Case Study - Renting vs Buying

In late 2011, Jessica, 26, purchased her first property. 'I was sick of paying rent - as I thought it was 'dead money' so I was actually thinking of buying an apartment to live in, not an investment'.

A friend recommended that Jessica, speak to Blue Wealth before she made any decisions.` In Jessica's meeting with Blue Wealth they ran the numbers and she was able to compare the pros and cons of investing vs renting.

She discovered that if she was to borrow her maximum amount, that is $400,000, she could buy a home and have a mortgage of $400 per week.

On the other hand, she could purchase an investment property, and have the tax benefits and tenants help with repayments and would only need to contribute $50 per week. 'When I saw the numbers, renting made a lot more sense to me. It also meant I could still live in the suburb I want to live in rather than the ones I could afford to buy in!' said Jessica.

So what did Jessica end up buying?

A 1 bedroom apartment in Townsville for $289,000. It has strong growth potential and a 6% rental guarantee, so it will cost Jessica approximately $40 per week to hold. Jess could have afforded a more expensive apartment, but decided not to stretch herself, as she would like to go overseas next year. 'Meeting with Blue Wealth really changed everything for me.

I am living where I want to, I'm not burdened with a big mortgage and I have an investment property that I'm confident will grow - I couldn't be happier.

I also appreciate that Blue Wealth will support me for the long term and will be able to help me build a portfolio when I am ready.' said Jess. ■

Sydney Housing Market **Key Statistics**

January 2012 statistics	Houses	Units
Median sale price	$555,000	$457,000
Change in median sale price (12 months)	-5.2%	-0.2%
Change in median sale price (3 years)	16.8%	19.0%
Change in median sale price (5 years)	16.8%	20.3%
Median asking rent	$480	$450

Source: RP Data Suburb Scorecard Report (January 2012). All figures are current and based on data available at the time the report is published. Figures are indicative only and subject to revision.

Congratulations

Congratulations to Mr Colin Thandrayan who was the lucky winner of the Mortgage Choice 'Chance to win a $5000 holiday' competition.

THE RATE DEBATE

In today's tight financial markets, changes to the official cash rate don't carry the same clout with lenders as they once did. We look at what it means for you as a home owner.

The Reserve Bank of Australia (RBA) gave home owners plenty to celebrate when the official cash rate was slashed from 4.25% to 3.75% in early May.

According to the RBA, the decision to cut rates was based on a cooler economy and moderating inflation. But the generous 0.5% rate reduction was also an acknowledgement that lenders may not pass on the entire rate cut – and that's exactly what's happened.

Global markets are impacting domestic rates

The reluctance of lenders to cut mortgage rates in line with the cash rate reflects difficult conditions on global money markets. Earlier this year ANZ Bank declared it would make independent interest rate announcements citing the high cost and uncertain availability of loan funds sourced on wholesale markets.

Make your own savings

That's not to say borrowers can't supersize the savings of lower rates. Even if your lender doesn't pass on the full rate cut, you can get more bang for your buck by maintaining repayments at the old, pre-rate cut level.

As a guide, a home owner with a $300,000 loan could save around $68,364 in overall interest charges even if only half the rate cut is passed on, simply by leaving their repayments unchanged (assumes original rate of 7.25%).

Look beyond rates

Nonetheless the bottom line is that there are no guarantees any future cuts in the official cash rate will automatically filter through to your home loan. This adds to the importance of considering every aspect of a loan to ensure you are making the choice that's right for your needs.

Features like an offset account or fee-free redraw for example, can make a big difference to the long term cost of your loan. Loan fees are another factor to watch out for.

It makes now a good time to meet with your local Mortgage Choice broker to check that your current loan is still helping you achieve your goals. It's good to know that if you do find a better deal elsewhere, your Mortgage Choice broker makes it easy to switch to a new loan or lender. ■

Q&A

LOAN TERM

Q: *What is a loan term?*

A: A loan term is the period over which a loan agreement is in force – typically 25 or 30 years.

The loan term impacts the repayment amount and interest paid over the life of the loan. For example, if you borrow $300,000 at 7% over 30 years, principal and interest repayments are $1,996 per month, total loan costs are $719,553.43 and the interest is $419,553.43 over the 30 year period.

The same loan, repaid over 25 years, sees monthly repayments $124 higher ($2120) but equates to a saving of $82,802 in interest – total loan costs are $636,751 and the interest is $336,751 over the 25 year period. ■

NEWS FROM

Summer Hill

2 DAYS. 200 KILOMETRES. 1 EPIC RIDE. On October 13-14, 2012 we will be helping the Chris O'Brien lifehouse at RPA to raise money for world-class cancer treatment and research facility providing integrated care and support services to public and private patients. Our target is $2500 and with your support we are hoping to exceed this. The 200km ride will be challenging, however nothing compared to those who suffer from cancer along with families and friends. Google "ride to conquer cancer". ■

John Kofiotis

Helen Syrakis

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MORE THAN A MORTGAGE

Your home loan may be your biggest financial product but it's probably not the only one you use. That's why Mortgage Choice is branching out.

We now offer much more than mortgages, and we're here to help you enjoy good value and great service on a whole range of products from car loans to life cover.

These days we require a whole range of financial products – personal loans, insurance, and a lot more in-between. The trouble is, it takes time to shop around for the best value on each of the products we use.

So it's good to know that Mortgage Choice is diversifying.

More choices. More value.

More than just mortgages, your Mortgage Choice broker can help you make the right choice on a wide selection of financial products.

If you're in the market for a new car, we can help you secure competitive, flexible car finance. Or, if it's a holiday or home renovations you're planning for, talk to your Mortgage Choice broker about an affordable personal loan.

