

MortgageNews

Your guide to mortgages, finance and property

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Renovation reality

Turn on the TV on most nights and you're almost certain to come across at least one 'reality' home improvement or renovation program.

As exciting as they might make renovation look, real world renovating can be tough – not just on your back but on your bank account as well.

So, before you get carried away by the glitz and glam on your TV screen, consider the following tips and questions.

Plan ahead

While it doesn't make for entertaining TV, some fastidious planning is always involved in any successful renovation project.

Before starting out on a project, know how much you can afford to spend, which rooms you will renovate, how extensive the project will be, how long it will take and who will help.

In fact, before you even think about picking up a hammer, be sure you know where or at what you are swinging it.



Is it in the budget?

Creating a realistic budget at the outset of the project is perhaps the most important element of a successful renovation.

A well-crafted budget will allow you to prioritise work and materials, to determine the overall scope of works, and importantly, to avoid the dreaded 'reno blow out'.

Include all material costs, labour fees and additional expenses such as pest control provisions in your budget.

And don't forget to allow for costs you didn't anticipate.

While the results of those TV renos might look remarkable, spending too much on finishing touches that don't add real value can be a fast track to serious overcapitalisation.

Pick and choose

TV renovation projects have it all: from the backyard makeover to knocking down walls left, right and centre. In fact, any extensive project is not only likely to cost a tonne but may also be difficult to carry out.

One easy way to minimise your expenses and maximise your profits is to only target the most important rooms of a house.

Generally speaking, the kitchen, bedrooms and bathrooms are the rooms that most impact comfort levels – and the overall value of the property – so be sure to prioritise your project plan in favour of these rooms.

Finally, always remember to shop around, whether you're in search of light globes or looking for a landscaper to add the final touches. You won't regret it when it comes to selling time!

We can help you...

- Get a home loan
- Reassess your current loan
- Refinance your existing loan
- Find a commercial or business loan
- Consolidate debt and free up equity



Why size matters

Portion size. It's something we're often told to think about when it comes to food, but what about your mortgage?

In fact, portion control is a crucial part of maintaining a well-balanced financial diet and similarly, 'super sizing' can wreak havoc with your financial health.

Unlike with food, however, what's right for you isn't always a clear cut issue and mortgages do not come in simple small, medium and large meal deals.

So, when it comes to determining exactly how much debt you should take on, it pays to do some careful thinking and calculating.

A key point to remember is that what you are able to borrow is not always what you should borrow.

While a lender may be willing to lend you a certain amount, that doesn't necessarily mean you should always take up their offer in full. Be sure to think carefully about how much you are comfortable borrowing.

Taking a long-term, 'big picture' approach to debt is important. Think about your future plans and whether your ability to service your home loan is likely to fluctuate in the near future.

For example, will you be looking to enrol in further education? Are you planning on starting a family? Or perhaps you're thinking about sending your children to boarding school. Major events and expenditure such as this can put pressure on your ability to service your loan.

It's also crucial to consider changes outside your personal circumstances, such as fluctuations in borrowing costs. Would you be able to meet the same mortgage obligations if interest rates were to rise? A good rule of thumb is to factor in 'breathing room' for at least a two per cent increase in your interest rate.

Of course, it's not easy to predict the future, but a little thought at the outset can certainly help protect you from some of the bumps along the road. A well-planned approach to debt can make your borrowing experience much less stressful – and even enjoyable, as you witness your debt shrinking and your wealth accumulating.

Of course, a mortgage broker is best placed to help you determine your borrowing capacity and exactly what size debt suits your financial health.

What suits your lifestyle?

Do you think of yourself as a bit of a penny pincher? Or are you more into an extravagant lifestyle of wining and dining?

When it comes to determining your loan size, it's important to consider the lifestyle you live now and the sort of lifestyle you could reasonably adjust to.

For some, it's easy to live on baked beans and toast, but if you're used to a more upmarket lifestyle it might be tougher to tighten the purse strings.

Of course, taking on a mortgage requires a fair bit of financial awareness, and you will need to be much more aware of your spending habits.

A great way to assess your true borrowing capacity is to try your loan on for size before you commit.

Work out how much income you would have left over if you were to take out a certain size loan and then start living by it.

If you can comfortably manage, that's great, but if you can't, you might need to reassess how much you can reasonably borrow.



Help your kids crack the property market

Saving for a home loan has never been harder, but there are still several ways that willing parents can help their kids break into the market.

Guarantor

While your child may have the money to meet their regular mortgage repayments, they may not satisfy the lender's credit criteria.

By becoming a guarantor for your child's loan, you effectively allow the equity saved in your property.

Consider this option when your child has the ability to make the loan repayments but does not have sufficient cash for the deposit or associated upfront loan costs.

