, swimming and fishing... they'll never be bored.
- **Be self-sufficient -** self-contained accommodation is handy for preparing meals rather than dining out three times a day.
- **Choose cost-effective outings -** search for museums and interesting places to visit that have family deals or free entry for children.
- **Double up -** seek out restaurants where children eat free or have dedicated children's menus.
- **Bring back up entertainment -** take along some gear to keep the kids happy such as Frisbees, balls and a deck of cards.
- **Spread the cost -** try to allocate a little out of each pay packet to your holiday over the months before hand. Spreading the costs will help ease the financial burden.
- **Avoid using the credit card -** try to pay everything in cash; come a few weeks after your holiday the last thing you want is a nasty credit card bill to remind you that you've overspent. If you want to finance some of your holiday, speak to us to see how you can package that into your mortgage.

What's in a name? Unravelling property titles

To ensure a smooth purchase, trouble free ownership and a straight-forward transaction come sale time, make sure you're up to speed on the different types of property titles.

From bearing the name of a property's registered owner to outlining outstanding easements, a Certificate of Title is often the key to determining the condition and overall value of your property.

While no doubt important to borrowers, titles are also important to your lender.

Traditionally, your lender holds the title deed to your property as security for your mortgage until it is repaid. Lenders can often be wary of caveats or easements – land restrictions and outside claims of interest on your property – which if listed on your title, may impact on your property's purchase price.

With a number of mainstream titles in use, understanding the differences and how they affect your mortgage can sometimes be confusing. When hunting for your next property, here's a quick summary of some of the most likely titles you'll encounter:

Torrens titles

The most common property title in Australia. Torrens titles issue owners with a single, guaranteed Certificate of Title, giving buyers an assurance of a "clean title" as they are officially recognised by the Lands Tax Office.

Old system titles

Also known as common law titles, old system titles are made up of a chain of deeds which have to be placed in order to establish ownership of a particular property. Fortunately for buyers, these titles are now rare and increasingly converted to Torrens titles.

Strata titles

Strata titles are granted to buyers of flats, units and town houses. These titles allow buyers to own a common property and assume responsibility for a wider area through a body corporate.

Company titles

An older form of strata titles, buyers are allocated shares of a company that owns the title of the property units.

Remember, checking a title thoroughly before buying a property can help speed up the overall purchasing process for both you and your lender. If you're looking for clarification on property titles, or how a title may influence your borrowing capacity, give us a call.

Safe and sound: insuring the title to your property

Buying a property is one of the biggest commitments you'll ever make, so it's worth ensuring your property contract is water-tight.

Nothing makes home ownership more real than having your name signed and sealed on the all-important Certificate of Title. But have you ever thought that the title on your property could be up for dispute?

Unfortunately problems surface all too often after the purchase of a property has been concluded that relate to pre-existing title or property defects that are unknown to the buyer at the time of purchase. For example, contests to a boundary line.

One of the best ways to safeguard against future title problems is through investing in title insurance. Working alongside the checks and balances made by your conveyancer or solicitor, title insurance covers you from costs should there be disputes over the title of your property.

How does it work?

Unlike traditional insurance policies that protect you from unforeseen future events, title insurance seeks to eliminate risks and prevent losses on your title from incidents that have happened in the past.

Title insurance companies conduct an in-depth title search to review all the issues affecting the state of your property. That means going through every aspect of your title with a fine-tooth comb – from tax information to unsatisfied liens (security interest) as well as outside claims against your property. Should any problems arise, it is also the title insurance company's obligation to provide you with legal support.

What are you covered for?

Depending on the terms and conditions of your insurance policy, you may be protected against any defects in your title, easements for mortgages, encumbrances, and monetary loss incurred from property damage.

When calculating the cost of insurance the amount to cover your property is usually based on the value of your home and the amount of your mortgage. If you're not familiar with the steps to take out title insurance, speak with your broker – they'll typically have an association with a title insurance company or alternatively be able to point you in the right direction to find one.

Why get title insurance?

- Legal support provided in case of a dispute
- Conveyancing transaction costs are reduced
- Improved economic security through compensation for incurred losses from your property

Mastering money - it is child's play

An early understanding of budgeting, saving and investing can be invaluable in ensuring your children's financial stability in later life. Take a little time to help your kids understand how money makes the world go round with the following tips:

- **Money doesn't grow on trees:** Help your children understand that money is a limited resource that needs to be managed from day to day.
- **Bringing home the bacon:** Use pocket money to teach children how money is earned. How much pocket money you give will depend on your circumstances; just make sure it isn't handed out on demand and reward hard effort with a predetermined amount.
- **Needs and wants are not the same:** Explaining to your children how these differ can help them learn to prioritise and save. Get them to list their needs and wants and number them from high to low priority.
- **Better budgeting:** Encourage your children to manage their money. Start by providing them with pocket money weekly then gradually progress to fortnightly and monthly. This will teach them to budget money and help them learn to resist blowing it all at once. If this does happen – which it probably will – avoid supplying them with extra funds so they learn the consequences of their actions.
- **Money can grow:** Talk to your children about investments and explain things such as the interest in their bank accounts and appreciating and depreciating assets. One great idea is to purchase some shares with them, giving them an investment of their own to monitor.

The ways we spend, save and think about money become routines that are hard to change, so help your children establish good habits early. Most kids are keen to understand how money works so it's never too early to start their financial education.

There's no doubt that this is a time of great uncertainty when it comes to interest rates. Hardly a day has gone by where the media has not focused on one mortgage lender or the other.

While there is some cause for concern, most existing borrowers will be unaffected by current market jitters. But there's no harm in giving me a call if you'd like to be sure about your situation.

This issue our quarterly newsletter highlighted the factors that influence rate movements and gave an overview of the current economy. We also took a look at the different property titles and what they can mean for homebuyers, while gaining an insight into how title insurance can help protect your investment.

Offset accounts are a useful tool for mortgage reduction and we also explained how they work plus you discovered that you're never too young to learn about money.

I hope you enjoyed the read,
Gus Martonhelyi

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