Mortgage News

Your guide to mortgages, finance and property

[AUTUMN 2012]

Work magic with your mortgage

Whether you're a home buyer or property investor, you don't want to pay more in expensive interest charges than you need to.

Too many borrowers don't realise just how much cash they can save by making the smallest adjustments to their home loan arrangements.

One simple strategy is increasing your mortgage repayments from monthly to fortnightly. You can do this by dividing your monthly payment by two and making that repayment fortnightly. You are effectively paying more than your scheduled repayments.

This simple, yet highly effective strategy could save you thousands of dollars otherwise lost to accumulated interest.

Increasing the amount you pay each fortnight is another great way to drive down your mortgage sooner. If you can look for ways to cut back other spending and direct more cash towards your home loan, such additional payments can really help you save on interest costs as well as potentially reduce your home loan term.

Before you commit to larger repayments be sure to calculate how much you can afford to spend without stretching your budget.

How you decide to pay your mortgage is ultimately up to you, but we would be happy to discuss these option with you.

First of all, you will need to find out whether your lender facilitates fortnightly payments or extra repayments as well as to ensure you are not setting yourself up for any hidden costs associated with paying your mortgage off in a shorter period of time.

If you are still concerned you are paying more than you should in interest, perhaps it is time to review your mortgage's interest rate.

A mortgage broker is well attuned to the latest home loan products available and will be best equipped to locate and tailor a product to meet your financial goals.

PFS Financial Services

Home Loans • Commercial Loans • Business Loans

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Does your loan still measure up?

Thinking of renovating?

Personal or financial situation changed?

Looking for different loan features?

It could be time to talk about your options.

Call us today for a no obligation chat.

Splitting the cost

Looking to crack the property market but struggling to raise the necessary deposit? A family member or friend might be able to help you reach your investment goals sooner.

The cost of Australian real estate can sometimes leave us gobsmacked, but for potential buyers who think they'll never crack the market, there is a way to meet the affordability challenge.

Teaming up with a family member or friend can increase your deposit-raising power, allowing you to achieve your dreams of home ownership sooner.

Being willing to raise a combined deposit and enter a co-ownership agreement can also boost the range of property you can afford as the amount you are eligible to borrow will increase.

There are, however, risks associated with co-purchasing a property and these should be considered carefully.

Purchasing an investment property can be a stressful venture and disputes often occur. Communicating with your partners is an easy way to curb any disagreements or concerns you may encounter along the way.

From the outset, be sure to have a clearly defined investment strategy to ensure there is no confusion later down the line.

Obtaining legal advice is also a must as problems may occur and having that added protection could save you thousands.

But just because you can borrow more money doesn't necessarily mean you should. Refrain from over-committing by avoiding borrowing an excessive amount.

As a co-buyer, it is easy to consider the mortgage a 50-50 deal, but this is definitely not the case. Each of you are responsible for the entire mortgage and may encounter financial difficulties if one of you over-commits.

Whether you invest with a family member or friend, you should always view co-ownership as a business deal that requires mutual understanding and clearly defined obligations supported by similar values and goals.

Pros and cons of co-ownership

Cracking the property market with a family member or friend does have its advantages but it can also come at a cost.

Prior to entering any agreement, it is vital to weigh up the pros and cons of co-ownership to decide whether this investment strategy is right for you.

Advantages

Increases your deposit – By increasing your deposit you can enter the market sooner.

Boosts borrowing capacity – Taking on a mortgage with a partner will increase the amount you are eligible to borrow, giving you a greater range of property to look at.

Halves the costs – Co-ownership could also save you in maintenance and utility expenses, as well as mortgage costs.

Risks

Communication concerns – Purchasing a property can be a very stressful experience for all parties involved and disputes can occur. Constant communication is key to survival, as is a carefully planned, clearly outlined, thorough investment strategy.

Going overboard – When investing with a partner, many people have fallen victim to borrowing an excessive amount. Be sure to calculate how much you can afford to borrow and set yourself a realistic limit.

Three's not a crowd – Three's not a crowd – Investing with a family member or friend may seem like a sensible option, but remember that this is a business venture – pure and simple. Seeking the assistance of a third party is highly recommended.

Maximise your rental income

Rental payments help you meet your mortgage obligations, so it makes sense to maximise your rental income stream.

If you need to raise rent, how do you, as a landlord, raise weekly rental rates without pushing the tenants out of the property?

Being fair and honest will be a big help, so speak to your tenants at least 60 days prior to any increase as this will allow them time to seek alternative accommodation if they choose.

Keep in mind current market rates, and any rental increase should be recorded in writing and supported by your reasoning.

Any maintenance or repair requests should also be met in a timely fashion to ensure the tenants feel safe and secure in the property.

Be respectful and considerate of your tenants during this entire process. It is important that you listen to any objections or concerns they may have with the proposed increase.

