Mortgage News

Your guide to mortgages, finance and property

Spring 2012

Say goodbye to those winter blues and welcome in spring, with the latest edition of Mortgage News.

Spring is traditionally the busiest season for Australian real estate, with both home buyers and sellers eager to make the most of the warmer weather.

So, if you are considering purchasing a property over the coming months, it might just be the time to do so.

This issue we also take a look at some key fundamentals of property investment and provide some great tips for making a smart investment.

We also explain how Lenders Mortgage Insurance (LMI) can help you crack the market sooner rather than later.

Finally, we unveil the nasty truths of what late credit card payments and overdue phone bills are doing to your loan approval chances.

If you are serious about buying property this spring or would simply like to chat about your home loan options give us a call today.

Warm Regards

Daniel O'Brien

Eyeing an Apartment?

Apartment living is becoming a popular lifestyle for Australians looking for affordable property, but there are costs and considerations you may not be aware of.

As lifestyles have changed and affordability has become more of a challenge, apartments have become increasingly popular – the 'great Australian dream' may no longer be a big house on a big block.

And you only need to look at the data to see the price difference. According to the August RP Data-Rismark Daily Home Value Index, while the median Australian house price is $595,000 the median unit price is $480,000 – a difference of more than $115,000*.

Apartment living offers many benefits – as well as a generally smaller price tag – and for the time-poor, having to do less maintenance than would be required for a house, would be close to top of the list.

Meanwhile, units may offer investors a better investment yield than a house, with generally lower purchase prices and currently strong rental amounts.

According to research by RP Data, units are a more popular choice for investment than houses. Their data show that nationally, 58 per cent of units are investor-owned, compared to 21 per cent of houses*.

Don't, however, let the lower price tag blind you to other important considerations, such as ongoing costs for which you may not have budgeted.

When purchasing an apartment there are the added considerations of strata titles and body corporates.

With strata title, you also become a joint-owner of the common property of the complex which is an important factor to consider, as it may impact your ability to renovate or alter the property.

You may also be obliged to contribute to body corporate fees. The body corporate makes many important decisions – including those around major capital expenditure – so you should ask to review

the minutes of previous meetings to get a sense of what the executive is like.

Are they likely to oversee the upkeep of the property responsibly? Are there a lot of expenses on the horizon?

Also, while the price tag might be cheaper, getting a loan may not be as easy as for a house (although it obviously depends on how much you can put down as a deposit). This is because some lenders prefer houses – and are more likely to approve a loan – because of the added security of land value.

**RP Data-Rismark Hedonic Index July 2012, published 1 August 2012 http://blog.rpdata.com/2012/07/what-makes-for-the-more-popular-investment-units-or-houses/*

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

The path to investment success

Residential property can be a great investment selection – but you need to buy well in order to secure the best return.

Property is widely considered a great investment and a powerful wealth creation strategy.

But as with anything in life, there are no guarantees.

Yet if you back yourself with the power of knowledge and employ the right investment strategy, there is no reason why property investment can't be a powerful wealth creation strategy for you and your family.

If property investment is on the horizon for you, try to keep the following tips in mind, and you'll be well on track to securing yourself a great investment.

Know your limits

Overstretching your budget is a sure-fire way to cripple your chances of doing well in the property market.

Whether you are a seasoned investor or new to the market, there is nothing more important than determining your budget and understanding how much you can afford to borrow.

A broker can work with you to assess your borrowing capacity and ensure you embark on an investment strategy that fits your budget. With pre-approved finance you'll also be ready to strike when the right property comes along.

Location, location, location

When investing in property, the location of your potential purchase should always be front of mind.

Be sure to consider areas that are backed by strong population growth, employment opportunities, development prospects and solid infrastructure projects.

A great idea is to take a drive around any areas you're interested in and note all local schools, transport hubs and shopping centres.

A property that is within close proximity to such key amenities is usually in higher demand for both tenants and future buyers, which should maximise your prospects of achieving solid capital growth and stable rental income.

Understand the tenant

The location and type of property you purchase will be a strong motivating factor in the type of tenant you are likely to attract.

If you are seeking a long tenancy agreement with a family, it may be wise to consider areas that support such a demographic. Once again, consider a safe area surrounded by a range of schools and shopping centres to support the needs of your target market.

While there are no guarantees with any investment strategy – understanding these three essential aspects of successful property investment should get you closer to ensuring good returns on your next purchase.

Pre-approval power

An often overlooked, yet highly important aspect of successful property investment is a pre-approved loan.

With the power of pre-approved finance, you are not only able to understand your buying power but you can also capitalise on a purchase when the opportunity does arise.

If you'd like to secure yourself a pre-approved loan, please get in touch with one of our mortgage brokers.

How much will it cost me?

The costs associated with a property valuation can differ from suburb to suburb and from valuer to valuer.

Generally speaking, the price of the valuation will largely depend on a property's size, location and the type of valuation. A simple search online should reveal plenty of options, so be sure to shop around and grab a few quotes prior to making your decision.

The online alternative

If you are looking for an independent appraisal of your property but can't afford the cost of a valuer, there are many affordable options available.

In fact, some websites offer free online property valuations and will provide the results in a matter of minutes.

Online property valuations will provide a ballpark calculation based on a broad range of figures including local sales results and median house prices. Because some of this data is quite general in nature, the valuation should be approached with caution.

