



All Together Finance Newsletter



Winter Edition 2010

What Are The Experts Saying About Rates?



Economists are forecasting more and possibly bigger interest rate rises to come after Tuesday's Reserve Bank decision. The RBA put rates up 0.25 per cent for the sixth time in eight months, but it has signalled it is now ready to pause. The rise will add about \$48 a month to mortgage repayments on a \$300,000 loan with a 25-year term, with the big four banks already moving to pass on the rise in full.

The decision was influenced by the strength of the mining boom and a higher-than-expected inflation rate and came despite the sovereign debt woes in Europe. RBA governor Glenn Stevens says the increase puts interest rates for most borrowers back at average levels, but many believe any pause will be short-lived. Macquarie Bank interest rate strategist Rory Robertson says the Reserve Bank declared phase one of monthly tightening. "It's now moved six times in seven meetings and has essentially said that lending rates, including mortgage rates, are about at average levels," Mr Robertson said.

"That was basically the purpose of the significant tightening we've seen since last October.

"I think sooner or later, probably within the next few months, the Reserve Bank will marshal new arguments about why policy doesn't need to be neutral-average-normal. "It needs to be somewhat restrictive given the extent to which the economy has bounced from last year's disasters, the extent that house prices, commodity prices, share prices have all moved up and all suggest the economy is moving forward quite nicely."

Mr Robertson says Australia already has a template for tight monetary policy after mortgage rates were pushed to 9 per cent before the global financial crisis. "When the economy was overheating the Reserve Bank was very worried about the up-shift in inflation to a 4 or 5 per cent rate," he said.

"The Reserve Bank did put the cash rate to 7.25 per cent and it did give a green light for mortgage rates to reach 9 per cent." And before the landscape changed due to the global financial crisis, it was contemplating pushing interest rates even higher. Expect the RBA to pause next month at the very least, but it may just be the pause that refreshes. Commonwealth Bank chief economist Michael Blythe says after three rate rises in a row the RBA has hinted at pausing to assess what impact those moves are having. "What comes through very clearly in [the] commentary again is the importance of that commodity price story and the way that's going to inject a lot of income into the economy at a time when it's already running close to full capacity," Mr Blythe said.

"That means increased inflation risks and it probably means a move into restrictive policy settings as we get towards the end of this year. "[The] policy rate will be around about 5 per cent by late 2010 and will be pushing towards 6 per cent in 2011." Mr Blythe does not think Australia will see mortgage rates up at the 9.5 or 10 per cent levels, but he says it will be uncomfortable nonetheless – source ABC News

Competition Winner Announcement

The **WINNER** of our Autumn Edition 2010 Newsletter 'Win an Overnight Stay and Show Package' competition is:

ASHLEIGH WOOD of Emu Plains, NSW

Congratulations! You have won an overnight stay and show package in your Capital City to the value of \$500.

Also in this issue:

➤ [Thinking about selling?](#)

➤ [Interest In Advance Loans – 30th June Decision - Is it for you?](#)



Thinking about Selling?

Should I payout my Mortgage when I sell?

Why should I talk to my Mortgage Broker first?



If you are thinking of selling your property then making the right decision on what to do with your mortgage before talking to your real estate agent can possibly save you a lot of inconvenience and money. Most mortgages will have some type of expense or cost when you pay them out or they may even be cross securitised (ie. you may have multiple loans with all or some securities used to cover all loans). Costs may include basic preparation of security discharge costs of \$150 or up to thousands of dollars on early repayment costs depending on the type of loan and how long you have had the mortgage for. The best way to check this is to review your original mortgage offer documents with your mortgage broker. Within this document will be a section to show if your mortgage is portable, if there is a mortgage discharge fee or a deferred establishment fee, or early repayment fee or a cost for substitution of security. Importantly is there sufficient equity for the lender to release the mortgage if you sell and your mortgage is used for your multiple loans.

Talk to us about what options may be available to you with your current lender. After all, as mortgage brokers we are dealing with many different scenarios everyday and are very familiar with the options available.

Other considerations to discuss are:

Is it best to buy another property before you sell your existing one? Or to sell before you buy? Is it possible to do both at the same time? This section covers the options and highlights some things you may need to consider when it comes to selling. There are also some notes on government taxes and charges, but remember you should also seek your own tax and financial planning advice after you have spoken to us to gain the full financial position for the decision to sell, especially for investment loans.