Finally, make sure you know about your rights and obligations as well as tenants' rights when making these decisions.

Selecting a property manager

Finding a property manager who suits your needs is essential to maximising your rental returns.

But what makes a *good* property manager?

Communication – Your property manager must be able to liaise between landlord and tenant in an honest, professional and timely fashion. This will go a long way if any disputes do arise and will keep you up to date on the management of the property and tenancy.

Professionalism – Unfortunately, property managers are often put in difficult positions. However, you – not the tenant – are their client. Look for someone who is able to build a relationship with tenants, while maintaining their professionalism at all times.

Experience – Experience is key. An experienced manager will have encountered many different situations over the years and this will only add to their expertise and professionalism. They will also understand the importance of organisation, passion for the job, legalities, honesty and good communication.

Sharpen up your negotiation skills

If you need to negotiate a property purchase, you'll have to bring your very best to the table.

You'll be surprised at how much you can save, so keep the following in mind:

Knowledge is power. Has the vendor already purchased another property? Are they looking for a quick sale? The more you know, the more power you will have at negotiation time.

Don't go in too eager. The lower you shoot, the more room you have to negotiate later on. Keep in mind your first offer should never be ridiculously low, as this may give the impression you have little interest or can't meet the asking price.

Learn the tricks of the trade. There are always going to be competing buyers, and negotiations may be drawing an end. Bear this is mind.

Arm yourself with a sizeable deposit and pre-approved mortgage. This will show the vendor that you are a serious buyer, and will give you greater bargaining power and leverage.

Don't be afraid to spot flaws. If the walls look a little frail or roof tiles are cracked, be sure to bring this to the vendor's attention, as this is a cost all parties may need to consider.

Sweetening the pot

While some vendors are willing to shave a little off their asking price to achieve a sale, many refuse to play ball.

Thankfully though, negotiations needn't be all dollars and cents.

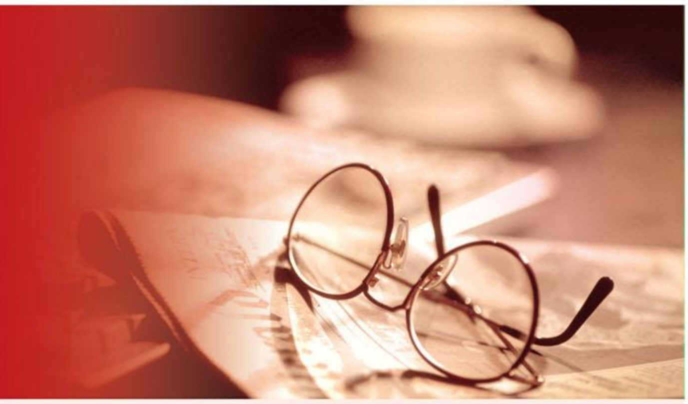
Anything that will add to the property's worth and sweeten the deal should be considered.

Angling your negotiations towards the inclusions of goods can be a useful tactic.

If you have taken a shine to the living room curtains or like the look of the outdoor setting, don't be afraid to speak up.

If the agent is telling you the vendor refuses to budge on price and your negotiations are failing, it might just be time to think outside the box.

Economic wrap



The official cash rate remains on hold once again, but the outlook for home loan interest rates remains less certain.

The Reserve Bank of Australia (RBA) left the cash rate on hold at 4.25 per cent following its monthly monetary policy meeting on Tuesday 6 March. The central bank has now held steady since December last year.

Despite a steady cash rate, however, the banks' rates continue to fluctuate.

In February, all four major banks increased their standard variable mortgage rates, following the RBA's decision to keep the cash rate on hold.

ANZ also became the first lender to announce a new rate review process, which will continue to recognise the RBA's cash rate, but also give strong weight to other factors, particularly funding costs.

"Our new monthly interest rate review process recognises that the Reserve Bank's cash rate alone is not an accurate reflection of bank funding costs, particularly since the global financial crisis which has left all banks with the task of raising funds in volatile global markets and through stronger competition for deposits," ANZ CEO Australia Philip Chronican said.

Lenders continue to cite concerns about funding costs, with many experts predicting further out-of-cycle rises ahead.

According to AMP chief economist Shane Oliver, virtually all the strength of the domestic economy is tied up in the mining sector, while most other sectors, including retail, business investment, construction and private credit all remain weak.

The latest ANZ Job Ads Series provided some cause for optimism, however, with ANZ chief economist Warren Hogan noting that the data show job advertising in Australia troughed in 2011 but is picking up strongly in 2012.

While the Australian economy could do with a reduction in the cash rate of at least 0.25 per cent, according to AMP's Dr Oliver, we might not see one until as late as May, according to his forecasts.

In any case, with the RBA happy to take a wait-and-see approach, perhaps we should do the same and take this as a vote of confidence in the outlook for the Australian economy.

Speak to us today and let us help you...

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