Co-ownership

Another option to help your child break into the property market is co-ownership. As a co-owner, your name will be included on the loan and the title – you will share ownership of the property with your child.

However, if you are included in the loan, you also have the responsibility to pay the loan in the event that your child cannot meet repayments.

Being able to help your child succeed in the property market can be seen as a real opportunity, but remember you could be putting your assets at risk as well as theirs. Prior to entering into any agreement be sure to speak to your mortgage broker and seek independent legal advice to assess the associated risks involved in this option.



What are the risks?

As a parent, it is in your nature to want to help your child achieve their property dreams. But be warned: entering into a co-ownership arrangement or going guarantor on your child's property can come at a cost.

For example, if you become a guarantor, you will be personally liable in the event that your child fails to make the necessary repayments. In some cases, the bank will take your house as security for that loan – this could put your family home at risk.

Keep in mind that being a guarantor or co-owning a property with your child will also hinder your own personal borrowing capacity. This could delay any plans you have for purchasing a new home or refinancing your mortgage.

The risks (and rewards) associated with supporting your child in this milestone move are varied. Whether this option is for you will depend on your situation – speak to one of our mortgage brokers before making this type of decision.

Is it in the budget?

'Budgeting' has to be one of the least appealing words in our vocabulary, but if you're looking to take control of your finances you need to budget. It's that simple.

While most people squirm at the concept, it doesn't have to be that painful. In fact, if done correctly, creating and sticking to a realistic budget will not only make life easier, it can help you create even more money!

Developing a budget is not hard: simply calculate all of your weekly, fortnightly and monthly outgoings, set them against your income, and prioritise all expenses from most important to least important.

Essential and unavoidable spending, such as utility bills, rent and food should be placed at the top of your list; new clothes, a night out with friends and take-away lunches should be at the bottom.

This should give you a rough idea of how much you are 'overspending' each month, depending on how you structure your budget.

As a rule of thumb, you should be able to save approximately 10 per cent of your income.

Often the hardest part of budgeting, particularly with long-term goals such as paying off a loan, is maintaining your motivation. To keep yourself on track, set regular targets and monitor your progress. Start off with weekly goals, move on to monthly then finally to quarterly targets.

Be sure to track your progress and don't miss out on seeing your hard work transform itself into real results.



Treat yourself

If you've never saved before, you may find it difficult to stick to your goals.

For some people, seeing their bank account grow each month is enough to keep them on track, but for others the temptation can be too strong.

If you find yourself battling with the urge to spend your hard-earned cash then here is a little trick to help you keep your spending in check.

Treat yourself, spend your money and don't look back!

Rewarding yourself with a purchase every three months is a great way to keep the budget fresh. If you are looking to buy a new suit, a dress or fancy a lavish night out with friends, save for it by putting a few extra dollars away each week for your own personal fun fund.

Economic wrap

The Australian housing market has recently seen the beginnings of some promising improvements.

New data from housing research specialists SQM Research found that, nationally, residential property listings fell slightly in January*.

Property listings across Australia have, on average, declined by three per cent since January 2012 which would suggest increased buyer activity.

"There are a number of signals now that the market is gaining some traction," managing director of SQM Research, Louis Christopher, said.

"I think the interest rate cuts [in 2012] are now working and that a housing recovery is occurring."

This view was supported by RP Data's latest Home Value Index which found that after a number of months of underwhelming valuations, home values now appear to be on the way to recovery#.

Since bottoming out in May 2012, dwelling values across the combined capital cities have improved by 3.1 per cent to January 2013.

RP Data's research director, Tim Lawless, said it appears the housing market has started the year on a strong foot.

Finally, the surprise announcement of a September 14 election has been met with mixed responses from industry experts.

Some suggest it will create uncertainty in the market while others believe it's a positive step towards market stability and greater certainty overall.

Mr Lawless, however, said the election date announcement will leave many buyers questioning the new taxation plans and the future of buyer incentives.

"A lot of investors will be wondering, are there going to be changes to the taxation regime if there is a change of government? Others will be wondering if there will be changes to the various homebuyer grants," he said.

No matter what the future holds, one thing is certain: we can help you towards achieving your financial goals this year.

If you are planning on buying a new home or looking to review your mortgage, give us a call today to discuss your options.

* <http://www.sqmresearch.com.au/QMResearchMediaReleaseStockonMarketJanuary2013.pdf>

http://www.rpdata.com/research/capital_city_dwelling_values_rebound_in_january_largely_driven_by_gains_across_the_brisbane_sydney_and_perth_markets.html

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Got your eye on something new?

If you're thinking about buying a new home, or you've already seen something you like, it's time to **give us a call.**

We can help get you on track to your dream home.



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