Selling your home before you buy another property

One benefit of selling your own home before you buy is that you know how much money you have to play with, and you can wait for the right price. The downside of selling your own home before you buy is that you may be forced to rent while you look for a new home and then you may have to move twice (i.e. to your rented home and then to the property you buy). This is both time consuming and costly (i.e. cost of two moves, two utility connections etc). However, you may be able to avoid this by negotiating a long settlement period with the person buying your house. Another risk of selling before you buy is that property prices may rise while you are 'out of the market', which means you will get less for your money when it's time to buy. The longer the gap between buying and selling a home the bigger this risk will be (although in a flat or falling market this may not be the case).

Selling your own home after you buy another property

If you are financially set up, and don't need a quick sale, selling your own home after you buy another property can be advantageous. You can avoid the cost and hassle of having to rent and move twice before buying your next property. Alternatively, some people find their dream home and simply must have it, so to get the property they must buy the house before they sell. You might want to ask the vendor for an extended settlement so you have more time to sell your own home. This may be ideal for the vendor too, who may be looking for another property to buy.

The major disadvantage of this option is that you don't know how much your property will sell for and how quickly it will sell. You may be forced to accept a lower price in order to sell the property in time for settlement. If people know that you are committed elsewhere they may play on your fears and offer a reduced price. So, it is a good idea not to tell prospective purchasers that you have bought a property elsewhere.

If you overestimate the price of your home, you may find yourself in financial stress as your new mortgage repayments may be much higher than you expected (or can afford). If you don't get your asking price and cannot sell your home in time for the new property's settlement, you may need to get bridging finance.

What happens if I delay payment to vendor?

The contract of sale will include a completion date, normally 42 days after a contract is signed, and if you have not paid by this date, you'll be up for interest on the balance outstanding - typically 10 percent a year, calculated daily. However, if you ask your solicitor to contact the vendor's solicitor they may be able to come to an agreement to extend the terms and/or waive the interest payments.

What happens if I get the jitters and don't want to get bridging finance and want to 'pull out'?

You will lose your whole deposit. Also, if the vendor does not attract the same price in a subsequent sale within 12 months, they may sue you for the difference, and for any reasonable costs incurred in the sale. Alternatively, the vendor may sue you for breach of contract.

Buying and selling at the same time

There are many issues to consider when you are buying and selling a home at the same time. Your aim is to get the highest selling price for your home, while not paying too much for the new property you are buying. Timing is also important, as ideally you want the buying process and selling process to be close together. The perfect situation would be where settlement on the new property occurs on or a few days before settlement on the old. This way you avoid having to move twice, which is costly and time consuming. If your property is not sold by the settlement period of your new property, you may need to take out bridging finance.

Bridging finance

Bridging finance is a loan that enables you to buy a new home while waiting for the sale of your existing property. With bridging finance you effectively 'own' two homes at once, as well as two mortgages.

What happens if you've been on bridging finance for a few months, and selling your property is taking much longer than expected?

This can be a very stressful time and you'll need to consider your options very carefully. There are many options available to you and you should seek our mortgage broking advice. Some of your options may be:

To keep paying off two mortgages, while you are waiting for a sale. This requires a very large cash flow, and for most people is not practical or possible.

To sell your property at a reduced price. Be sure to do your sums properly and ensure that you can afford the higher level of the new mortgage on your new property.

Consider our mortgage advice of turning one of the properties into an investment property loan.

Government taxes and charges - Capital gains tax (CGT)

A capital gain or loss from a dwelling is ignored for CGT purposes if the dwelling (e.g. a home, an apartment/flat, a strata title unit) was your main residence throughout the ownership period. However, a capital gain or loss may still arise if the dwelling was also used for income-producing purposes. If this arises, you might be entitled to obtain a partial CGT exemption. Where there is a capital gain, you might be entitled to a 50% discount on the amount of the capital gain for CGT purposes provided that you have owned the CGT asset for at least 12 months.

Go to the [Australian Taxation Office](#) website for more information on CGT.

Interest In Advance Loans – 30th June Decision - Is it for you?



