all FINANCE SERVICES PTY LTD Newsletter

1st Edition, 2009

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A rare opportunity to save a bundle of interest on your mortgage

With households saving as much as $600 a month since the RBA began reducing the cash rate last year, a once-in-a-lifetime opportunity now exists for some homeowners to get ahead.

If you had the chance to wipe more than $100,000 off your mortgage and pay it off in half the time, would you? If the answer is yes, the good news is it may be possible.

Since the Reserve Bank of Australia (RBA) started easing the cash rate in September last year the average household with a variable rate mortgage is now around $600 better off every month when it comes to loan repayments.

While some households may be enjoying the perks of having an extra hundred bucks or so a week, those households who choose to use that extra cash wisely will be the ones enjoying the good life in the long term.

Here are just a few ways to stretch those extra dollars further. For complete, individually tailored advice be sure to give us a call and we'll discuss a strategy for you.

Reduce other debt

With such a substantial increase in cash flow take this opportunity to wipe out any other debts - particularly personal loans and credit cards, whose rates of interest may be more than double those on your home loan.

Save

If rising unemployment is a concern for you, it's wise to dedicate at least some of the reduced interest payments to a savings account.

Not only are savings a worthwhile contingency plan; they are great for unexpected costs - such as a new baby or illness and a way to make small pleasures like holidays a reality.

Keep your repayments the same

If your repayments last year weren't sending you broke, the best thing you can do is continue to pay the same amount off your mortgage.

Take a $250,000 home loan on a 30-year term, for example. If your interest rate is 5.7% instead of 9.7% your repayments would decrease from around $2,140 to $1,450 per month over the life of your loan.

If, however, you made repayments of $2,000 every month you could save over $140,000 in interest over the life of the loan and pay your loan off in just 14 years, assuming your interest rate remains the same for the life of the loan. *(Source PLAN newsletter).*

Every little bit counts

So your finances won't permit you to pay the same amount off your home loan every month as you were a year ago?

Fear not, even an extra $200 a month - that's around $50 a week - can generate substantial savings.

On a 30 year $250,000 home loan, for example, monthly repayments of $1,650, rather than $1,450, could take seven years off your mortgage over a 30 year term and save $80,000 in interest.

Even an extra $20 a week could take three or four years off your home loan and save you somewhere in the vicinity of $40,000 - that's a new car, several years of school fees or a family holiday overseas, assuming your interest rate remains the same for the life of your loan.

Pre-purchase inspections

Why it's important to take a closer look

While a pre-purchase inspection may seem inconvenient or unnecessary it is an essential step of any property purchase.

You love the kitchen, the balcony's great and the building appears to be ship-shape. Time to sign on the dotted line - right? Wrong!

While a property may appear to be in good condition to you and well worth its asking price, only a professional can really ensure you're making a smart purchase.

To arrange an expert opinion - and give you peace of mind - organise a licensed builder to visit your property before you buy.

They can check the condition of the interior, the roof, under-floor and inter-wall spaces to determine whether there are any significant building problems or hazards you need to be aware of.

They'll then provide you with a detailed summary of the property's condition, usually in a checklist format.

What you'll gain

Such an inspection could save you thousands of dollars in two key ways. First, if the property has some minor problems you may be able to drive down the purchase price.

Second, the inspection could uncover more serious problems, which could see you incur substantial repair and maintenance costs in the long run, or even worse threaten the value of the property. For this reason the inspection is vital.

What it will cost

The price of a pre-purchase inspection will depend on the property and the time taken to undertake the examination but as a rule of thumb a standard report for a typical residential property should set you back around $500 - a worthwhile investment.

Honey, its got a balcony!

Don't forget you will need the vendor's permission to have the property inspected.

If you're not sure how to arrange a pre-purchase inspection give us a call.

We can run through the basics and even point you in the direction of a well respected builder. *(Source: PLAN newsletter).*

Take heed

A property inspection can make or break your investment.

However, there are some things that an inspector may not cover, so be sure to address these with your inspector should you have any concerns. The following may be some of them:

- Gas fittings
- Footings
- Electrical wiring
- Fireplaces or chimneys
- Television reception
- Plumbing
- Concealed damp-proofing
- Watering systems
- Drainage.

Now - a loan to make your move into residential aged care a lot easier

Moving from your home into residential aged care is one of the toughest decisions you'll make.

Wouldn't it be great, when faced with having to fund an accommodation bond, if you could access some of the equity that you've built up in your home over the years instead of having to sell the home?

Accommodation Bond Loans can make this possible. They give you the financial flexibility to fund an accommodation bond, while retaining the family home.

Provided you are over 60 you will be able to borrow up to 40% of the agreed value of your property for a period of five years.

A feature of these loans is that you should not have to pay any ongoing monthly fees or charges.

So how will this help you? Well, you won't have to go through the trauma of having to rush into the sale of your property to pay for your accommodation bond, possibly at an unfavourable price. When you do sell you can do so at your leisure when the market or circumstances are right for you.

It's important to appreciate that Accommodation Bond Loans have a 'no negative equity' guarantee. This means that the lender will cover the loan costs even if the value of your home sinks to a point where it's lower than the funds borrowed. You won't have to chip in a cent.