Free online valuations are certainly not as thorough as hiring an independent valuer to come out and assess your property although they can be a good place at which to start.

Getting into the market sooner

Saving for a home loan deposit can seem like a daunting task, but there are things you can do to speed your entry into the property market.

The time now needed to save for a deposit, blocks many would-be buyers out of the property market. These three tips, however, can help you save your deposit – and get into the market – sooner:

Set a goal and stick to it – Saving is easier if you have a defined goal to work towards. Set a dollar amount and a timeframe which you can then break down into manageable parts, ensuring you reach your goal quicker.

Save 10 per cent of your income – Automatically transferring 10 per cent of your pay as soon as you receive it will boost your savings balance considerably. It may take a little budgeting at first, but once you have a routine you won't even miss it.

Identify needs versus wants – Work out what you can live without. Taking your own lunch to work, for example, rather than getting takeaway can save you heaps. Be realistic about how much you need for the type of property you want and how much you can afford to save – then get saving right away!

Shortcut saving

For many borrowers, saving for a deposit can be a challenge – particularly when they have rent to pay, plus other living expenses.

Lenders Mortgage Insurance (LMI) can be a real enabler for borrowers, essentially allowing them to borrow more than 80 per cent of the purchase price, thereby reducing the amount of deposit required.

A higher Loan to Value Ratio (LVR) loan is considered to have more risk for the lender. LMI therefore covers the lender in the case that you default on your loan. It's a one-off payment made when the loan is taken out and a cost that needs to be factored into your calculations. However, LMI can be capitalised into the loan, allowing you to add it to the overall loan amount, which is paid off over time in line with your mortgage repayments.

Are you good on paper?

Planning on keeping your debt secret? Think again – your credit file will almost certainly contain all your credit details, so it pays to keep it clean.

Have you ever taken out a personal loan, owned a credit card or purchased an item on store credit?

If you answered yes to any of these questions, chances are you have a credit file.

The big question is: How does your credit file represent you as a potential borrower?

If you are looking to enter the property market in the near future, it pays to know a thing or two about what is recorded on your file.

When it comes to taking out a home loan, lenders will assess your credit file to determine your eligibility as a borrower. If you have ever missed a credit card repayment or let a phone bill slip, these minor instances may be recorded on your credit file.

Although they may appear harmless, a credit file with many missed payments can say a lot about your credit habits and potentially limit the amount a lender is willing to offer you.

It's therefore essential to keep your credit file as squeaky clean as possible to maximise your chances of being approved for the loan you need.

You can ensure this by making regular repayments on any loans and ensuring all bills – even the smallest ones – are made on time. Setting up a direct debit arrangement might help.

If you are concerned about the health of your credit file, you can request a copy for a small fee from www.mycreditfile.com.au

So, next time it comes to paying that phone bill, be sure to get it in on time!

What is a credit file?

Your credit file details your financial history and outlines your previous dealings with credit providers, such as credit card companies, as well as listing late payments you may have made.

It will contain information regarding all credit applications you have made in the past five years, any existing loans or outstanding debts, default notices where payment has not been made in over 60 days, as well as fraud convictions and bankruptcy orders.

Your file is often the first point of call for lenders assessing your credit-worthiness, so it certainly pays to maintain a healthy credit history.

Economic wrap

Spring could be shaping up to be a season of recovery for the Australian economy.

Statistics released in August by RP Data and Rismark* show dwelling values rose by 0.6 per cent across the combined Australian capital cities over the month of July. Price increases in Sydney and Melbourne helped to lift the national median property price following a positive result in June, according to RP Data research director Tim Lawless.

"The July result, when viewed together with the positive June result, suggests housing markets may be starting to respond to lower mortgage rates which, according to the minutes of the latest Reserve Bank Board meeting, are around 50 basis points below their 15-year average," Mr Lawless said.

Australian Bureau of Statistics figures released in August also show early signs of activity in the home loan market, with lending for owner-occupied housing increasing by 1.3 per cent in the month of June.

Meanwhile, research by rating service Standard & Poor's has found that more Australians are also repaying their loans on time.

The number of late residential mortgage repayments exceeding 30 days fell by six per cent in May, with just 1.56 per cent of all mortgage holders struggling to repay their loan on time. Standard & Poor's credit analyst, Narelle Coneybeare, said she expects this figure to fall even further in the near future.

"We believe there may be some further easing in arrears going forward, as the impact of interest rate cuts in May and June begins to feed through to borrowers," Ms Coneybeare said.

There was also good news in the jobs market: More than 14,000 new jobs were created in July while unemployment fell to 5.2 per cent, according to HSBC Global Research.

"The Australian labour market remains steady, with enough jobs being created to keep the unemployment rate tracking broadly sideways," HSBC chief economist Paul Bloxham said.

What lies ahead is unclear, particularly in light of continuing economic concerns internationally, but these positive results might just create some positive flow-on effects – just what the economy needs, according to Commsec economist Craig James#.

"Over the past year, the missing ingredient in the domestic economy has been confidence," Mr James said. "However, the last month may just prove a real catalyst for a turnaround in confidence.

"Rate cuts, stronger retail sales data, a pickup in housing activity, rising share markets and the latest employment figures should provide a great deal of encouragement to policymakers, households and businesses."

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