As the end of the financial year approaches, many investors become focussed on tax effective borrowing. One popular option is an interest in advance home loan. Interest in advance loans are similar to most standard fixed-rate, interest-only residential investment loans but with one key difference: borrowers can pre-pay the next year's interest and claim it as a deduction in the current year. This means that come July, eligible investors can get a portion of their interest back in the form of a tax deduction.

How it works

Interest can be paid in advance monthly, quarterly or annually. Because it is an interest-only loan, borrowers must pay out the loan at the end of the loan term or roll it over into another loan. It may be possible to split the loan and make additional repayments. The trade-off is reduced flexibility. Borrowers may be hit by early repayment fees should they wish to pay out the loan before the end of the fixed term. On the plus side, locking in the interest rate provides certainty of repayments for the life of the loan.

Who is suitable?

Interest in advance loans suit property investors who are eligible for tax deductions on interest paid and wish to bring forward this deduction to an earlier financial year. It most benefits someone who has a big tax liability one year but not the next. By pre-paying next year's interest and claiming it now, they can legally maximise the tax benefits of investing. Therefore, interest in advance loans can be beneficial for more experienced investors with a well-researched and planned long-term strategy. Healthy cash flow or good savings habits are needed in order to pay the fixed sum of interest (often \$10,000 or more) at a set time each year, quarter or month.

Remember, we always, recommend you get independent tax and financial advice after talking to us about these types of loans.

Thank You.....

A note to say thank you for your business and some helpful hints to help you explain how we as finance brokers can help your friends, relatives etc, get their finances in order and find the best deal to match their current financial arrangements.

If they are serious about finding a professional to help them with their finances, particularly if they are looking to borrow money, then finding a broker that is reputable, experienced and well connected is the key.

One thing when comparing other brokers to us, is that we do not charge. We are paid on a commission basis by lenders and providers on a per transaction basis, so as a result both you and your referrals do not need to pay any brokerage fees.

But why use a broker in the first place? Well you know the answer to that - because we can save time and money - and we all want to do that dont we!

As finance brokers we know a lot about the products that are available in the marketplace.

This means that we can save time and hassle of having to do the research - after all we have it all at our fingertips.

If your friends & relatives are prepared to take the time to share the details of their current financial situation with us, we will be able to not only find them a product, but find one that meets their financial and lifestyle needs.

For your opportunity to enter the Newsletter competition, call us today or visit our web site.

Thank you again for your valued business.

Regards,

Marina Heydon
and
Angela Cardillo

*"Getting it all together
for you"*



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If you have received this Newsletter via the mail and would prefer to receive it via email, please email us:

info@alltogetherfinance.com.au

WIN an Overnight Stay and Show package in your Capital City to the value of up to \$500.

For full details of prize contents, please go to: www.nationalbrokersgroup.com.au/prizelInfo.htm

How to Enter:

Refer a friend, family member or acquaintance to:

Receive a copy of this Newsletter and receive one entry per referral. Make an appointment with someone from our office and receive one entry. Refer a friend, family member or acquaintance for a consultation with someone from our office and receive one entry per referral. Note: for full details of the terms and conditions of this competition, please go to www.nationalbrokersgroup.com.au/termsandconditions.pdf

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Conditions:

1. All travel is subject to availability at all times and maybe dependent on specific room category availability with accommodation partner. Travel must be completed by the 31 May 2011. Blocked out for travel periods will apply including but not limited to Easter Long Weekend, Christmas School Holiday period and during special event periods. All bookings and documentation regarding the prize must be made via Free-2-Travel Holidays Pty Ltd or their agents. Redeeming the prize is conditional on acceptance of the terms and conditions of travel as detailed by Free-2-Travel Holidays Pty Ltd in accordance with normal travel practices. No portion of the prize is redeemable for cash. The prize is not refundable or transferable. In the event the winner is under the age of 18 years, they must be accompanied by a parent/guardian. Winner is responsible for any amendment fees issued by suppliers once booking is confirmed and ticketed. Additional spending money, meals (other than those included), transfers and any other ancillary costs, including but not limited to insurance and any applicable insurance excesses, not listed in the prize package descriptions above are the responsibility of the prize winner and his/her nominated.

2. Staff & Members of Vow Financial Pty Ltd are not permitted to enter this competition.

DISCLAIMER: This newsletter is intended to provide general news and information only. Readers should rely on their own enquiries before making any decisions for their own interests. Please do not rely on any part of this newsletter as a substitute for specific legal or financial advice.