It's up to you to decide whether you want to receive your funds as a lump sum, a monthly income or a flexible drawdown.

In order to find out more contact one of our specialist finance brokers.

Note that accommodation bond funding can be very complex, which is why we insist that you also get financial advice to ensure you get the best possible outcome.

How parents can help their children into that first home

In recent months tougher requirements by the banks have made it more difficult for first home buyers to get started in the property market, despite stamp duty concessions, government grants, low interest rates and more affordable houses.

The banks have become more stringent in their requirements and valuations. The100% home loan has disappeared, having been replaced by maximum loans of 95% and in some cases 90%. Lenders are generally also insisting on proof of savings from borrowers.

It's not easy saving a sizeable deposit as well as finding the money to cover other loan costs, such as fees and mortgage insurance.

Deposit guarantee

One way around the problem is for a parent to guarantee a specific amount of the loan e.g. a 20% deposit.

This can be worked so that the parent's guarantor responsibilities are removed when the amount they're guaranteeing against the security of their home is covered through the child's loan repayments and the property's capital growth.

This option works well. There is no longer a need to pay a considerable amount in mortgage insurance. The home is solely in the children's names, so they still qualify for the First Home Owner Grant.

There are also loans available which allow a parent to guarantee that they will make up for any shortfall in repayments by their children.

For parents it's important to seek legal advice before entering into guarantee arrangements.

In the meantime if you would like more information on these loans or other ways in which parents can help their children into home ownership come in and talk to one of our consultants.

Negative gearing - still an effective strategy

While falling interest rates and rising rents have led to many investment properties becoming positively geared, predictions by some of the demise of negative gearing as a strategy are off the mark.

While by no means the main reason for investors choosing to put their money into property, negative gearing offers attractive taxation benefits to many property investors, particularly those subject to high tax rates.

Just in case you didn't know, negative gearing is what happens when it costs you more to own your investment property (the interest on your loan, property management fees, repairs and so on) than you get back in rent.

You can deduct this 'loss' from your annual income, reducing your overall tax bill and can also claim the depreciation of items such as carpets, light fittings and kitchen fit-outs. The more you earn, the more you benefit.

Negative gearing of investment property in Australia is used as a means to make it easier to hold property and let it grow in value over time. It also plays another important role - helping to feed the demand for rental properties in Australia.

Always be sure to talk to your financial adviser to see whether a negatively geared property investment is a strategy suited to your particular circumstances.

Reverse Mortgages

It's important to get the right advice

Reverse Mortgages or Equity Reverse Loans are an innovative financial product that can provide great benefits to elderly people whose main financial asset is their home.

These mortgages are designed for retired people who own their own home. They allow people over the age of 60 to release some of the equity in their property so that they have the funds to pay outstanding debt, renovate or even take a holiday!

Importantly, with this type of loan there are no repayments. It's important to appreciate that all of these products have a 'no negative equity' guarantee. This means that the lender will cover the loan costs even if the value of your home sinks to a point where it is lower than the funds borrowed. You won't have to chip in a cent. Additionally, you can decide to protect up to 25% of the equity in your property for your heirs.

You can choose between lump sum, flexible draw and monthly income options.

It's important to first discuss a reverse mortgage with your financial adviser before signing on the dotted line.

If you're interested in a reverse mortgage we can provide you with information on how these loans work and which loan would suit you best.

The property market

First home buyers drive demand

Driven by first home buyers, lower interest rates and affordable property prices, the Perth property market has recorded a 40% increase in sales in the March Quarter.

According to REIWA's president, Rob Druitt most activity took place in the lower end of the market, with first home buyers responsible for some 40% of sales. However, preliminary figures also showed increased activity in the +$600,000 market.

Australia-wide first home buyers made up a record 27.3 per cent of all home loans granted in March 2009, topping the previous peak of 26.5 per cent set in January and February, according to the Australian Bureau of Statistics (ABS).

Total home loans granted in March jumped by a seasonally adjusted 4.9 per cent to 59,793 mortgages, the ABS said. WA had a 2% increase during the period to 6845.

Investors return

Investors also showed their first signs of returning to the market, with investment loans rising 4.7 per cent in March.

Recently, the Housing Industry Association said new home sales rose for a second consecutive month in February 2009.

Detached new home sales increased by 4.7 per cent in the month and were up by 8 per cent over the three months to February. In WA detached new home sales increased by 4.2 per cent in February.

The number of home loans for new housing increased 18.4% in the March quarter '09 when compared to the December quarter '08.

In his budget speech Treasurer Wayne Swan told Parliament the First Home Owner Boost had helped 59,000 Australians buy their first home.

According to the HIA, the ABS House Price Index for the March 2009 quarter confirms house prices in Australia have weathered the economic storm well. Its preliminary estimates show the weighted average price index for established detached houses for Australia's capital cities fell by 2.2 per cent in the March quarter this year.

Confirming that there had been no dramatic plunge in prices in the March quarter, the RP Data-Rismark National Dwelling Value Index showed an increase in capital city house values of 1.5 per cent.

In Perth, the capital city established house price index rose in the quarter by 3.6 per cent.

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