**Welcome to Mortgage Watch**

I hope you find the information in this issue useful and informative. Please feel free to pass this newsletter to family or friends.

Regards,

Nunziante Losanno

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# mortgage watch

## New Governor, Same Cash Rate.

For the second consecutive month, the Reserve Bank of Australia (RBA) has elected to leave the cash rate on hold at the record low of 1.50%. New RBA Governor Philip Lowe had this to say in his official statement:

“Low interest rates have been supporting domestic demand and the lower exchange rate since 2013 has been helping the traded sector. Financial institutions are in a position to lend for worthwhile purposes. These factors are all assisting the economy to make the necessary economic adjustments, though an appreciating exchange rate could complicate this.”

“Supervisory measures have strengthened lending standards in the housing market. Separately, a number of lenders are also taking a more cautious attitude to lending in certain segments. Growth in lending for housing has slowed over the past year. Turnover in the housing market has declined. The rate of increase in housing prices is lower than it was a year ago, although some markets have strengthened recently. Considerable supply of apartments is scheduled to come on stream over the next couple of years, particularly in the eastern capital cities. Growth in rent is the slowest for some decades.”

So, what does all this mean for you? In recent months, a number of lenders have moved out of sync with the RBA Cash Rate, meaning that change can come at any time. Keep a close eye on any rate movement, and consider whether your current loan is the right one for you, right now.

# It's possible for everyday Australians to invest in property.

Property investment is possible for anyone, not just the mega-rich. Everyday Australians with equity in their homes have already taken the first step, and the next is surprisingly easy despite how it may seem.

If you invest the right way and start planning now, you could get a piece of the $16.1 billion made by those who sold property in Australia during the year, as reported by CoreLogic RP Data.

Let's have a look at the simple logistics of taking the first steps towards investment with the goal of making your property aspirations a reality.

**Using equity as leverage**

If you've built up equity in your home, either through capital gains or mortgage repayments, you might have a fairly easy ride to buying your second home. Using this equity to place a deposit on another property is doable, but most banks will require that you still have 20 per cent equity in your original home.

There may be several logistical hoops to jump through, so hiring an experienced mortgage broker can make the entire process less confusing.

**Balancing rental yields and capital gains**

When you've secured loan pre-approval and are ready to buy your investment property there are two key considerations:

1. The potential it has for capital gains.
2. The rental yield of the property.

Maximising these two is ideal, but often investors will settle for one or the other. Smart Property Investment lists NSW suburb Bodalla as one of the most lucrative in Australia, with a median value increase of almost 50 per cent over the last year. Victorian suburb Flinders saw a similarly impressive gain.

The moral of the story here is - open your mind, do your research and buy based on logical decision-making (not emotion) and you may find a capital gains gold mine.

Rental yields are an important consideration for new investors, particularly those paying a mortgage near the edge of their repayment capacity. Find a property with a high yield and you may be able to cover your entire second home loan with rental income, making your mortgage repayments easier to manage.

**Structuring your finances**

Getting your second mortgage is a big step so it's essential that you choose a home loan product that is perfectly suited to your needs. Speak to us today and give yourself the peace of mind knowing that you are getting the right loan, which is suited to your needs right now.

# 3 simple reasons why buying is better than renting

When you're young, home ownership seems impossible. Between HECS debt, low-paying jobs and the sheer financial wall to climb before you have a deposit, buying property can seem incredibly daunting.

But as you go through life, it becomes more and more of a reality. As you reach the point where buying real estate becomes realistic, you'll have some big decisions to make. We've put together three reasons to take the leap from renting to buying.

**Pay yourself not your landlord**

Across our eight capitals, CoreLogic RP Data notes that the median rent is $484 per week. Pay that across a calendar year and you're putting over $25,000 a year in your landlord's pocket. But what if you could pay it back to yourself? That's the power of property.

