



ScopeCo Financial Solutions &amp; Management Newsletter

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**Martyn Barnes**  
Director

Suite 1, 419 Bay Street  
Brighton VIC 3186

Tel: +61(0)3 9596 0600  
Fax: +61(0)3 9596 0688  
Mob: 0414 357 142

E-mail: [Click Here](#)  
Website: [Click Here](#)

ACCUMULATE

PROTECT

MANAGE

Tax time is here again, if we can assist you in maximising your refund please don't hesitate to contact us.

We lodge your returns online to ensure your refund comes back in the quickest timeframe.

If we can assist please contact us on 1300 696 111.

Hello,

Welcome to the new financial year.

We are at the half way point and finally there appears to be some positive sentiment out there in the financial world.

The Melbourne property market in particular has gained momentum with auction clearance rates exceeding 80%, the demand for quality investment properties is increasing and rental demand remains strong.

The sharemarket has had a positive run in the last few weeks due to positive profits both in Australia and abroad, let's hope this continues.

It's certainly time that we receive some positive news, however as they still say we may not be out of the woods yet, who knows!

As always you are welcome to contact me with any queries, a general chat or my thoughts on what happening out there.

All the best,

Martyn

## Look before you leap



**With so many home loan products on the market, how do you know where to start when looking for the best home loan?**

**Here are some hints and tips on what you should consider before you commit.**

The first thing to do is to be crystal clear about your objectives before sizing up different loan products, as your decision will depend on these.

For example:

- Is the product for your own home or for an investment property?
- Do you want total certainty on how much you'll be paying in the first years of the loan?
- Do you want to be able to redraw any extra payments made?

With these objectives in mind you are ready to consider some of the main aspects of a loan.

### 1. Interest rates

Most people think the interest rate is the only feature of a loan they should pay attention to. Whilst it is important, obtaining a loan with the lowest interest rate is not necessarily the best decision.

Some of these "no frills" loans do not give you the flexibility you might need down the track. For example, a redraw facility may not be available or, if it is, may come at an extra cost.

You should also beware of the advertised interest rate. This may be a promotional rate, sometimes called a honeymoon rate, and so available for a certain period only.

It can therefore be attractive in the short term, but you need to look beyond that to see what the rate reverts to after the honeymoon is over. It may well be competitive, or it may also be a little higher than other home loans on the market.

## 2. To fix or not to fix?

This is often a difficult decision for borrowers as there are pros and cons to sticking with a variable interest rate or fixing your rate.

**Choosing a variable rate home loan** means the interest rate normally moves up and down with the markets.

More recently, however, the traditional "*follow me*" pattern of interest rate changes following the RBA cash rate changes has not always been happening. This is because of the global credit crisis affecting the lenders' cost of getting money to lend as home loans, plus the increased risk of home loan defaults.

**Fixing your interest rate**, on the other hand, offers certainty of repayments. This can be useful when money is tight and every dollar must be accounted for.

Negotiating a fixed interest rate at a time when rates are low is often the strategy used, in the knowledge that variable rates will start to rise again at some stage. The "*bet*" here is that, over the life of the fixed rate term, the average variable rate will turn to have been higher than the fixed rate – but this is a difficult prediction to get right.

**A blended loan of fixed and variable rates** might suit you better. This will give you some certainty but also allows you to take some advantage of any variable interest rate cuts. Again this is a decision that is at least partly about having more certainty in how much the repayments will be.

## 3. Interest-only loans

An interest-only loan was originally designed for investors where its purpose was to reduce the amount needed for a regular contribution towards an investment property.

Investors then received their returns in the form of capital gains or rental income.

Where an investor has two types of loans, residential and investment, interest-only can be very useful. Using the principle of "*good and bad debt*", an interest-only loan on an investment property is a "*good debt*", in the sense that you can claim a tax deduction.

By committing to low, interest-only repayments on your investment loan, the theory is you are able to channel extra funds towards the repayment of your "*bad debt*", your residential loan.

An interest-only loan does give flexibility but extra care needs to be taken, as you are effectively relying on the property value to increase to build up any extra equity in the investment property.

## 4. Making a quick exit

The vast majority of variable rate mortgages charge an early repayment fee if you finalise the loan within the first few years.

The early repayment fee varies with lenders but it can be a fixed dollar amount, a percentage of the loan amount or a multiple of the monthly repayment figure. In any event it can add up to thousands of dollars.

On the other hand if you refinance away from a fixed interest loan before the fixed term ends then you will also incur a similar penalty, known as "*break costs*". These fees are more complicated to calculate as they vary with the day-to-day money market movements – but they can be sizeable.

Whilst you may not plan to break the loan early, the unexpected and unplanned often happens. You may want or need to sell and move for a variety of reasons. It is therefore important to understand these costs before you commit to the loan.

### Get some help

With such a complicated "loan landscape" it makes sense to seek some expert assistance, which is where a good mortgage broker can help.

Please feel free to call and discuss your personal situation.

### Where to live, what to buy



**There are two key questions to ask when considering a new home: where to live and what type of property to buy.**

**With time and effort, finding a home that has the answers will be the best move.**

Deciding where to live and what type of property to buy are crucial decisions if you are to be happy, and if you want to maximise your financial returns when it becomes time to sell.

#### Location, location, location

Choosing the right location remains one of the most important factors in choosing a good home. It is not only more enjoyable to live in a good area, but it will enhance your property's value and appeal when you decide to sell up and move on.

For some people a good location will mean being close to family and friends. For others it will mean being on the coast, or close to public transport or the workplace or good schools.

In summary, the five factors that make a good location include:

- Proximity
- Distance
- Services and amenities
- Demand
- Potential.

#### What to buy

Having chosen the area that you'd like to live in, it's just as important to choose the right property. Research is the key here. Visit as many properties as you can attend auctions, call in on real estate agents in the area and visit property portals on the internet.

Get a feel for prices by looking up recent sales data – there are several property data providers that sell data on recent sales in particular postcodes for just a few dollars. A local agent may also supply this information in a report called comparative market analysis data.

Looking at price changes over the past one to two years will also give you an idea of how an area is "performing".

Contact the local council to find out about growth plans in the area. For example are there any significant development proposals for schools, shopping centres, roads, etc. These types of developments can add significant value to properties in the catchment areas.

More specifically, when you become interested in a property then you should research the development plans in the immediate area, which may enhance or detract from the property's value and appeal.

One of the key decisions you'll need to make is whether to buy a house or an apartment. Considerations include:

- **Lifestyle.** Do you want low maintenance lifestyle? If so, an apartment or townhouse would be a good choice.
- **Family.** If you have children at or near school-age, then a house with a backyard and close to schools would be the way to go.
- **Starter home.** Is this your first home as a young couple? Then look for a property in a popular area that you know will be easy to sell in a few years when it's time to upgrade.

- **Downsizing.** If the children have left the home and it feels "*just too big*", then looking for a townhouse or apartment in a good area with settled neighbours could appeal to you.

The home itself is also important. Do you want to just move in or are you prepared (or would prefer) to renovate it to your own taste?

Also, you should be prepared to compromise as it's often impossible to get everything you want in one property. Look for the potential to add any missing features later on.

### **Summary**

Choosing a new home is a major decision. Making the time to do the research and to be clear about your priorities will pay dividends in the years to come.

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