Small businesses owners are catered for too. We can cut through the clutter, arranging equipment finance or commercial loans to grow your business.

Your one stop shop

In fact Mortgage Choice is now your one stop financial shop. We can even help you enjoy peace of mind and quality protection on a range of insurances.

Talk to us about sensibly priced insurance for your home and contents, your investment property – even your family's most important asset – you. We can also provide mortgage protection insurance, which lets you keep up with your loan if the unexpected happens.

Even if you have insurance currently in place, it's worth speaking with your Mortgage Choice broker. Chances are you'll save with lower premiums.

Let Mortgage Choice cut through the clutter. You'll save time and money, and enjoy the rewards of knowing you're getting the best possible deal on all your financial needs.

EXCITING NEWS! MORTGAGE CHOICE IS BRANCHING OUT.

Mortgage Choice is now your one stop shop, helping you enjoy a better deal on:

- Car finance
- Home buildings and contents insurance
- Mortgage protection cover
- Equipment finance/Commercial loans.
- Personal loans
- Landlord insurance
- Life Insurance

Speak to your local Mortgage Choice broker to see how we can help.

BUDGETING NOTES

Australia's inflation rate of 3.1 per cent may seem low, but over time rising prices can inevitably put pressure on homeowners to keep up their mortgage payments while balancing their overall budgets.

Missing a loan repayment can mean more than just paying late fees and additional interest. It can also result in a black mark being placed against your credit history, making future borrowing more difficult, and repeated issues could ultimately lead to you losing your property.

When applying for a mortgage it is paramount that you only borrow what you can afford to pay. Generally it is unwise to be making repayments which are greater than a third of your household's take-home pay.

Even if the numbers initially look comfortable, interest rates can quickly rise and throw a well-planned budget into disarray. For instance, a 0.25 per cent rise on a $500,000, 30 year mortgage can translate to an $80 increase in monthly repayments. Some loans also have introductory rates that lead to significant increases in repayments once that period expires.

Hence it is a good idea to budget for an interest rate much higher than what you will be initially paying. You can always save the difference to create a buffer, or tip it into the loan to pay it off faster. This may also prove useful should one of the income earners suddenly lose employment.

It's important not to count credit cards as a buffer when things get tight. Putting household expenses on credit simply delays their real payment, and can leave you paying higher interest rates on a mounting pile of debt. It may ultimately be worth making some lifestyle changes rather than risking your credit rating or losing the property itself.

A Mortgage Choice broker can help you determine how much you can safely borrow. And if you are concerned about your ability to repay an existing loan, it is important to speak to your broker as soon as possible, as they can provide smart advice on managing your repayments, and may also be able to negotiate a better arrangement with your lender.

Don't wait for lenders to cut rates. Refinancing can put cash back in your pocket today.

With the Reserve Bank appearing to hold rates steady, and lenders increasingly making rate decisions independent of the official cash rate, the onus is firmly on home owners to ensure their mortgage continues to be competitive. The good news is that refinancing to a new loan is a lot easier than many of us realise.

Lower repayments hold appeal

Refinancing, or switching, your loan simply means paying out your existing mortgage with a new loan, often from a different lender.

Several key advantages tend to be behind the decision to refinance. Foremost is the ability to secure a lower rate. This will reduce your regular repayments and cut long term interest costs.

Refinancing can also mean enjoying better loan features or improved service from a different lender. But there are other worthwhile reasons to switch. It can offer a way to streamline and consolidate debts, or provide a means to access home equity to fund anything from renovations to a new investment property.

Whatever the case, refinancing provides a golden opportunity to review your home loan needs though there are pitfalls to avoid in the process of securing a better deal.

Shop around for a good deal

Most notably, home owners need to cast their net wide. With hundreds of loans to choose from it's important to look beyond the major banks. Many small or less well known lenders offer very competitive products.

Refinancing solely in response to a recent rate change can also be a mistake. Today's cheapest loan can quickly become tomorrow's also-ran as lender's reshuffle to gain a competitive advantage. This highlights the need to check every aspect of the loan including features so that you're satisfied with the complete picture not just the rate you'll pay.

Remember too, a good broker may be able to negotiate a rate discount on your behalf. You don't have to settle for what's being advertised.

Check out the costs

Before committing to a new loan it's essential to have a clear idea of the costs of refinancing. While exit fees are banned on loans taken out after July 2011, you could still face exit charges on earlier loans. Check with your lender if exit fees apply.

It's also worth knowing how much equity you have built up in your home. This is the difference between the property's market value and the loan balance, and it matters because if you borrow 80% or more of your home's value you will be asked to pay lenders mortgage insurance (LMI). The premium can eclipse exit fees, so avoid any nasty surprises by asking a local real estate agent or professional valuer for an estimate of your home's value.

Other costs to be aware of include discharge fees on the current loan (allow about $250), registration of the new mortgage (this varies between locations but allow around $300) and application fees on the new loan. If you are refinancing a fixed rate loan before the fixed term expires, ask your lender if 'break costs' apply.

Weigh up the savings

The next step is to add up the benefits of refinancing, and this is an area where your mortgage broker can help.

As a guide to the potential savings, research by Mortgage Choice found almost 400 borrowers who refinanced between August 2011 and January 2012, pocketed average savings of $10,000 over five years.

While these savings are nothing to sniff at, you need to ensure that the benefits outweigh the costs of refinancing – preferably within the first five years. Any longer, and the more likely it is that another loan will appear offering an even better deal.

To decide if refinancing is right for you, take a look at our online Mortgage Stress Test, or simply contact your local Mortgage Choice broker. It costs nothing but it could mean saving a fortune on your home loan.