If you can get past the initial expenses such as paying your deposit and securing a home loan, you'll be increasing your net worth weekly by paying off your mortgage. You can even use the money you've paid into the property as equity to buy a second! This shows that although buying a home may be difficult, it's well worth it as a method of taking control of your financial future.

**Take advantage of the market**

Capital gains are a beautiful thing indeed. While they seem to be slowing somewhat in the current market they certainly aren't stopping as they are sitting at roughly 7 per cent for the year averaged across all five capital cities, according to CoreLogic.

The value price increases have been happening in a similar fashion for the last 30 years as shown by a Reserve Bank report. This suggests that in the long term, property values are likely to trend upwards - meaning that your investment should appreciate over a long period of time.

**Secure your financial future**
Retirement is a costly exercise. According to the Association of Superannuation Funds Australia it'll set you and your significant other back almost $60,000 a year.

The Australian Bureau of Statistics reports that the average age at which one retires in Australia after 45 is 54 years, while the average life expectancy is 82 years. This means that over 28 years of retirement you'll require almost $1.7 million to live a comfortable life.

Purely relying on savings is unlikely to get you there, but reaping the long term rewards of owning property just might!

# What kind of home loan repayments are right for you?

For the month of July alone Australian Bureau of Statistics data shows housing finance in Australia almost topped $32 billion. To give you an idea of the magnitude of this figure it's almost double the annual GDP of Papa New Guinea, according to the World Bank.

It's abundantly clear that Australians are borrowing en-masse, aiming to take advantage of a thriving property market. If you're thinking of getting on that ladder then it's essential that you plan your loan and repayments in a way most suitable to you and your needs.

We've whipped up a quick a summary of the basics when it comes to the options for your mortgage repayments.

**Principal and interest: aiming to own**
This kind of home loan repayment will necessitate paying off the amount that you have borrowed as well as paying interest. This usually occurs over an agreed term of between 15 and 25 years with the goal of eventually owning the home outright. A Reserve Bank report shows that around 60 per cent of home loans in Australia are principal and interest.

This is the most common loan type in Australia as it is inherently less risky than many other loan types.

**Principal and interest: Short term or long term?**
When establishing a principal and interest loan it's essential to give serious consideration to the repayment duration of your mortgage. There are two important things to consider here:

1. How much can I afford to pay?
2. How quickly can I pay my loan off?

These are essentially two parts to the same question. When figuring out how much you can repay per month it's essential that you consider all of the extra costs, and leave wiggle room for the unexpected. If you repay at the very limit of your means, one surprise expense could derail your ability to repay your mortgage. Making extra repayments, when possible, can give you some financial buffer room as well.

On the other hand the sooner you repay your mortgage the less interest you'll pay and the quicker you'll own your home outright. To give you an idea of how much your repayment length can affect the amount of interest paid let's have a look at a loan of $500,000, with a 5 per cent interest rate.

Over 20 years this will cost you $291,947 in interest repayments. Extend this to 30 years and you'll pay $466,279.60. That's a difference of over $170,000.

**Interest only: pay less own less**
An interest only loan is exactly what it sounds like. You'll only make interest repayments (not principal): a strategy that often appeals to investors. Reserve Bank data shows that a shockingly high 40 per cent of loans are structured in this way. CoreLogic RP Data can help illuminate the motivation behind these loans.

The research company notes that property in the capital cities generally gains value year on year - making property in such areas ripe for investors armed with interest only loans.

**Interest only: Negative gearing**
By paying interest only, you minimise your immediate expenses while still taking advantage of capital gains. This is where negative gearing comes in. Negative gearing means that you're making a loss on your property - interest repayments exceed your rental income.

Once again this is a method for investors to take advantage of capital gains. Making a loss on your property also may have several tax benefits that will offset the tax you pay on your income.

There's certainly a lot to mull over when it comes to how you should repay your loan. What's right for you will depend on a variety of factors including what you hope to achieve with your home, your resources and even your lifestyle.

Speak to us about your options and we'll be able to tailor a loan and repayment plan to you personally. That way you'll be happy at home quicker than you can say capital gains.

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